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Hotel, Tourism and Leisure **Celebrated 100 years in 2015**

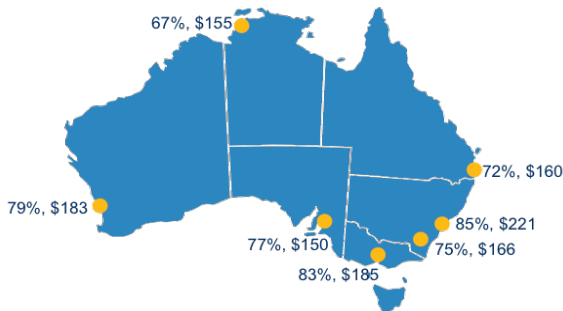
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SYDNEY MARKET REPORT

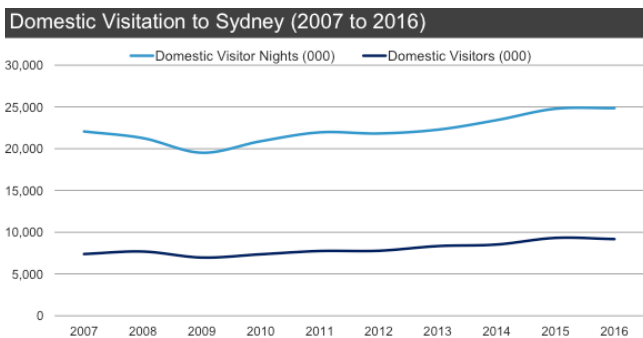
Australian Market Snapshot

Against a backdrop of global economic growth, the Australian hotel market generally performed well in 2016, posting RevPAR gains of 2.2%. The first three months of 2017 have been positive with RevPAR growth nudging 3%. In further good news, it appears that the two resource-dependent cities of Brisbane and Darwin may have finally ended their losing streak by recording occupancy gains for the first time in a long time. Further supply additions in Perth are however causing occupancy and ADR to slide. Last year's big winners, Queensland's leisure markets, are still seeing strong rate growth but occupancy is flattening. Melbourne, Australia's second largest city, is continuing to see occupancies in the mid 80s; however, is still struggling with ADR growth.



Sydney Domestic Visitation

According to Tourism Research Australia, Sydney received 24.9 million domestic visitor nights for year ending December 2016, a marginal increase of 0.3% from the previous year. Visiting Friends & Relatives (VFR) remain the largest segment, accounting for 39.6% of domestic visitor nights. While visitor nights in VFR dropped by 5.5% and Holiday/leisure by 9.8%, visitor nights in Business and Other increased by 16.4%.

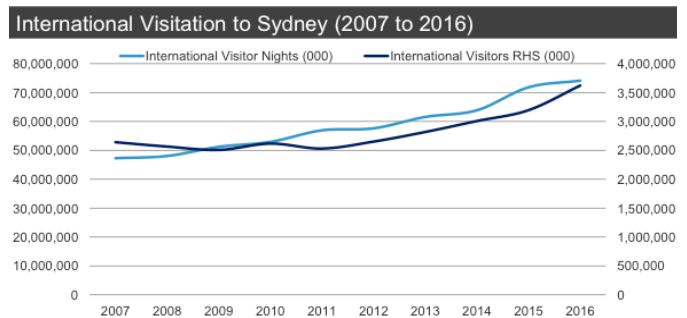


Source: International and National Visitor Surveys, TRA, YE Dec 2016

According to Tourism Research Australia Tourism Forecasts 2016, growth is set to remain robust and Domestic visitor nights in Sydney are forecast to increase to nearly 31 million by FY24/25, a Compound Average Annual Growth (CAAG) rate of 2.2%.

Sydney International Visitation

Sydney continues to be the most popular destination for international tourists and international visitation is the main driver of growth, with visitors and visitor nights increasing by 13% and 3% respectively in 2016. In comparison, the five year CAAG rate was 6.7% and 7.0% for visitors and visitor nights respectively. In 2016, Sydney welcomed nearly 3.6 million international visitors who generated a total of 74.1 million visitor nights. According to Tourism Research Australia Tourism Forecasts 2016, international visitor nights in Sydney are expected to increase to approximately 115 million by FY24/25, a CAAG rate of 5.5%.



Source: December 2016 International and National Visitors Surveys, TRA

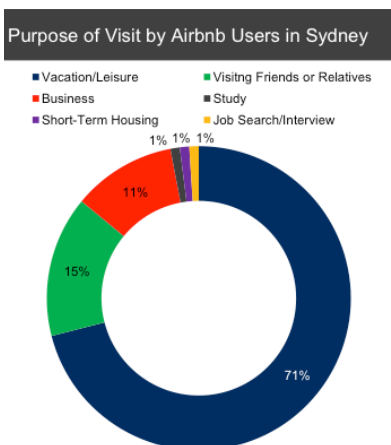
The strong growth in international visitor nights has been predominantly driven by visitors from Asia. China continues to be the largest inbound market in both actual visitors and total visitor nights, accounting for around 673,000 visitors. The growth of Chinese visitation is expected to continue as air capacity increases from China's secondary cities following the signing of the China-Australia open skies air service agreement in December 2016. The second largest market was the US, with 395,000 visitors, followed by New Zealand, whose visitor arrivals totalled 377,000.



Source: International and National Visitor Surveys, TRA, YE Dec 2016

Airbnb – Force or Fiction?

In 2016, Airbnb recorded 262,000 inbound guests to Sydney, a massive 106% year-on-year growth. Sydney is now ranked fifth worldwide in terms of the number of Airbnb users. The majority of visits by Airbnb users to Sydney was for ‘vacation/leisure’ purposes, comprising 71% of all bookings in 2015. According to Tourism Research Australia, holidaymakers continue to drive growth in nights spent in ‘rented houses/ apartments and private accommodation’, with an 11.5% rise in YE September 2016. ‘Visiting friends or relatives’ nights also increased by 9% in the same period. The data also shows that, in 2015, 51% of Airbnb trips nationwide were made by domestic travellers, followed by 4% from the United Kingdom and 4% from the United States. Australia’s largest inbound market, China accounted for only 2% of trips suggesting these guests are currently less familiar with Airbnb or other short-term rental peer-to-peer products.



Source: Airbnb Survey Results 2015

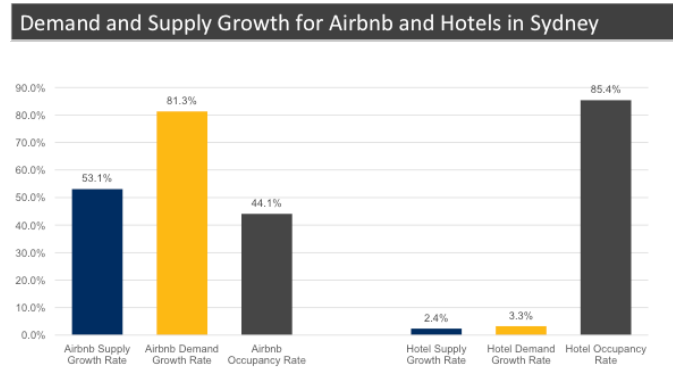
Airbnb Occupancy and Rate

According to STR, the Airbnb occupancy rate was 44.1% for properties in Sydney versus 85.4% for hotels in the year ended July 2016.

Airbnb properties generally also have lower average rates than hotels. As reported by Airbnb, the average rate of an Airbnb in central Sydney was \$163, \$88 lower than the average for hotels. Outside of the CBD, Airbnb’s average rate was \$132, \$50 lower than hotels. The rate difference may be smaller outside of central Sydney, reflecting the fact that three-quarters of Airbnb properties are in non-traditional tourist areas, where there is less competition from traditional hotels.

Impact of Airbnb on Hotels

Overall, despite Airbnb’s rapid growth, it appears it has not significantly penetrated the hotel market. For year ended July 2016, STR reported that Airbnb accounts for 6.1% of accommodation supply, 3.3% of demand and 2.8% of revenue. While there were around 24,000 property listings reported by Inside Airbnb’s December 2016 data, only 7.6% were entire homes or apartments without minimum stay requirements, making them comparable to a standard hotel product.



Source: STR, YE July 2016

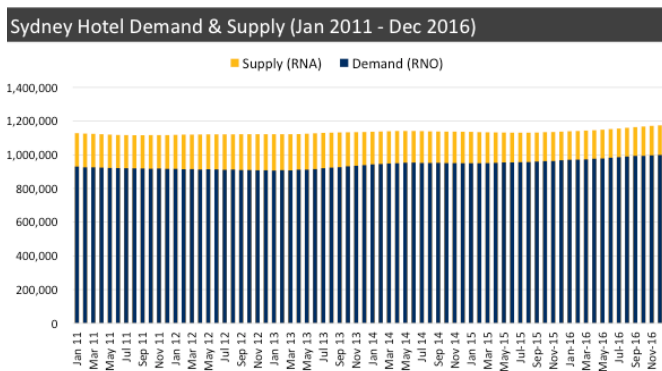
As the July 2016 STR report also found, it appears that Airbnb has not decreased the number of compression nights in Sydney’s hotel markets or reduced hotels’ compression nights rate premiums.

The research seems to suggest that Airbnb is not capturing the exact same market that hotels are serving as Airbnb stays tend to be longer. For the year ended July 2016, 56.9% of Airbnb room nights sold in Sydney were part

of trips that lasted seven days or longer. Additionally, according to a Morgan Stanley survey conducted in Europe and the US, 4% of leisure users took their trips solely for the Airbnb experience. This implies that these trips may not have taken place were Airbnb not available and that it is therefore inducing demand into the market.

Historical Hotel Demand & Supply

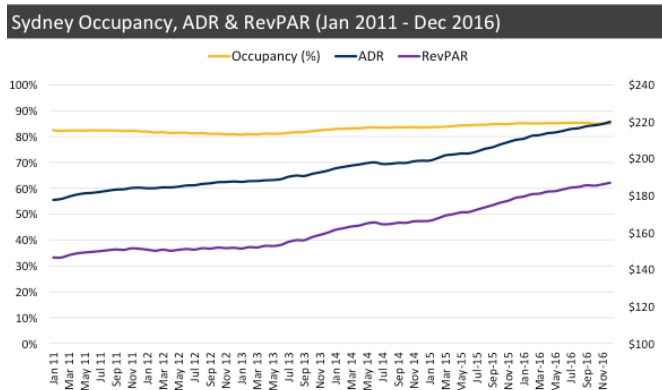
According to STR, the Sydney Tourism Region (TR) has 437 hotels and serviced apartments, totalling some 39,000 rooms. Supply in the Sydney TR market grew at a CAAG rate of just 0.6% in the five years to December 2016, markedly below the historic long-term average of approximately 1.7%. Demand, meanwhile, continues to outstrip supply, having increased at a CAAG rate of 1.2% over the same five year period.



Source: STR Global

Historical Market Performance

Sydney TR is currently the top performing hotel market in Australia recording an occupancy of 85% and an ADR of AU\$220 for the year ending December 2016. In the first three months of 2017, average occupancy jumped even further to 88% and ADR reached AU\$240.



Source: STR Global

The data also shows that over the past year the busiest days continued to be Tuesday through Thursday, and Saturday. Sunday and Monday, the two quietest day of the week, saw the largest occupancy increases of 2.2% and 2.9% respectively over the past three years. Occupancy remained flat on Saturday indicating that supply is significantly constrained on specific days. As a consequence of the continuing high demand recorded over the past three years, average room rates achieved on the busiest days (Saturday, Friday and Wednesday) grew by an average of 11.6% in three years, compared to 6.8% growth on the relatively quieter days of the week.

Recent Hotel Transactions

New South Wales continues to dominate nationwide hotel sales, accounting for approximately 40% of hotel transactions by value. Compared to 2015, transaction volume in Sydney has decreased as a result of limited availability. Nationwide however, the market has seen an increased amount of lower value transactions as investors are forced to look outside of major city CBD locations.

Property	Star Rating	Sales Price (AU\$M)	Rooms	AU\$/Room
Mercure Parramatta	4	\$40	165	\$242,424
Bondi Backpackers	3	\$18	56	\$321,429
Park Regis City Centre	3	\$46	122	\$377,049
Proposed W Ribbon Hotel	5	\$700	402	\$850,000
Lamrock Lodge Backpackers	3	\$11	54	\$208,333
L'otel Darlinghurst	3	\$6	16	\$362,500
Quality Hotel CKS Sydney Airport	4	\$32	121	\$264,463

Source: Horwath HTL

Looking forward, with low interest rates, sustained economic growth and a weak Australian dollar, we may well see transaction volumes in Sydney remaining high.

Recent Additions

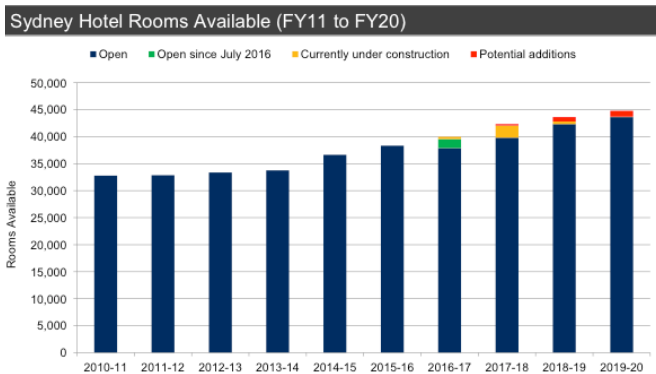
In the past year, Sydney has seen 11 new properties opened or extended, adding 1,676 rooms to the market. In addition, the 900-room Four Points Darling Harbour was rebranded as a Hyatt Regency in June and the 446-room Menzies closed down in October. See table below for recent additions.

Project Name	Star Grade	No of Rooms	Opening Date
Silkari Suites	4	212	Jul 2016
Park Royal Parramatta (Extension)	5	90	Aug 2016
Meriton Serviced Apartments Sydney Airport	5	386	Sep 2016
Meriton Parramatta Altitude (Stage 1)	5	156	Sep 2016
Meriton North Sydney	4	218	Oct 2016
Hyatt Regency Darling Harbour (Extension)	4	222	Dec 2016
Meriton Parramatta Altitude (Stage 2)	5	98	Dec 2016
Alpha Hotel Eastern Creek (Extension)	4.5	60	Dec 2016
Larmon Sydney (Extension)	4.5	28	Dec 2016
Quest Macquarie Park	4	111	Jan 2017
The Ultimo Hotel	4	95	Feb 2017

Source: Horwath HTL

Future Additions to Supply

Some new hotels and serviced apartments to open in Sydney in the coming year include the SICEEP Sofitel Hotel, Travelodge Mascot, Quest Macquarie Park, Vibe Hotel North Sydney and ValueSuites Green Square. In addition the Mercure Liverpool is due to complete its 88-room extension.



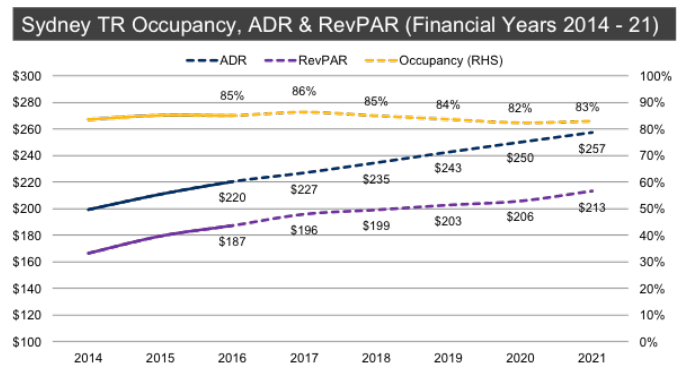
Source: Horwath HTL

Horwath HTL Australia estimates that there are approximately 5,400 rooms in the Sydney pipeline which are likely to come online between now and end of FY2021. Of these the majority can be expected to open in 2018 and 2019. During the same period, it is forecast that two hotels will be closed. The five year CAAG rate in supply of 2.6% to FY2021 is nothing to be overly concerned about; however, it is expected to put some downward pressure on occupancy in the medium-term.

Hotel Market Projections

NSW was the fastest growing State in the nation last financial year, having benefited heavily from lower exchange and interest rates as well as increased

government-financed infrastructure projects. This strong economic position is very good news for Sydney's hoteliers and the year to December 2016 saw occupancy for the Sydney TR remain stable at a very respectable 85%. With the city nearing capacity, ADR growth has been powering ahead at close to 5% last year. The recently opened International Convention Centre should provide a further boost to Sydney's MICE industry and will offset some new supply entering the CBD. Further additions to supply in 2019 and 2020 could push occupancy down to 82% but it should then start to rebound on the back of strong demand growth.



Overall, 2017 is shaping up to be another very strong year for Sydney's hotel market, with RevPAR likely to grow 4.6% over the previous year to AU\$296. The additions to supply over the next few years are only likely to impact RevPAR growth somewhat in 2019 and 2020. Notwithstanding, overall we forecast RevPAR to grow at a robust CAAG rate of 2.6% in the years to 2021.

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Stefan Muff is a Consultant at Horwath HTL Australia in Sydney where he focuses on conducting hotel feasibility studies, operator selections, operational reviews and asset management. He is highly knowledgeable on the performance of Australia's diverse hotel markets and specialises in producing hotel market outlooks. Stefan is also a regular contributor to both internal and external publications and has written for the Global Hotel Network among others.

Stefan's 10 years' of experience in the hotel industry started with operational roles in Australia, Switzerland, France, the US and later China, where he was involved in the pre-opening of the largest conference hotel, the Kempinski Qingdao. Prior to joining Horwath HTL Australia in Sydney, Stefan worked as a consultant for AHS Advisory in Sydney and before that PKF Hotels in Shanghai, conducting feasibility studies and market reviews throughout greater China.

Stefan grew up in Singapore and Sydney and then completed his Bachelor of Science in International Hospitality Management at the École hôtelière de Lausanne, Switzerland.

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