



Horwath HTL™

Hotel, Tourism and Leisure

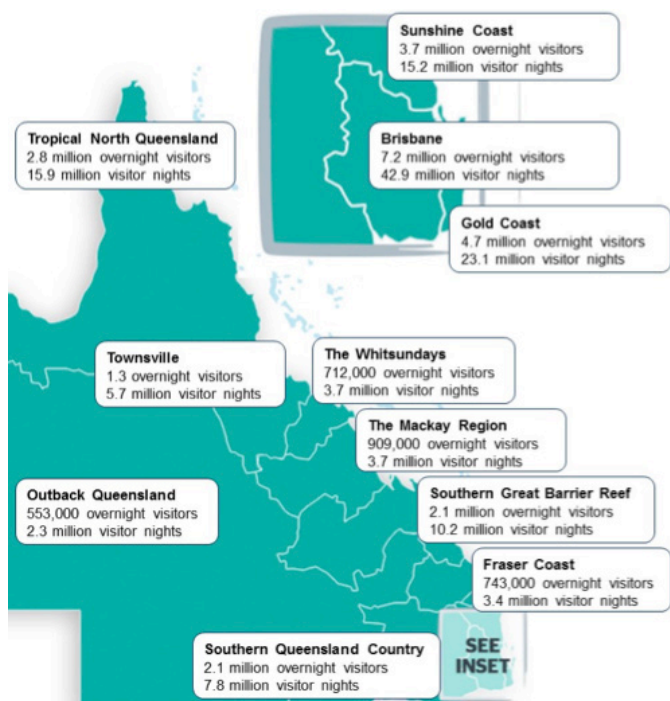
Special Market Report
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Queensland - Domestic and International Visitation

In the year ended December 2016, 20.8 million domestic visitors spent 83.1 million visitor nights in Queensland, a 4.7% increase over 2015. During the same period, the state welcomed 2.6 million international visitors who generated a total of 51.8 million visitor nights. While international visitation had a 10.2% year-on-year (YOY) growth, international visitor nights contracted by 2.3%, and average length of stay dropped by 2.6 nights to 20.1 nights per visit, a common trend nationwide. Overall, growth in total visitor nights to Queensland slowed, largely due to stagnant corporate travel.

According to Tourism Research Australia Tourism Forecasts 2016, domestic visitor nights are forecast to reach nearly 108 million by FY2025, a ten-year Compound Average Annual Growth (CAAG) rate of 3.1%. In comparison, international visitor nights are expected to grow faster, at a CAAG rate of 5.1%, reaching 82 million nights by FY2025.



Source: Tourism and Events Queensland, YE Dec 2016

Renewed Interest in the Leisure Market

According to Tourism & Events Queensland, for the last two years, leisure visitation has been the main driver behind Queensland’s visitation growth. In 2016, Queensland recorded the largest growth in holiday visitors by state and received the second largest number of leisure visitor nights after New South Wales. On average, international holiday makers spent 12.5 nights per visit, which was longer than in New South Wales and Victoria.

Intrastate visitors accounted for the majority of leisure travellers (67%) but inbound tourism remained strong, benefitting from a low Australian dollar. With two international passenger airports in Cairns and Townsville, Tropical North Queensland (TNQ) was Queensland’s favoured tourism region by inbound leisure travellers, followed by the Gold Coast and Brisbane. In comparison, Australians preferred the Gold Coast, Sunshine Coast and Brisbane for their holidays. Double-digit growth in international leisure travel was seen in all tourism regions except Southern Queensland Country, where international holiday visitation declined by 11.6%. In 2016, China remained the largest source market of inbound travellers to Queensland, contributing approximately 484,000 visitors, of which 65.2% were holiday visitors.

While certain resort destinations may take some years to recover from the devastation wreaked by Cyclone Debbie earlier this year, state-wide tourism is expected to rebound quickly in the lead up to the 2018 Commonwealth Games being held at the Gold Coast. Additionally, several large-scale leisure projects are under construction throughout Queensland, including a \$50 million aquarium in Cairns, the \$3 billion Queen’s Wharf Brisbane resort and entertainment precinct development and the \$1 billion Jewel Towers project on the Gold Coast. Furthermore, the Queensland Government has committed \$10 million to attract new international airlines.

In the long term, total visitor nights are forecast to increase at a CAAG rate of 3.9% by FY2025, and it is expected that the leisure market will continue to drive growth at an average rate of 4.7% per year.

Similar to the rest of Australia, hotel assets in Queensland attracted increased interest from foreign investors, especially from Asian countries.



Recent Hotel Transactions

Property	Star Rating	Sales Price (AU\$M)	Rooms	AU\$/Room
International Beach Resort	4.0	\$58	120	\$483,333
Jephson Hotel	4.5	\$15	51	\$294,118
Sheraton Grand Mirage Port Douglas	4.5	\$160	295	\$542,373
Heron Island Resort	4.0	\$7	116	\$61,207
Rydges Esplanade Resort Cairns	4.0	\$41	242	\$169,421
Novotel Cairns Oasis Resort	4.0	\$50	314	\$159,236
South Molle Island Resort	N/A	\$25	188	\$132,979
The Club Crocodile Resort	3.5	\$9	212	\$42,453
Hotel Grand Chancellor	3.5	\$80	404	\$198,020
Holiday Inn Townsville	3.5	\$14	200	\$70,000
Townsville Central Hotel	2.5	\$9	118	\$79,661
Quality Hotel Regent Rockhampton	3.5	\$6	49	\$122,449
Quest Chermside	4.0	\$13	54	\$238,889
Quest Ipswich	4.0	\$11	64	\$164,063
Vibe Hotel & Helm Bar	3.5	\$45	199	\$226,131
Greenmount Beach Resort	3.0	\$28	151	\$185,430
Rydges Tradewinds Cairns	4.0	\$34	246	\$138,211
Marriott Surfers Paradise Resort & Spa	4.5	\$70	216	\$324,074
Tryp by Wyndham Fortitude Valley	3.5	\$20	65	\$307,692

Amidst renewed growth in leisure demand, the majority of large developments and hotel transactions were seen in the main leisure destinations, notably in Cairns and the Gold Coast. In the past year there has been increased interest in resort developments.

Two of the three largest transactions of the past year were resort-related including the \$160 million sale of the Sheraton Grand Mirage Resort and the \$70 million sale of the Marriott Surfers Paradise Resort & Spa, both in the Gold Coast.



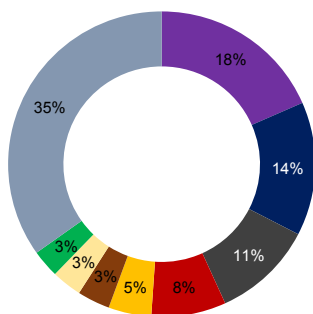
Brisbane - Domestic & International Visitation

Brisbane continues to be the most visited tourism region in Queensland, favoured by both domestic and international travellers. In the year ended December 2016, Brisbane received 6 million domestic overnight visitors who spent 18.4 million nights, a 5.5% YOY growth. A contraction in mining and resource investments reduced business traveller nights by 7.7%, but leisure travellers managed to offset the decline and drive overall growth with a sharp 48.2% jump in visitor nights. For the first time since 2013, Brisbane’s share of domestic leisure visitors to Queensland increased, capturing 19.8% of the total.

reduced average length of stay saw international visitor nights decrease by 1.6%. More than half of international visitor trips were made for holiday purposes (54.2%). Amongst the different segments, leisure visitation recorded the largest YOY growth at 11%. International visitation growth will be further supported by the \$3.8 billion expansion of Brisbane Airport, which is forecast to see passenger movements sustain average annualised growth of 5.4% through to 2020.

Key International Source Markets to Brisbane

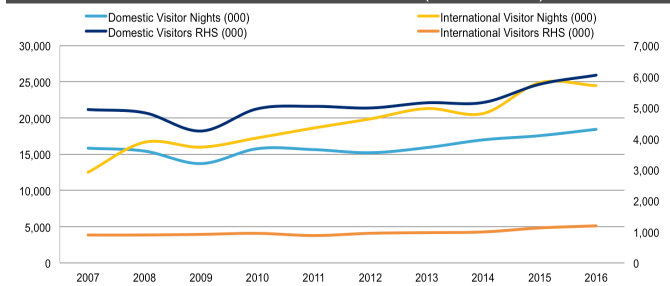
- Mainland China
- USA
- Japan
- NZ
- Germany
- Taiwan
- UK
- Korea
- Other Countries



Source: Tourism and Events Queensland, YE Dec 2016

As the main international hub in Queensland, Brisbane welcomed 1.2 million international visitors generating 24.5 million visitor nights. Similar to the rest of the state,

Domestic and International Visitation to Brisbane (2007 to 2016)



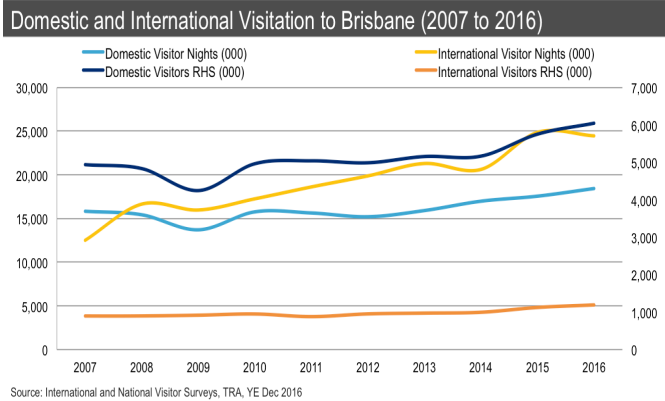
Source: International and National Visitor Surveys, TRA, YE Dec 2016

The strong growth in international visitor nights has been predominately driven by visitors from Asia, namely China, Korea, Japan and Taiwan. China was the largest inbound market accounting for 4.3 million visitor nights, followed by Korea and Taiwan. Visitor nights out of the UK and NZ dropped significantly, by 30% and 26% respectively. Some international airline routes that have commenced in 2016 include the Shanghai-to-Brisbane service with China Eastern and the Vancouver-to-Brisbane service with Air Canada.

Overall growth is set to remain robust with total visitor nights in Brisbane forecast to increase from 62.2 million in FY2015 to 95.6 million by FY2025, a CAAG rate of 4.4%. Holiday makers and business travellers are expected to contribute to growth equally at a 10-year CAAG rate of 5%.

Brisbane - Historical Demand and Supply

According to STR, the Brisbane Tourism Region (TR) has 115 hotels and serviced apartments, totalling approximately 13,200 rooms. Demand in the Brisbane TR grew at a CAAG rate of 2.9% in the five years to December 2016, markedly below the growth in supply at a CAAG rate of 4.8%.

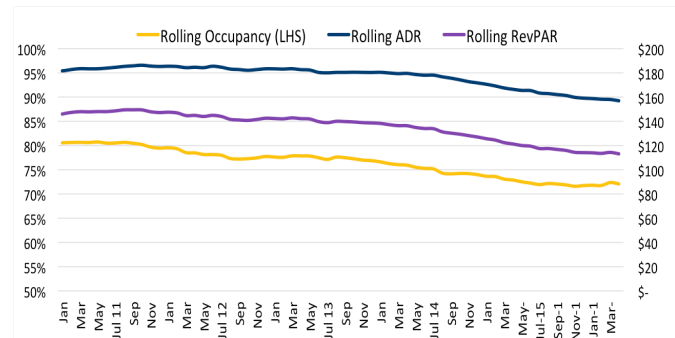


Brisbane - Historical Market Performance

In recent years, Brisbane’s hotel market performance continued to be challenged by a rapid growth in supply and a decline in demand attributed to a contraction of the resources sector. In the year ended March 2017, Brisbane’s performance fell behind Cairns and the Gold Coast, achieving an average occupancy of 72% and an ADR of \$158. RevPAR continues to slide at a five-year CAAG rate of -4.3%. However, compared to the 10.3% YOY drop in RevPAR last year, the fall has slowed this year to 6.8%.

Historically the busiest periods were from July to November, with these months recording the highest average occupancy of over 80%. Seasonality has flattened somewhat and December was the month to see the smallest decrease in RevPAR. This may point to a shift in the size of different market segments.

Brisbane Occupancy, ADR & RevPAR (Jan 2010 - Apr 2016)



The busiest days continue to be Saturday, and Tuesday through to Thursday. Over the past three years, Friday and Saturday saw the smallest decreases in occupancy and Wednesday saw the largest drop, a further indication of reduced corporate travel to Brisbane. Still, average rates remained highest on Wednesday and Saturday, achieving a three-year average of \$178 and \$172 respectively.

Brisbane - Recent and Future Additions to Supply

Continuous supply growth has been seen in Brisbane, with six new properties opened (or extended) in 2016 and two more opened at the start of this year. In addition, the 162-room Adina Apartment has been rebranded as the Oakwood Apartments Brisbane.

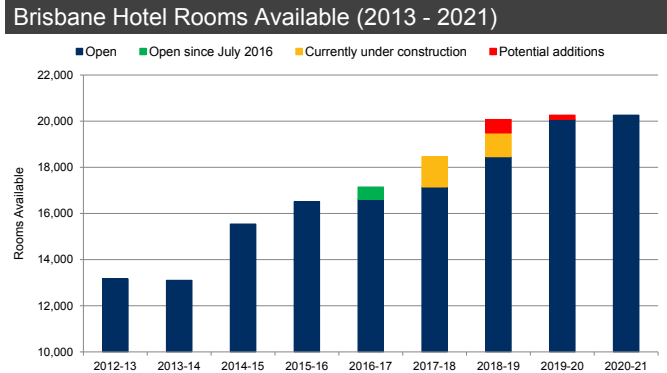
Recent Additions to Supply

Project Name	Star Grade	No of Rooms	Opening Date
Rydges Fortitude Valley	4	208	Feb 2016
Oaks Woolloongabba	4	80	Mar 2016
Ibis Styles Brisbane Elizabeth Street	3.5	368	May 2016
Mantra Richmond Hotel	4	110	May 2016
Art Series Hotel - The Johnson	4.5	85	Sep 2016
Swiss Bel Hotel & Peak Apartments	4	134	Nov 2016
Sage Hotel James Street	4.5	93	Mar 2017
Holiday Inn Express Brisbane Central	4	226	Apr 2017

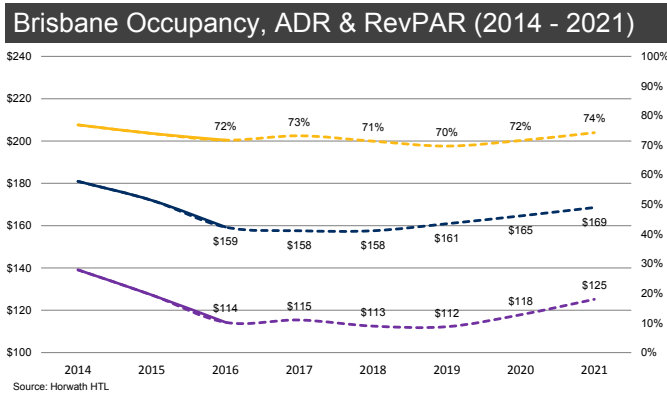
Source: Horwath HTL

New hotels and serviced apartments to open in Brisbane in the coming year include the Alcyon Hotel Residences, the Quest Brisbane Technology Park, Ibis Hotel Airport Brisbane, Pullman Hotel Airport Brisbane and the W Hotel Brisbane. Some projects worth noting that have been proposed for the future are the \$3 billion Queen’s Wharf Brisbane integrated resort development, the Howard Smith Wharves tourism development and the former Supreme Court mixed-use hotel development.

Horwath HTL estimates that there are approximately 3,100 rooms in the Brisbane pipeline which are likely to come online between now and the end of FY2021. Of these the majority can be expected to open within the next two years. The three year CAAG rate in supply of 4.2% to FY2021 is expected to put some further downward pressure on occupancy in the medium-term.



Brisbane - Hotel Market Projections



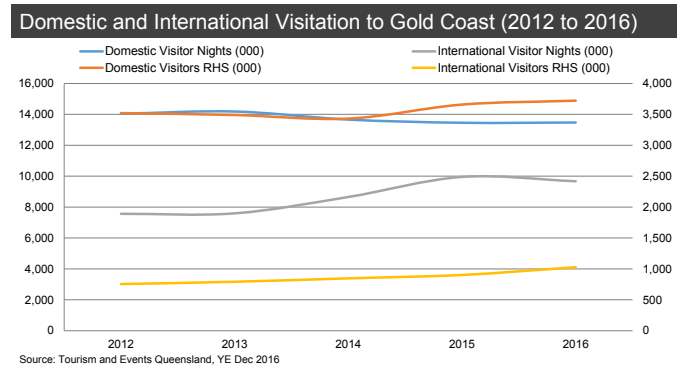
It is anticipated that these supply additions may cause hoteliers to struggle to grow rate. On average, ADR is projected to grow by an average of just 1.1% per year to FY2021. RevPAR is thus expected to grow at a CAAG rate of 1.8% between FY2016 and FY2021.

Gold Coast Market Overview

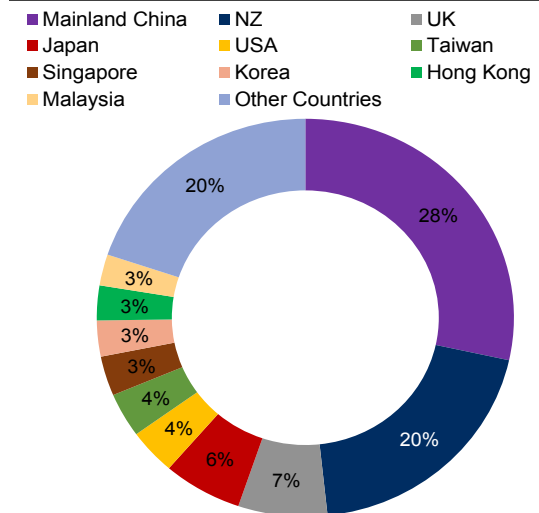
Amidst Queensland’s tourism uplift, the Gold Coast has continued to enjoy strong growth in leisure demand and market performance since 2014. In preparation for the 2018 Commonwealth Games, a series of infrastructure developments including the Parklands Development, the Coomera Indoor Sports Centre, and the Carrara Sport and Leisure Centre are under construction. The \$200 million redevelopment of Gold Coast Airport as well as \$161 million in road upgrades have also been approved.

According to Tourism and Events Queensland, the Gold Coast welcomed 3.7 million domestic overnight visitors who spent 13.5 million nights. There were 1 million international overnight visitors who generated 9.7 million nights. The most impressive growth was seen in international visitors and domestic leisure visitors. Leisure visitation now contributes 55% of total visitor nights to the Gold Coast, and international visitation accounts for 42%. However, similar to the rest of the state, holiday travellers took shorter trips, resulting in an overall 1.1% decline in total visitor nights.

Compared to 2015, total visitation growth slowed somewhat to 4.1% in 2016. Domestic business travel declined by 18.4% and the number of domestic trips made to visit friends or relatives also slowed to 2.3%.



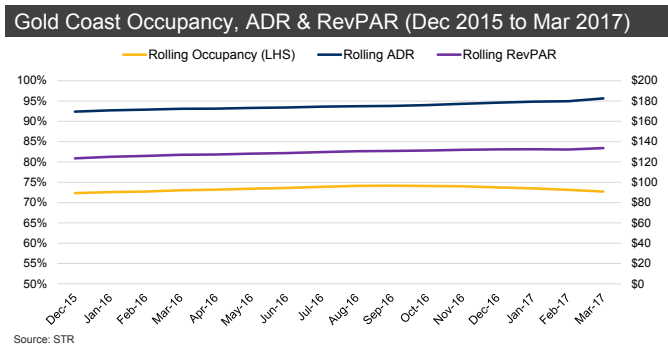
Key International Source Markets to the Gold Coast



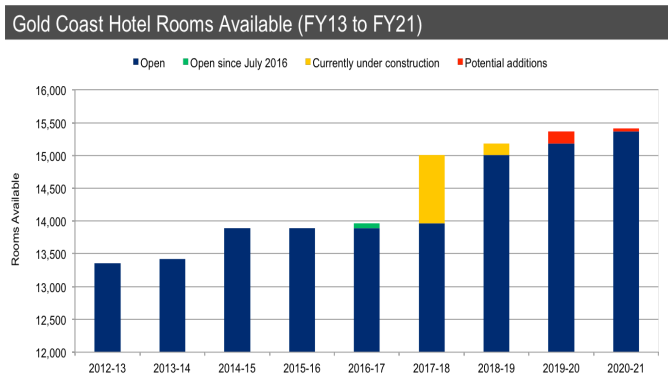
Source: Tourism and Events Queensland, YE Dec 2016

Double digit visitation growth was seen by international leisure travellers from Asian countries including China, Korea and Japan. Visitors from New Zealand contributed 1.7 million visitor nights, the most amongst all source markets. The increase of 70,000 passengers on the Auckland route now represents a third of the international aviation volume to Gold Coast airport.

In the year ended March 2017, the Gold Coast was the fourth highest performing hotel market in Australia in terms of market average RevPAR. Despite a slight dip in occupancy in the second half of 2016, occupancy stayed above 73% and ADR pushed \$183 in the year ended March 2017. Compared to 2016, RevPAR increased year-on-year by 5.2%, reaching \$134.



Horwath HTL research reveals that the Woodroffe Hotel is the only hotel scheduled to open in 2017. More hotels and serviced apartments to open in 2018 include the AVANI Broadbeach Residences, Jupiter’s second tower, the Mantra Hotel at Sharks and the Wanda Vista Hotel Jewel. A joint venture between Dalian Wanda and the Ridong Development Group, the \$1 billion triple tower Jewel development will consist of residential apartments and a 171-room luxury hotel.

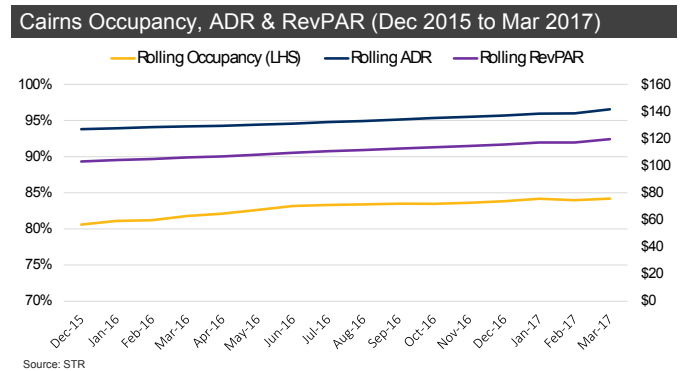


Horwath HTL estimates that the five year CAAG in supply to FY2021 will be 2.5%. There are approximately 1,400 rooms in the Gold Coast pipeline which are likely to come online before the end of FY2021. Of these the majority can be expected to open in 2018. These supply additions are likely to put pressure on occupancy, causing rate growth to stall and perhaps even fall in the coming year.

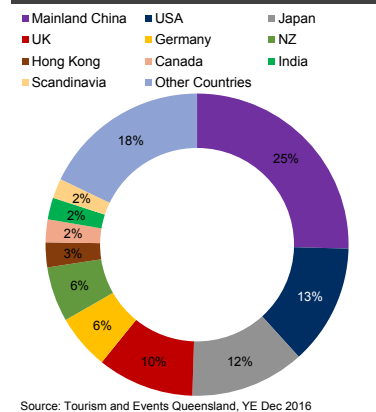
Cairns and Tropical North Queensland Markets Overview

Home to the Great Barrier Reef and two of the five international passenger airports in Queensland, TNQ continues to be the most popular tourism destination for international travellers.

In 2016, TNQ received 1.9 million domestic overnight visitors and 901,000 international visitors. A 15.3% surge in international visitors was outweighed by an 11.3% decrease in the domestic overnight visitation. The decline was spread across different demand segments, with domestic holiday travellers accounting for 54% of the decline and VFR travellers for 27%. It should however be noted that Tourism Tropical North Queensland reported that some evidence has pointed contrary to what the statistics have indicated and are currently in the process of investigating the data.



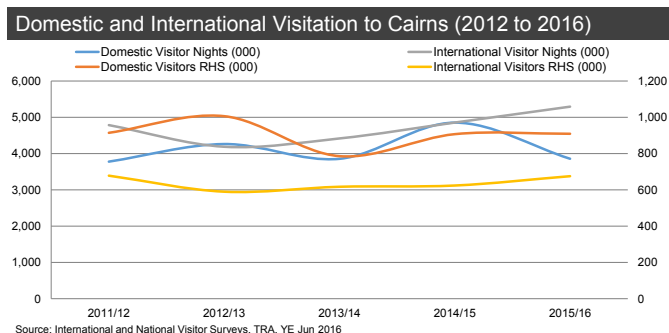
Key International Source Markets to Tropical North Queensland





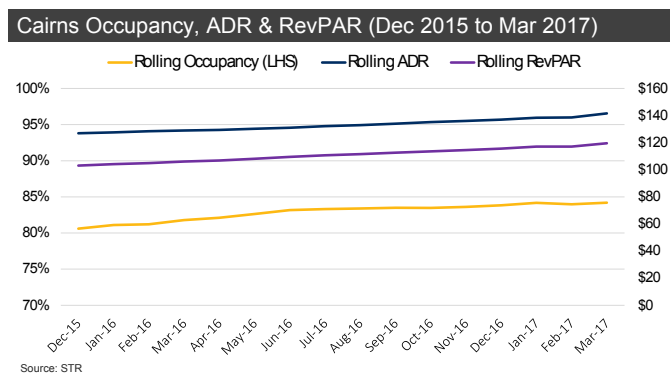
China remains the largest source market to TNQ. In 2016, there were 229,000 Chinese visitors who spent 771,000 nights in the region. 79.1% of these nights were made for holiday purposes. This is followed by 116,000 travellers from the USA and 110,000 from Japan.

As the economic centre and the regional transit point to several leisure and island destinations in the region, Cairns welcomed 1.2 million domestic overnight visitors who spent 4.6 million nights in the year ended June 2016. There were approximately 825,000 international visitors, who generated 4.9 million visitor nights. In contrast to TNQ, international visitor nights to Cairns decreased marginally by 1.5% while domestic visitor nights jumped by a sharp 15%.



In the year ended March 2017, the Cairns hotel market reported strong performance gains, with average occupancy reaching almost 85% and ADR above \$140. This represents year on year ADR growth of \$13 and a RevPAR gain of 13%.

Cairns has now overtaken Brisbane as the second-best performing market in Queensland, in terms of RevPAR.



The Cairns market has continued to benefit from limited supply additions and increased visitation. Horwath HTL research has not identified any new potential additions in Cairns that will open by the end of FY2018. However, some hotel projects that have been proposed for the future include three Crystalbrook Collection hotels. Outside of Cairns, in the wider TNQ region, a few hotel developments have been proposed including the \$650-million KUR-World eco-resort in Kuranda, the Aquis Great Barrier Reef Resort and the Ella Bay Integrated Resort on the Cassowary Coast. Opening dates remain uncertain for the majority of these projects but completion is expected after FY2019. RevPAR growth is therefore forecast to remain positive for the next three-to-five years.



Hotel, Tourism and Leisure

Horwath HTL Australia

Horwath HTL Australia provides consulting services with in-depth market and technical knowledge, to the hotel, tourism and leisure industries. Our network has offices in eleven cities in the Asia Pacific region and forty five throughout the world.

We provide a well-balanced and sound approach in assisting clients progressing their business decisions and strategies with quality information.

Our key areas of business are:

- Asset Management
- Due Diligence
- Litigation Support
- Pre-lending Bank Reviews
- Independent Expert Advice
- Strategic Advice
- Market Supply & Demand Studies
- Financial Feasibility Studies
- Operating & Financial Projections
- Operator Selection & Contract Negotiation

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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.



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