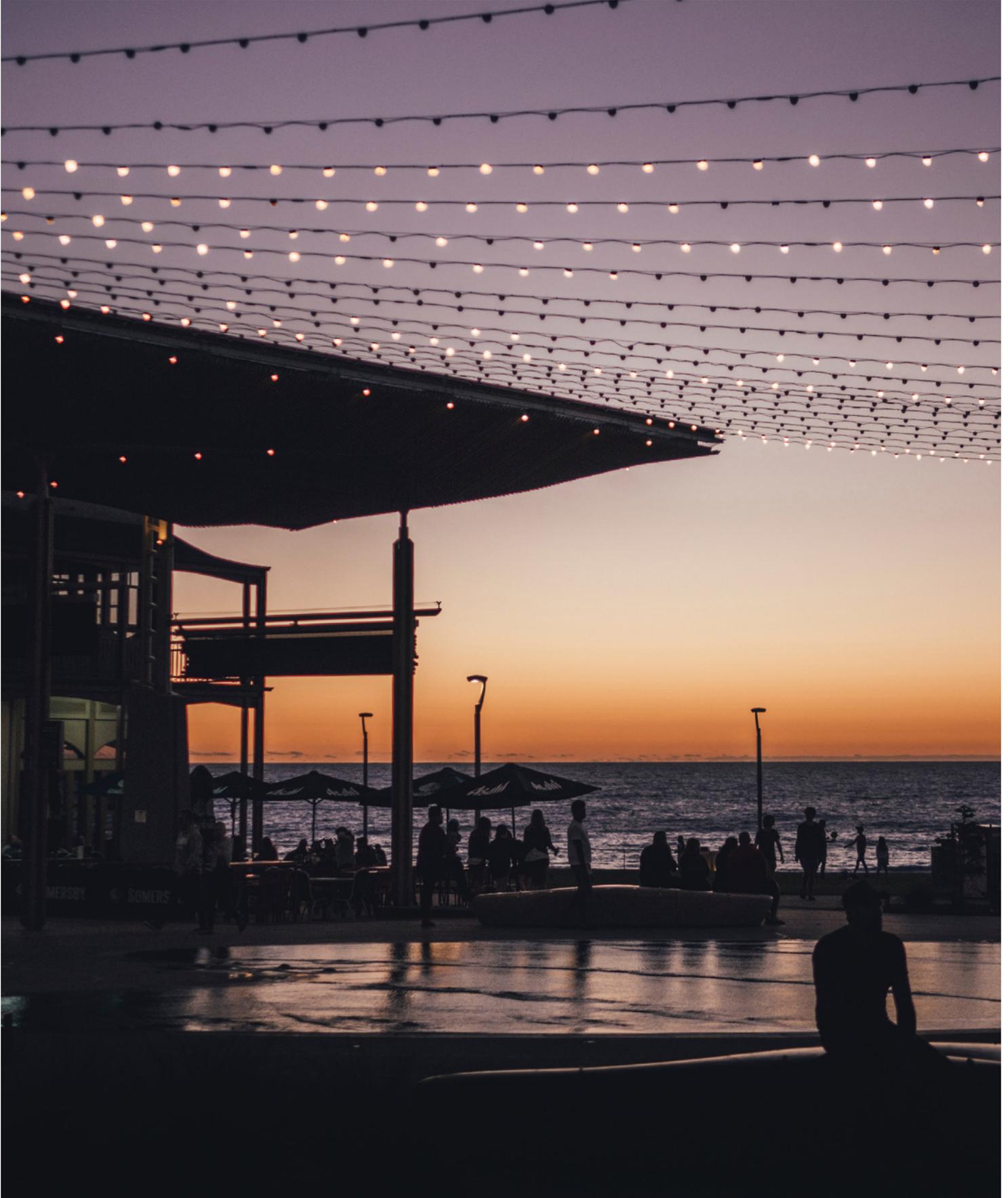


# Hotel Market Update



● Australia Int'l visitors up 2.7% ● Australia Domestic visitors up 10.1% ● NZL Int'l visitors up 2.2%

## Welcome to the latest Savills Australia & New Zealand YTD Q2 2019 update.

This report covers economic indicators likely to affect performance across the hotels sector, key performance indicators across Australia and New Zealand's major hotel destinations, trends in Domestic and International Visitors, plus recent sales transactions.

Of the 10 Australian markets reported on, RevPAR declined in 8 key markets. YTD June 2019, Sydney and Hobart are the only markets achieving Occupancy in excess of 80% with Melbourne's Occupancy having just dipped under 80%. Interestingly, for the 12 months ending March 2019, International and particularly Domestic Visitors and Visitor Nights continued to grow strongly, against a backdrop of moderate new room inventory entering most key markets.

New Zealand's RevPAR exceeds Australia's which is reflected in the strength of both Occupancy (all key markets either above or proximate to 80%) and ADR. For the 12 months ended May 2019, International and particularly Domestic visitation grew in NZ, with a fall in International Visitor Nights being more than compensated by a strong increase in Domestic Visitor Nights.

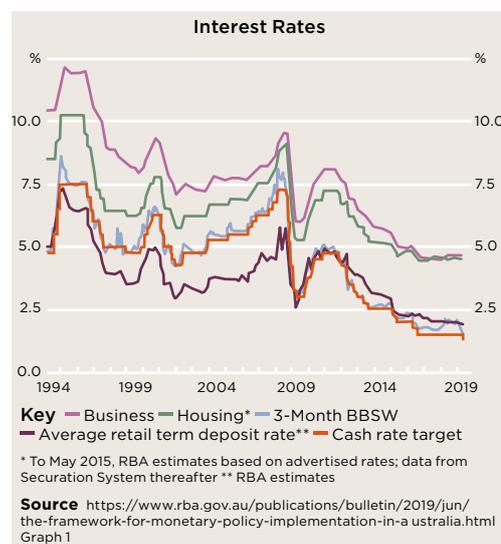
Respective economies cut their official cash rates in response to softening economies and the inability to reach inflationary targets as a precursor to triggering wage growth, employment and economic growth. The continuing theme of monitoring China's GDP growth amidst USA trade wars and global military alliances remains.



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# Economic Update - Australia

The June quarter was highlighted by the Reserve Bank of Australia easing Monetary Policy twice, both times by 25bp, to bring the official cash rate to 1%, an all-time record low for Australia. The RBA cited a need to support necessary growth in employment and incomes, and promote stronger overall economic conditions, which would in turn support a gradual increase in underlying inflation as reasons behind their move to further stimulate the economy.



The Australian economy continues to grow, however is beginning to wane, with GDP growth for the year on year March quarter at +1.8% and only +0.4% on the previous December 2018 quarter. This subdued growth is reflected in low wage growth of +2.3%, translating into retail sales growth of +2.7% year on year to May 2019.

The main contributor to GDP is coming from public demand and consumption, with the benefit of the relatively low Australian Dollar boosting exports via global price competition. New South Wales and Victoria continue to be the main drivers for growth, however Western Australia is beginning to show signs of improvement.

Employment remains robust, however unemployment has ticked up in recent months to 5.1% as at May 2019 from recent lows of 4.9%. In part this is why the RBA has eased rates twice in two months and suggests a more aggressive unemployment rate target could be 4.5%.

The householder is still subdued, with incomes and consumption showing little signs of growth and consumer sentiment flat. This has resulted in benign retail sales growth and the residential property market softening, influenced by tighter bank lending requirements.

The positive on the horizon is the Federal Government post election having greater scope to pass legislation

with a clear majority in the lower house and a more "friendly" senate. This can be seen by the recent passing into law of tax cuts to give the electorate circa \$158bil back into their hip pocket over the next 5 years and near term, those earning up to \$90,000 to get an extra \$1,000 back in tax within weeks.

Ultimately the Government, coupled with the RBA and the banks regulator APRA, are trying to pump prime the Australian economy to generate a more buoyant economy. An inflation rate of between 2-3% via wage growth, easier and cheaper access to financing and continued Infrastructure investment are current policies hoped to achieve this, however it must be noted that these initiatives can have up to two years to flow through all levels of the economy. As such it's not unreasonable to expect interest rates and a stimulatory fiscal policy setting to remain for the next few years. This will also improve household and business confidence, while somewhat protecting the economy from any potential external shocks such as an escalated trade war.

## The World

Global trade and manufacturing activity has slowed over the last year, perhaps as a result of slowing economies; Brexit negotiations; and trade tensions between China and USA remaining elevated.

Importantly to Australia and the region, China's recent economic indicators are suggesting a slowing in economic growth, with slowing growth in industrial production and fixed asset investments. The Chinese property market has also moderated as demand has slowed.

The US has shown mixed results, with financial markets beginning to increase the likelihood of an easing in rates by the Federal Reserve. Inflation still seems to be in check, with the recent fall in oil prices expected to weigh in the near future.

Overall the barometer of global monetary policy seems to be positioned towards steady to easing at this point, in an already low for longer state.

## Capital Markets - Australia

Demand for Australian property remains positive overall, although some sub-sectors are beginning to hit ceilings. Commercial Office is still in demand from domestic and foreign capital, especially in Sydney and Melbourne CBD's, with particular fringe markets following.

Listed A-REIT funds continue to focus on commercial office and Industrial assets as they take advantage of deep and liquid equity markets and aggressive pricing relative to debt. Retail assets are still sanguine, despite a slow retailer environment as the consumer navigates static wages and a pullback in housing values.



## Australia wide RevPAR decreased

**Best RevPAR growth markets:**  
Hobart Area



+8.4%

**Worst RevPAR performing markets:**



Darwin Area (down 17.1%)  
Gold Coast (down 9.8%)  
Cairns (down 6.3%)  
ACT/Canberra Area (down 5.3%)

**International Visitor Highlights (Y/E March 2019)**

International Visitors were up 2.7% to 8.53m International Visitor Nights were up 0.8% to 270.67m



**Domestic Visitor Highlights (Y/E March 2019)**

Domestic Visitors were up 10.1% to 109m Domestic Visitor Nights were up 9.8% to 386m



All States and Territories recorded double digit growth in domestic expenditure



VIC, QLD, WA, and TAS recorded double digit growth in both Visitors and Visitor Nights

## Australia and City Hotel Market Operating Performance

Year to Date June 2019

City	Occupancy	OCC YTD Growth %	ADR	ADR YTD Growth %	RevPAR	RevPAR YTD Growth %
Australia	72.7%	-1.8%	\$184.38	-1.3%	\$134.03	-3.1%
Sydney	83.0%	-1.2%	\$218.86	-3.7%	\$181.72	-4.9%
Hobart Area	84.8%	4.4%	\$188.30	3.8%	\$159.67	8.4%
Melbourne	79.7%	-2.3%	\$186.54	0.5%	\$148.72	-1.9%
Gold Coast	66.2%	-5.0%	\$195.96	-5.1%	\$129.72	-9.8%
ACT & Canberra Area	75.4%	-2.4%	\$167.10	-2.9%	\$125.96	-5.3%
Adelaide	78.8%	-0.4%	\$153.37	-2.0%	\$120.92	-2.4%
Perth	70.3%	-3.2%	\$163.35	-1.6%	\$114.90	-4.8%
Cairns Area	73.2%	-7.9%	\$145.59	1.7%	\$106.53	-6.3%
Brisbane	68.7%	-1.1%	\$154.25	1.7%	\$106.04	0.6%
Darwin Area	54.3%	-19.4%	\$140.38	2.8%	\$76.25	-17.1%

Source STR

### MARKET WRAP

**Sydney** recorded declines across all KPI's due to a 2.2% increase in rooms available (to sell) which exceeded a 0.9% increase in demand for room nights, resulting in a 3.7% decline in ADR and an overall 4.9% decline in RevPAR. Notwithstanding the fall in RevPAR, Sydney was the top performer nationally (in terms of dollar value of RevPAR \$182), outperforming the next best performing market (Hobart Area) by \$22.

**Hobart** performed strongly due to a combination of a 2.8% reduction in rooms available (to sell) and increase of 1.5% in demand for room nights, which enabled this market to achieve the highest growth across all KPI's nationally.

**Melbourne** a 4.5% increase in rooms available (to sell) exceeded a 2.0% increase in demand for rooms, resulting in a 2.3% decline in Occupancy, whilst ADR grew marginally to record a 2.0% decline in RevPAR.

**Gold Coast** recorded declines across all KPI's due to a 2.0% increase in rooms available (to sell) which was compounded by a 3.1% decrease in demand for room nights. An overall 9.8% decline in RevPAR, resulted from a 5% decline

in Occupancy and a 5.1% decline in ADR. As previously reported, the reduction in demand for room nights was anticipated following the staging of the Commonwealth games in Gold Coast in Q2 2018.

**ACT/Canberra** a 3% increase in rooms available (to sell) exceeded a 0.4% increase in demand for rooms. An overall 5.3% decline in RevPAR, resulted from a 2.4% decline in Occupancy and a 2.9% decline in ADR. The May 2019 Federal Election and flow on effect of parliamentary sitting days not recommencing until July, have negatively impacted the results for ACT/Canberra.

**Adelaide** recorded declines across all KPI's due to a 1.9% increase in rooms available (to sell) which exceeded a 1.5% increase in demand for room nights. An overall 2.4% decline in RevPAR, resulted from a marginal decline in Occupancy and a 2% decline in ADR.

**Perth** recorded declines across all KPI's due to a 1.9% increase in rooms available (to sell) which exceeded a 1.5% increase in demand for room nights. An overall 2.4% decline in RevPAR, resulted from a marginal decline in Occupancy and a 2% decline in ADR.

**Cairns** a 5% increase in rooms available (to sell) was compounded by a 3.2% decrease in demand for room nights. An overall 6.3% decline in RevPAR, resulted from a 7.9% decline in Occupancy despite a 1.7% increase in ADR.

**Brisbane** RevPAR remained relatively stable indicating that the market is slowly absorbing the recent new supply. Significantly, a 6.8% increase in rooms available (to sell) was almost matched by a 5.6% increase in demand for room nights.

**Darwin** saw a significant decline of 19% in demand for room nights, representing the lowest RevPAR performing market for the period. It is worth pointing out however that despite a 19% decline in Occupancy (a 13% occupancy fall in absolute terms), the market actually grew ADR by \$4 (2.8%).

**International Visitor Highlights (Y/E March 2019)** The key growth market was India which rose by 14.6% in terms of Visitors and recorded a substantial growth of 20.9% in Visitor nights (3.6m more Visitor Nights). A number of key volume international markets recorded declining visitor nights (in order of descending volume): UK (1.4m), USA (1.1m) and Japan (0.3m).

i) Amounts are AUD ii) Unless otherwise stated percentages are expressed as percentage movements

## RECENT SALES TRANSACTIONS



### MACq Hobart - TAS

**Number of Rooms**

114

**Price Per Room**

\$438,596

SOLD | Jul-19



### Rydges Esplanade Cairns - QLD

**Number of Rooms**

242

**Price Per Room**

\$268,595

Pending | Jul-19



### LinQ Hotel - VIC

**Number of Rooms**

162

**Price Per Room**

\$195,679

SOLD | May-19



### NEXT Brisbane - QLD

**Number of Rooms**

304

**Price Per Room**

\$342,105

SOLD | May-19



### 80 Collins St Melb. Hotel - VIC

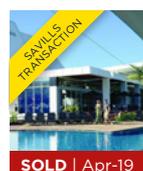
**Number of Rooms**

255

**Price Per Room**

\$1,361,305

SOLD | May-19



### Skycity Darwin Casino - NT

**Number of Rooms**

152

**Price Per Room**

\$1,236,842

SOLD | Apr-19



### Felix Hotel - NSW

**Number of Rooms**

150

**Price Per Room**

\$404,000

SOLD | Mar-19



### Pullman Sydney Olympic Park

**Number of Rooms**

218

**Price Per Room**

\$479,899

SOLD | Nov-18

Source: RCA

Note: Recent hotel transactions over 100 rooms

## Top International Visitor Markets Year Ending March 2019



### 01 - CHINA

TV '000	1,329
STV	15.6%
VAG	2.6%
TVN '000	56,983
STVN	21.1%
VNAG	4.3%



### 02 - NEW ZEALAND

TV '000	1,262
STV	14.8%
VAG	1.7%
TVN '000	12,900
STVN	4.8%
VNAG	-0.2%



### 03 - USA

TV '000	750
STV	8.8%
VAG	-0.3%
TVN '000	13,074
STVN	4.8%
VNAG	-7.9%



### 04 - UK

TV '000	673
STV	7.9%
VAG	-3.9%
TVN '000	21,385
STVN	7.9%
VNAG	-6.2%



### 05 - JAPAN

TV '000	438
STV	5.1%
VAG	8.6%
TVN '000	10,667
STVN	3.9%
VNAG	-3.0%



### 06 - SINGAPORE

TV '000	393
STV	4.6%
VAG	2.6%
TVN '000	5,826
STVN	2.2%
VNAG	0.3%

## International & Domestic Visitors - Who Goes Where?

Year Ending March 2019

State	Int'l	Domestic	State	Int'l	Domestic
<b>NSW</b>	TV '000: 4,346	35,606	<b>VIC</b>	TV '000: 3,088	27,832
STV: 50.9%	32.7%	STV: 36.2%	25.5%		
VAG: 0.3%	7.9%	VAG: 5.0%	11.8%		
TVN '000: 97,418	111,371	TVN '000: 71,690	78,965		
STVN: 36.0%	28.8%	STVN: 26.5%	20.4%		
VNAG: 3.2%	8.3%	VNAG: 5.6%	12.6%		
<b>QLD</b>	TV '000: 2,738	24,584	<b>WA</b>	TV '000: 949	10,171
STV: 32.1%	22.5%	STV: 11.1%	9.3%		
VAG: -0.3%	12.2%	VAG: -1.2%	10.5%		
TVN '000: 54,366	97,052	TVN '000: 23,734	44,223		
STVN: 20.1%	25.1%	STVN: 8.8%	11.5%		
VNAG: 1.4%	11.6%	VNAG: -10.7%	10.8%		
<b>SA</b>	TV '000: 457	6,976	<b>TAS</b>	TV '000: 299	3,124
STV: 5.3%	6.4%	STV: 3.5%	2.9%		
VAG: -4.5%	7.3%	VAG: 0.1%	11.6%		
TVN '000: 9,509	24,914	TVN '000: 4,435	12,576		
STVN: 3.5%	6.5%	STVN: 1.6%	3.3%		
VNAG: -13.9%	4.7%	VNAG: -14.4%	10.7%		
<b>NT</b>	TV '000: 297	2,928	<b>ACT</b>	TV '000: 259	1,651
STV: 3.5%	2.7%	STV: 3.0%	1.5%		
VAG: 4.2%	6.1%	VAG: 4.4%	9.9%		
TVN '000: 3,330	7,386	TVN '000: 5,693	9,663		
STVN: 1.2%	1.9%	STVN: 2.1%	2.5%		
VNAG: -11.6%	2.6%	VNAG: 3.9%	1.0%		

KEY : Total Visitors ('TV '000') | Share of Total Visitors ('STV') | Visitors Annual Growth YOY ('VAG') | Total Visitor Nights ('TVN '000') | Share of Total Visitor Nights ('STVN') | Visitor Nights Annual Growth YOY ('VNAG')

Source TRA (Share of total visitors for both International and Domestic Visitors exceeds 100% due to multiple state visits)

Australia Year Ending March 2019



Total Visitors up  
**9.5%**



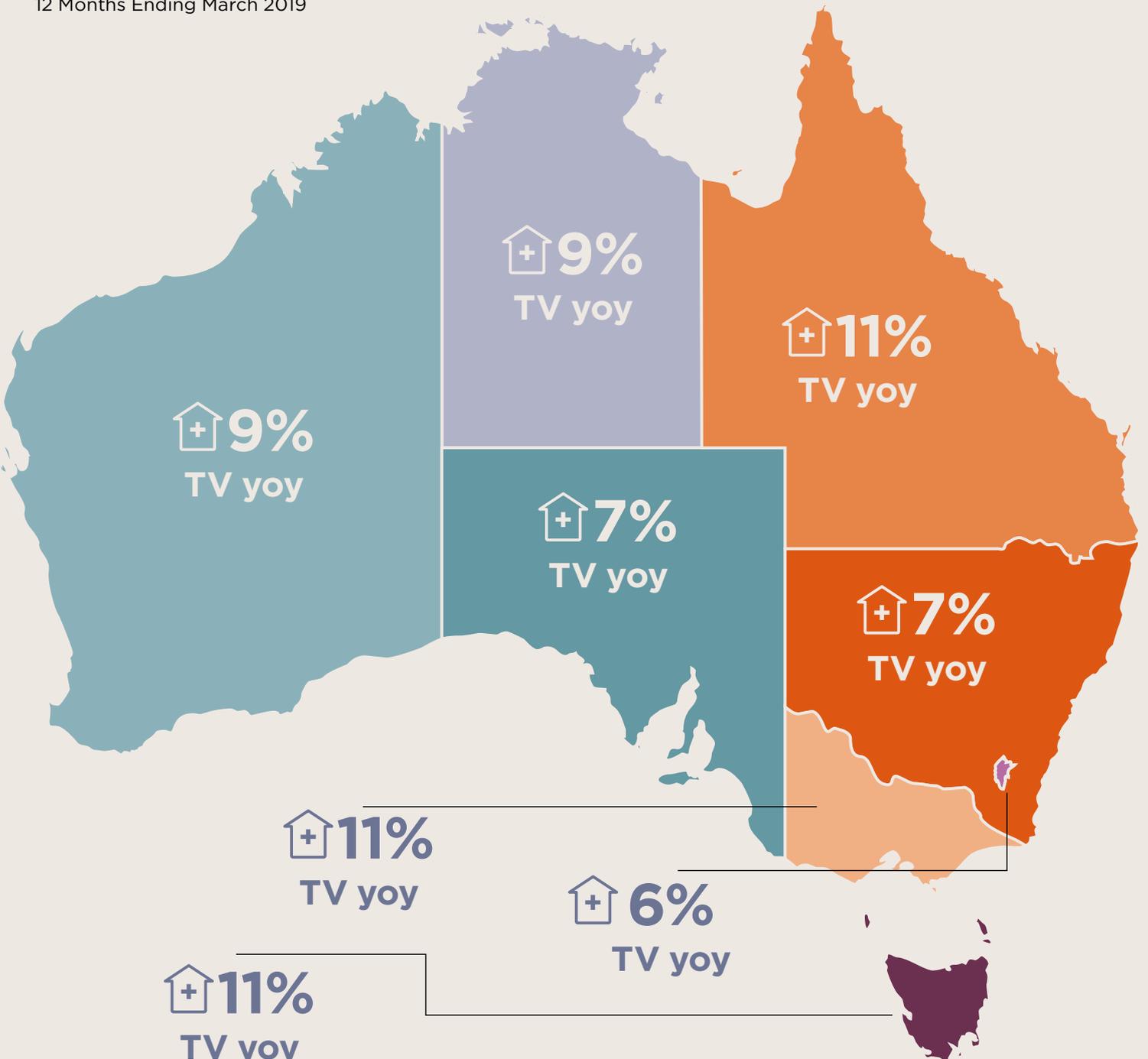
Visitation Nights up  
**5.9%**



Expenditure up  
**10.7%**

Total Visitors (National + International) Visitor annual growth

12 Months Ending March 2019



# Economic Update - New Zealand

Global economic growth has slowed since mid-2018 (consistent with uncertainty around the global economic outlook) easing demand for New Zealand's goods and services. This lower global growth has prompted foreign central banks to ease their monetary policy stances, supporting growth prospects.

NZ domestic growth slowed from the second half of 2018. Reduced population growth through lower net immigration, and continuing house price softness in some areas, has tempered the growth in household spending. Ongoing low business sentiment, tighter profit margins, and competition for resources have collectively contributed to restrained investment. Employment is near its maximum sustainable level. However, the outlook for employment growth is more subdued and capacity pressure is expected to ease slightly in 2019. Consequently, inflationary pressure is projected to rise only slowly.

Given the employment and inflation outlook, The Reserve Bank implemented a further cut to the official cash rate in May 2019 to 1.5%.

In May 2019, the Central Bank also proposed to gradually lift capital requirements for banks from 8.5% to 16.0% in order to increase financial stability; the rebuttal from banks was that this measure would most likely limit the availability of credit. At this time, the outcome of capital adequacy remains fluid as between the regulator and the banks.

Economic growth is projected to ease in 2019, due to a deceleration of domestic demand against an uncertain international backdrop. Persistent weakness in business confidence is also likely to hold back fixed investment, while sluggish wage growth could impact spending. Should China experience slower growth, this would further dampen NZ export growth.

The IMF (as at April 2019) is forecasting NZ GDP growth of 2.5% in 2019 and 2.9% in 2020.

## New Zealand & City Hotel Market Operating Performance Year to Date June 2019

City	Occupancy	OCC YTD Growth %	ADR	ADR YTD Growth %	RevPAR	RevPAR YTD Growth %
New Zealand	79.3%	-2.3%	\$194.92	-1.3%	\$154.49	-3.6%
Queenstown	79.7%	-5.1%	\$254.66	2.8%	\$202.94	-2.5%
Auckland	80.7%	-2.9%	\$200.75	-5.5%	\$162.00	-8.3%
Wellington	78.6%	-0.5%	\$189.48	4.9%	\$148.86	4.4%
Christchurch	80.0%	-0.5%	\$157.86	-0.8%	\$126.28	-1.4%

i) Amounts are AUD ii) Unless otherwise stated percentages are expressed as percentage movements

Source STR

### MARKET WRAP

**Queenstown** a 1.9% increase in rooms available (to sell) was compounded by a 3.3% decrease in demand for room nights. An overall 2.5% decline in RevPAR, resulted from a 5.1% decline in Occupancy which was partly offset by a 2.8% increase in ADR. Queenstown was the top performer nationally (in terms of dollar value of RevPAR \$203), outperforming the next best performing market (Auckland) by \$41.

**Wellington** a 2.4% increase in rooms available (to sell) exceeded a 1.9% increase in demand for room nights. An overall 4.4% increase in RevPAR, resulted from a 0.5% decline in Occupancy and a healthy 4.9% increase in ADR.

**Auckland** recorded declines across all KPI's due to a 4.2% increase in rooms available (to sell) which exceeded a 1.2% increase in demand for room nights. An overall 8.3% decline in RevPAR, resulted from a 2.9% decline in Occupancy and a 5.5% decline in ADR.

**Christchurch** a 3.8% increase in rooms available (to sell) exceeded a 3.2% increase in demand for room nights. An overall 1.4% decline in RevPAR, resulted from a 0.5% decline in Occupancy and 0.8% decline in ADR.

### International Visitor Highlights (12 Months Ending May 2019)

International visitors were up 2.2% to 3.9 million for the year ending May 2019.

Of the top 10 International Visitor markets, Australia made up 38.9% of the total share of Visitors, with China following at 10.8%.

Total International Visitor Nights declined by 2.3% to 17.2 million, representing a fall of 400,000 nights.



### New Zealand wide RevPAR decreased



**Best RevPAR growth markets:**  
Wellington

+4.4%



**Worst RevPAR performing market:**  
Auckland

-8.3%



### International Visitor Highlights (12 months Ending May 2019)

USA and Canada continue to demonstrate strong growth in Visitors



### Domestic Visitor Highlights (12 months ending May 2019)

Domestic Visitor Nights were up 3.9% to 23.2m, representing an increase of 860,000 nights

+3.9%



Domestic Visitor Nights to the North Island were up 4.8%, while Domestic Visitor Nights to the South Island were up 1.9%

**Top International Visitor Markets** 12 months ending May 2019



01 - AUSTRALIA		02 - CHINA		03 - USA		04 - UK		05 - GERMANY	
TV '000	1 513	TV '000	422	TV '000	365	TV '000	234	TV '000	102
STV	38.9%	STV	10.8%	STV	9.4%	STV	6.0%	STV	2.6%
VAG	2.3%	VAG	-5.8%	VAG	8.1%	VAG	-6.8%	VAG	0.4%

**RECENT SALES TRANSACTIONS**



**Haka Hotel Backpacker - AUK**  
**Number of Rooms**  
 63  
**Price Per Room**  
 \$185,714



**Haka Lodge - AUK**  
**Number of Suites**  
 60  
**Price Per Room**  
 \$87,563



**Comfort Hotel, Wellington - WGN**  
**Number of Rooms**  
 115  
**Price Per Room**  
 \$211,831



**Quality Hotel, Wellington - WGN**  
**Number of Rooms**  
 63  
**Price Per Room**  
 \$211,831



**Novotel New Plymouth Hobson Hotel - NPL**  
**Number of Rooms**  
 85  
**Price Per Room**  
 \$249,579

Source: RCA

Note: Recent hotel transactions over 50 rooms

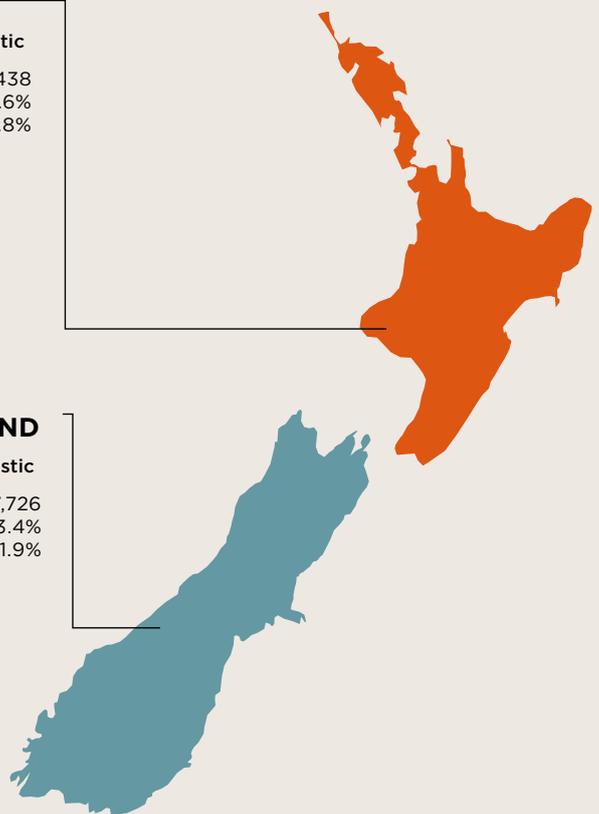
**International & Domestic Visitors - Who Goes Where?**  
 12 Months Ending May 2019

**NORTH ISLAND**

	Int'l	Domestic
TVN '000	8,304	15,438
STVN	48.2%	66.6%
VNAG	-4.0%	4.8%

**SOUTH ISLAND**

	Int'l	Domestic
TVN '000	8,909	7,726
STVN	51.8%	33.4%
VNAG	-0.7%	1.9%



**New Zealand 12 Months ending May 2019**



**International Total Visitors up 2.2%**



**Domestic & Int'l Total Visitor Nights up 1.1%**

KEY : Total Visitors ('TV '000') | Share of Total Visitors ('STV') | Visitors Annual Growth YOY ('VAG') | Total Visitor Nights ('TVN '000') | Share of Total Visitor Nights ('STVN') | Visitor Nights Annual Growth YOY ('VNAG')

Source: STATS NZ



### Savills Hotels Research

Savills offers independent advice across hotel development & construction, hotel property investments and management of hotel real estate. With local and international clients including financial, investment and management entities, Savills has the experience to deliver on any project, no matter the size or scope.

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