Australia Int’l visitors up 2.8%  •  Australia Domestic visitors up 11.7%  •  NZL Int’l visitors up 2.5%
Economic Update - Australia

The September quarter has again been highlighted by the RBA easing Monetary Policy, dropping 25bp on 3 July to 1%. On 1 October the RBA has again eased 25bp to fresh all-time lows of 0.75%. The reasoning behind the move is low growth and the need to reach full employment as well as the perceived downside risks to the global economy with the RBA stating the “US-China trade and technology disputes are affecting international trade flows and investment as businesses scale back spending plans because of the increased uncertainty”.

The Australian economy remains benign, with business sentiment still marginally negative, however there has been some greenshoots emerging with consumer sentiment. The weekly (11/10/19) ANZ-Roy Morgan consumer confidence rating rose by 4.2% to 114.7pts, the biggest weekly lift in confidence in 15 months. Consumer sentiment is back above the average of 114.4pts held since 2014 and the longer term average of 113.1pts since 1990.

Confidence is improving as home prices begin to rise off their recent lows, helped by mortgage rate falls and tax refunds that are beginning to filter through the economy.

As noted above, Employment is still seen as the driving factor to economic growth and at present it is deemed weak with an unemployment rate of 5.3% and more importantly an underemployment rate at a high 8.6%, meaning there is considerable slack in the economy. More recently the IMF revised downward its GDP forecast for Australia to 1.7% against a backdrop of a softening global economy.

The World

The global economy is still highlighted by geo-political events with the US/China Trade and technology dispute, potential impeachment of President Trump, Brexit, Hong Kong democracy protests and the potential for a European recession.

The German economy is slowing meaningfully, with business expectations declining to a decade low and factory activity shrinking at the fastest pace since the depths of the GFC in 2009. While Germany could have a flow on to other Euro nations, the UK’s plans to Brexit continue to be thwarted and as such add to the European and UK instability.

On the back of the US Federal Reserve easing rates 25bp in September to the range of 1.75%-2%, there is data that show the US consumer is beginning to slow spending into the lead up to the most important time of the year for retailers, being Thanksgiving, Black Friday and Cyber Monday and then into Christmas. The Commerce Department reported August consumer spending, which accounts for more than 2/3rds of U.S. economic activity, rose only 0.1% as an increase in outlays on recreational goods and motor vehicles was offset by a decrease in spending at restaurants and hotels. July was revised down and year on year up only 1.4%.

Capital Markets – Australia

Demand for Australian property remains strong driven by domestic AREIT’s and foreign investors chasing secure and superior income returns versus other global developed markets. With property cap rate margins to bonds having moved out to above 4.25% in Sydney and Melbourne, this typically represents a buy trigger. Developers remain disciplined, retaining scarcity and superior income returns versus other global capital markets. The listed and unlisted space. Access to debt remains tight, as lenders remain prudent.

Australia once again cut its official cash rate as both the Australian and New Zealand authorities continue to implement accommodative monetary policy in order to trigger wage growth, employment and economic growth.

Michael Simpson
Managing Director Hotels
+61 431 649 724
msimpson@savills.com.au

Welcome to the latest Savills Australia & New Zealand YTD September 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.

For the 12 months ending June 2019, International and particularly Domestic Visitors and Visitor Nights continued to grow.

Of the 10 Australian key markets reviewed, six markets achieved occupancy in excess of 77%, reflecting the continuing growth in international and Domestic Visitors. Growth in demand for rooms was achieved in seven markets. However, six of those markets experienced increased new room supply.

Market-wide, New Zealand’s RevPAR exceeds Australia’s by $10 (exchange rate adjusted) which is reflected in the strength of both occupancy (all key markets above 75%) and ADR.

Australia once again cut its official cash rate as both the Australian and New Zealand authorities continue to implement accommodative monetary policy in order to trigger wage growth, employment and economic growth.

Graph 1

Interest Rates

Key
- Business = Housing = 3-Month BBSW
- Average retail term deposit rate** = Cash rate target
* To May 2015, RBA estimates based on advertised rates; data from Securation System thereafter ** RBA estimates

The World

The global economy is still highlighted by geo-political events with the US/China Trade and technology dispute, potential impeachment of President Trump, Brexit, Hong Kong democracy protests and the potential for a European recession.

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Capital Markets – Australia

Demand for Australian property remains strong driven by domestic AREIT’s and foreign investors chasing secure and superior income returns versus other global developed markets. With property cap rate margins to bonds having moved out to above 4.25% in Sydney and Melbourne, this typically represents a buy trigger. Developers remain disciplined, retaining scarcity despite the willingness for funds to fund equity raisings in the listed and unlisted space. Access to debt remains tight, as lenders remain prudent.
MARKET WRAP
Sydney was the top performer nationally (in terms of dollar value of RevPAR $176), outperforming the next best performing market (Melbourne) by $1. Sydney however recorded declines across all KPI's due to a 2.0% increase in rooms available (to sell) which exceeded a 0.3% increase in demand for room nights. An overall 4.5% decline in RevPAR resulted from a 1.7% decline in Occupancy and a 2.9% decline in ADR. The increase in supply in the Mascot airport precinct is impacting the ability for Sydney CBD hotels to rate yields when occupancy compression occurs (typically above 90%).

Melbourne a 4.5% increase in rooms available (to sell) exceeded a 1.6% increase in demand for rooms, resulting in a 2.8% decline in occupancy. As ADR remained the same as prior period RevPAR declined by 2.8%. Melbourne continues to combat new rooms supply with its robust calendar of events.

Hobart performed strongly due to a combination of a 2.7% reduction in rooms available (to sell) and increase of 2.2% in demand for room nights, which enabled this market to achieve the highest growth across all KPI’s nationally. The domestic market continues its love affair with Tasmania.

ACT/Canberra a 4.7% increase in rooms available (to sell) exceeded a 2.6% increase in demand for rooms. An overall 5.2% decline in RevPAR, resulted from a 2.5% decline in Occupancy and a 3.2% decline in ADR. The May 2019 Federal Election and subsequent deferment of parliamentary sitting days to Q3, have negatively impacted the results for ACT/Canberra.

Gold Coast recorded declines across all KPI's due to a 1.8% increase in rooms available (to sell) which was compounded by a 3.0% decrease in demand for room nights. An overall 8.3% decline in RevPAR, resulted from a 4.7% decline in Occupancy and a 3.8% decline in ADR. The reduction in year to date demand for room nights was anticipated following the staging of the Commonwealth Games in Gold Coast in Q2 2018.

Adelaide recorded a growth in occupancy of 1.1% due to a 3.1% increase in demand for room nights which exceeded a 1.9% increase in rooms available (to sell). ADR decline by 1.3% resulting in an overall 0.1% increase in RevPAR.

Perth recorded declines across all KPI's due to a 6.5% increase in rooms available (to sell) which exceeded a 5.6% increase in demand for room nights. An overall 2.2% decline in RevPAR, resulted from a 0.9% decline in Occupancy and a 1.3% decline in ADR. Perth faces more challenges as additional new supply enters the market in the next six to twelve months.

International Visitor Highlights (Y/E June 2019)
China remains Australia’s number 1 International Visitor representing 15% of the total share of visitors achieving overall marginal growth YOY. The key growth market was India which rose by 11.6% in terms of visitors and recorded a substantial growth of 21.9% in Visitor Nights (4,000 more Visitor Nights). Japan rebounded from last quarter reporting a strong growth in Visitors up by 9.1% YOY. A number of international markets recorded declining Visitor Nights: Malaysia (18%), Italy (17%), Hong Kong (15%).

(i) Amounts are AUD (ii) Unless otherwise stated percentages are expressed as percentage movements (iii) Unless otherwise stated all comparisons are to the same prior period
### Top International Visitor Markets Year Ending June 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>International</th>
<th>Domestic</th>
<th>Visitor Nights Annual Growth YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,323</td>
<td>37,237</td>
<td>56.8%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1,272</td>
<td>12,819</td>
<td>4.7%</td>
</tr>
<tr>
<td>USA</td>
<td>764</td>
<td>13,106</td>
<td>4.8%</td>
</tr>
<tr>
<td>UK</td>
<td>674</td>
<td>21,649</td>
<td>7.9%</td>
</tr>
<tr>
<td>Japan</td>
<td>445</td>
<td>11,048</td>
<td>4.0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>407</td>
<td>26,732</td>
<td>3.2%</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>State</th>
<th>Int'l</th>
<th>Domestic</th>
<th>VIC</th>
<th>Int'l</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>674</td>
<td>2,757</td>
<td>50.9%</td>
<td>4,376</td>
<td>4,136</td>
</tr>
<tr>
<td>QLD</td>
<td>54,575</td>
<td>2,757</td>
<td>12.2%</td>
<td>48,818</td>
<td>48,818</td>
</tr>
<tr>
<td>SA</td>
<td>467</td>
<td>9,523</td>
<td>12.2%</td>
<td>5,957</td>
<td>5,957</td>
</tr>
<tr>
<td>TAS</td>
<td>294</td>
<td>9,523</td>
<td>12.2%</td>
<td>5,957</td>
<td>5,957</td>
</tr>
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<td>NT</td>
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<td>12.2%</td>
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</tr>
<tr>
<td>VIC</td>
<td>294</td>
<td>9,523</td>
<td>12.2%</td>
<td>5,957</td>
<td>5,957</td>
</tr>
<tr>
<td>WA</td>
<td>294</td>
<td>9,523</td>
<td>12.2%</td>
<td>5,957</td>
<td>5,957</td>
</tr>
</tbody>
</table>

**Source:** RCA

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### RECENT SALES TRANSACTIONS

<table>
<thead>
<tr>
<th>Property</th>
<th>Location</th>
<th>Rooms</th>
<th>Price Per Room</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Novotel Glen</td>
<td>Waverley - VIC</td>
<td>200</td>
<td>$450,000</td>
<td>SAVILLS</td>
</tr>
<tr>
<td>Punthill Springhill</td>
<td>QLD</td>
<td>71</td>
<td>$252,958</td>
<td></td>
</tr>
<tr>
<td>Veriu Central - NSW</td>
<td></td>
<td>112</td>
<td>$491,071</td>
<td></td>
</tr>
<tr>
<td>AccorInvest Portfolio - AUS</td>
<td></td>
<td>1,797</td>
<td>$118,308</td>
<td></td>
</tr>
<tr>
<td>The Byron at Byron - NSW</td>
<td></td>
<td>92</td>
<td>$453,957</td>
<td></td>
</tr>
<tr>
<td>Base Backpackers, Magnetic Is - QLD</td>
<td></td>
<td>32</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Box Hill Motel - VIC</td>
<td></td>
<td>23</td>
<td>$259,783</td>
<td></td>
</tr>
<tr>
<td>Future Citadines Walker - NSW</td>
<td></td>
<td>252</td>
<td>$802,381</td>
<td></td>
</tr>
</tbody>
</table>

**Top International Visitor Markets**

1. **China**
   - TV'000: 1,323
   - STV: 15.4%
   - VAG: 0.8%
   - TVN'000: 56,918
   - STVN: 20.8%
   - VNAG: 0.3%

2. **New Zealand**
   - TV'000: 1,272
   - STV: 14.8%
   - VAG: 2.1%
   - TVN'000: 12,819
   - STVN: 4.7%
   - VNAG: -0.9%

3. **USA**
   - TV'000: 764
   - STV: 8.9%
   - VAG: 3.0%
   - TVN'000: 13,106
   - STVN: 4.8%
   - VNAG: -2.5%

4. **UK**
   - TV'000: 674
   - STV: 7.8%
   - VAG: -5.6%
   - TVN'000: 21,649
   - STVN: 7.9%
   - VNAG: -2.4%

5. **Japan**
   - TV'000: 445
   - STV: 5.2%
   - VAG: 9.1%
   - TVN'000: 11,048
   - STVN: 4.0%
   - VNAG: 3.2%

6. **Singapore**
   - TV'000: 407
   - STV: 4.7%
   - VAG: 7.9%
   - TVN'000: 5,693
   - STVN: 2.1%
   - VNAG: 1.2%

**Source:** TRA

(Share of total visitors for both International and Domestic Visitors exceeds 100% due to multiple state visits)
Australia Year Ending June 2019

- Total Visitors up 11%
- Visitation Nights up 6.6%
- Expenditure up 10.9%

Total Visitors (National + International) Visitor annual growth
12 Months Ending June 2019

- Total Visitors up 11%
- Visitation Nights up 6.6%
- Expenditure up 10.9%
- TV yoy

Top International Visitor Markets
Year Ending June 2019

- Visitation Nights up 6.6%
- Total Visitors up 11%
- Expenditure up 10.9%
- TV yoy

Australia & New Zealand Hotels - Q3 2019
Economic Update - New Zealand

The NZ economy recorded marginal growth of 0.3% in Q2 of 2019, achieving a milestone of $300bn, driven primarily through the service industries sector which represents two-thirds of the economy. GDP grew 2.4% for year ending June 2019. The NZ Treasury posted a NZ $7.5 billion surplus in FY19, the biggest in 11 years, which comprised a “once off” $2bn revaluation of rail assets. A further positive for the economy has been the labour market’s resilience, which saw the unemployment rate fall to 3.9%, representing an 11 year low, and which has enabled wage growth.

Despite the positive Q2 results, consumer confidence continued its downward trend, declining 0.4 points to 103.4, the lowest level since 2012. Similarly the manufacturing sector is showing signs of slowdown in PMI during September and with continued pessimism in business confidence, fixed investments is likely to see contraction.

Economist consensus is that the NZ economy will expand by 2.4% in 2020 however downside risks represent the potential impacts of global economic dynamics such as US/China trade disputes and potential weakening performance of Australia and China.

MARKET WRAP

Queenstown a 1.1% increase in rooms available (to sell) was compounded by a 0.6% decrease in demand for room nights. RevPAR remained flat to prior year, resulting from a 1.7% decline in Occupancy which was offset by a 1.8% increase in ADR. Queenstown was the top performer nationally (in terms of dollar value of RevPAR $197), outperforming the next best performing market (Auckland) by $43.

Auckland recorded declines across all KPI’s due to a 3.2% increase in rooms available (to sell) which exceeded a 0.9% increase in demand for room nights. An overall 7.4% decline in RevPAR, resulted from a 2.2% decline in Occupancy and a 5.3% decline in ADR.

Wellington a 2.1% increase in rooms available (to sell) exceeded a 1.3% increase in demand for room nights. An overall 4.2% increase in RevPAR, resulted from a 0.8% decline in Occupancy and a healthy 5.0% increase in ADR.

Christchurch a 2.7% increase in rooms available (to sell) exceeded a 1.9% increase in demand for room nights. An overall 1.4% decline in RevPAR, resulted from a 0.7% decline in Occupancy and 0.6% decline in ADR.

International & Domestic Visitor Highlights (12 Months Ending August 2019)

International Visitors were up 2.5% to 3.9 million for the year ending August 2019.

International Visitor Nights were up 4.0% to 23.4 million.

Domestic Visitor Nights were up 4.0% to 23.4 million.

New Zealand & City Hotel Market Operating Performance

Year to Date September 2019

<table>
<thead>
<tr>
<th>City</th>
<th>Occupancy</th>
<th>OCC YTD Growth %</th>
<th>ADR</th>
<th>ADR YTD Growth %</th>
<th>RevPAR</th>
<th>RevPAR YTD Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>77.8%</td>
<td>-1.4%</td>
<td>$188.34</td>
<td>-1.6%</td>
<td>$146.46</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Queenstown</td>
<td>80.6%</td>
<td>-1.7%</td>
<td>$243.83</td>
<td>1.8%</td>
<td>$196.62</td>
<td>0.1%</td>
</tr>
<tr>
<td>Auckland</td>
<td>79.8%</td>
<td>-2.2%</td>
<td>$192.70</td>
<td>-5.5%</td>
<td>$153.86</td>
<td>-7.4%</td>
</tr>
<tr>
<td>Wellington</td>
<td>76.8%</td>
<td>-0.8%</td>
<td>$186.13</td>
<td>5.0%</td>
<td>$142.92</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Christchurch</td>
<td>75.5%</td>
<td>-0.7%</td>
<td>$152.26</td>
<td>-0.6%</td>
<td>$114.96</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>

i) Amounts are NZD
ii) Unless otherwise stated percentages are expressed as percentage movements
iii) Unless otherwise stated all comparisons are to the same prior period

Domestic Visitor Nights to the North Island were up 5%, and Domestic Visitor Nights to the South Island were up 1.9%

savills.com/research
Top International Visitor Markets 12 months ending August 2019

<table>
<thead>
<tr>
<th>Region</th>
<th>Int'l TVN '000</th>
<th>Domestic TVN '000</th>
<th>STVN</th>
<th>VNAG</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOUTH ISLAND</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int'l</td>
<td>8,874</td>
<td>7,750</td>
<td>51.7%</td>
<td>33.2%</td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
<td>-1.2%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

NORTH ISLAND

<table>
<thead>
<tr>
<th>Region</th>
<th>Int'l TVN '000</th>
<th>Domestic TVN '000</th>
<th>STVN</th>
<th>VNAG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Int'l</td>
<td>8,297</td>
<td>15,603</td>
<td>48.3%</td>
<td>66.8%</td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
<td>66.8%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

SOUTH ISLAND

<table>
<thead>
<tr>
<th>Region</th>
<th>Int'l TVN '000</th>
<th>Domestic TVN '000</th>
<th>STVN</th>
<th>VNAG</th>
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<td></td>
<td>-1.2%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

New Zealand 12 Months ending August 2019

International Total Visitors up 2.5%

Domestic & Int'l Total Visitor Nights up 1.4%

Source: STATS NZ

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RECENT SALES TRANSACTIONS

Haka Hotel
Backpacker - AKL
Number of Rooms: 63
Price Per Room: $185,714

Haka Lodge - AKL
Number of Suites: 60
Price Per Room: $87,563

Comfort Hotel, Wellington - WEL
Number of Rooms: 115
Price Per Room: $211,831

Quality Hotel, Wellington - WEL
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

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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’)
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.