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RESEARCH

# SAVILLS AUSTRALIAN HOTEL MARKET OUTLOOK Q3 2024

Savills Hotel Capital Markets &  
Savills Valuation and Advisory

savills

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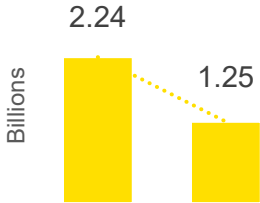
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# 01

AUSTRALIAN HOTEL INVESTMENT MARKET

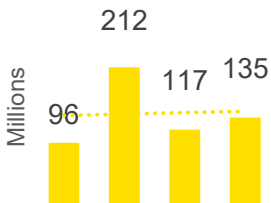
## Key Takeaways

# Key takeaways



## Subdued Transaction Activity

Transaction volumes have been more subdued in 2024 compared with prior years. Transaction volumes have totalled approximately \$1.25 Billion to October YTD 2024 vs \$2.24 Billion October YTD 2023.



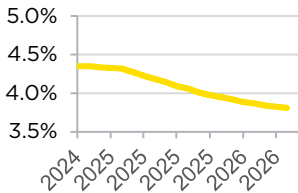
## Major Hotel Transactions

Only 4 major hotel transactions over \$90m have transacted October YTD 2024 reflecting a lack of prime opportunities of scale, particularly in capital city centres.



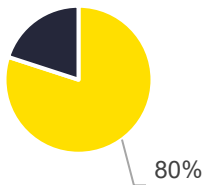
## Trading Performance

RevPAR performance for the period September year-to-date 2024 is positive in nearly all major markets driven by continued Occupancy growth in all markets.



## Rate Cuts to Boost Confidence

Current expectations for interest rate cuts to commence from mid-2025 is benefiting investment sentiment.



## Australian Buyers Dominating Acquisitions

Of all national hotel transactions over \$5m OctYTD 2024, 80% have been purchased by domestic domiciled investors. Taking Sydney as an example Australian domiciled investors have acquired 4 of the last 5 major hotels transacted since 2022.

# 02

AUSTRALIAN HOTEL INVESTMENT MARKET

## Market Commentary

# Australian Hotel Investment Market

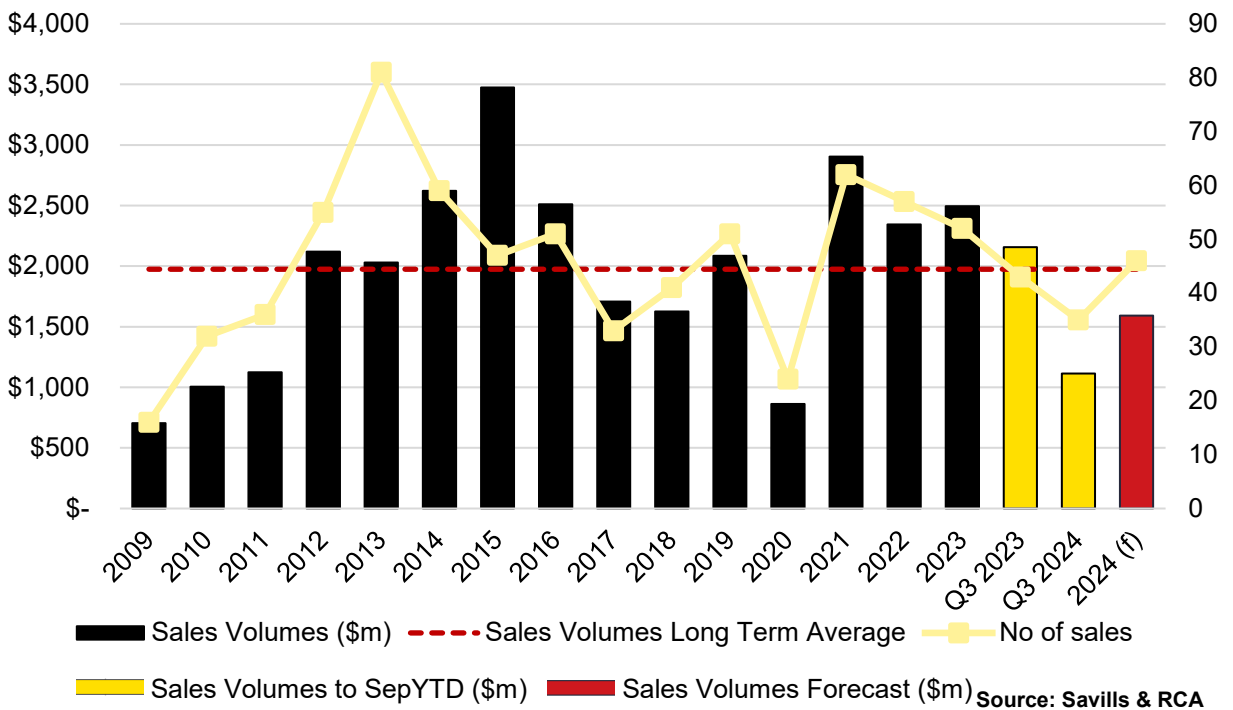
## Moderation in Transaction Activity

The hotel investment market has been mixed over the course of the past 12 months with both headwinds and tailwinds creating a more subdued transaction market overall. In most major markets we have seen improved performance in occupancy helped by a return of strong events calendars and strong domestic and returning international visitors.

More recently ADR growth has started to moderate, but operational costs continue to increase. Our hotel benchmark indicated GOP margins pre-COVID were 33.5% versus post COVID GOP margins of 31.5%, despite higher gross revenues.

Interest rate increases have caused some hesitation from investors in pulling the trigger on capital investments until more clarity is achieved surrounding capital costs and potential movement in book values.

**Australian Hotels  
Sales Volumes (\$m) and Total Sales (no.)**



In terms of the deals that have completed in through October this year, there have been 36 transactions above \$5m, totalling \$1.25bn, versus \$2.2bn for the same period last year.

Savills estimate nearly \$1.6bn of hotel sales in 2024, 36% down on the prior year.

# Australian Hotel Investment Market

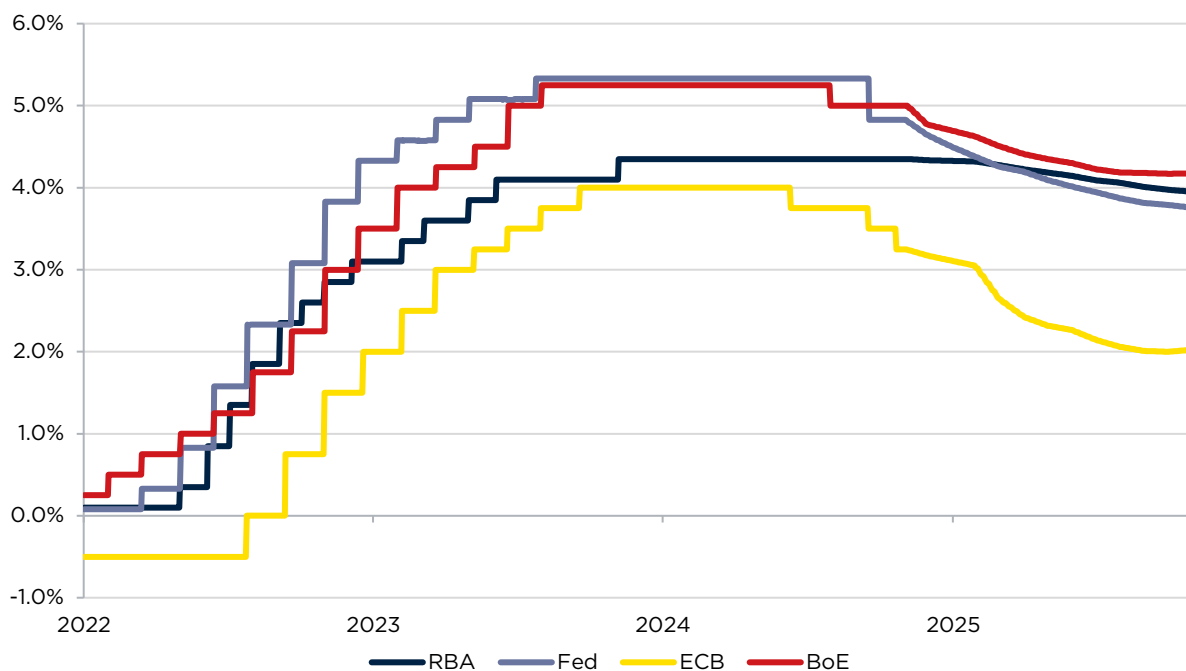
## Higher Cost of Capital but Hotels remaining a Resilient Asset Class

The rise in interest rates has led to some investors pausing and deals are certainly taking longer to settle. Inflation in Australia remained stickier through the first nine months of the year than was previously expected which has led to uncertainty about interest rate raises/cuts.

The RBA, maintaining a less restrictive policy rate than other major economies, is holding steady, emphasising potential upward pressure on inflation. The timeline for anticipated rate cuts has been gradually extended, with the central bank indicating that inflation may take longer than expected to return to its target.

That said, the RBA is projected to align with global peers by initiating monetary easing around mid-2025. Markets currently expect a 25bps cut in June 2025, revised from a previous forecast of March. While market economists anticipate roughly of 75bps cuts, financial markets are pricing in around 50bps of cuts spread across 2025.

Central bank policy trajectory implied by market pricing  
(Per cent)



However, there remains significant capital seeking the right investment. The higher cost of debt is pushing up IRR requirements. As a result, hotels that don't require capex and are available unencumbered are highly sought after. We anticipate increased activity in late CY24 / early CY25 as interest rates clarity is achieved. Larger transaction sizes could start to flow, as investors seek a preference for scale.

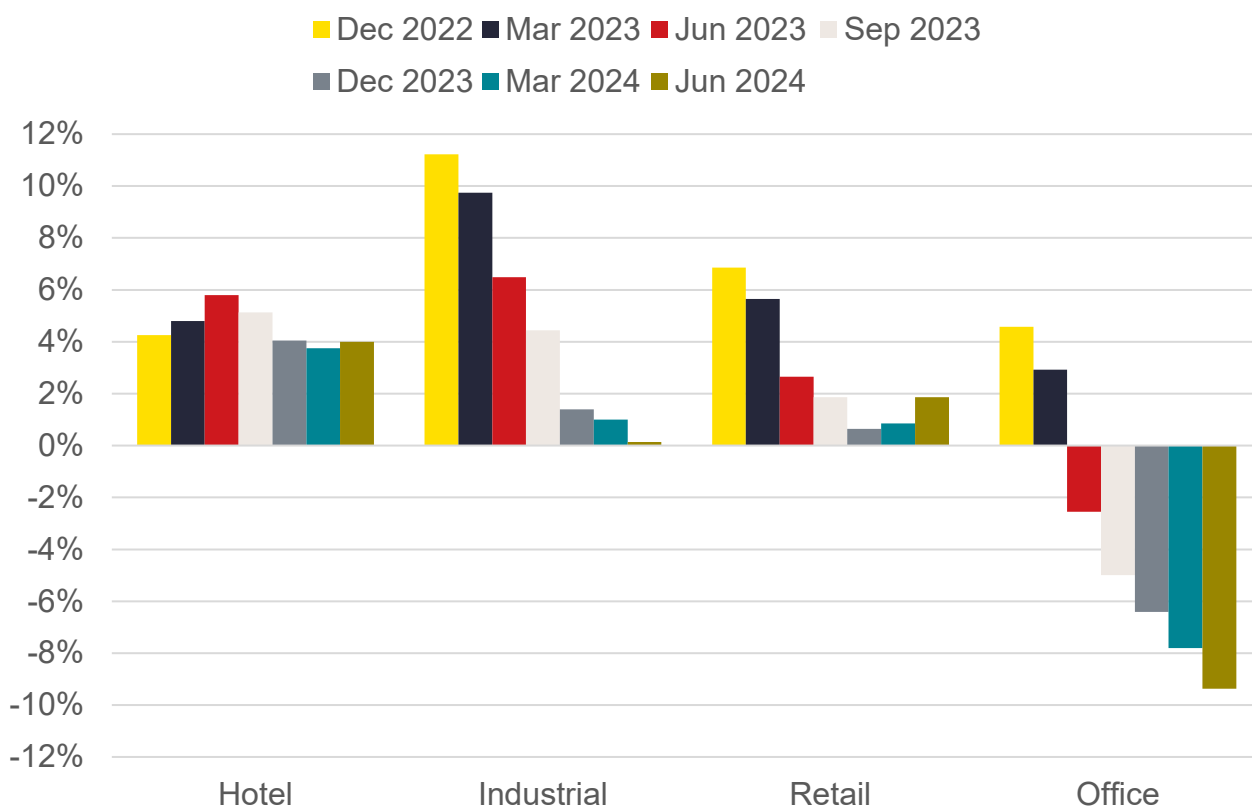
# Australian Hotel Investment Market

## Higher Cost of Capital but Hotels remaining a Resilient Asset Class

As seen in the below chart, hotel returns have remained resilient since Dec 2022 relative to the broader commercial real estate market.

Hotels are continuing to ride the wave of recovery with 8 of the top 10 largest markets in Australia seeing positive RevPAR growth in September YTD versus the same period last year. This RevPAR growth is mainly coming in the form of improved occupancy while ADR is beginning to stabilise after a strong rebound in ADR premiums since Covid-19 closures.

Total return by sector (Per cent change y/y)



Source: Savills Research, Macrobond



# Construction Costs

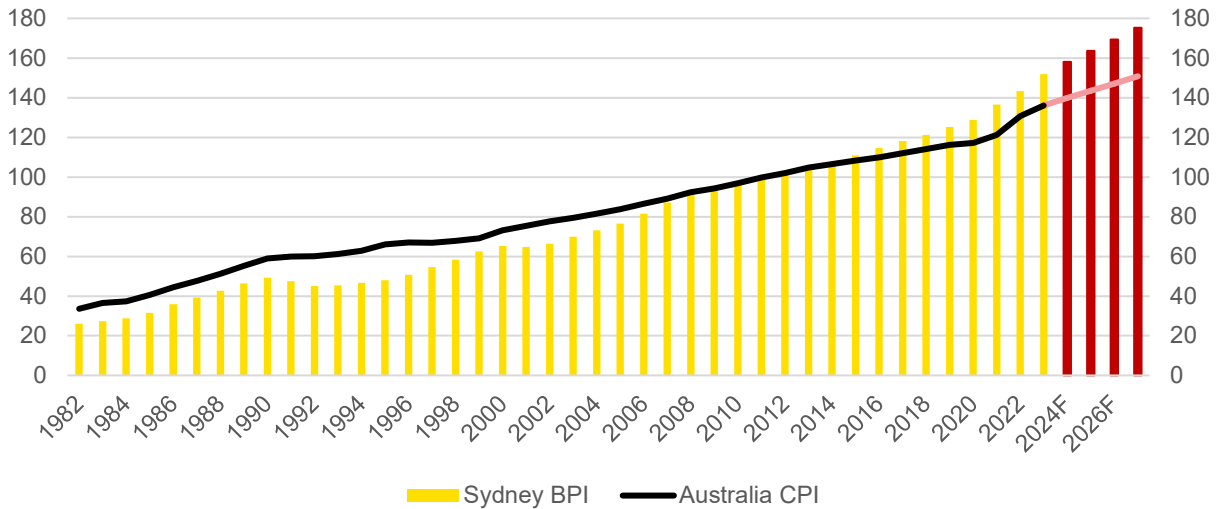
Construction Costs will continue to rise albeit at a more reserved rate of inflation than the last 5 years.

Key takeaways:

- Average escalation for 2024 will range from 3% to 6%, dependant on location and specific projects (eg. QLD at the higher end of the scale due to Health and Olympics Infrastructure Pipelines - could be as high as 8%).
- Escalation slowing in 2025 with some exceptions. Expected to return to average escalation rates.
- Labour and skill shortages nationally are driving a large percentage of project cost increases.
- Material cost escalation is easing however some may continue to be impacted by global conflicts or supply chain disruption, oil prices etc.

The cost of building new hotels alongside the recent cycle of hotel opening will likely limit the number of even approved hotels being completed and opening in the short term.

Sydney Building Price Index versus Australian CPI



The chart above shows Sydney building Price Index as an indicator for other major markets in Australia. Similar trends are expected in other key cities and regions.

Source: Savills Research, Rawlisons, RLB

# Tourism Data & Hotel Trading

## Inbound Tourism Recovery: International & Domestic

In the 2023-24 financial year, international tourism in Australia made significant progress towards pre-pandemic levels. Key metrics like spending, trips, and nights improved compared to 2023. Both international visitor nights and trip spending surpassed 2019 levels by 2% and 3%, respectively, in the 2022-23 financial year. However, international visitor numbers are still 25% below pre-pandemic levels.

Key figures for 2023-24 include:

- **International trips:** 7.4 million, up 35% from 2023, and 85% of 2019 levels.
- **International nights spent:** 278.2 million, up 44% from 2023, 102% of 2019 levels.
- **International spending:** \$31.7 billion, up 45% from 2023, 103% of 2019 levels.

While overall visitation numbers are still below pre-pandemic levels, cities like Brisbane, Perth, and Adelaide have exceeded 2019 figures for international visitor nights. Sydney is nearly at par, only 1% below 2019. International spending has surged across major markets, though Melbourne, Gold Coast, and Canberra remain below 2019 levels in spending and visitation.

Here is a breakdown by city:

Location	Trips (% change from 2019)	Nights (% change from 2019)	Spend (% change from 2019)
<b>Sydney</b>	-16%	-1%	+8%
<b>Melbourne</b>	-20%	-9%	-5%
<b>Brisbane</b>	-12%	+1%	+18%
<b>Perth</b>	-17%	+34%	+10%
<b>Adelaide</b>	-3%	+54%	+16%
<b>Gold Coast</b>	-38%	-17%	-15%
<b>Canberra</b>	-31%	-18%	-6%

Source: Savills Research, Tourism Research Australia FY24 v FY19

Domestic travel has stabilised post-pandemic, with the 2023-24 financial year seeing similar results in comparison to the year prior. Demographically, the strength in travel by older Australians was offset by weaker travel by younger Australians. Similarly, strength in holiday interstate travel was offset by weaker interstate business travel for the 2023-24 financial year.

Key figures for 2023-24 include:

- **Domestic trips:** 113.8 million, up 2% from 2023, in line with 2019 levels.
- **Domestic nights spent:** 399.9 million, down 2% from 2023, in line with 2019 levels.
- **Domestic spending:** \$109.9 billion, up 1% from 2023, 141% of 2019 levels.

Source: Savills Research, Tourism Research Australia

# Tourism Data & Hotel Trading

## International Inbound Tourism Forecasts

Looking ahead, recent forecasts indicate encouraging projections resulting from sustained growth in inbound travel, as well as the return and commencement of new travel routes to Australia. Tourism Research Australia (TRA) forecasts that international visitation will surpass pre-pandemic levels by the end of 2025, reaching 9.5 million trips. By 2028, it is expected to reach 12.1 million trips, 27% above 2019 levels, with an annual growth rate of 12.9% over the next five years.

Key markets driving this growth include New Zealand, Japan, Hong Kong, Singapore, and Malaysia. New Zealand and Japan have already exceeded pre-pandemic trip levels, while China is lagging at 74% of historic levels. By 2028, China is expected to contribute significantly to the rise in international arrivals, adding 1.3 million more trips compared to 2023.



Source: Savills Research, Tourism Research Australia

# Tourism, Airport Data & Hotel Trading

## Inbound Tourism Recovery: Which Markets and When?

All major markets have seen occupancy grow in the first 9 months of 2024 however, ADR is beginning to stabilise in most markets.

The ADR outliers are Sydney and Perth which are showing ADR growth as well as Occupancy growth. These two markets along with the Cairns Area and Brisbane have achieved strongest RevPAR growth vs the same period as last year.

Initial Recovery & Growth through Dec 2023				September YTD 2024 - September YTD 2023			
Market	CY2019 RevPAR	CY2023 RevPAR	RevPAR Growth (CY19-CY23)	Sept YTD 2024 Occ%	Sept YTD 2024 ADR	Sept YTD 2024 RevPAR	RevPAR Growth (Sept YTD 2024 VS Sept YTD 2023)
Adelaide	\$118.5	\$147.8	24.70%	↑	↓	\$144.71	0.0%
Brisbane	\$109.1	\$167.9	53.96%	↑	▬	\$172.48	3.8%
Cairns Area	\$109.1	\$144.0	31.98%	↑	↓	\$156.26	7.4%
Canberra Area	\$99.2	\$137.5	38.69%	↑	↓	\$138.03	1.3%
Gold Coast	\$179.4	\$187.9	4.78%	↑	▬	\$185.09	1.4%
Melbourne	\$147.2	\$150.7	2.34%	↑	↓	\$150.85	2.1%
Perth	\$127.9	\$168.7	31.92%	↑	↑	\$173.74	8.8%
Sydney	\$192.9	\$207.0	7.31%	↑	↑	\$202.63	3.6%

↑ Increase > 1%

▬ Increase/decrease < 1%

↓ Decrease > 1%

# 03

AUSTRALIAN HOTEL INVESTMENT MARKET

## Major Markets

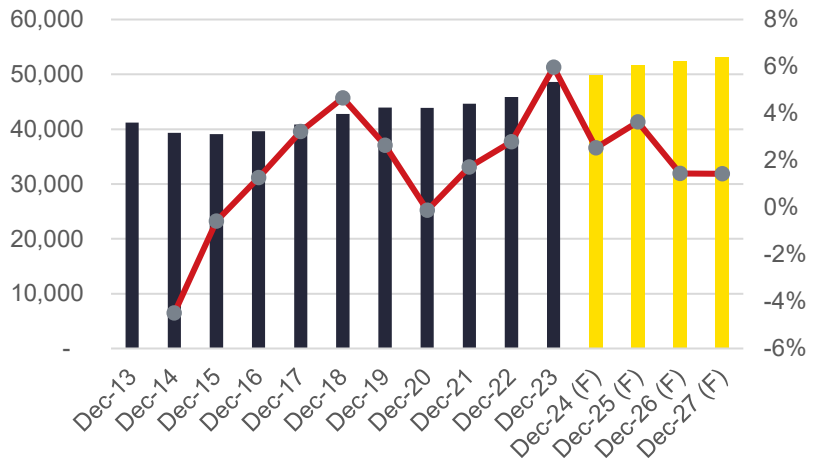
# Major Market **Sydney**



## Major Upcoming Opening

Waldorf Astoria

Sydney Hotel Room Supply\*



Source: Savills, STR

Legend: Rooms (Dark Blue Bar), Y/Y % Change (Red Line)

\*Approximate figures.

### TRADING UPDATE

- Occupancy in Sydney for September 2024 was 78.3%, down from 79.3% in September 2023.
- ADR was at \$256 for the month of September 2024 vs \$261 for the previous September.
- ADR for Sydney 2024 September YTD reached \$264 at 76.9% Occupancy.
- RevPAR for the period September YTD 2024 improved by 3.6% vs the same period in 2023.

Source: STR

### CONSTRUCTION COSTS

- Annual Tender Price Index Uplift % forecasts from RLB show Sydney costs increasing 5.5% in 2024 and between 4.5% & 3.5% p.a. through to 2029.

Of the hotel rooms expected to open in 2024 and 2025, a small number of the rooms have opened already and approximately 1,700 rooms are under construction.

Approximately 1,800 hotel rooms are expected to open in 2025, with most of these hotels under construction.

It becomes challenging to forecast too far into the future; therefore we have assumed a rounded number of 750 hotel rooms in 2026 and 2027. For 2026, most of the hotels likely to open have planning approval and some are in the planning process.

Sydney hit the peak of the supply cycle in 2023. We estimate that new construction commencements will slow slightly as the market absorbs the new stock and as construction costs continue to rise, albeit at a lower rate.

Transactions have been slower to progress as the cost of capital has made it more challenging for deals to stack up on the buy side while sellers have their own expectations on price. Deals that are completing in this kind of market typically have significant value-add play intertwined to the deal.

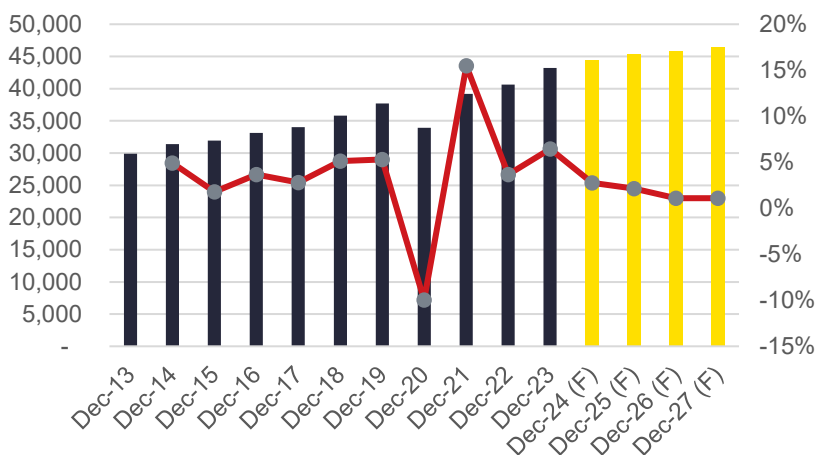
# Major Market **Melbourne**



## Recent Opening

Ibis Styles and Novotel Melbourne Airport

Melbourne Hotel Room Supply\*



Source: Savills, STR  Rooms  YY % Change \*Approximate figures.

### TRADING UPDATE

- Melbourne Occupancy in September 2024 was 67.4%, an increase from 65.4% in September 2023.
- ADR in September 2024 was at \$208 vs \$211 for September 2023
- Occupancy for Melbourne September YTD 2024 was 69.8 % up 3.7% on the same period for 2023.
- This helped RevPAR increase to \$150.85 for September YTD 2024.

Source: STR

### CONSTRUCTION COSTS

- Annual Tender Price Index Uplift % forecasts from RLB show Melbourne costs increasing 5.0% in 2024 and between 4% - 3.5% p.a. through to 2029.

Melbourne saw significant hotel rooms supply increases from 2021 through 2023 and some of the hotels in this supply cycle are currently being completed.

Ibis Styles & Novotel Melbourne Airport opened earlier this year. Other significant openings this year included brands new to Australia: StandardX and Lanson Place.

Hotel room supply growth is estimated to level off in the coming years as construction costs make new proposed projects more difficult to stack up than previously.

Melbourne hotel transactions this year include the first major hotel sale of the year, the Four Points by Sheraton Melbourne Docklands, which sold for \$96 million. Other sales include the Oaks Melbourne on William and the Sebel Melbourne Ringwood.

Source: Rider Levett Bucknall - Oceania Market Update - Q3 2024, Savills

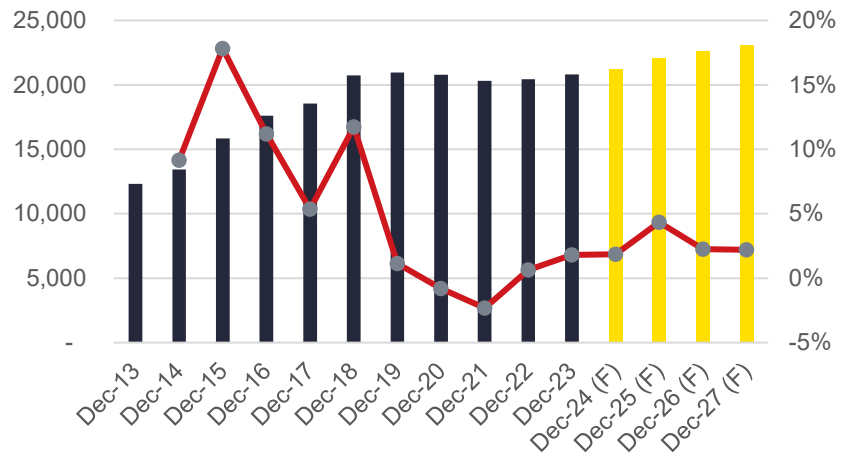
# Major Market **Brisbane**



## Major Upcoming Opening

Star Grand Brisbane

Brisbane Hotel Room Supply\*



Source: Savills, STR  Rooms  Y/Y % Change \*Approximate figures.

## TRADING UPDATE

- Brisbane Occupancy in September 2024 was 78.4%, up from 75.9% in September 2023.
- ADR grew to \$237 in September 2024, up from \$234 from the same period last year.
- RevPAR for Brisbane September 2024 YTD increased by 3.8% overall compared to the same period in 2023.

Source: STR

## CONSTRUCTION COSTS

- Annual Tender Price Index Uplift % forecasts from RLB show Brisbane increasing 7.2% in 2024 and between 5.1% - 5.6% p.a. through to 2029.

The development under construction at Queens Wharf will see the addition of approximately 880 rooms, with the first of three hotels taking bookings for the end of August 2024. The following two hotels that form part of the development are estimated to open in 2025, forming part of the forecast 4% room supply growth next year.

Outside of Queens Wharf, new hotel development in Brisbane is limited. It is estimated circa 9,000 new hotel rooms are required leading up to the Brisbane 2032 Olympics and 40,000-50,000 rooms required during the Games.

We anticipate new hotel announcements over the coming years to enhance Brisbane's accommodation offering.

Many investors are targeting southeast Queensland, in particular Brisbane, but there are few hotel opportunities. Earlier this year the Pacific Hotel Spring Hill (now Mercure Spring Hill) sold to a private investor for \$44.8m. There are other hotels under due diligence, but sales processes are taking longer to settle.

Source: Rider Levett Bucknall - Oceania Market Update - Q3 2024, Savills

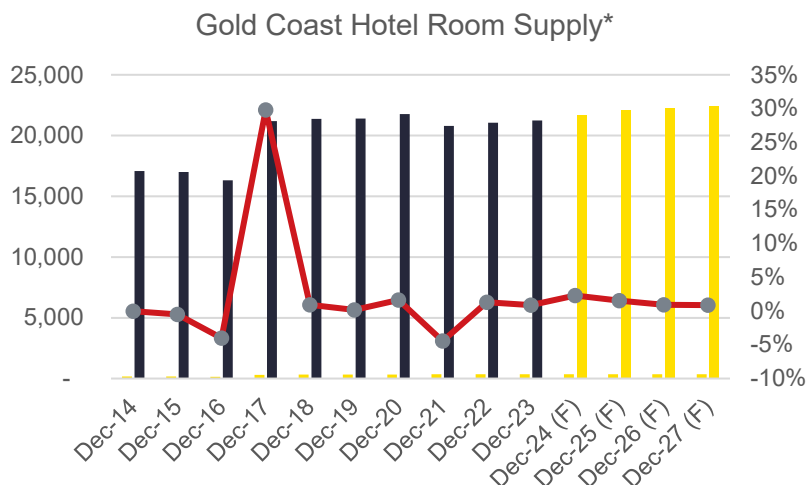


# Major Market **Gold Coast**



## Major Upcoming Opening

Mondrian Burleigh Heads, Gold Coast



Source: Savills, STR  Rooms  Y/Y % Change \*Approximate figures.

### TRADING UPDATE

- Gold Coast Occupancy in September 2024 was 73.7%, down from 75.5% in September 2023.
- ADR fell to \$264 for the month of September, 7.7% below the year prior.
- RevPAR for September YTD 2024 was \$185.90 vs \$182.48 for the same period last year.

Source: STR

### CONSTRUCTION COSTS

- Annual Tender Price Index Uplift % forecasts from RLB show Gold Coast increasing 7.5% in 2024 and 5.0% p.a. through to 2029.

The luxury offering on the Gold Coast is about to increase, adding to the appeal of this popular destination. At the end of 2024 a new 5-star 200 room hotel will open at Tower 2 at The Star and Accor will operate the first Mondrian in Australia at Burleigh Heads late 2024 / early 2025.

The Spit will be transformed with a new 150 room Ritz Carlton Mariner's Cove, plus a 122 room Marina Mirage Marriott Collection next door, plus potential upgrades to the Imperial Hotel and Sheraton Grand Mirage. Gurner is also planning a 185 St Regis in Surfers Paradise. Apart from an increase in luxury hotels, new supply on the Gold Coast is relatively limited at an average increase of only 1.5% per annum over the next 4 years.

The last major sale was the Sheraton Grand Mirage for \$192m in 2023, with other hotels under offer or available. Generally, there is limited stock despite strong appetite from hotel investors.

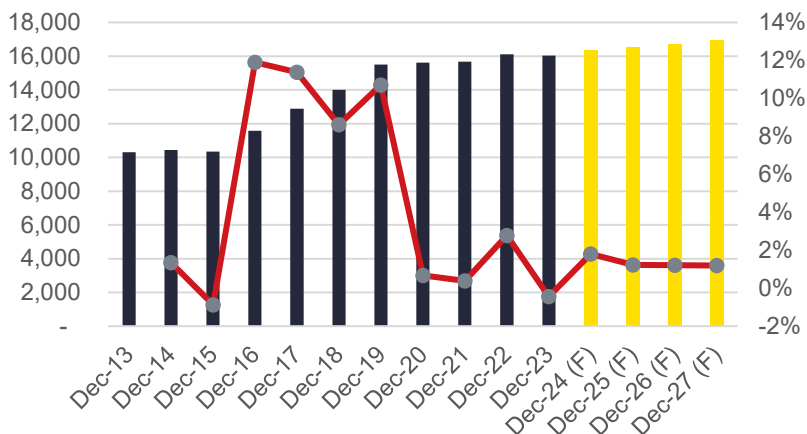
# Major Market **Perth**



## Major Upcoming Opening

EQ Hotel West, Elizabeth Quay

Perth Hotel Room Supply\*



Source: Savills, STR  Rooms  YoY % Change \*Approximate figures.

### TRADING UPDATE

- Occ% in the Perth market for September 2024 was 85.3%, up from 79.4% in September 2023.
- This growth in Occ% was achieved alongside ADR growth to \$224 for Sept versus \$213 in Sept 2023.
- Perth ADR for SepYTD 2024 reached \$222 growing by 3.6% coupled with solidly improving Occ% of 78.2%.
- RevPAR for the 1<sup>st</sup> 9-month period grew 8.8% to almost \$174 in 2024 up from \$160 for 2023 September YTD.

### CONSTRUCTION COSTS

- Annual Tender Price Index Uplift % forecasts from RLB show Perth costs increasing 5.2% in 2024 and increases between 4.9% - 3.7% p.a. through to and incl. 2029.

Perth experienced significant new hotel supply pre-COVID although the hotel development cycle has come to an end. There is 190 room hotel due on Elizabeth Quay as part of the mixed-use development, plus a 263 room Dorsett hotel at Perth City Link. However, new developments are limited, and we anticipate an increase of only 1.5% per annum new hotel supply over the next 4 years.

Partly due to limited new supply, investment demand is high for Perth, especially for renovation and rebranding opportunities.

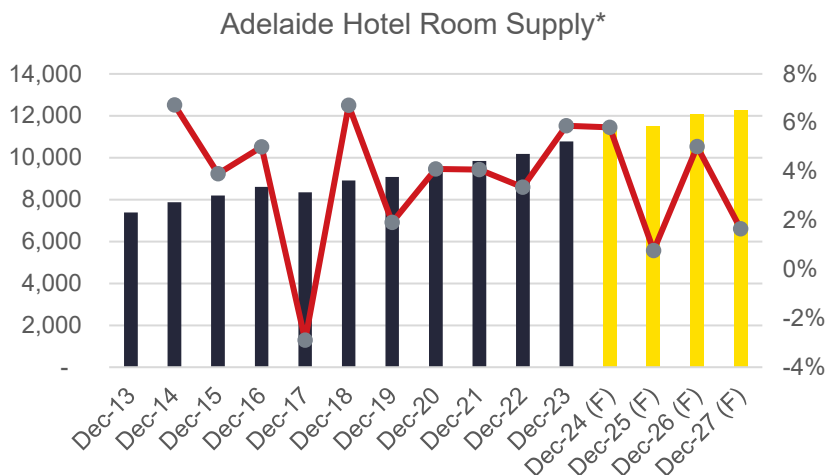
The most recent major hotel transaction was the Esplanade Hotel Fremantle which sold of \$116.5m. Other recent transactions include the Adina Barrack Plaza for \$23m, Flag Motor Lodge for \$17m and Rendezvous Perth Central for \$18.5m.

# Major Market **Adelaide**



## Major Upcoming Opening

Adelaide Marriott Hotel,  
King William Street



Source: Savills, STR

Legend: Rooms (Bar), Y/Y % Change (Line)

\*Approximate figures.

### TRADING UPDATE

- Adelaide Occupancy in September 2024 was 73.4%, up from 70.5% in September 2023.
- ADR dropped to \$191, compared to \$196 for the same period last year.
- Adelaide RevPAR for September YTD 2024 reached \$145, representing no change from the same period last year.

Source: STR

### CONSTRUCTION COSTS

- Annual Tender Price Index Uplift % forecasts from RLB show Adelaide increasing 6.5% in 2024 and between 5.0% and 3.5% p.a. through to 2029.

The Adelaide hotel market is forecast to take on approximately 500 rooms in 2024, with the delivery of over 1,300 rooms over the next 3 years. This is an increase of nearly 5% per annum. The supply is not limited to Adelaide CBD and spreads to Mawson Lakes (Crowne Plaza), Hackney (Oakwood), Glenelg (Ascend) and Port Adelaide (Rydges & Quest), therefore we do not anticipate significant disruption to the performance of the Adelaide market.

The last large-scale sale in Adelaide was the Sofitel for \$154m in 2023, setting a benchmark for the city, but there are limited opportunities available.

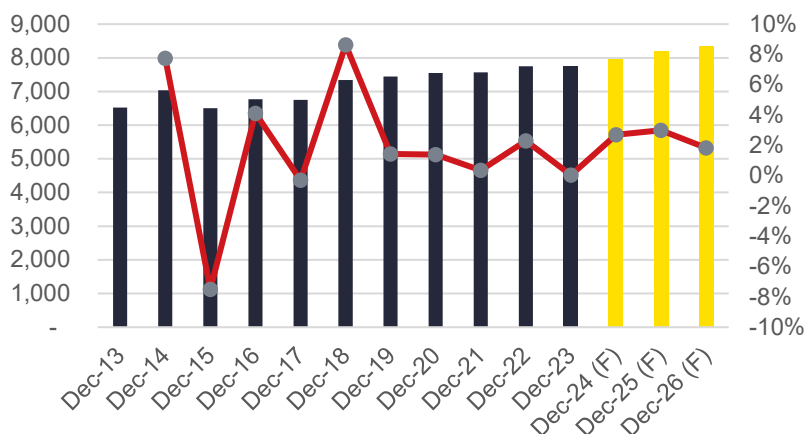
# Major Market **Canberra**



## Major Recent Opening

Punhill Tuggeranong

Canberra Hotel Room Supply\*



Source: Savills, STR  Rooms  Y/Y % Change \*Approximate figures.

### TRADING UPDATE

- ACT and Canberra Area Occ% in Sep 2024 was 78.8%, increased from 74.2% last September
- ADR also displayed growth at \$212 from \$208 for the month of September 2024 vs 2023.
- RevPAR for September YTD 2024 showed slight increase of 1.3% vs the same period last year.
- Occupancies have marginally increased (70.3% vs 68.2%) in the 3 quarters to Sept 2024 vs the same period 2023 but with ADR 2% down (\$196 vs \$200).

### CONSTRUCTION COSTS

- Annual Tender Price Index Uplift % forecasts from RLB show Canberra increasing 4% in 2024.

The Canberra hotel market is experiencing some growth with 100 rooms currently under construction and approximately 500 in the planning phase, reflecting a year-on-year increase of 2.7% for 2024 and 3% for 2025 in room supply. Notable developments include Meriton Suites at 40 Allara Street Canberra and a 238-room luxury hotel in Garema Place which is targeting an opening in 2027.

The most recent hotel opening was the Punhill Tuggeranong which was a conversion from office to a 76-apartment hotel. Other openings include Abode Belconnen (July 2020), Mercure Canberra Belconnen (November 2019), and Midnight Hotel (October 2019).

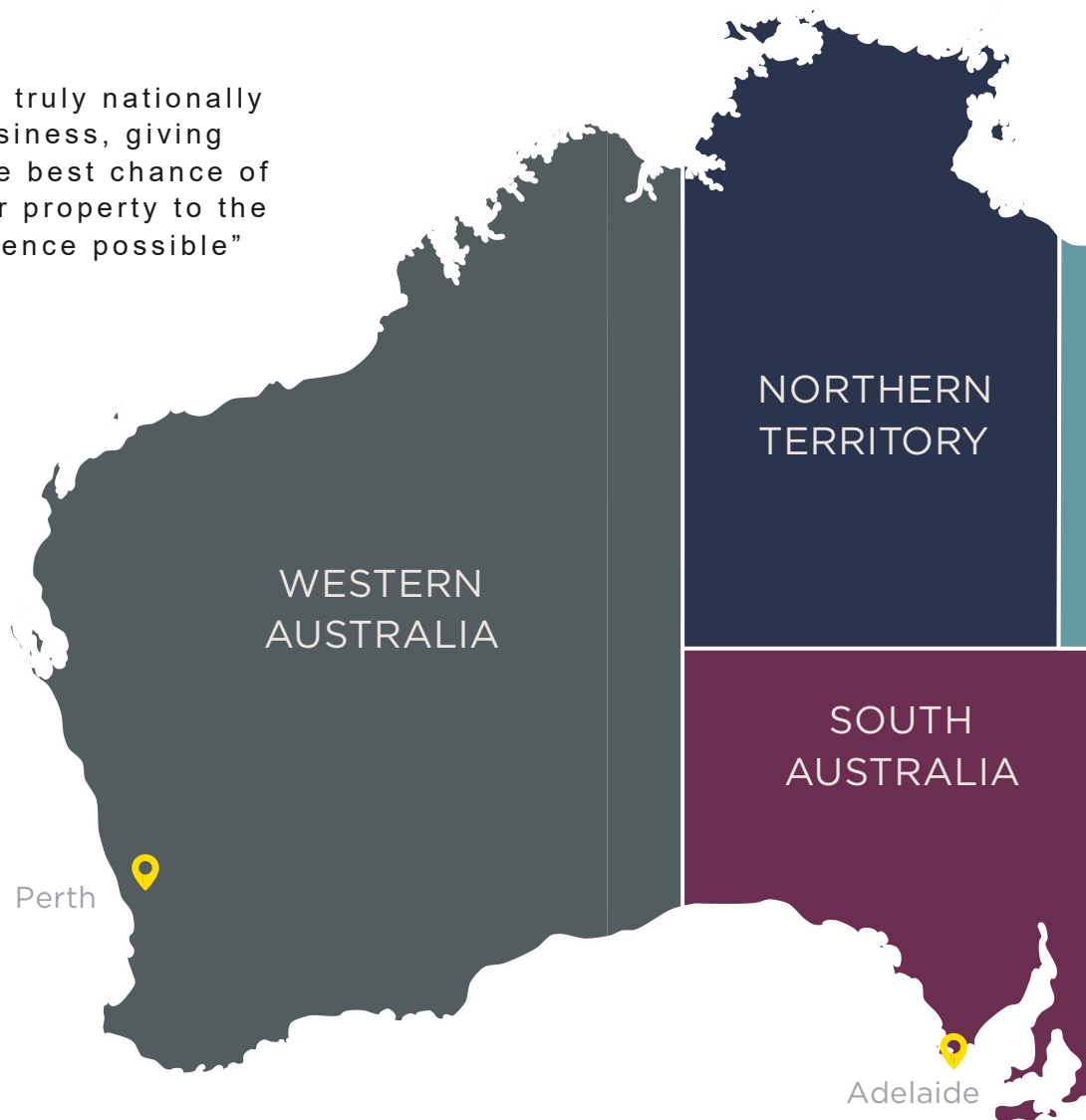
# 04

AUSTRALIAN HOTEL INVESTMENT MARKET

## Savills Hotels Teams

# Our Teams

“Savills has a truly nationally integrated business, giving our clients the best chance of exposing their property to the broadest audience possible”



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