

MarketView

Queensland Hotels

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Fourth Quarter 2011

Quick Stats

	Change from last	
	Yr.	Half
Economic Growth	↑	↑
Accommodation Takings	↑	↑
New supply	↔	↔
Room night demand	↑	↑
Rev PAR	↑	↑
Yields	↔	↔
Investment activity	↓	↔

*The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- Stronger economic conditions from 2012
- Leisure room nights sold recovery not forecast until 2013
- Growth in Asian visitation, with China prominent
- Mixed accommodation market performance across the state
- Increased interest for quality hotel investments
- Pubs investment slows in 2011
- Freehold going concerns take over from freehold investment in terms of purchaser demand
- Proposed gaming machine legislation creating uncertainty

With strong demand for commodities remaining a mainstay of the current economic environment, the growth outlook for Australia remains healthy. Equity market volatility, on the back of European uncertainty, however, suggests that the longer term implications of the GFC have not yet been fully resolved and therefore remains a concern. Nonetheless, solid national economic growth of 1.7% in 2011 and 3.3% per annum from 2012 to 2016 has been forecast by Deloitte Access Economics (November 2011), driven largely by resources.

For Queensland, the physical effects of natural disasters are beginning to dissipate, although their short-term economic fallout means 2011 will still be a subdued year for the State. The outlook, however, suggests a sharp rebound is imminent. Business investment is increasing due to the expanding resources sector. With increased demand for workers likely, this is expected to reverse the contracting population growth rate and feed through to a broader based recovery.

Deloitte Access Economics (November 2011) forecasts reflect nation leading real output growth of 5.2% per annum from 2012 to 2016 for Queensland, a substantial recovery after the forecast growth of 1.7% for 2011.

The short-term accommodation market in Queensland has shown some signs of recovery in 2011. Performance does, however, still vary markedly from region to region. Brisbane and resource focused centres are generally performing well, while leisure based markets continue to lag. Improving market conditions and the fact that it remains difficult to economically support or fund new hotel development has driven greater interest in hotel investment, including for higher grade assets.

For pubs, uncertainty surrounding proposed mandatory pre-commitment legislation is the key external factor at play at present. Major sales activity has slowed significantly in 2011, with freehold going concerns dominating the assets that have changed hands. Receivership assets have been prominent.

Selected Accommodation Transactions, Queensland, 2011

Property	Sale Date	Sale Price (\$M)	Purchaser	Vendor
Metropole Hotel/Hotel M (Townsville)	Jun 2011	\$20.000	Private Investor	Oaks Apartment Management Pty Ltd
Dwell Serviced Apartments (Bargara) – 43 apartments	Sep 2011	\$9.850	Undisclosed Funds Management Group	Bargara Property Developments
Orpheus Island	Mar 2011	\$6.250	Chris Morris	Jim Wilson
Cabarita Motel/Development Site	Dec 2011	\$3.351	Private Investor	Grant Thornton (receivers & managers)
Airport Clayfield Motel	Jul 2011	\$2.475	Urquhart Holdings Pty Ltd	Private Investor
Hyatt Regency Coolumb Resort	Jul 2011	Not published	Clive Palmer	Coeut De Lion Investments Pty Ltd

Source: CBRE (November 2011)

Property Market Summary – Queensland Hotels, Q4 2011

Market	Visitor Numbers				Expenditure	Accommodation*		
	Intrastate	Interstate	Overseas	Total		Room Nights Available	Room Occupancy (%)	Room Yield (\$ exc. GST)
Gold Coast								
Year to June 2011	1,559,000	1,741,000	753,000	4,053,000	\$3,396	4,789,784	66.4%	\$88.54
Annual change	5.0%	-2.0%	-9.0%	-1.0%	-15.0%	1.0%	-0.9%	-0.4%
Brisbane								
Year to June 2011	2,897,000	2,148,000	928,000	5,973,000	\$3,965	4,737,188	75.6%	\$115.59
Annual change	24.0%	12.0%	3.0%	16.0%	12.0%	1.3%	3.0%	11.3%
Sunshine Coast								
Year to June 2011	2,018,000	765,000	260,000	3,043,000	1,966	2,047,715	55.0%	\$82.49
Annual change	16.0%	9.0%	-7.0%	-1.0%	6.0%	2.8%	-2.3%	-3.8%
Central Queensland								
Year to June 2011	1,065,000	180,000	123,000	1,368,000	np	np	np	np
Annual change	16.5%	-15.9%	-1.6%	9.2%	np	np	np	np
Whitsundays								
Year to June 2011	317,000	173,000	187,000	677,000	np	706,919	50.6%	\$116.01
Annual change	14.0%	-7.0%	-12.0%	0.0%	np	-4.9%	-2.8%	-1.9%
Townsville								
Year to June 2011	555,000	161,000	120,000	836,000	np	911,123	67.2%	\$78.98
Annual change	-7.0%	-16.0%	-13.0%	-10.0%	np	-5.8%	7.2%	17.5%
Tropical North Queensland								
Year to June 2011	717,000	549,000	649,000	1,915,000	2,201	4,120,752	56.2%	\$66.06
Annual change	-17.0%	1.0%	-1.0%	-7.0%	-9.0%	-1.5%	1.8%	1.4%
Queensland								
Year to June 2011	11,051,000	5,377,000	1,989,000	18,417,000	\$18,104	22,406,985	63.1%	\$84.99
Annual change	5.0%	2.0%	1.0%	4.0%	-5.0%	-0.1%	1.2%	4.5%

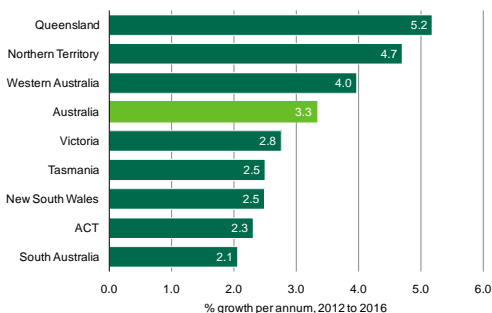
Source: CBRE (June 2011); Tourism Queensland; Australian Bureau of Statistics (8635.0); Tourism Australia NVS & IVS

Note: * Accommodation statistics CBRE analysis of ABS data

ECONOMIC OVERVIEW

Queensland economic recovery from 2012

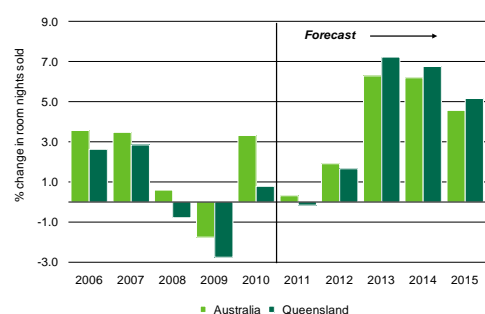
Economic growth per annum, 2012 to 2016



Source: Deloitte Access Economics (November 2011)

Room night sold recovery not until 2013

Room nights sold – Queensland vs Australia



Source: Deloitte Access Economics (November 2011)

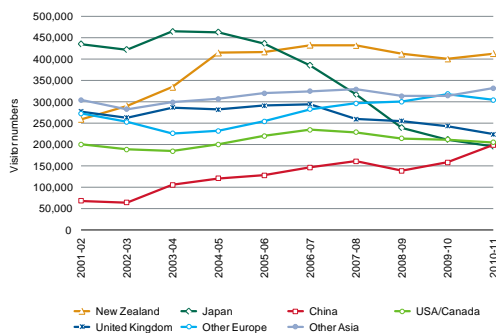
Queensland is still in the midst of a difficult economic period which commenced with the GFC. This has continued to the present day due to ongoing problems in the construction and tourism industries as well as the damage caused by the floods and cyclones at the beginning of 2011. Deloitte Access Economics (November 2011) has forecast real growth of just 1.7% in 2011. Further forward, however, forecast growth rates are strong. In fact, Queensland growth is forecast to be the strongest of any state over the period from 2012 to 2016, at 5.2% per annum. This forecast also outperforms the national growth forecast of 3.3% per annum. Capital expenditure is the major contributor to this growth outlook, with many resource related projects providing strong prospects for the state. The recent announcement of the Gold Coast as the venue for the 2018 Commonwealth Games will also assist the Queensland economy over the longer-term horizon.

The year 2011 is shaping up to be a shocker for Queensland tourism. Floods and cyclones have impacted heavily, as did the recent grounding of the Qantas fleet. These one off events came on top of a consistently high AUD, which has resulted in less international visitors and a propensity for Australians to take advantage of greater purchasing power and head overseas for their holidays. International tourist arrivals are expected to fall 2.8% in 2011, while room nights occupied may fall by 0.1%. Queensland is still one of the great tourist destinations of Australia, however, and is perfectly positioned to take advantage of the growing Asian market, in particular China. Strong growth in international tourist arrivals is expected over the remainder of the forecast period, with an 8.6% rise in 2012, followed by 7.8% and 7.6% growth in 2013 and 2014 respectively. This translates into good growth for room nights occupied, which may rise 1.6% in 2012, followed by 7.2% in 2013 and 6.8% in 2014.

COMMERCIAL ACCOMMODATION MARKET

Asian market (excluding Japan) driving international visitation growth

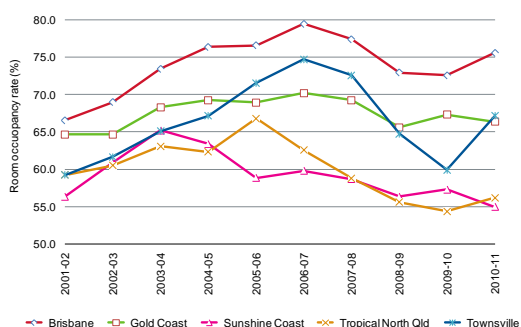
International visitor numbers by origin, Queensland



Source: Tourism Research Australia, IVS

Business markets showing recovery

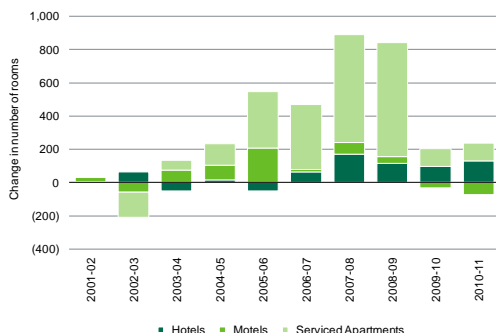
Queensland accommodation market performance



Source: Australian Bureau of Statistics (8635.0)

Pressures for additional room supply in Brisbane growing

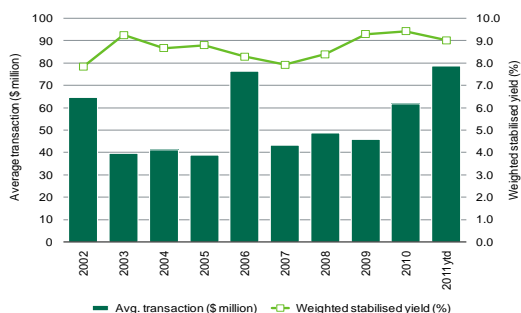
Source of increased room supply – Brisbane TR



Source: Australian Bureau of Statistics; CBRE (October 2011)

Signs of greater levels of investment interest

Selected Australian hotels yield analysis



Source: CBRE (November 2011)

Queensland attracted 16.429 million domestic visitors during 2010-11, a 4% increase compared with the previous year. Intrastate visitor numbers grew by 5% while interstate visitor numbers grew by 2%. Holiday travel was down slightly, offset by increased VFR and business visitation. Domestic visitor nights tallied 68.489 million, down by 3% over the year, with intrastate visitor nights down by 8%. Expenditure by domestic visitors in Queensland totaled \$11.073 billion (down by 4% over the year). International visitor numbers in 2010-11 also increased over the year, albeit marginally, to 1.989 million, while visitor nights reached 39.644 million. These visitors generated expenditure of \$3.623 billion (down by 6% over the year). A key feature has been the growth in Asian visitation (excluding Japan), with China prominent. Visitor numbers from mainland China have increased by 44% over the past two years, and in the year to June 2011, exceeded visitor numbers from Japan for the first time and nearly matched those from North America.

The short-term accommodation market in Queensland, covering hotels, motels and serviced apartments, has shown signs of recovery in 2010-11, although performance does still vary markedly from region to region. The corporate focused Brisbane market and markets with exposure to the resource sector (e.g. Townsville, Gladstone and Mackay) have all recorded strong improvements in occupancy rates. The domestic leisure focused Gold Coast and Sunshine Coast markets, however, saw room occupancy dip again in 2010-11 after a slight recovery in 2009-10, with a sluggish domestic tourism market the key influence. Tropical North Queensland, however, has recorded a modest recovery, particularly in Cairns. For Queensland overall, room occupancy for 2010-11 increased to 63.1%, the first increase in occupancy since 2006-07. Motels showed the greatest improvement in occupancy. Average room yield rose by 4.5% over the year to \$85.00 (excluding GST).

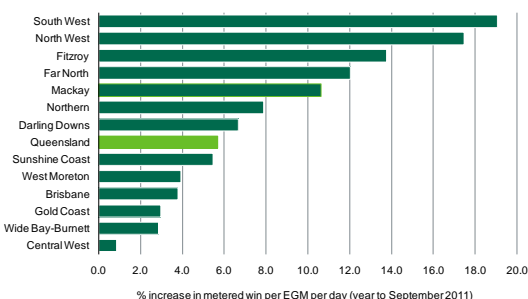
No major additions have occurred in Brisbane since 2010, although a number of developments are still proposed. The cost of development in relation to forecast returns, however, remains difficult to justify, with office and residential uses proving more viable options in many cases. As illustrated in the adjacent chart, much of the new accommodation supply in recent years in south east Queensland has been in the form of serviced apartments. Pressures for additional room supply are growing. There were 99 rooms recently completed at The Point in Kangaroo Point, while site works at the Felicity Hotel project (246 hotel rooms) in the CBD have commenced. Constellation Hotels Group has secured the rights to lease and operate a 48-room hotel at the Mosaic development in Fortitude Valley. Larger developments proposed include 369-rooms as part of a mixed-use development on the ex-Vision site and Tabcorp's proposed 400-room development opposite the Treasury Casino, both in the Brisbane CBD.

Improving market conditions and the fact that it remains difficult to economically support or fund new hotel development at present has driven greater levels of hotel investment activity nationally, including the sales of a number of higher grade assets. Many major markets, particularly CBD markets, are recording improved occupancy profiles and renewed room rate growth. With a minimal supply pipeline over the short to medium term, there are expectations of stronger room rate growth in these markets. This is being reflected in the initial yield profile, with purchasers willing to accept lower initial yields, with equivalent yields and IRR's reflecting long term trends. In the absence of any further global economic shocks, CBRE does not expect further yield softening, with future value movements likely to be directly related to income performance. Should the improved market conditions noted in some markets broaden, and given the stabilisation of yields, overall hotel property values are expected to improve.

PUBS

Stronger retail spending growth forecast from 2012

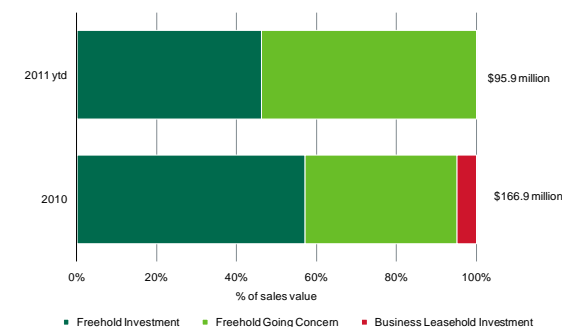
Metered win/EGM/day by Statistical Division, Queensland



Source: Queensland OLGR

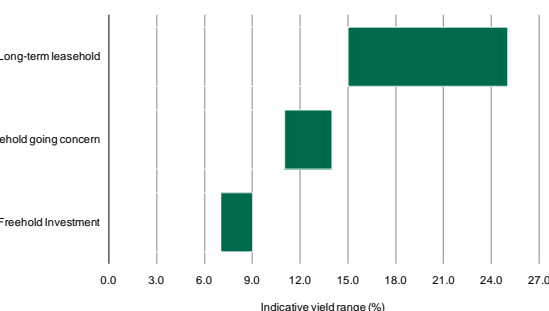
Investment activity drops in 2011

Pub sales by type, Queensland, 2010 and 2011

Source: CBRE (November 2011)
Note: Sales of \$5 million plus

Sub-\$10 million assets dominate investment

Pub yields, south east Queensland, September 2011



Source: CBRE (November 2011)

Selected Pub Transactions – Queensland, 2011

Property	Location	Sale Date	Sale Price (\$M)	Interest	Purchaser	Vendor
Tannum Sands Hotel	Gladstone	Sep 2011	\$28.000	FGC	Paul Irvin Hotel Group	Mornvale Pty Ltd
The Exchange Hotel	Brisbane	May 2011	\$22.700	FI & LH	IPG Properties Holdings Pty Ltd	ING Real Estate Entertainment Fund
Boardwalk Tavern	Hope Island	Sep 2011	\$12.500	FGC	Undisclosed	L2 Capital
Grand Hotel	Gladstone	Dec 2011	\$11.600	FGC	Minor International	Receivers & Managers
The Gap Tavern	The Gap	Jan 2011	\$8.880	FI	ALH Group	Peter Quinn
Wallaby Hotel	Mudgeeraba	Oct 2011	\$6.050	FI	Peter Smith	Centro

Source: CBRE (November 2011);

Note: FGC – Freehold Going Concern; FI – Freehold Investment; LH – Leasehold Business

Market Outlook

While global economic performance remains volatile, Australia's outlook remains amongst the strongest of the developed world. Growth forecasts by Deloitte Access Economics (November 2011) indicate the Australian economy could expand by 3.3% per annum from 2012 to 2016. On a state basis, Queensland is forecast to return to nation leading growth from 2012.

Commercial Accommodation market performance is varying greatly across Queensland. Corporate markets, such as the Brisbane CBD, and markets with exposure to resource sector growth, are showing the strongest recovery. This may drive supply additions over the short to medium term, although clearing funding hurdles remains an impediment to development at present, with significant equity still required.

Leisure based markets are lagging, with factors including natural disaster recovery, the high AUD and pressures on discretionary spending all impediments to growth. The level of outbound travel by Australians is also a growing issue. Already at a record high of just over seven million departures, the Tourism Forecasting Committee is foreshadowing continued growth, at a rate of 4.5% per annum, over the period from 2009 to 2020.

The purchaser profile for major hotel assets into 2012 is likely to continue to be dominated by private investors, foreign interests, particularly Asian-based, and operators seeking to grow the number of rooms/apartments under management.

A litmus test for the accommodation market is likely to be the upcoming listing of the Commonwealth Property Hotel Fund portfolio, with assets in Brisbane, Sydney and Melbourne. The listing will provide a good indication of both the true depth of the investment market as well as pricing.

The **Pubs** market is expected to see an increase in the availability of stock as mortgagees move on distressed owners and well capitalised, established owners look to acquire strategic assets. Good quality assets with sound business fundamentals are expected to continue to attract solid demand, although there remains a disconnect between purchaser and vendor expectation at present, while non-receiver assets are proving particularly difficult to transact.

The greatest medium term risk remains proposed gaming machine pre-commitment legislation. Investment activity in 2011 is down, influenced by a number of factors. The proposed legislation, however, does appear to be creating a degree of uncertainty amongst investors. If the proposed scheme is legislated, potential purchasers are likely to focus even more intently on the cash flow impact on individual businesses or additional capital expenditure requirements when considering acquisitions.

The year ahead is also likely to see an increase in underperforming alternate assets (such as management rights, golf courses and marinas) being offered to the market through receivers and managers.

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