



CBRE HOTELS & RESEARCH

present

HOTEL SECTOR UPDATE

Hotel Sector Update

MID MAY 2020

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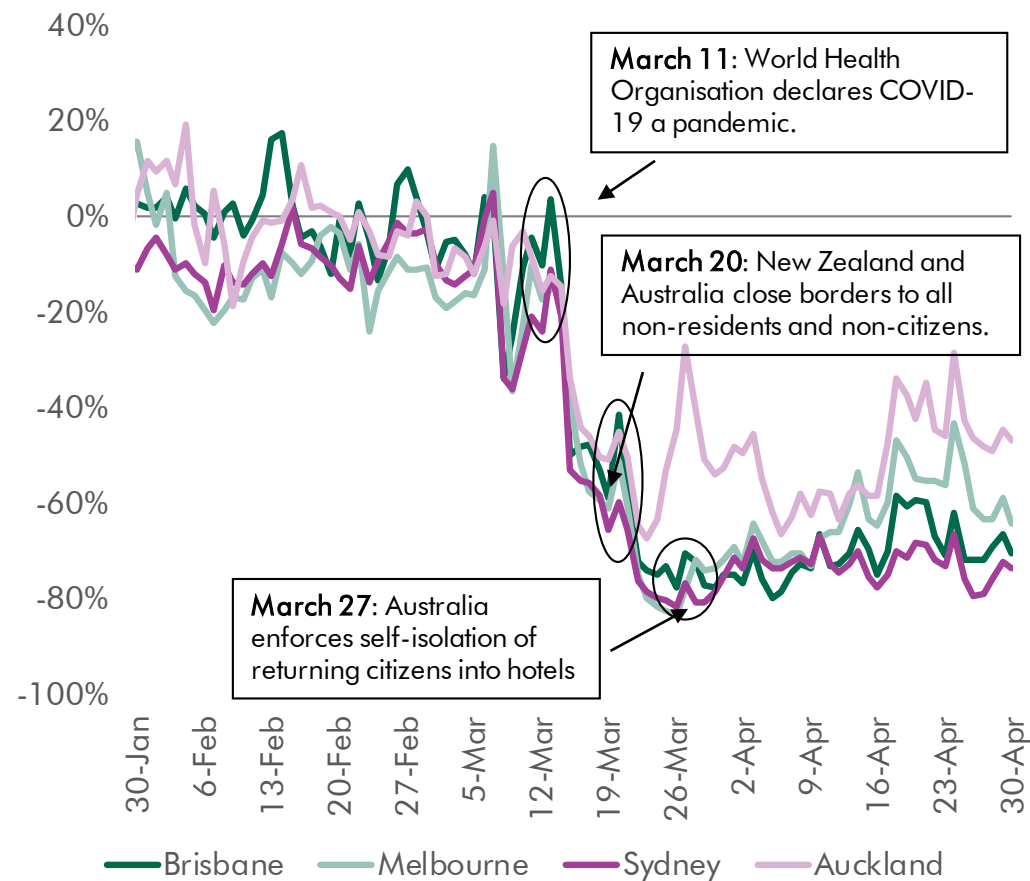
OBSERVATIONS OVER THE PAST FORTNIGHT

The sector expects that trading activity will gradually recover with government easing domestic restrictions and early signs of increasing willingness to travel.

- For the week ending May 2, average occupancy rates (based on rooms still open) for Sydney (~20 per cent), Brisbane (~25 per cent) and Melbourne (~30 per cent) have increased slightly over the past fortnight. Auckland's average weekly occupancy has also risen to 45 per cent. The occupancy increase across cities is more likely driven by a reduction in rooms open rather than an increase in demand.
- There has been some evidence of asset purchases during this impacted period, highlighted by the sale of the Ibis Melbourne Little Bourke Street and Devonport Waterfront Hotel (Devonport). The sale of Radisson Hotel & Suites Sydney (currently on market) should provide a good guide for future hotel values in 2020 as sales activity takes the initial steps of recovery. Large institutional investors such as Blackstone are well placed to capitalise on such opportunities within the sector, having already purchased a 10 per cent stake in Crown Holdings in April.
- We expect that some hotel markets in Australia will benefit in the short and medium term from the induced local holiday demand that is likely to occur; but only after state borders are reopened, household pressures are eased and confidence in travel picks up.
- Hotels are expected to benefit from the material reduction in the Airbnb market. A significant number of Airbnb hosts are relisting their properties on longer-term rental sites such as Domain, which has seen surges in listings in Airbnb holiday hotspots. New bookings on Airbnb have now dropped by more than 75 per cent over the impacted period.

OCCUPANCY INCREASES LIKELY DRIVEN BY A REDUCTION IN ROOMS CURRENTLY OPEN

Occupancy change from previous year (%)



ADR change from previous year (%)



SOME OBSERVATIONS ACROSS THE WORLD (WEEK ENDING MAY 8)

Region	Observations
General comments	<ul style="list-style-type: none"> Re-opening costs could be significant. This notes the increased cost associated with re-hiring staff, training, new procedures and replenishing food and beverage supplies. Hoteliers will need to be thorough to ensure cleanliness and build consumer confidence. To encourage cost-savings on housekeeping, hotel companies are offering loyalty points for guests who choose not to have their rooms cleaned during part or all of their stay.
Asia Pacific:	<ul style="list-style-type: none"> China: China and South Korea have struck an agreement to facilitate some business travel between the countries by easing some border controls, effective May 1. China: Inter-regional travel in China has becoming quite active, as China's economy continues its path to recovery. National hotel occupancy received a boost from China Labour Day (May 1), rising to 50 per cent.
North America	<ul style="list-style-type: none"> Hawaii: Around 65 per cent of hotels are closed, and are likely to be closed until the end of May. Australia and South Korea have been identified as key growth markets, as the state focuses its shift to high-value tourism moving forward. United States: National RevPAR is forecast to decline 50 per cent this year according to CBRE, along with a forecast material reduction in values. United States: There is likely to be pent-up demand for travel to 'drive-to' destinations as the economy gradually reopens. This is evidenced by the spike in occupancy levels (circa 90 per cent) for hotels in Corpus Christi (drive-to market from Houston) as soon as the area's beaches were reopened. Canada: Occupancy is around 15 per cent in the urban core, and between 20 to 30 per cent in secondary and tertiary markets (front line services make up the bulk of guests).

WHAT IS THE LATEST NEWS IN THE HOTEL INVESTMENT MARKET?

The recent listing of the Radisson Hotel & Suites Sydney will be a key litmus test for investor sentiment in the post COVID-19 environment



RECENT SALES AND NEW LISTINGS AND WHERE ARE VALUES HEADING?

- Despite the widely reported challenges facing our hotel trading markets, there has been some new developments in the transaction market.
- Yeh's Hotel Group recently acquired a part freehold/leasehold strata interest in the Ibis Melbourne Little Bourke Street. The freehold element comprises 56 rooms, a conference centre, restaurant and bar while the leasehold element comprises an additional 65 rooms leased from third party owners.
- Devonport Waterfront hotel was purchased by Singapore's Fragrance Group for \$40 million in March. The sale of the 187-room hotel reflects the longer-term confidence in the Tasmanian tourism sector, which traditionally benefits from a strong domestic market.
- The Radisson Hotel & Suites Sydney has been offered for sale by Expressions of Interest. The asking price is reported to be around \$40 million and the potential sale would no doubt represent a bellwether indicator for future value trends.
- The current marketing campaign for the sale of the Royal Pacific Hotel on Sydney's North Shore will also provide an interesting insight into current investor appetite in the current climate.

SOLD – MELBOURNE CBD HOTEL

Property	Ibis Melbourne Little Bourke Street
Sale Price	\$7,600,000
Sale Date	March 2020
Vendor	Sydney based operator
Purchaser	Yeh's Hotel Group
No. of rooms	56 freehold strata rooms with a further 65 rooms leased from third-party owners
Facilities	<ul style="list-style-type: none">- Restaurant and bar- Conference and meeting facilities
Management	Vacant possession
Price per room	\$135,700 (based on freehold room count)



SOLD – DEVONPORT WATERFRONT HOTEL, TAS

Property	Devonport Waterfront Hotel, Devonport Approx. 260 km from Hobart CBD
Description	This is to be an upscale hotel due for completion in 2021. This was an "off the plan purchase".
Sale Price	\$40,000,000
Sale Date	March 2020
Vendor	Fairbrother (Australia)
Purchaser	Fragrance Group (Singapore)
No. of rooms	187
Management	Vacant Possession
Price per room	\$213,904



ON MARKET - RADISSON HOTEL & SUITES SYDNEY

Property	Radisson Hotel & Suites Sydney
Year of opening	1998
Star rating	4.5-star
No. of rooms	100 rooms and suites - 76 freehold strata - 24 leased strata
Facilities	- Bar and Restaurant - Five conference rooms - Business centre - Indoor pool, gym, sauna and spa - Secure onsite parking
Interest	Freehold and leasehold strata
Reported Pricing	\$40,000,000



ON MARKET – ROYAL PACIFIC HOTEL, LANE COVE, NSW

Property	Royal Pacific Hotel, Lane Cove Approx. 12km from Sydney CBD
Star rating	3.5-star
No. of rooms	64 guest rooms (with development potential for 30 additional rooms)
Facilities	<ul style="list-style-type: none">- Restaurant and bar- Conference space- Swimming pool- Gymnasium- Onsite parking
Management	Vacant possession
Reported Pricing	\$26,000,000



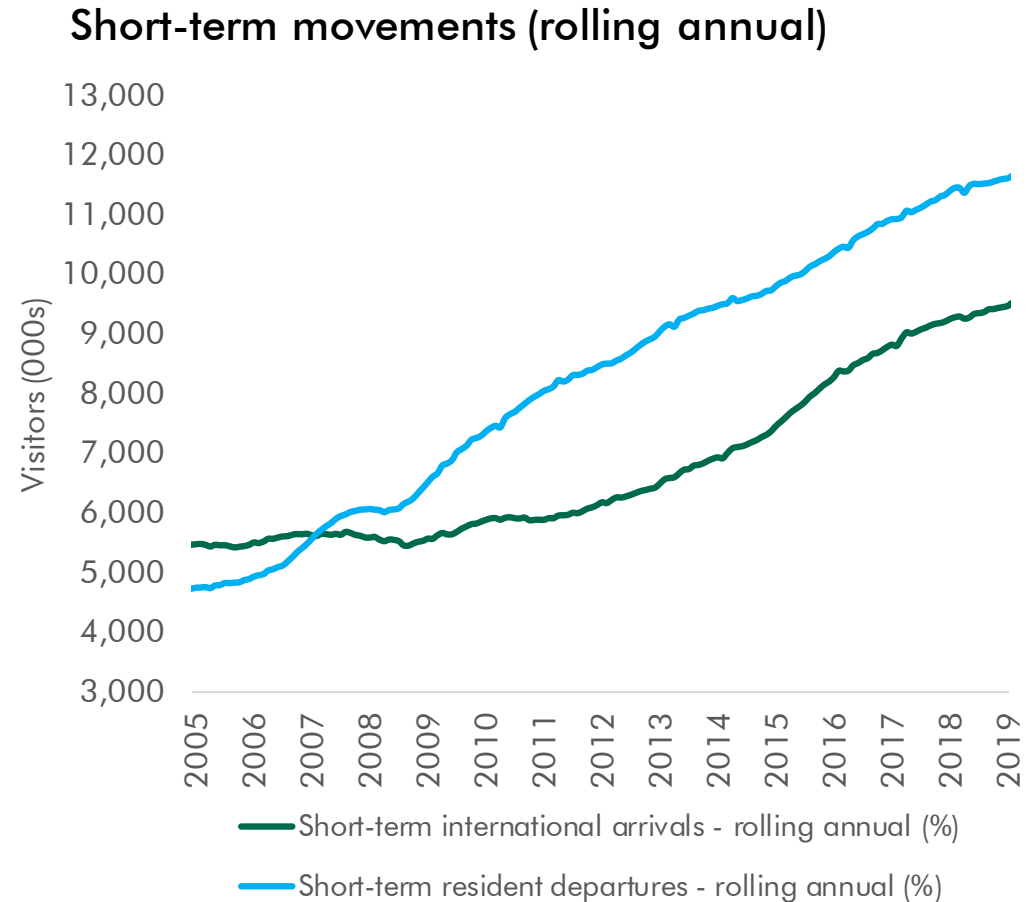
HOW ARE AUSTRALIANS LIKELY TO TRAVEL IN THE SHORT TERM?

Induced demand for holiday travel likely to occur only after state borders are reopened, household pressures are eased and confidence in travel picks up.



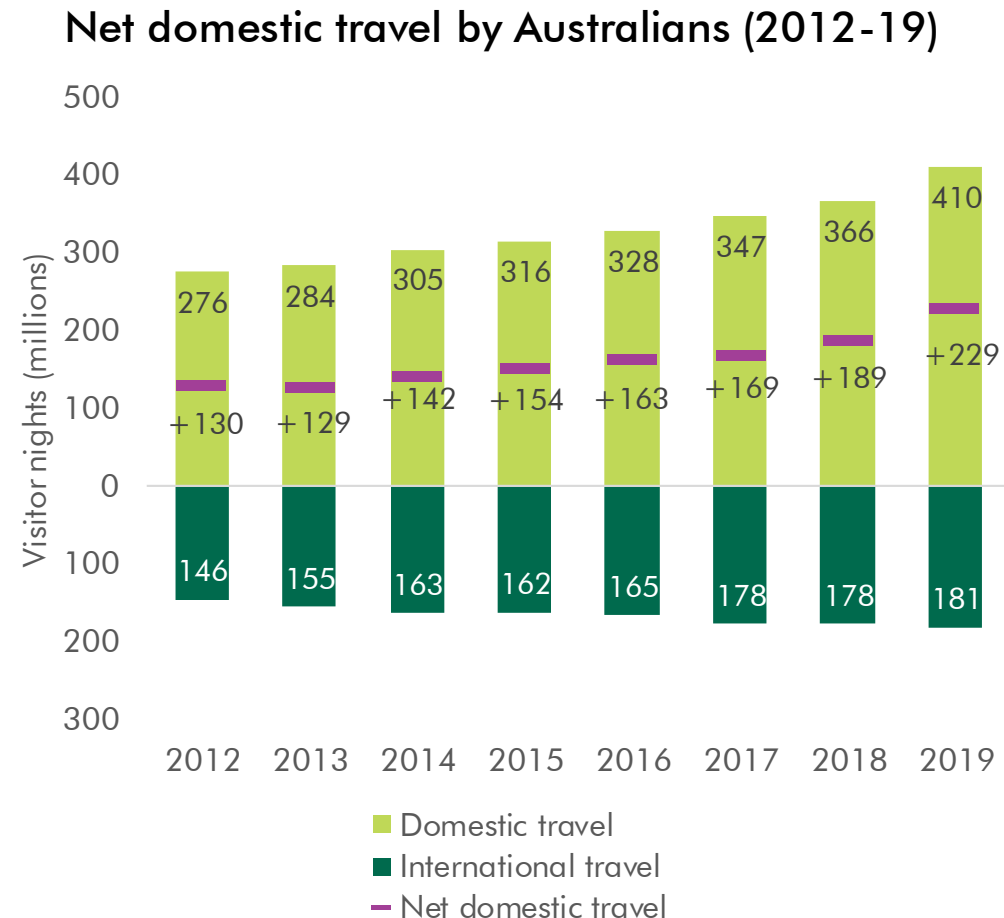
AUSTRALIANS TRAVELLING OVERSEAS HAVE GROWN STRONGLY

- The number of Australians travelling overseas reached 11.6 million in 2019, which represents a 145% increase on 2005 (4.7 million). Outbound resident travel has exceeded the growth of international arrivals to Australia, which increased by 73% over the same period.
- Key drivers for this strong increase in international travel include improved real household incomes, as well as increased market international access with both cheaper airfares and increased capacity.
- However, all inbound and outbound international travel is now on hold for the foreseeable future as the nation's borders remain closed due to COVID-19. This will have a material impact on the tourism sector in the short to medium term.



BUT AUSTRALIANS ARE SPENDING MORE NIGHTS LOCALLY

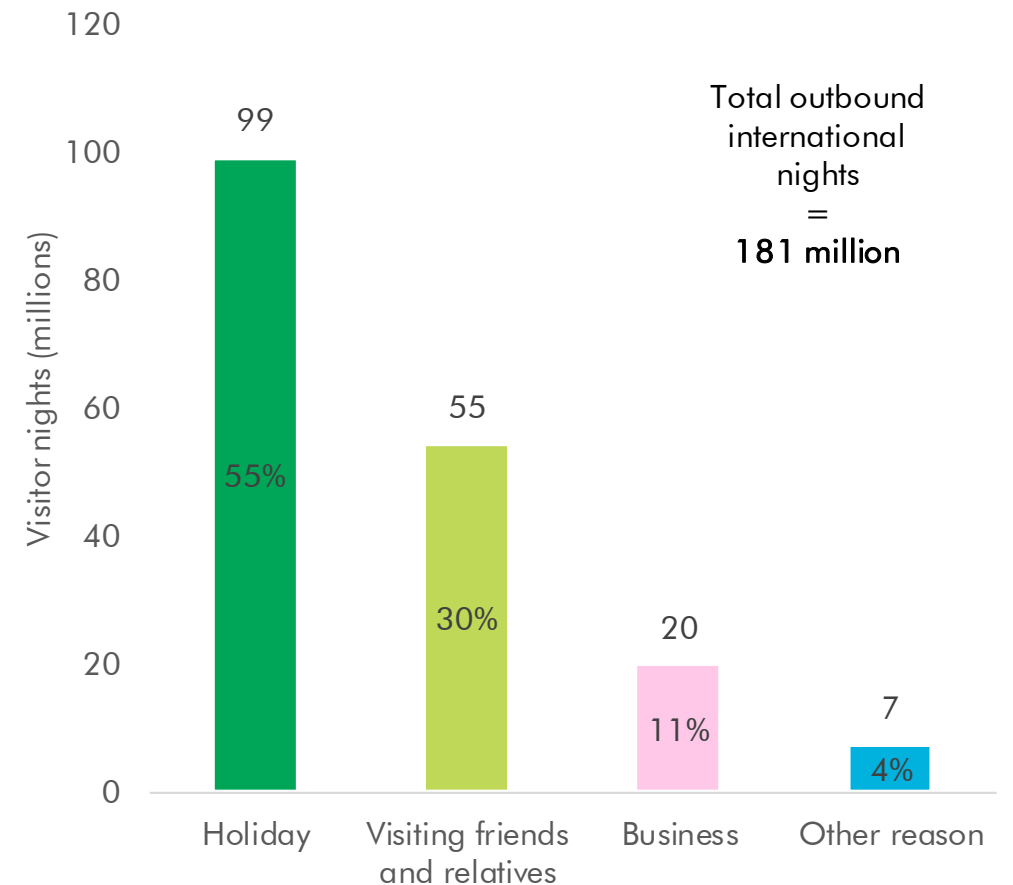
- Despite the strong historic growth in outbound resident travel, residents continue to spend more nights locally in Australia, as highlighted by the growing net domestic travel visitor nights over the recent period.
- More recently, the propensity to travel more locally has been driven in part by a weakening domestic currency, the proliferation of alternative commercial accommodation such as Airbnb, as well as an increasing preference to seek authentic local experiences.
- Almost 45% of domestic visitor nights are spent in commercial accommodation. With national borders likely to be closed or restricted for months to come, local demand will underpin the recovery in our hotel markets like never before.



SOME PROPORTION OF INTERNATIONAL HOLIDAY TRAVEL COULD BE DIVERTED LOCALLY

- In 2019, around 99 million outbound visitor nights (55% of the total) were for holiday purposes. With border restrictions in place, some of this frustrated outbound holiday demand is likely to divert to domestic options, assisting the recovery in our local hotel markets.
- Average outbound holiday spend reached \$7,673 per person in 2019, making frustrated demand from this segment a potentially high yielding one for local operators.
- The extent of this diverted demand will be tempered by increased economic uncertainty and higher unemployment, with households adopting a more cautious approach to discretionary expenditure.

Outbound international travel by purpose of visit (2019)

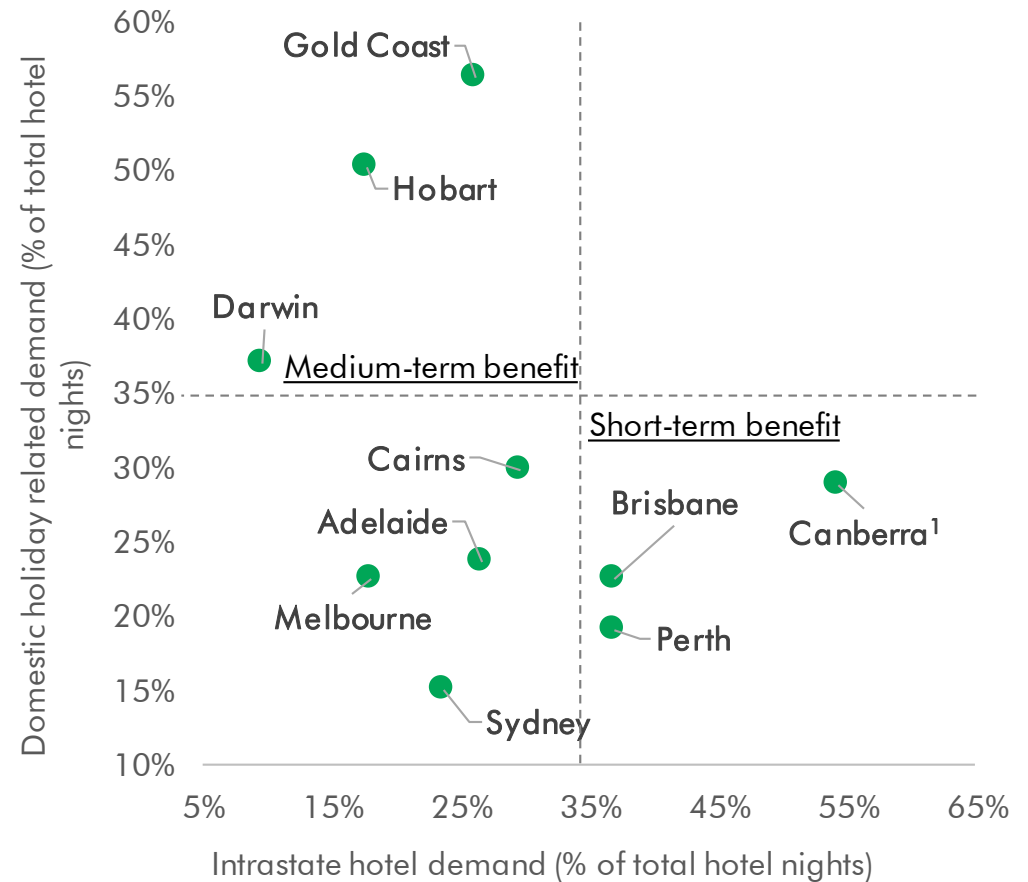


Note: TRA September 2019 data represents latest available data for outbound statistics
Source: TRA September 2019; CBRE Research

MARKETS WITH STRONGER LOCAL DEMAND WILL FARE BETTER

- The chart opposite shows a matrix of hotel markets and their current proportion of domestic holiday and intrastate sourced hotel demand. This matrix could provide a guide on which markets are best positioned to begin their path to recovery.
- Hotel markets with a higher proportion of intrastate demand will be better placed to attract guests in the short term, as state governments are unlikely to reopen state borders immediately.
- We expect that established hotel markets such as the Gold Coast and Hobart will benefit in the medium term from the induced local holiday demand that is expected to occur; but only after state borders are reopened, household pressures are eased and confidence in travel picks up.
- We note however that a reduction in airline capacity is likely to impact the ability to access some regional markets moving forward, and in turn demand for hotels in these areas.

Market reliance on domestic holiday and intrastate demand



Note: Hotel nights include nights spent in hotels, motels and serviced apartments

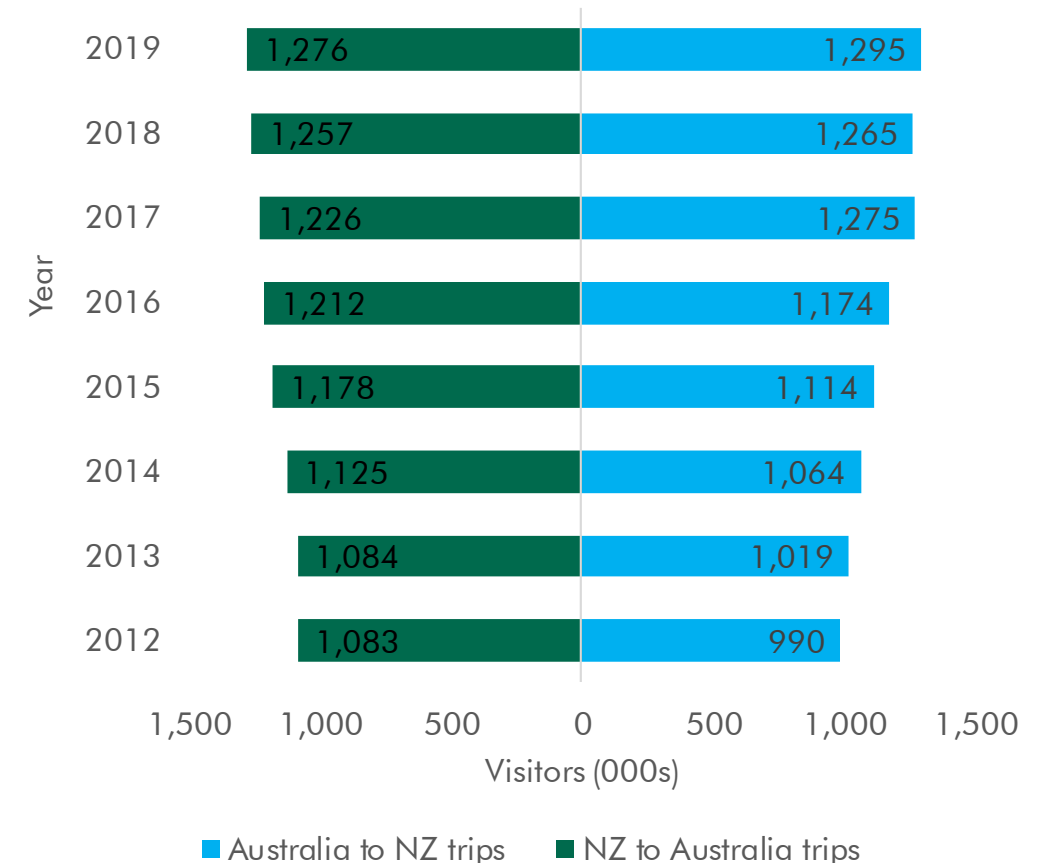
1. Intrastate demand for Canberra refers to NSW demand

Source: TRA December 2019; CBRE Research

TRANS-TASMAN TRAVEL ZONE A POSSIBILITY AFTER STATE BORDERS ARE REOPENED

- The proposition of reopening borders between Australia and New Zealand is part of a broader effort to reopen the countries' economies, and in particular boost the tourism sector.
- Latest available data shows that Australia and New Zealand are each other's largest inbound visitor markets, generating over 2.5 million cross-border trips in 2019.
- The travel zone will be introduced only when it is safe to do so and after state borders are reopened. However, a unique opportunity presents itself to assist economic recovery, noting the relative success of both countries to contain and eliminate the initial spread of the virus.
- This is expected to result in some trading uplift for local hotel markets in the medium term.

Cross-border visits between Australia and New Zealand



HOTEL SECTOR UPDATE

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CBRE RESEARCH

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