

Creating Resilience

Hotel Market Outlook

REPORT FIGURES

The future after
COVID-19

CBRE HOTELS RESEARCH
OCTOBER 2021

Introduction

Following the COVID-19 pandemic in 2020, Australia's anticipated gradual recovery in 2021 was derailed by the DELTA variant which returned Sydney, Melbourne and Canberra into extended lockdown and commensurate border closures across the country.

On a positive note, the lockdowns and associated travel restrictions have activated Australians to become "double vaccinated" with the 80% target to be achieved by December this year, which will then swiftly increase to 90%.

The National Plan then envisages Australian state borders to remain open and the resumption of economic activity and unrestricted domestic travel.

The RevPAR growth trajectory stalled after a promising start in H1 2021, however provided reassurance that once the "COVID shackles were removed" pent up domestic demand will immediately translate into increased hotel occupancy which will sustain and drive ADR.

Restricted international travel will recommence in Australia in November 2021 and will gradually increase as reciprocal travel bubbles are initially established, which will inevitably lead to normal international travel routes and activity.

Despite the COVID challenges, transaction activity has remained buoyant with \$1+ billion sales YTD in 2021, characterised by firm yields, unsatisfied capital, and a scarcity of quality purchase opportunities.

This augurs well for improved conditions in 2022 after the summer break and we would expect that:

- Domestic leisure will return to key city destinations, having been absent for two years and to experience new hotel inventory, which typically drives induced demand from inquisitive guests
- Domestic leisure will continue to support the regional drive markets, that have been the primary beneficiary of COVID
- Corporate activity will begin to rebound in Q1 2022 and continue as Australia "gets back to business"
- International travel will resume and gradually build with IATA expecting that 2019 levels will be reached in 2023/24.

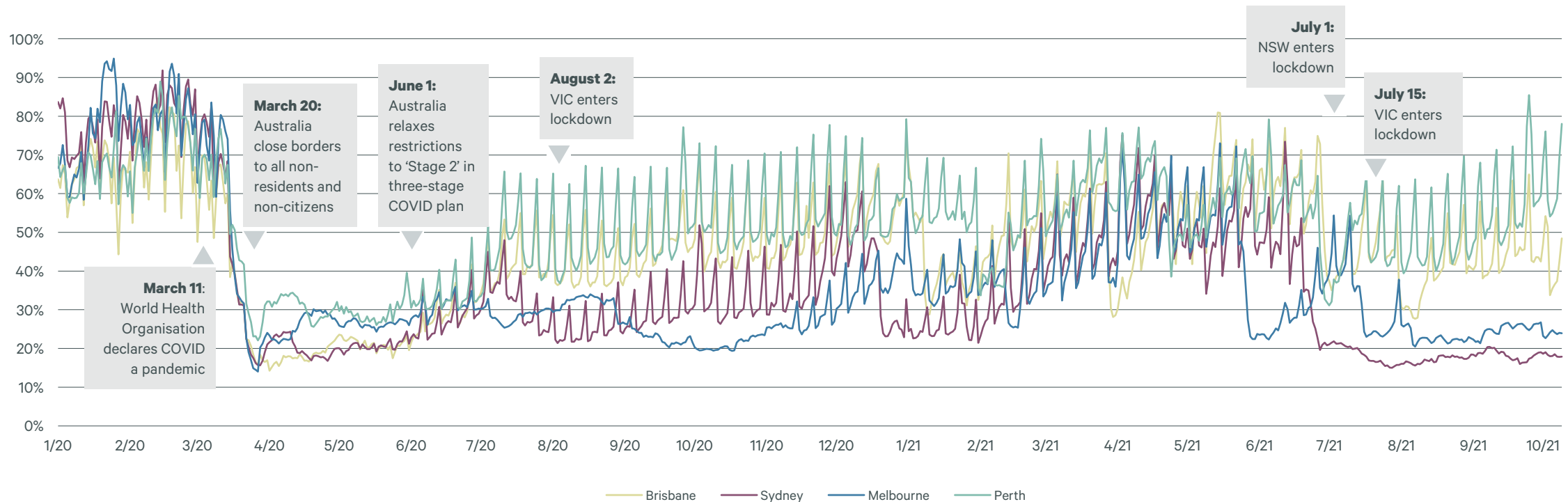
We look forward to better times ahead for all industry stakeholders.



The Occupancy Rollercoaster

Perth and Brisbane dodge lockdowns and grow occupancy behind closed borders, while Melbourne and Sydney occupancy impacted by lockdowns (despite quarantine business), 80% double vaccination and “open borders” will propel occupancy in 2022

FIGURE 1: Daily Occupancy (%) – 2020-2021

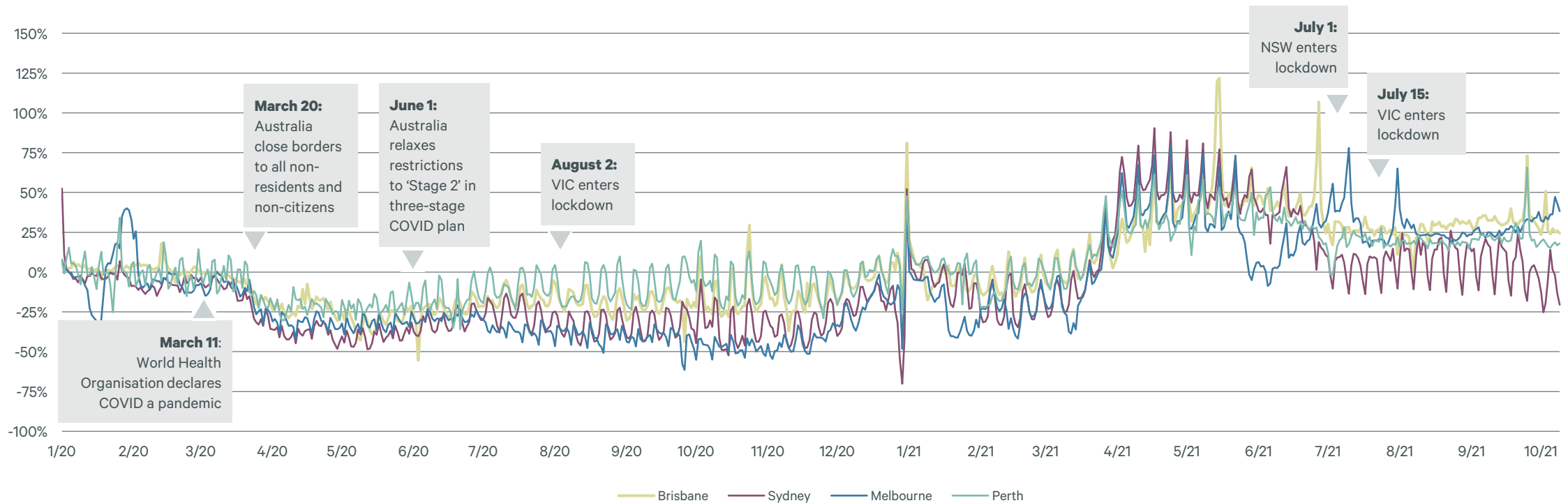


Source: STR; CBRE Research

ADR demonstrates rebound capability

YOY ADR growth demonstrated pricing resilience, prior to the July 2021 lockdown. ADR growth is dependent on open state borders and unrestricted travel within Australia

FIGURE 2: Daily ADR Change from Previous Year (%)

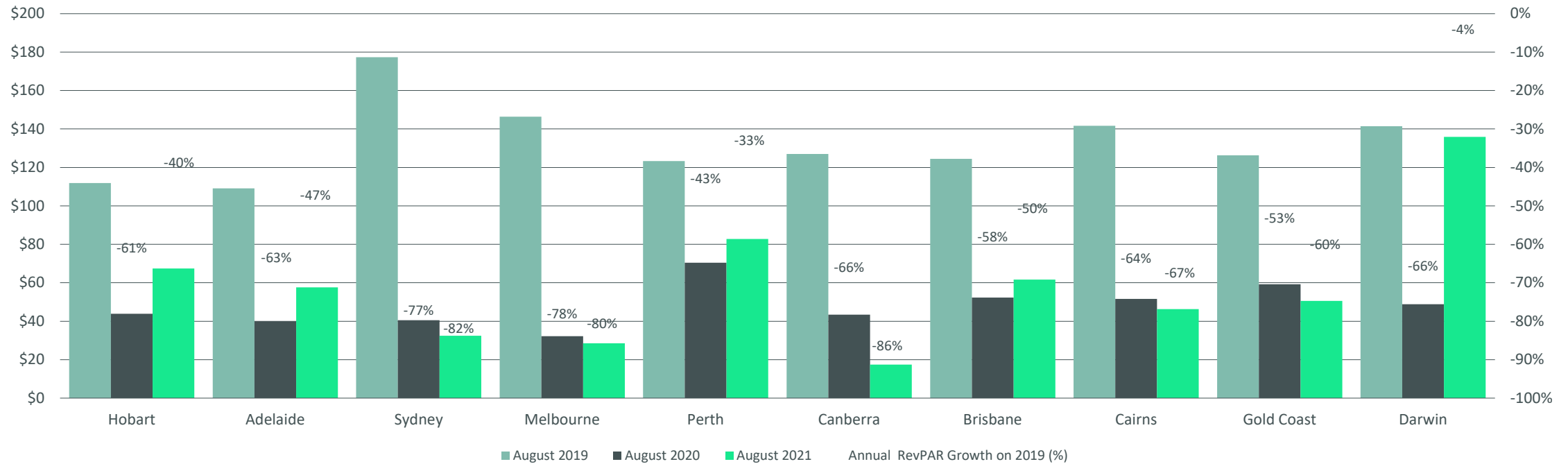


Source: STR; CBRE Research

RevPAR growth stagnates in 2021 lockdown cities of SYD, MEL & ACT

Key cities which are least impacted by COVID, demonstrate continued RevPAR growth which augurs well for RevPAR recovery in 2022, when Australia is once again a united federation

FIGURE 3: Monthly RevPAR Across Australian Markets for August (2019-2021)



Note: Figures reflect August 2019, 2020 & 2021, expressed in AUD | Source: STR; CBRE Research

An open Australian economy is critical to stimulate demand across all key cities

Sydney and Melbourne economic activity and associated transient travel across the country is essential for Australia-wide demand to drive occupancy

48%

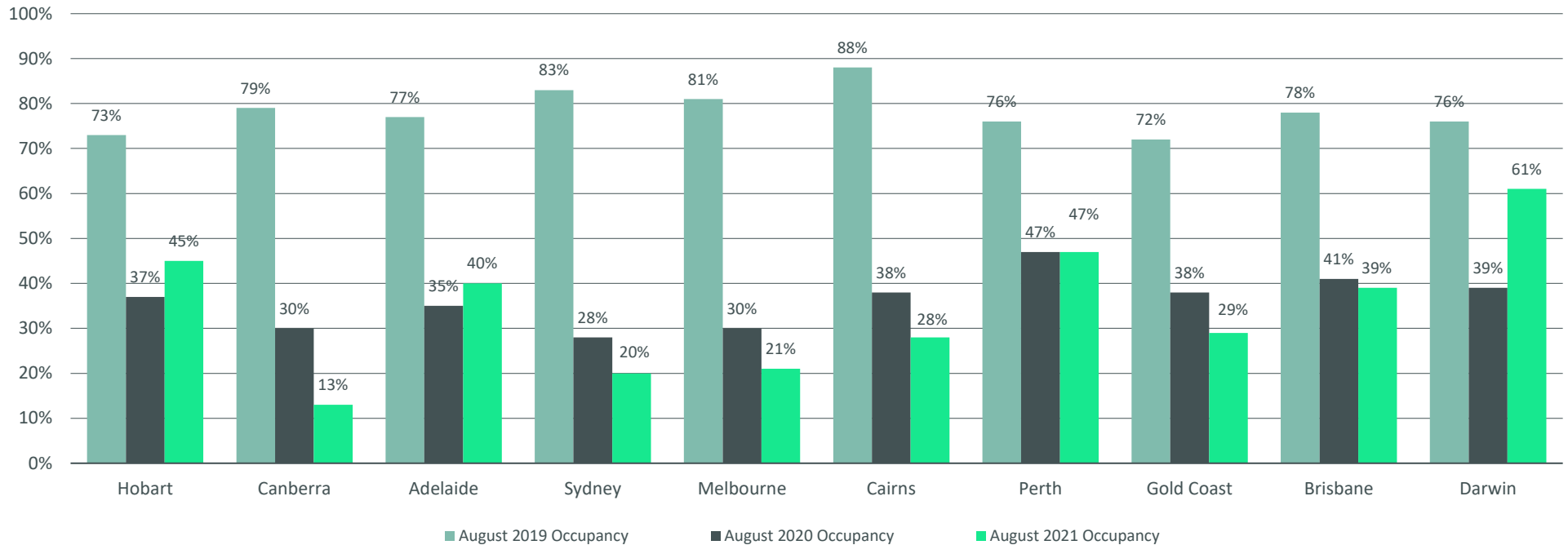
(2020)

34%

(2021)

Average August monthly hotel occupancy across Australia

FIGURE 4: Monthly Occupancy Across Australian Markets for August (2019-2021)



Source: STR; CBRE Research

Occupancy in April 2021 approximated or was approaching April 2019 performance

April 2021 occupancy demonstrates Australia’s rebound capability once COVID is controlled

17%

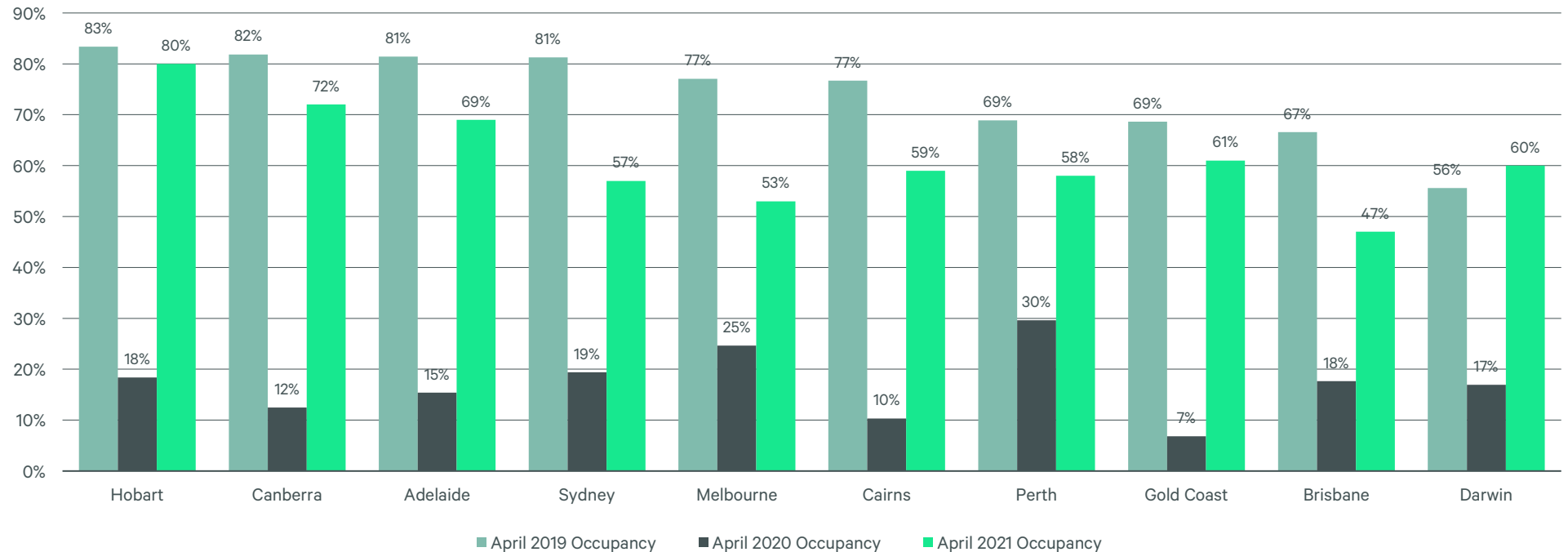
(2020)

61%

(2021)

Average April monthly hotel occupancy across Australia

FIGURE 5: Monthly Occupancy Across Australian Markets for April 2019-2021



Source: STR; CBRE Research

In CY 2020 Total Visitor Nights across Australia's key cities decline by 64%

Domestic visitation will lead demand recovery in anticipation of the resumption of International travel to Australia

FIGURE 6: Domestic vs. International Share of Visit Nights in HRMS Accommodation



Note: Visitor Nights for HRMS (hotel, motel rooms and serviced apartments) | Source: YE December 2019 & YE December 2020, Tourism Research Australia (TRA) December 2020

International air travel to return to 2019 levels in 2023/24

73% of key stakeholders in the aviation industry expect air passenger movements to achieve 2019 levels in 2023/24

FIGURE 7: Timing of the Demand Recovery - 2019 Levels (% of respondents)

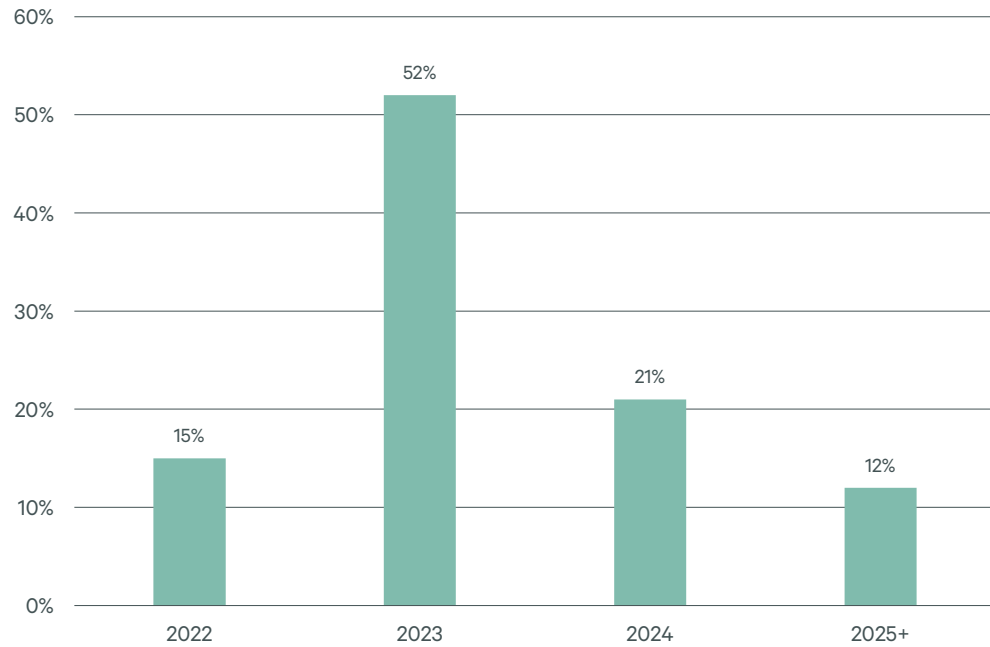
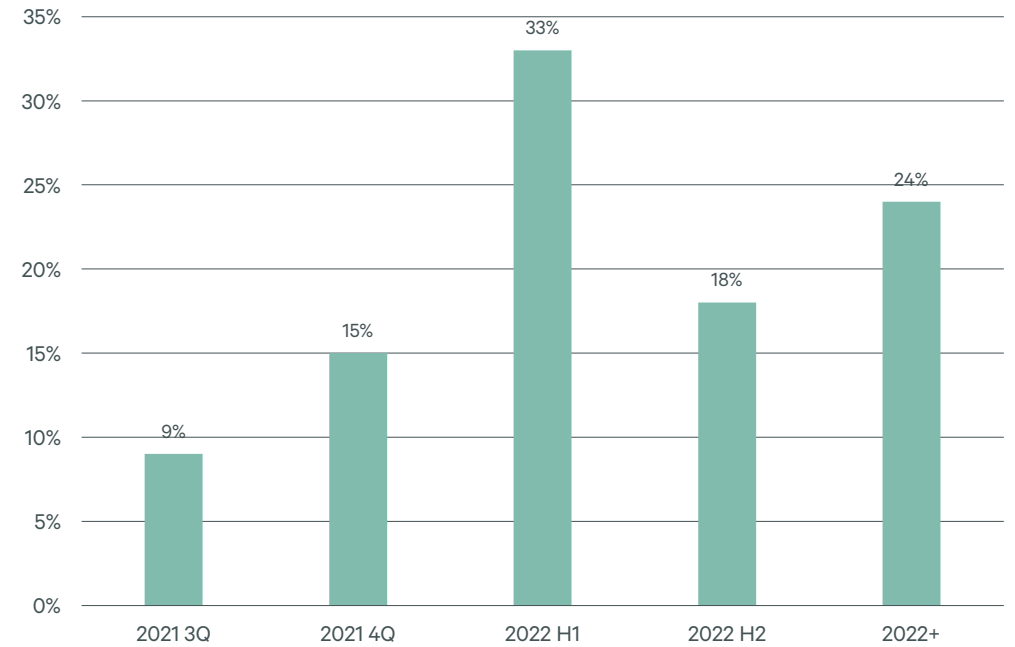


FIGURE 8: Timing of the Restart in Long Haul Traffic (% of respondents)



Source: IATA

Australia's key international visitor markets will be the first to reach 2019 air travel levels

North America, followed by Asia Pacific and Europe will be the predominant regions to achieve 2019 air travel levels

FIGURE 9: Region to Return to 2019 Level First

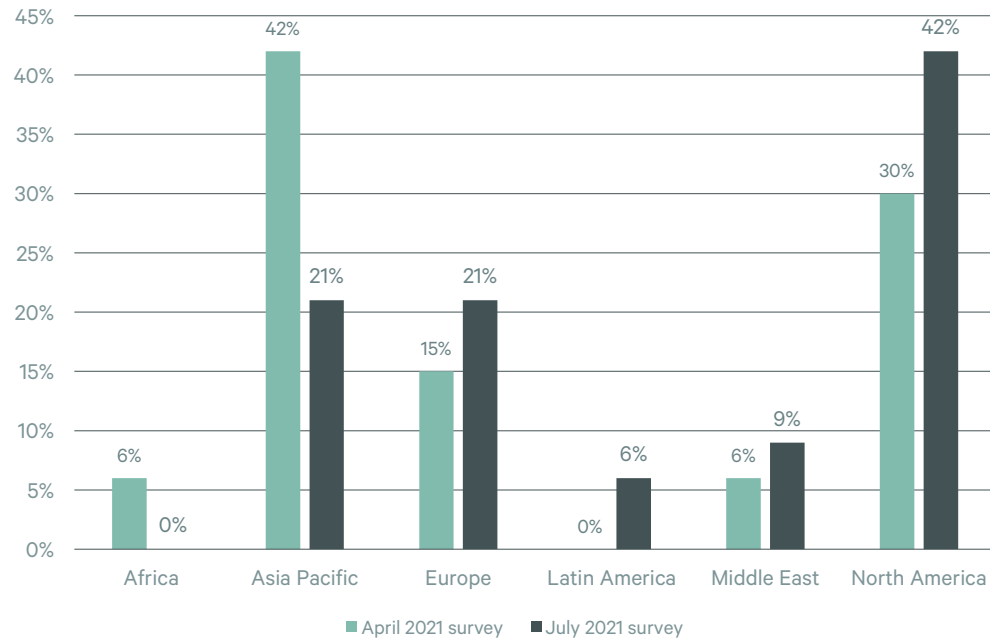
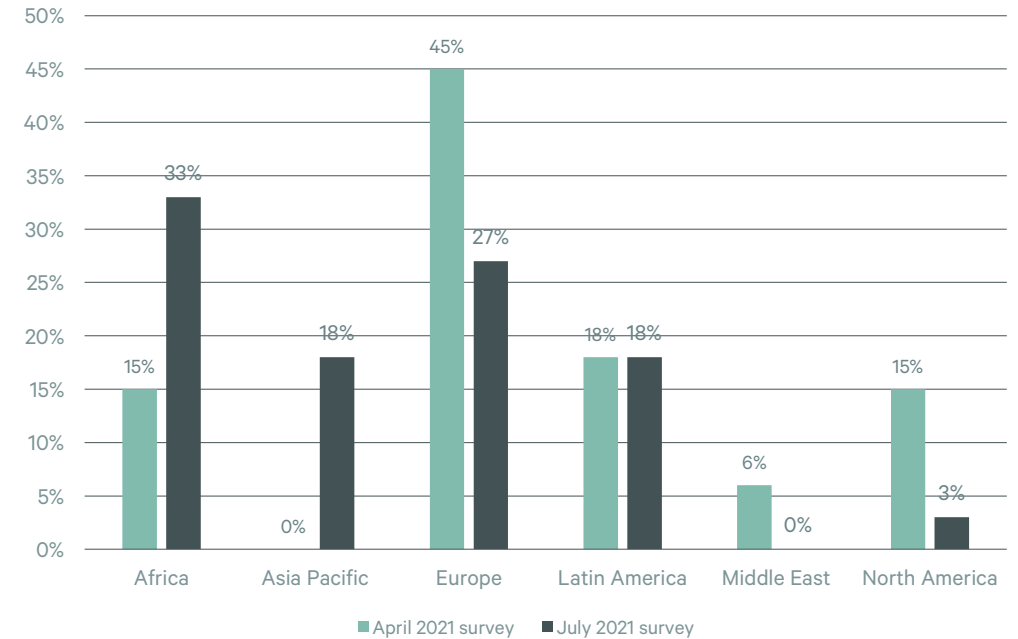


FIGURE 10: Region to Return to 2019 Level Last

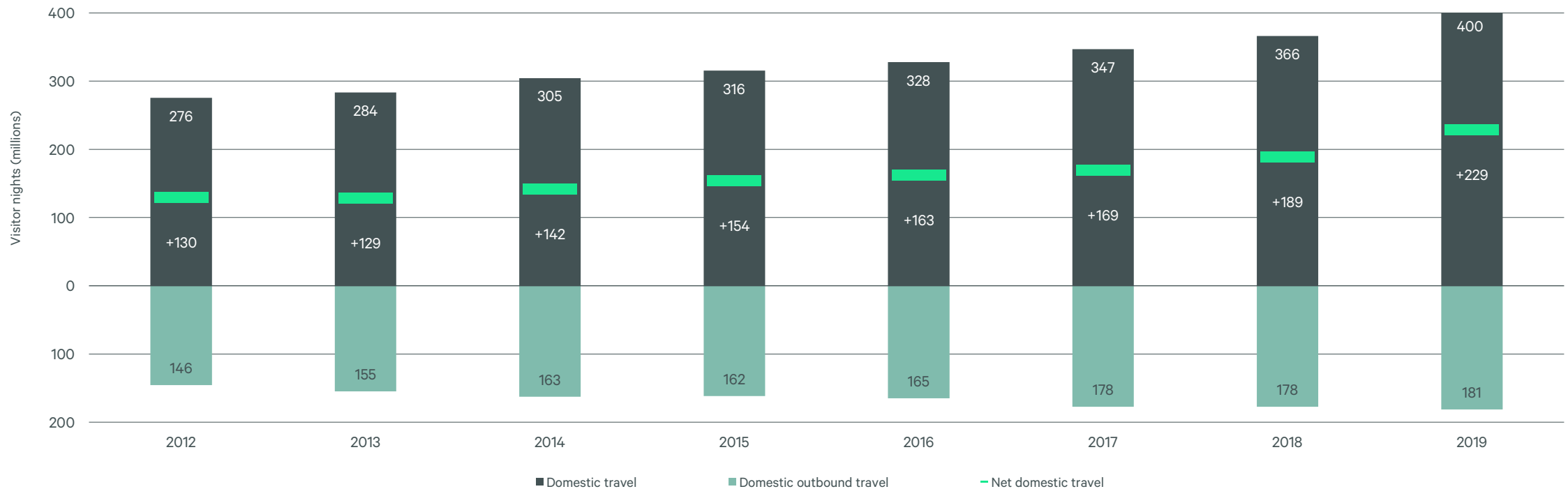


Source: IATA

Domestic and Australian Outbound Travel

Frustrated Outbound tourism will continue to buoy regional drive markets and key city hotels in 2022

FIGURE 11: Net Domestic Travel Visitor Nights by Australians (2012-19)

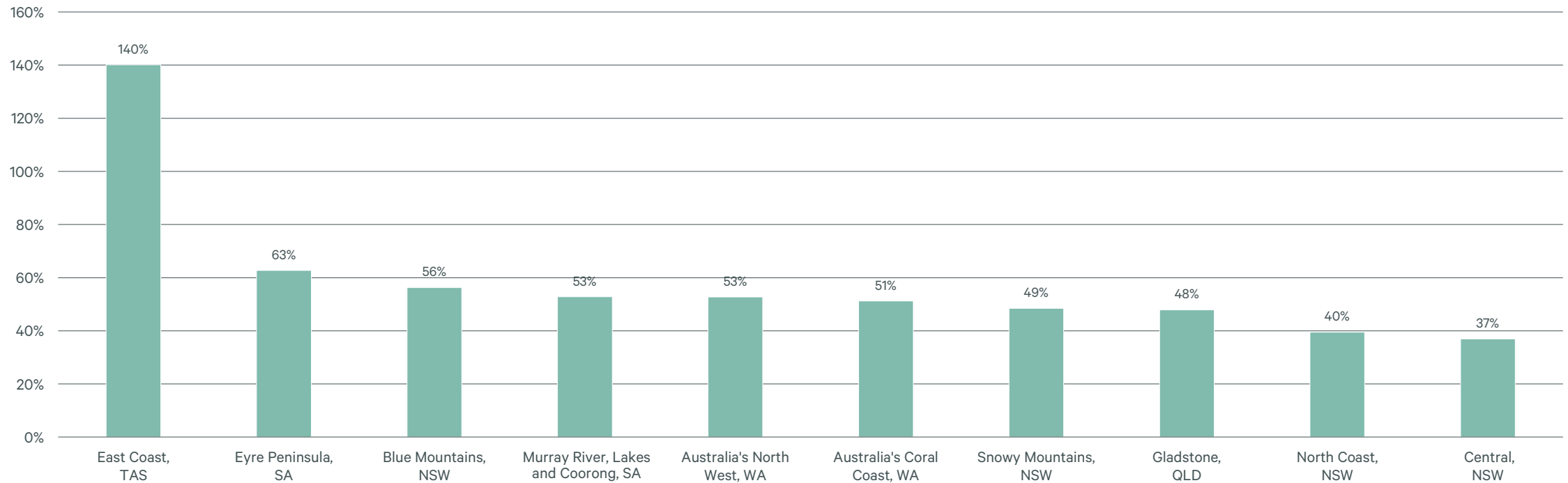


Note: TRA September 2019 data represents latest available data for outbound statistics | Source: TRA September 2019; CBRE Research

Regional drive markets are the beneficiary of COVID

Transient domestic leisure market escape to regional markets that are unaffected by COVID

FIGURE 12: RevPAR Change %

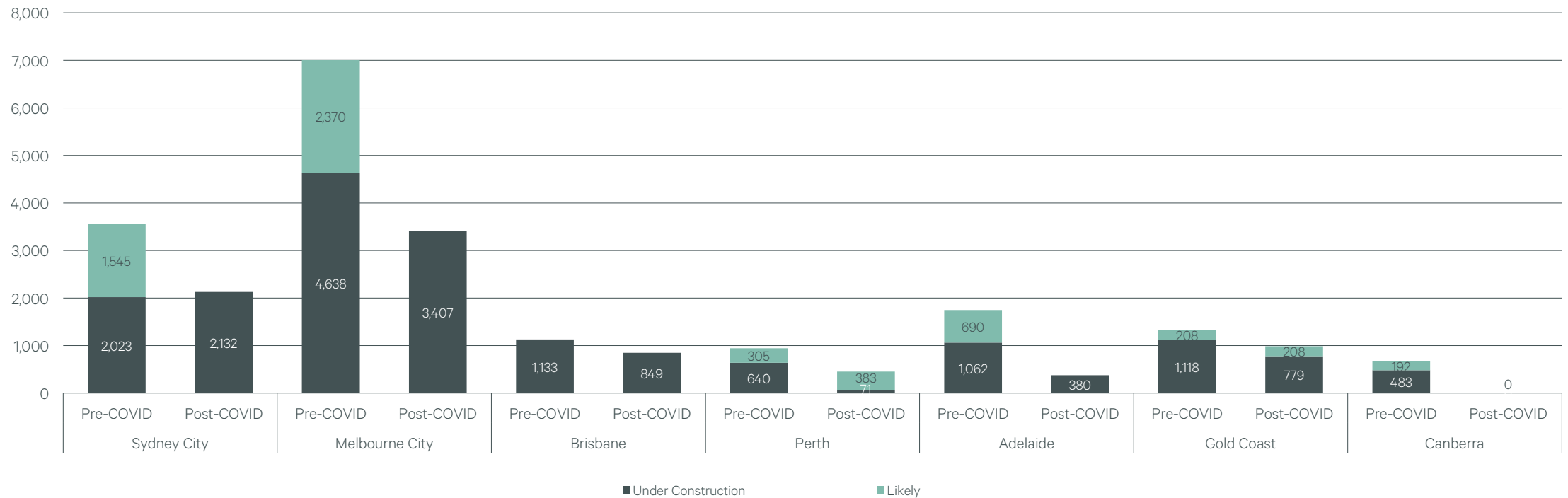


Source: STR Australian Accommodation Monitor Survey 2020-2021

Pre & Post COVID New Supply Overview

Development pipeline contracts as feasibility and funding constraints quash mooted projects

FIGURE 13: Changes in New Supply Pipeline Across Key Australian Markets (pre-COVID vs. post-COVID)

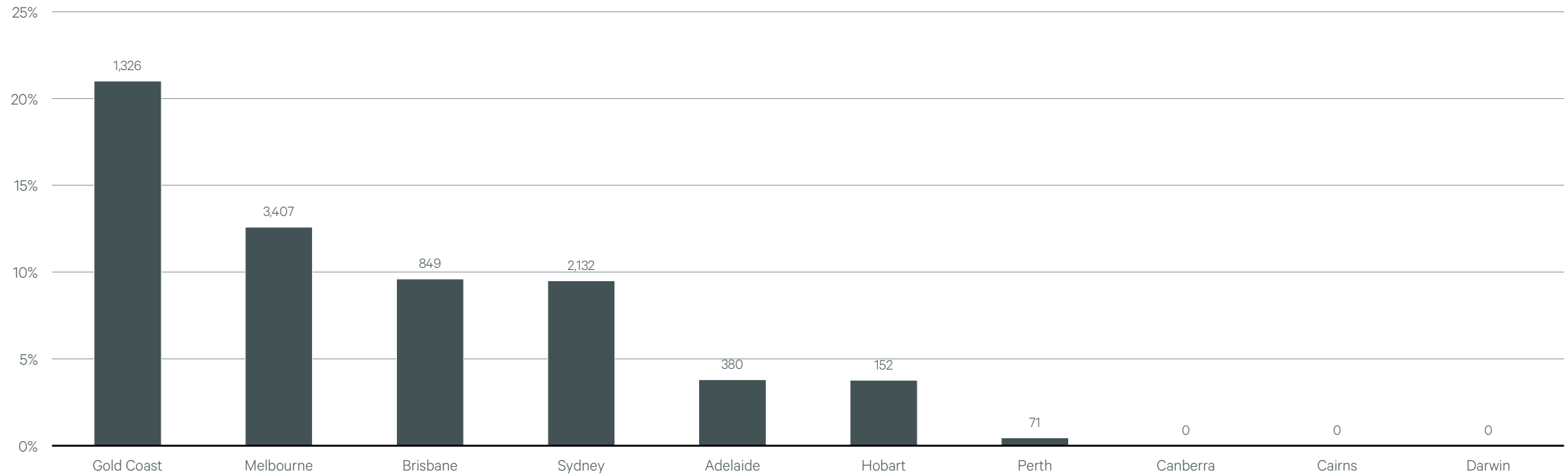


Note: Likely projects are considered those at the DA Approved or early development stages | Source: CBRE Hotels (Q2 2021)

New Supply Relative to existing Inventory

Gold Coast and Melbourne are most impacted by new supply

FIGURE 14: National Pipeline Under Construction

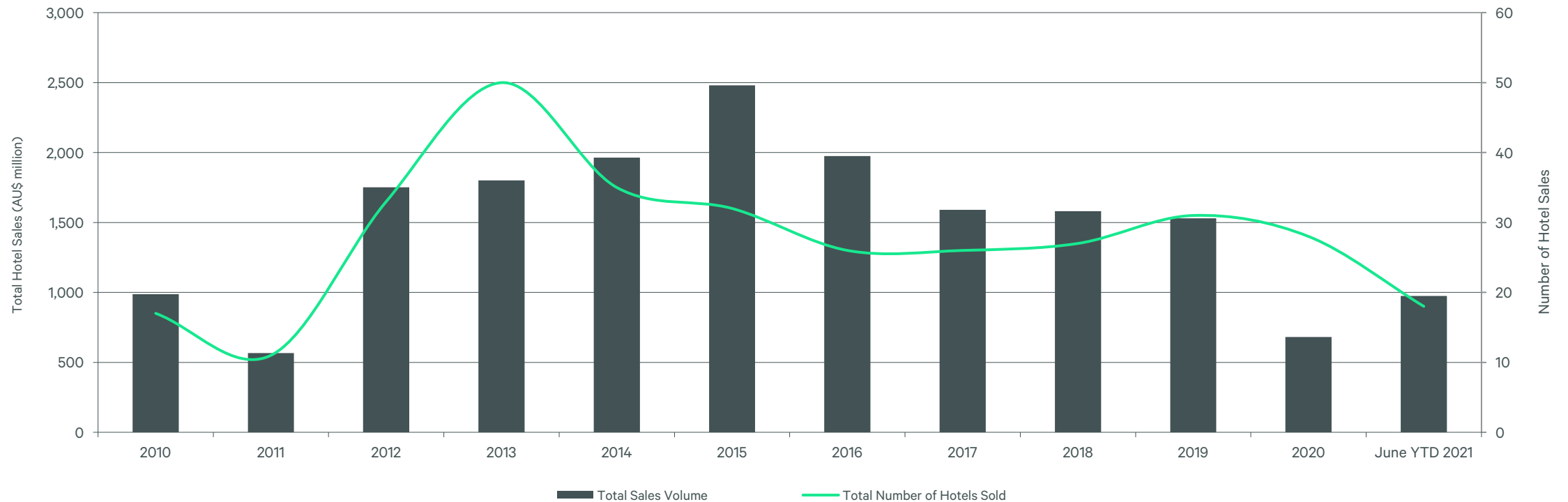


Note: Labels represent the no. of rooms under construction (only) | Source: CBRE Research Q2 2021

\$1+ Billion hotel sales YTD in 2021

2021 transactions rebound

FIGURE 15: Total National Sales Value vs. No. of Hotels Sold (2010-21)

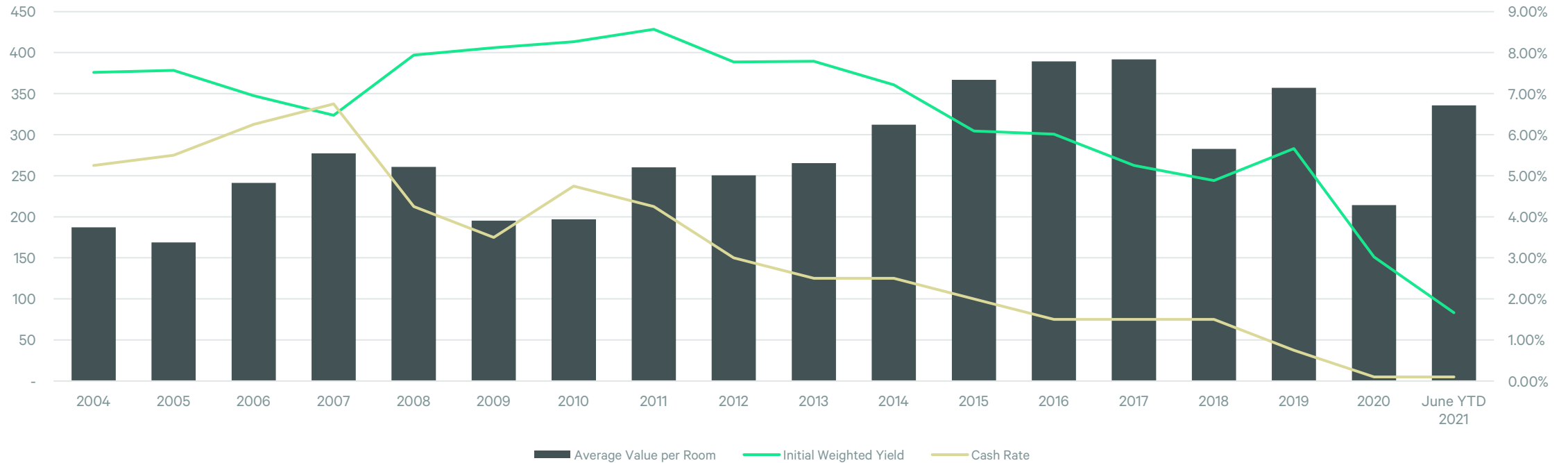


Source: CBRE Hotels

Yields continue to firm

Price per room approximates pre-COVID levels on firm yields

FIGURE 16: Average Value per Room vs. Initial Weighted Yield – Australian CBD Hotels



Note: : Official Cash Rate (OCR) is currently 0.1% following two rate cuts in March 2020 and a further cut in November 2020 | Source: CBRE Research

Recent Transactions 2021

FIGURE 17: Recent Transactions 2021

Property	Scale	Reported Pricing (\$M)	Sale Date	No. of Rooms	Management	Price per Room (\$'000)
Rydges Bankstown	Upscale	\$28.00	Oct-21	120	Vacant Possession	\$233
Adina Martin Place	Upscale	\$25.60	Oct-21	49	Vacant Possession	\$522
Loea Hotel	Luxury	\$3.50	Sep-21	10	Vacant Possession	\$350
Bayview on the Park	Sold for BTR redevelopment	\$70.00	Sep-21	303	Vacant Possession	\$231
Kimberley Sands Resort	Upper Upscale	\$11.50	Aug-21	72	Vacant Possession	\$160
Ibis Budget Elizabeth St Melbourne	Midscale	\$23.75	Aug-21	146	HMA	\$163
Mantra Terrace Hotel Brisbane	Upscale	\$16.00	Aug-21	84	HMA	\$190
Oakwood Apartments Brisbane	Upscale	\$41.50	Jul-21	162	Vacant Possession	\$256
RACT Portfolio	Various	\$60.00	Jun-21	260	Vacant Possession	\$231
Vibe Rushcutters	Sold for resi development	\$125.00	Jun-21	258	Vacant Possession	\$484
Intercontinental Double Bay	Luxury	\$178.00	May-21	140	Vacant Possession	\$1,271
Hotel Grand Chancellor Palm Cove	Upper Midscale	\$10.88	May-21	140	Vacant Possession	\$78
Tuckerbox Portfolio	Midscale	\$620.00	May-21	2,032	Vacant Possession	\$305
Ibis Styles Cairns	Upper Midscale	\$8.85	May-21	75	Vacant Possession	\$118
Quality Hotel Bathurst	Upper Midscale	\$9.75	May-21	50	Vacant Possession	\$195
Ibis Styles Tamworth	Upper Midscale	\$9.65	May-21	109	Vacant Possession	\$89
Airport Apartments by Aurum	Upscale	\$10.25	May-21	52	Vacant Possession	\$197
Four Points by Sheraton Sydney	Upscale	\$146.00	May-21	297	Long Term MA	\$492
Delaware North Portfolio	Various	\$39.00	Apr-21	N/A	Vacant Possession	N/A
Long Island	N/A	\$16.00	Apr-21	N/A	Vacant Possession	N/A
Reef Plaza Cairns	Upscale	\$10.00	Apr-21	101	Vacant Possession	\$99
Primus Hotel Sydney	Luxury	\$132.00	Feb-21	172	Vacant Possession	\$767
Greenmount Beach House	Sold for resi development	\$42.00	Jan-21	151	Vacant Possession	\$278

Source: STR; CBRE Research

Recent Transactions 2020

FIGURE 18: Recent Transactions 2020

Property	Scale	Reported Pricing (\$M)	Sale Date	No. of Rooms	Management	Price per Room (\$'000)
AccorInvest Portfolio	Various	\$180.00	Nov-20	1,800	Various	\$100
Art Series The Fantauzzo	Upper Upscale	\$67.00	Sep-20	166	Vacant Possession	\$404
Novotel Brisbane	Upper Upscale	\$68.00	Oct-20	296	Vacant Possession	\$230
Radisson Hotel & Suites Sydney	Upscale	\$38.00	Sep-20	76 freehold rooms	Vacant Possession	\$500
Rydges Capitol Square	Midscale	\$26.00	Sep-20	94	Vacant Possession	\$277
Rydges on Swanston	Midscale	\$35.00	Sep-20	107	Vacant Possession	\$327
The Bower Byron Bay	Upper Upscale	\$15.00	Jul-20	28	Vacant Possession	\$536
Vibe Hotel Melbourne	Upper Midscale	\$108.00	Jul-20	206	Long Term MA	\$524

Source: STR; CBRE Research

The Outlook for the Australian Hotels Industry



JobKeeper & Disaster Recovery Payments

- As lockdowns end and Australian economic activity resumes, financial assistance programs will end, requiring businesses to be self-sustaining.



Some Hotels Forced To Hibernate During Lockdowns

- Insufficient business to sustain operations
- Awaiting Border opening to stimulate business
- Significant corporate activity delayed to Q1 2022



CBD Hotel Markets To Return To 2019 Levels In 3-5 Years



Regional Drive-to Markets Booming

- International travel restrictions have diverted Australian outbound to regional markets subject to lockdown travel restrictions.



Australian International Travel

- Subject to 80% vaccination targets
- Australian international travel to recommence in November 2021



International Travel Bubbles

- At 80% double vaccination travel in 2022
- Keen to open doors:
 - New Zealand
 - Pacific Islands
 - Singapore

- Keen to explore opportunity

- USA
- UK
- UK example: allows Europe & USA entry without quarantine if fully vaccinated



International Travel Numbers to Return to 2019 Levels in 2023 – 2024



Inflationary Pressures Could Push Up Interest Rates And Soften Investment Yields Over The Medium Term



Deal Volumes Have Rebounded in 2021 as Opportunities Emerge & Market Liquidity Returns

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