



Australian Hotel Investment Market H1 2021

Colliers
July 2021



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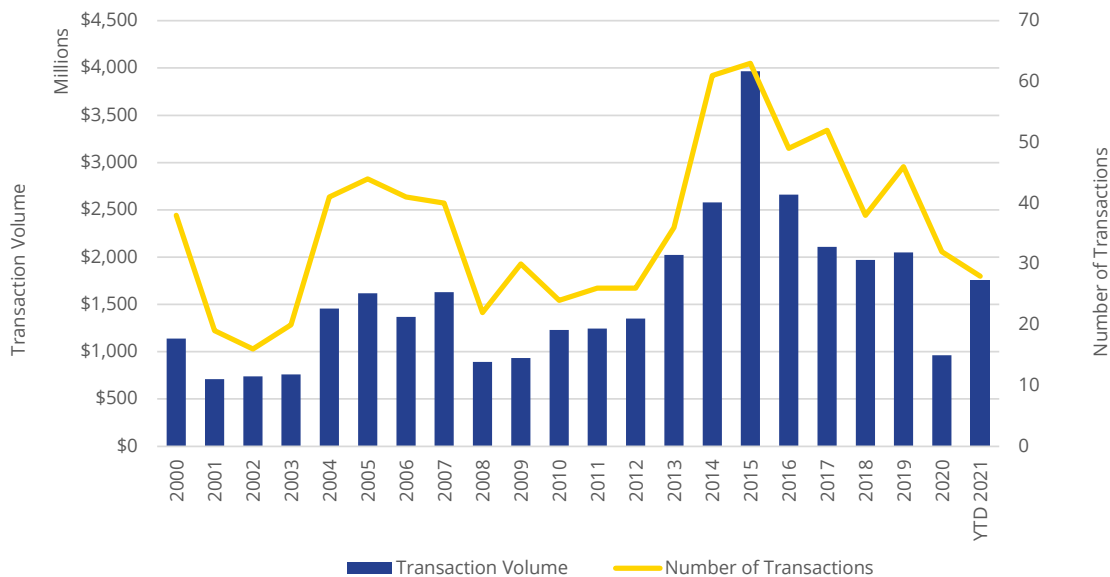
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Hotel Investment Trends

Australia's hotel market has kicked up a gear with close to \$1.756 billion worth of assets traded to July 2021 in a busy first half and representing over 4,500 rooms and with more deals to come. This compares to just \$963 million of transactions during 2020 and highlights the extent to which the pandemic slowed the buoyant force of Australia's hotel investment market.

Australian Hotel Investment Trends 2000 to YTD July 2021



Source: Colliers

YTD July 2021



\$1.756 billion
transaction volume

↑ 45% increase
compared to 2020



Over 4,500
rooms sold

↓ 30% decrease
compared to 2020



\$372,438 average
price per key

↑ 56% increase
compared to 2020



\$60.6 million
ticket size

↑ 18% increase
compared to 2020

Portfolio offerings driven by global weight of capital

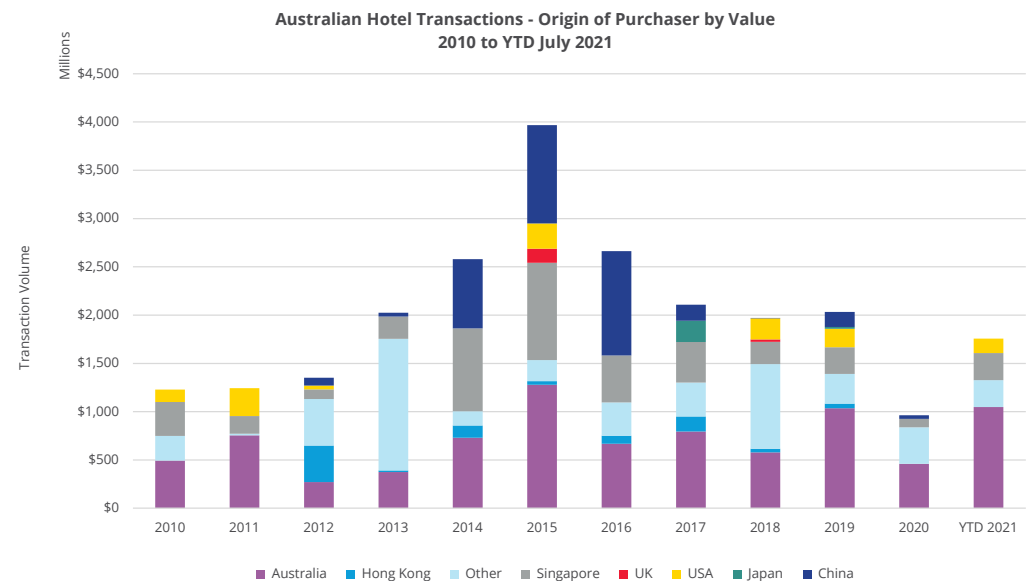
In a marked shift to the prior decade, investment capital was predominantly domestic accounting for 59.7 per cent of total transaction volumes. Offshore capital, where prevalent, is mostly being channelled through domestic funds management groups as they look to satisfy the heightened appetite of cashed up global capital partners with a growing tilt towards the Asia Pacific region. Australia remains very attractive for European and North American investors seeking geographical diversification in their real estate portfolio, many of whom have greater comfort with hotels than Australian institutions who have typically shied away from the sector.

Whilst there is a growing prevalence of private equity capital chasing deals, to date the deep discounts that many were anticipating have not been borne out given the unprecedented levels of government financial support and weight of capital chasing deals. Australia's banking sector has also shown a high degree of restraint given the unpropitious short term trading environment. Portfolios, platform plays or larger assets that are being sold with repositioning potential are most actively targeted by these buyer groups who are looking to bulk up and add value through capital investments.

The announcement in July 2021 that Salter Brothers had exchanged contracts to acquire 11 Travelodge hotels with more than 2,000 rooms for a new hospitality joint venture vehicle backed by Singaporean sovereign wealth fund GIC and Swiss-based global private equity firm Partners Group is an example of this.

The joint venture is reported to have paid \$620 million, \$100 million above the 2020 book value. The hotels will undergo refurbishment and repositioning with the aim of lifting their performance once the transaction settles later this year. The hotel portfolio, held in the unlisted Tucker Box Hotel Trust, jointly owned by Mirvac and the NRMA, delivered pre-tax earnings of \$41 million in 2019 prior to the pandemic before earnings slumped to \$26 million last year.

The pandemic is also resulting in some unique buying opportunities with larger single assets being offered as global hotel owners look to rebalance portfolios and as the redeployment of Chinese capital starts to play out. Chinese investors acquired \$3.3 billion of hotels since entering the Australian hotel market in 2012 and with more assets under development providing a rich hunting ground for cashed up global investors.



Source: Colliers



Conversions to alternate use

"Market conditions are reminiscent of the early 2000s when an oversupply of hotel rooms coincided with a booming residential market resulting in a reduction in hotel room supply in most city hotel markets."

Sydney was the most active investment market and with the first seven months of 2021 defined by the announcement of some big-ticket Sydney sales including InterContinental Double Bay (\$178 million), Four Points by Sheraton (\$150 million), Primus Sydney (\$132 million) and Vibe Rushcutters (\$125 million).

Pricing for two of these was underpinned by the planned conversion to residential use and with further conversion sales anticipated. New market entrants in the co-living and build-to-rent segments continue to run their ruler over opportunities in the hotel sector but to date acquisitions have been limited owing to the complexity of city planning regulations and the suitability of many hotels for conversion.

Market conditions are reminiscent of the early 2000s when an oversupply of hotel rooms following a series of tourism demand shocks coincided with a booming residential market resulting in a reduction in hotel room supply in most city hotel markets, but most pronounced in Sydney with the withdrawal of around 3,000 rooms.

Owners are unlikely to sit on non-performing assets for an extended period. Backpacker hostels in Sydney's city fringe are a prime target with this segment under significant pressure given the lack of international tourists. The gazetting of the Central Sydney Planning Strategy in mid-2021 and investor exuberance for Brisbane's debutante onto the global stage as host to the 2032 Olympics is also likely to spur new development activity.

The rise of regional

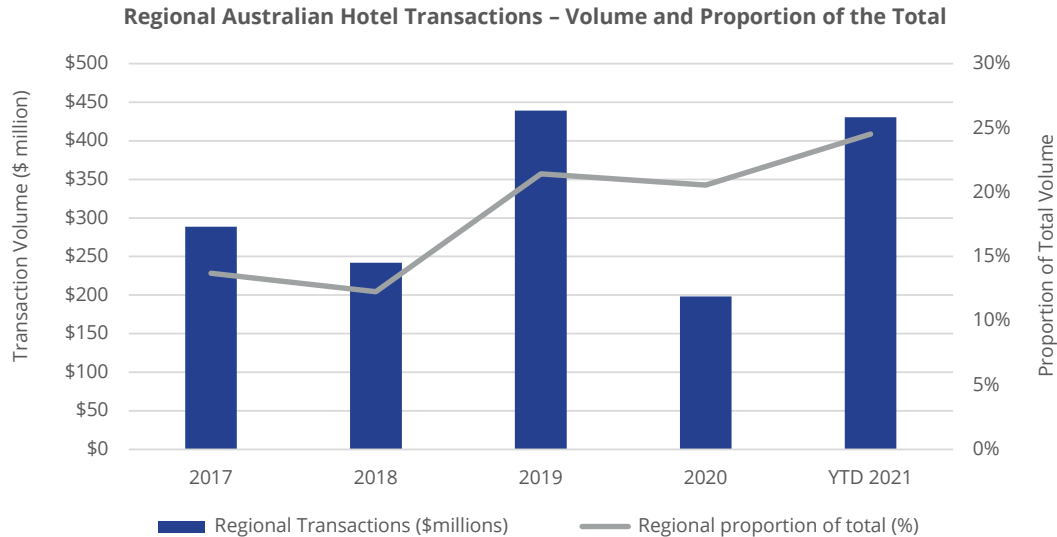
One of the most significant trends of 2021 has been the propensity for investors to take on more risk. The depth of capital for Australian CBD hotels has remained strong despite the obvious headwinds with investors prepared to take a long-term view and with a growing pool of capital pushing into the regions. 21 assets transacted in Regional Australia during the first seven months of the year with deals concluding in all states.

Regional Australia has been one of the biggest beneficiaries of COVID-19, particularly those locations within a short driving distance of the major centres. Many of these destinations are enjoying their strongest performance in history as Australian savings swell and intra-state travel booms and Australians look to redeploy the \$65 billion spent each year in overseas holidays without crossing state borders for fear of a snap lockdown. The unprecedented surge in visitation has resulted in significant RevPAR growth in some markets and capital value appreciation is now evident.

The big question for Regional Australia, however, is what will happen when state and international borders finally reopen. Phase two of the national four-part plan anticipates that lockdowns would only occur “in extreme circumstances” and when 70 per cent of the eligible population has received two doses of the vaccination. Phase three calls for no more lockdowns at all and a vaccination rate of 80 per cent of the eligible population.

This would indicate that current travel patterns are likely to continue for the next six months at least. The states have too many incentives to resort to lockdowns at the first hint of an infection with border closures a popular tactic with premiers and electorates of the most parochial states and further rewarded by federal subsidies which are paid to a state government when imposing a lockdown. The same rewards are not evident when opening up again, particularly as tourists have become increasingly reluctant to traverse state borders.

Queensland is expected to be the country's most active regional investment market in 2021 given the depth of hotel product, reliance on tourism and the tyranny of distance from Australia's major population centres.



Source: Colliers

Pricing holds firm

Hotel valuations have stabilised over the past year thanks to a valuation boost from ultra-low interest rates and early signs of a V-shaped trading recovery. Core opportunities and investments with scale have continued to attract strong investor interest and in turn are holding up pricing.

The average ticket size increased 18 per cent to \$60.6 million and the average price per key increased 56 per cent to \$372K. Notwithstanding the current lockdown in Sydney, total annual transactions for 2021 are expected to exceed Colliers' estimate of \$2.4 billion with more portfolio and large single asset sales currently in play or being mandated for sale in the second half of the year. Volumes will easily surpass the 2019 level, signalling the commencement of the deleveraging cycle.




Outlook

Looking forward, if the vaccination battle can be won and a sign of an end to the pandemic starts to firm in Australia once again, this could result in a re-evaluation of the sector which has been pummelled by international and state border closures and city lockdowns.

A tsunami of pent-up demand for corporate and leisure travel has the potential to drive above average near term returns before growth normalises to the levels which were evident pre-pandemic but with a greater proportion of global travel pushed to perceived 'safe' destinations like Australia.

International travel will not be without its challenges however as is evident in other parts of the world. Whilst the U.S, U.K. and EU are gradually removing domestic COVID-19 restrictions, there is a resistance to remove international travel restrictions with quarantine still in place while new, more transmissible virus strains emerge with reports of a delta plus being identified in India. The recognition of vaccines by governments (for example the U.S. does not recognise AstraZeneca) and lack of vaccine passports for some countries are also impediments which will need to be overcome before international travel can resume. Against this backdrop, domestic tourism is likely to remain the mainstay for Australia's tourism industry for some time to come.



All roads were leading to a recovery ahead of market expectations for Australia's hotel and tourism sector with a strong uplift in domestic leisure travel activity over the summer period and with room rates holding firm.

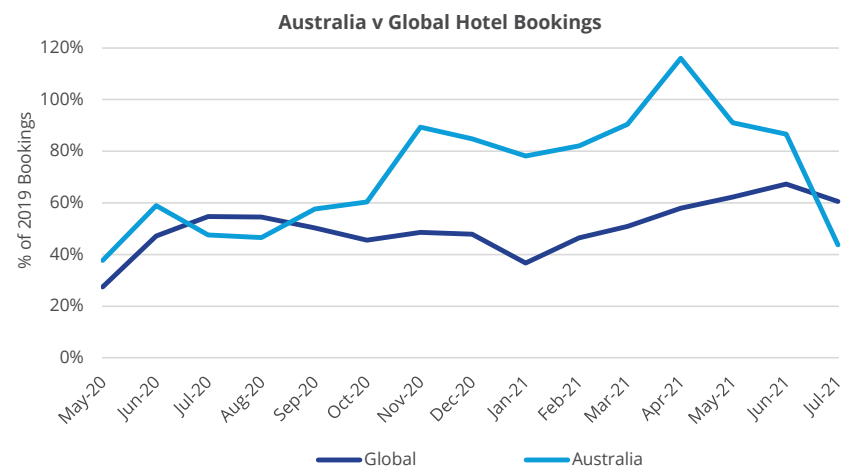


Australian hotel bookings trend above global average ... until recently

The nascent return of corporate and meetings travel during the second quarter of 2021 also added to the growing optimism for the sector. That is, until the latest COVID-19 outbreak and extended lockdown in the country's two largest cities, home to more 14 million people and accounting for almost half of Australia's national GDP.

According to SiteMinder's World Hotel Index the volume of hotel bookings in Australia built significantly from October 2020 and through the summer months at a level well above the global average as Australia's tourism industry benefitted from the reopening of state borders and the relaxation of restrictions which coincided with the peak summer holiday period.

Australians had saved hard through the pandemic and holidays were top of the treat list as things improved. This buoyant period extended well into 2021 before the onset of Winter and the introduction of the delta strain which resulted in a sharp contraction in forward bookings. At the end of April 2021, hotel bookings in Australia were at 116 percent of the level recorded in 2019 (as a benchmark for normal) before declining to 43.1 per cent by the end of July 2021 with city lockdowns and border closures in place once more. It remains to be seen if Summer 2021 can exhibit the same upward recovery trend once again.



Source: SiteMinder World Hotel Index, Colliers
Note: Compares bookings at the end of the month as a % of 2019 bookings.

Smaller regional markets outperform

Occupancy levels ranged between 39.9 per cent in Melbourne and 72.5 per cent in Newcastle during the first six months of 2021 and with a further three markets recording average occupancies above 60%. This included Hobart (71.3%), Adelaide (63.0%) and Canberra (60.7%).

Pleasingly the major capital cities showed a pick-up in demand but with lower occupancies overall given the quantum of room stock but with only Sydney and Melbourne recording average occupancies of below 50 per cent despite snap city lockdowns a frequent occurrence during the first six months of the year. Notwithstanding, hotel quarantine continued to play a major role accounting for around 10 to 20 per cent of room night demand in Australian city hotels and a near term risk to trading performance with the reduction in numbers and the proposed shift of travellers to specially constructed facilities.

Office occupancies continued to improve in Sydney and Melbourne but remain lower than the national average. The global remote working experiment is expected to bring into question the need for some business trips and it is likely that shorter business trips could remain suppressed following the pandemic, particularly day return trips.

CBD Office Occupancy

CBD	Jan-21	Feb-21	Mar-21	Apr-21	May-21
Adelaide	77%	77%	79%	78%	78%
Brisbane	70%	72%	69%	70%	71%
Canberra	76%	72%	72%	70%	71%
Darwin	89%	89%	93%	93%	93%
Hobart	89%	84%	89%	91%	93%
Melbourne	34%	27%	39%	45%	45%
Perth	74%	72%	79%	78%	78%
Sydney	50%	54%	56%	65%	68%

Source: Property Council of Australia



Newcastle was the strongest performing city market in H1 2021

Employers are now facing an interesting dilemma which could create new reasons for business trips and an increase in city overnight stays – how to create a culture that enables flexible working but also builds a strong sense of team and nurtures client relationships. Employers need to effectively flip the office, whereby work is done at home and work-related socialisation is done at work. One possible solution could be to increase the frequency of conference-style events or team and client gatherings that more intensively build communities and trust. This could further fuel the growing popularity of regional locations and activated leisure precincts within the CBD.

Regional destinations have already pivoted to drive additional demand for domestic travel and make the most of restless Australian would-be travellers, aided by a raft of government stimulus to encourage people to visit regional and rural areas and help kick start their recovery. Reflecting this, room rates during the first six months of the year were highest for Gold Coast (\$220), Sydney (\$215), Hobart (\$177), Newcastle (\$174), Perth (\$174) and Canberra (\$174).



IN DUE DILIGENCE: Gaia Retreat & Spa, - Byron Bay, NSW

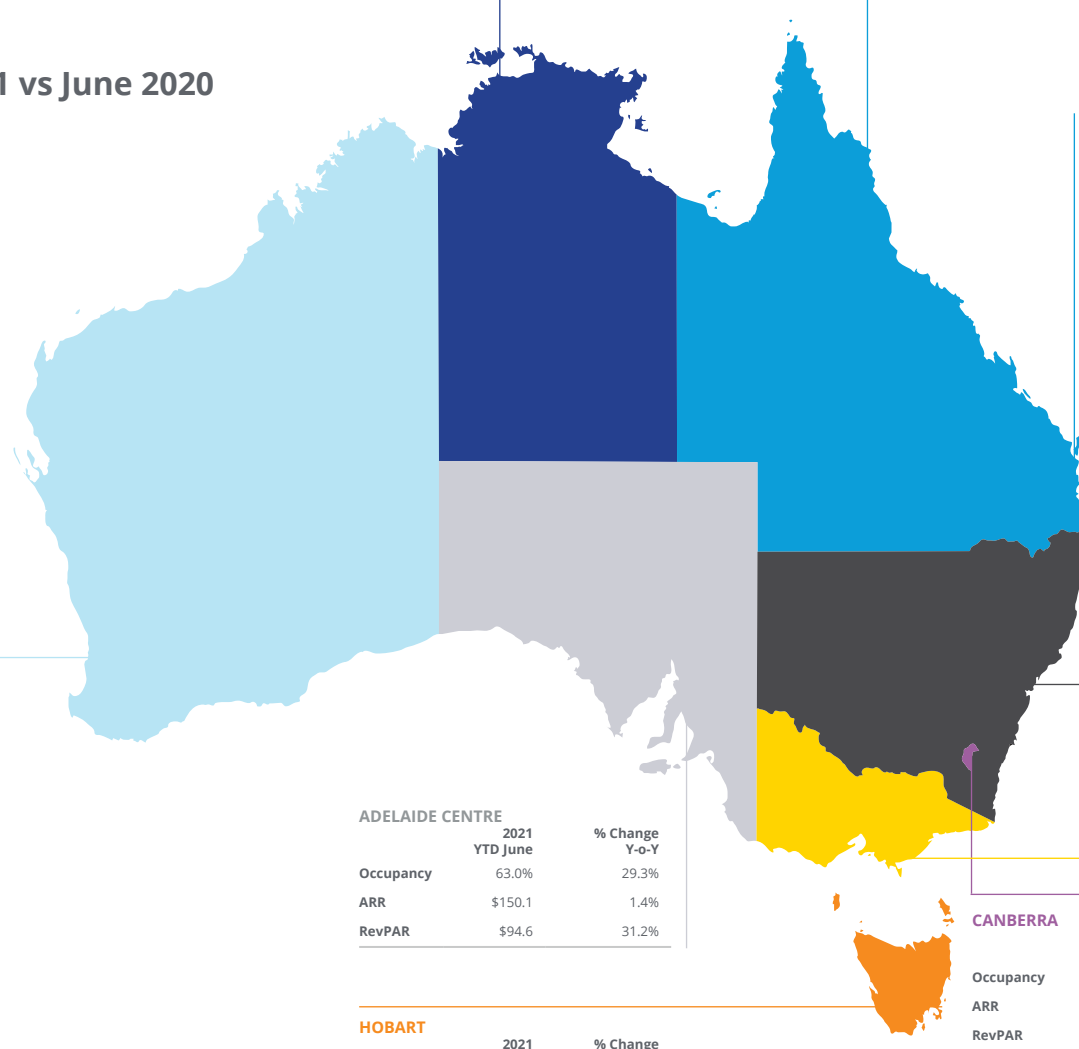


FOR SALE: Jasper Hotel - Melbourne, VIC

Recent Performance Trends

Year to Date June 2021 vs June 2020

NOTE
OCC – Occupancy
ARR – Average Room Rate
RevPAR – Revenue Per Available Room



DARWIN		
	2021 YTD June	% Change Y-o-Y
Occupancy	59.6%	88.1%
ARR	\$160.7	52.7%
RevPAR	\$95.8	187.1%

CAIRNS		
	2021 YTD June	% Change Y-o-Y
Occupancy	53.9%	47.1%
ARR	\$156.5	20.9%
RevPAR	\$84.3	77.9%

BRISBANE CENTRE		
	2021 YTD June	% Change Y-o-Y
Occupancy	51.8%	23.8%
ARR	\$167.1	17.3%
RevPAR	\$86.5	45.3%

GOLD COAST		
	2021 YTD June	% Change Y-o-Y
Occupancy	57.1%	46.2%
ARR	\$220.4	10.1%
RevPAR	\$125.9	61%

PERTH CENTRE		
	2021 YTD June	% Change Y-o-Y
Occupancy	55.8%	23%
ARR	\$173.9	10%
RevPAR	\$97	35.3%

SYDNEY CENTRE		
	2021 YTD June	% Change Y-o-Y
Occupancy	45.2%	-7.5%
ARR	\$215.4	-2.6%
RevPAR	\$97.4	-9.9%

SYDNEY AIRPORT		
	2021 YTD June	% Change Y-o-Y
Occupancy	44.9%	-7.6%
ARR	\$142.4	-3.4%
RevPAR	\$63.9	-10.7%

NEWCASTLE		
	2021 YTD June	% Change Y-o-Y
Occupancy	72.5%	44.5%
ARR	\$174.3	18.6%
RevPAR	\$126.5	71.3%

PARRAMATTA		
	2021 YTD June	% Change Y-o-Y
Occupancy	47.9%	-0.2%
ARR	\$147.7	-4.8%
RevPAR	\$70.8	-5.1%

ADELAIDE CENTRE		
	2021 YTD June	% Change Y-o-Y
Occupancy	63.0%	29.3%
ARR	\$150.1	1.4%
RevPAR	\$94.6	31.2%

CANBERRA		
	2021 YTD June	% Change Y-o-Y
Occupancy	60.7%	41.4%
ARR	\$173.6	11.2%
RevPAR	\$105.3	57.3%

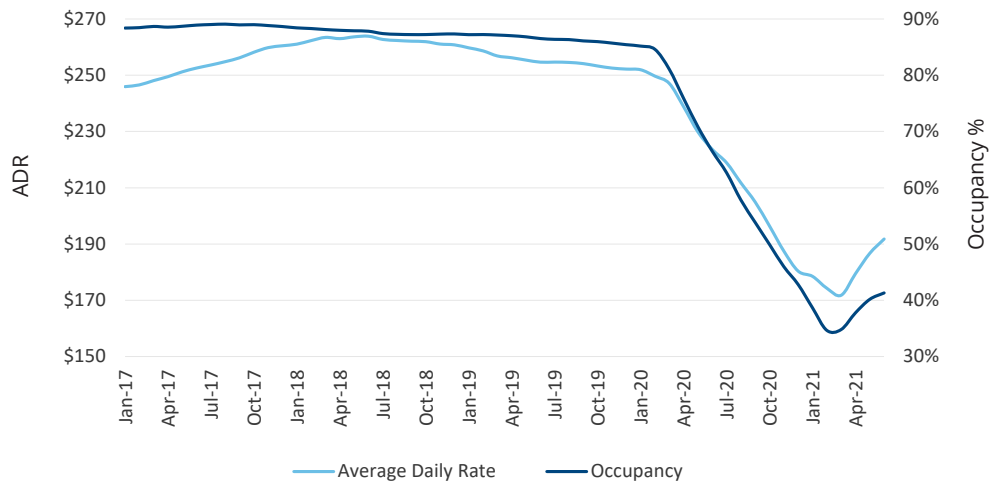
MELBOURNE CENTRE		
	2021 YTD June	% Change Y-o-Y
Occupancy	39.9%	-21.7%
ARR	\$171.5	-7.8%
RevPAR	\$68.5	-27.8%

HOBART		
	2021 YTD June	% Change Y-o-Y
Occupancy	71.3%	40.2%
ARR	\$176.9	-5.7%
RevPAR	\$126.2	32.2%

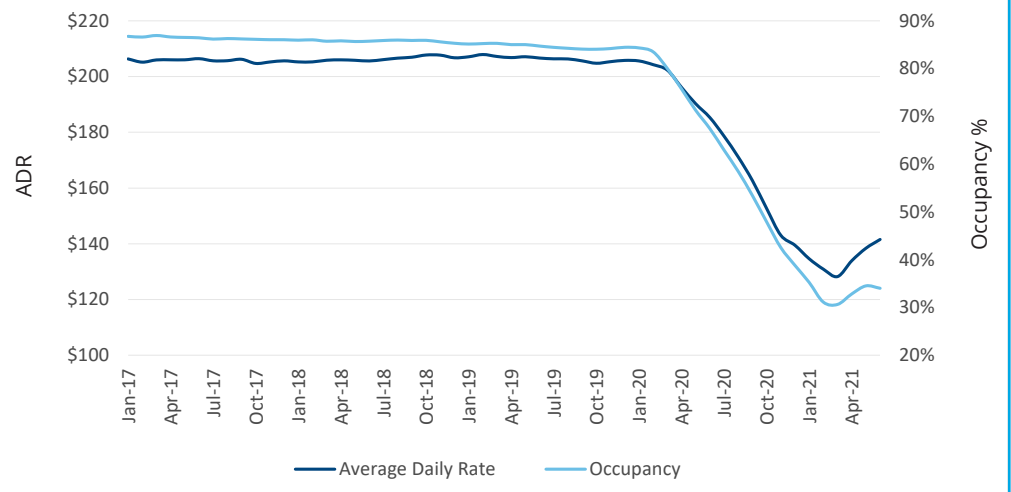
Recovery Profile

Moving Annual Average Occupancy and ADR, 2017 to June 2021

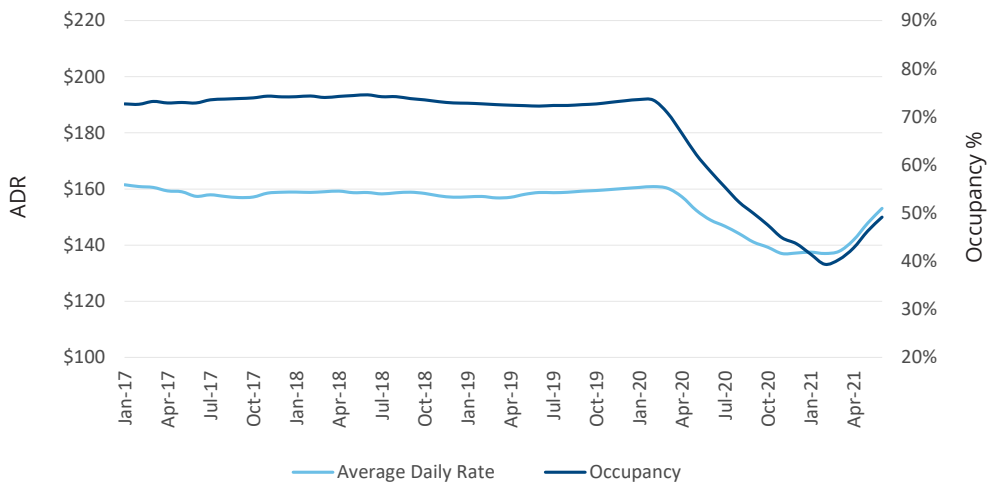
SYDNEY CENTRE - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



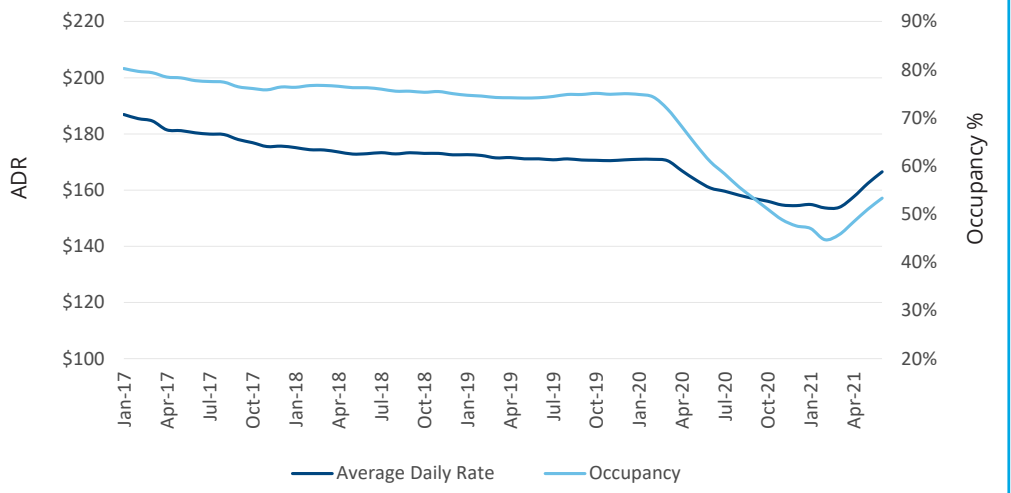
MELBOURNE CENTRE - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



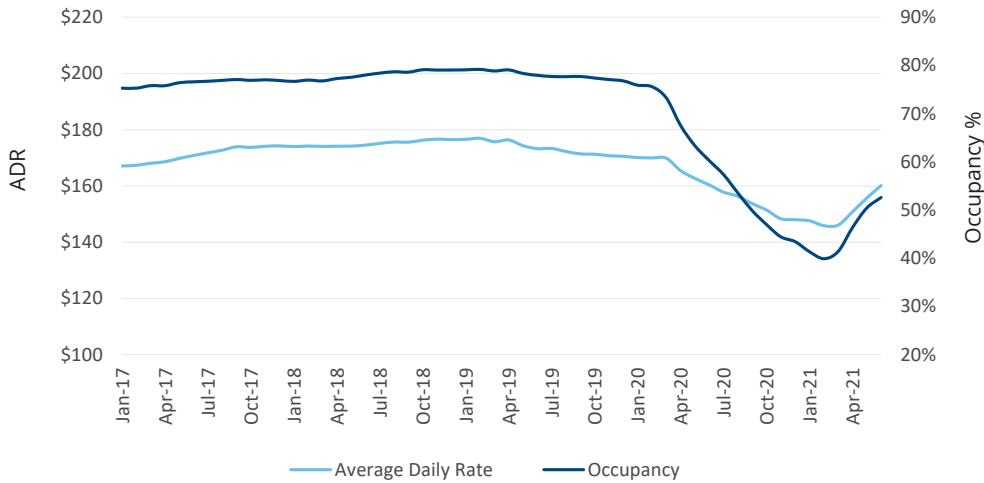
BRISBANE CENTRE - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



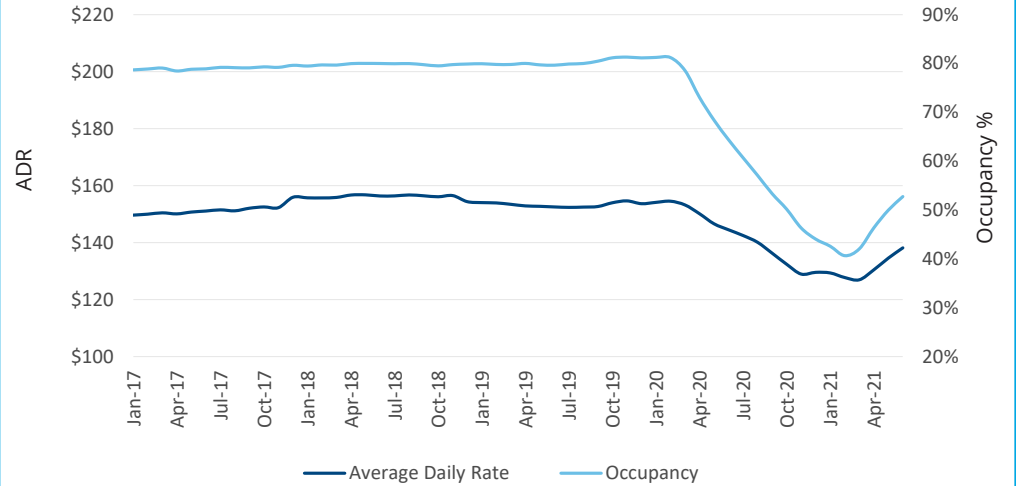
PERTH CENTRE - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



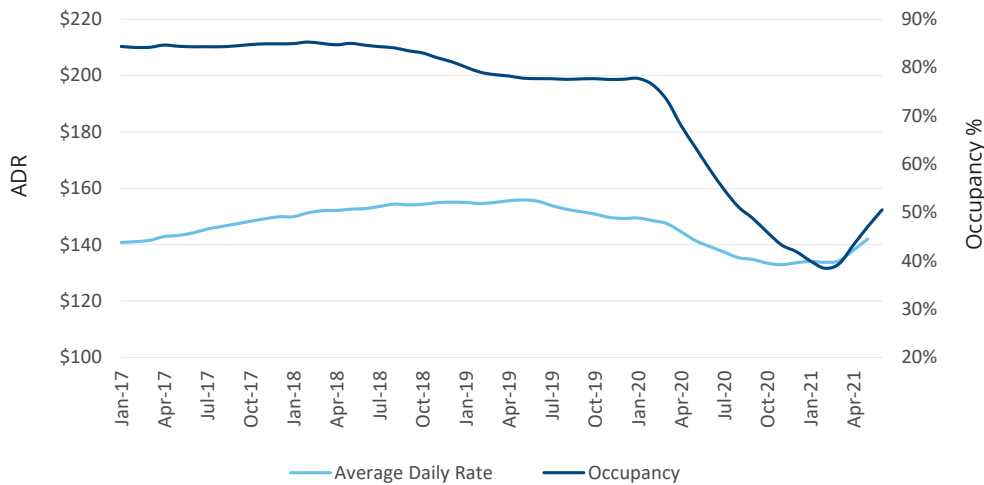
CANBERRA - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



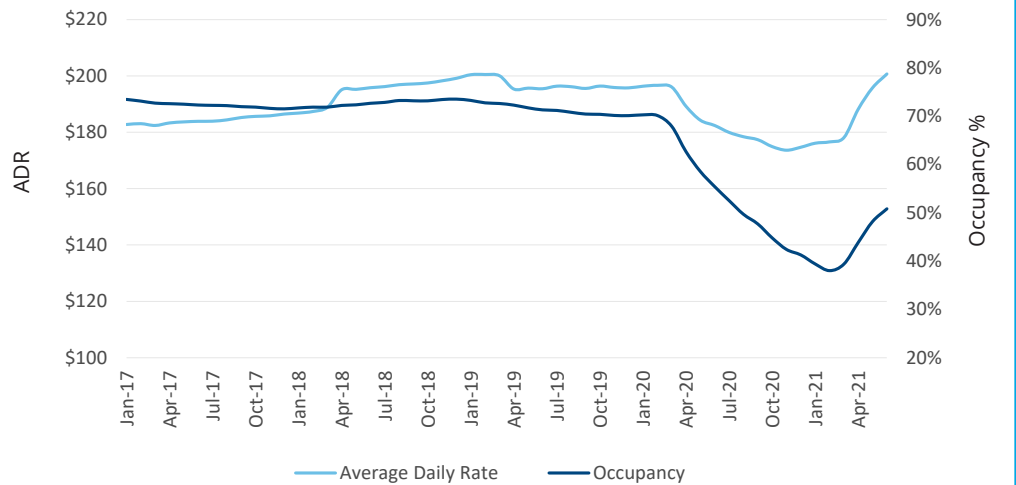
ADELAIDE CENTRE - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



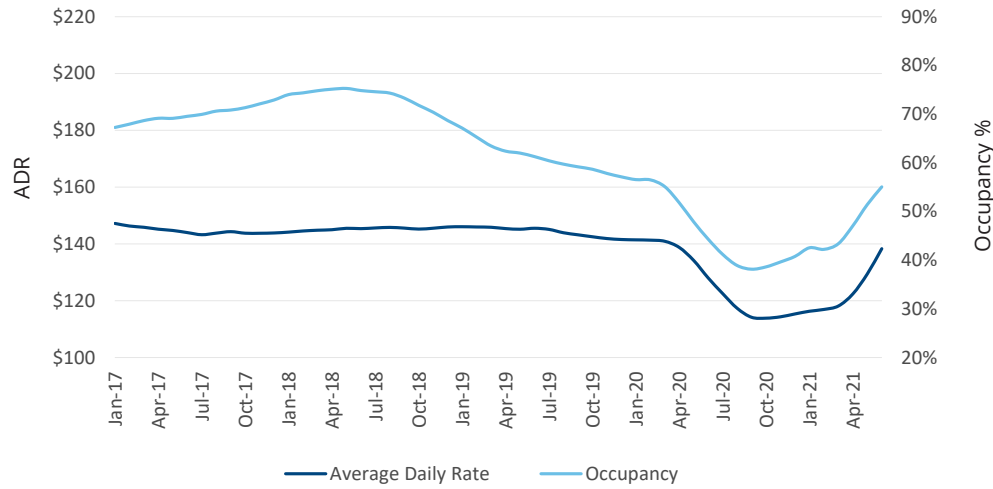
CAIRNS - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



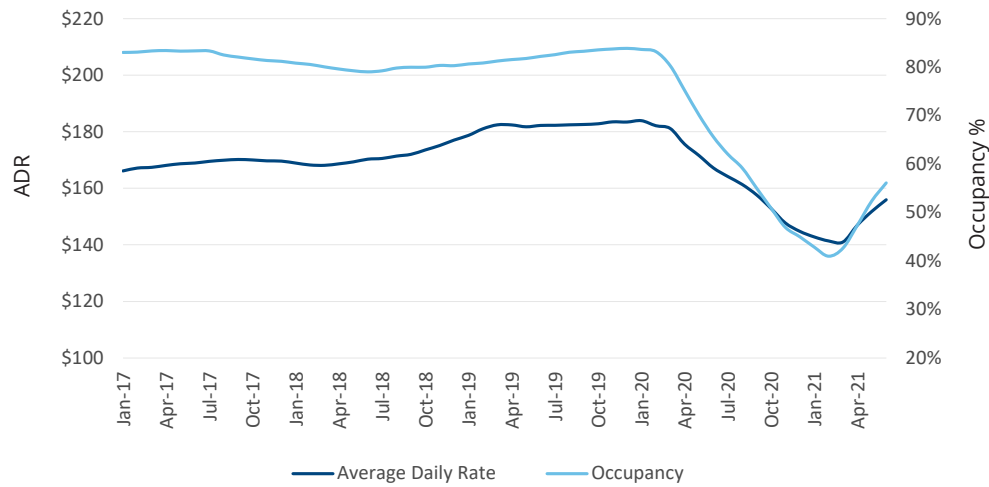
GOLD COAST - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



DARWIN - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



HOBART - 12 MONTH ROLLING OCCUPANCY & AVERAGE DAILY RATE



Source: STR



FOR SALE: Rydges Bankstown - Bass Hill, NSW

Year to Date July 2021 Transactions

\$5 million and above

HOTEL NAME	CITY	STATE	SALE DATE	ROOMS	PRICE	\$ PER ROOM
The Killara Inn	Sydney	NSW	Jan-21	41	\$12,000,000	\$292,683
Ramada Hotel & Suites Sydney Cabramatta	Sydney	NSW	Jan-21	81	\$40,000,000	\$493,827
Primus Hotel Sydney	Sydney	NSW	Feb-21	172	\$132,000,000	\$767,442
Byron Bay Holiday Village	Byron Bay	NSW	Feb-21	42	\$18,550,000	n.a
Peninsula Motor Inn Port Stephens	Port Stephens	NSW	Feb-21	50	\$7,500,000	\$150,000
Surf City Motel Surf Coast VIC	Surf Coast	VIC	Feb-21	16	\$10,500,000	\$656,250
Delaware North Portfolio #	Various	Various	Feb-21	n.a.	\$38,000,000	n.a
RACT Portfolio	Various	TAS	Mar-21	260	Confidential	n.a
Beachcomber Hotel in Toukley	Toukley	NSW	Mar-21	80	\$20,000,000	\$250,000
Kanga House Backpackers Potts Point	Sydney	NSW	Mar-21	n.a	\$11,000,000	n.a
Mantra Richmond	Brisbane	QLD	Apr-21	108	\$15,810,000	\$146,389
Perth City YHA	Perth	WA	Apr-21	69	\$5,500,000	\$79,710
Lasseters Hotel Casino	Alice Springs	NT	Apr-21	205	\$105,000,000	\$512,195
Backpackers HQ Potts Point	Sydney	NSW	Apr-21	22	\$10,000,000	\$454,545
InterContinental Double Bay	Sydney	NSW	May-21	140	\$178,000,000	\$1,271,429
Four Points by Sheraton Sydney Central Park	Sydney	NSW	May-21	297	\$150,000,000	\$505,051
Long Island	Long Island	QLD	May-21	n.a	\$20,000,000	n.a
Dunk Island	Dunk Island	QLD	Jun-21	n.a	\$31,500,000	n.a
The Savoy Double Bay Hotel	Sydney	NSW	Jun-21	40	\$35,000,000	\$875,000
Lanteen Lane Hotel Byron *	Byron Bay	NSW	Jun-21	51	\$18,000,000	\$352,941
Vibe Rushcutters Bay	Sydney	NSW	Jun-21	264	\$125,000,000	\$473,485
Ibis Styles Tamworth	Tamworth	NSW	Jul-21	\$109	\$9,000,000	\$82,569
All Seasons International Bendigo	Bendigo	VIC	Jul-21	77	\$54,500,000	n.a
Ramada Encore Hotel in Dandenong	Dandenong	VIC	Jul-21	108	\$10,500,000	\$97,222
The Louise	Barossa Valley	SA	Jul-21	15	Confidential	n.a
Ibis Styls Cairns	Cairns	QLD	Jul-21	75	\$8,850,000	\$118,000
Quality Hotel Bathurst	Bathurst	NSW	Jul-21	50	\$9,100,000	\$182,000
Travelodge Portfolio	Various	Various	Jul-21	2,032	\$620,000,000	\$305,118
Townsville Central Hotel	Townsville	QLD	Jul-21	118	\$9,500,000	\$80,508
Total				4,522	\$1,756,310,000	\$372K¹

Note: * Hotel apportionment

Excludes refurbishment costs

¹ Not all assets are included in the calculation

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