Hotels

Australian Hotel Investment Market

H1 2022

Australia's hotel investment market took pause towards the end of H1 2022 as the market adjusted and strategic decision making recalibrated against a changed economic backdrop.

H1 2022

Transaction volumes. **$1.15B**

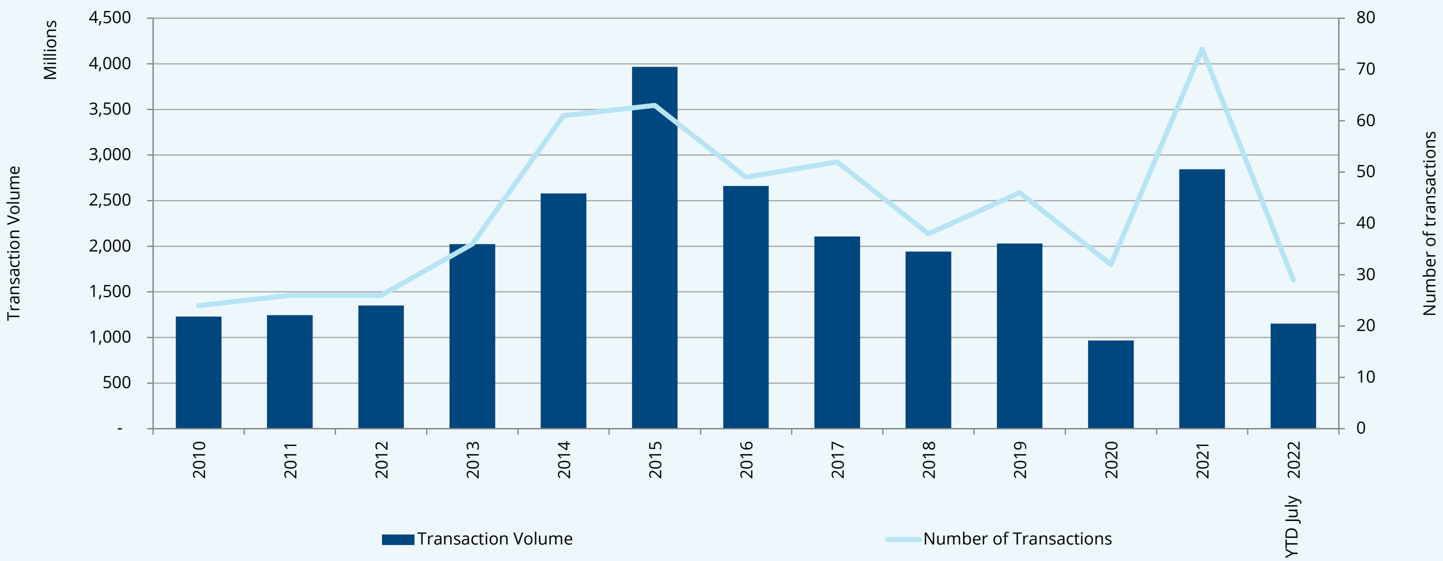
Hotel Investment Market

Rising inflation, higher interest rates, energy supply concerns and the reopening of state and international borders, has resulted in some purchaser groups waiting on the sidelines.

Deal flow totalled $1.15 billion worth of assets which is comparable to the $1 billion of transactions in H1 2021. Investment activity remained buoyant in Q1 but slowed through Q2 with many deals that were concluded having been commenced in late 2021. The timeframe for other deals has become extended or assets have been withdrawn from the market whilst investment metrics are recalibrated and a notable bid-ask-spread remains.

The average deal size increased 13 per cent to $46 million, up from $38 million in H1 2021 but with results heavily skewed by the sale of Hilton Sydney ($530 million). This resulted in a strong increase in the average price per key to $536K when compared to $403K in H1 2021, albeit with considerably fewer high value transactions occurring in the first half of this year.

Australian Hotel Investment Trends 2010 to YTD July 2022



SOURCE Colliers

Purchasers had started to price in higher interest rates towards the end of Q1 with inflation set to remain elevated over the coming year. On the trading front, vendors have been enjoying substantially improved returns as hotel trading has been buoyed by returning travellers. The domestic leisure segment continues to lead the charge with notable spikes in activity through the school holiday periods. The April and July school holidays saw many markets surpass 2019 room rates as hoteliers dynamically priced in line with surging levels of demand. Corporate and MICE travel have also shown signs of solid recovery and there are positive signals for continued growth in the second half of the year.

H1 2022 v H1 2021

TRANSACTION VOLUME	ROOMS SOLD	AVERAGE PPK	DEAL SIZE
$1.15B	1,850	$536k	$46m
+ 15%	On Par	+ 33%	+ 21%

SOURCE Colliers

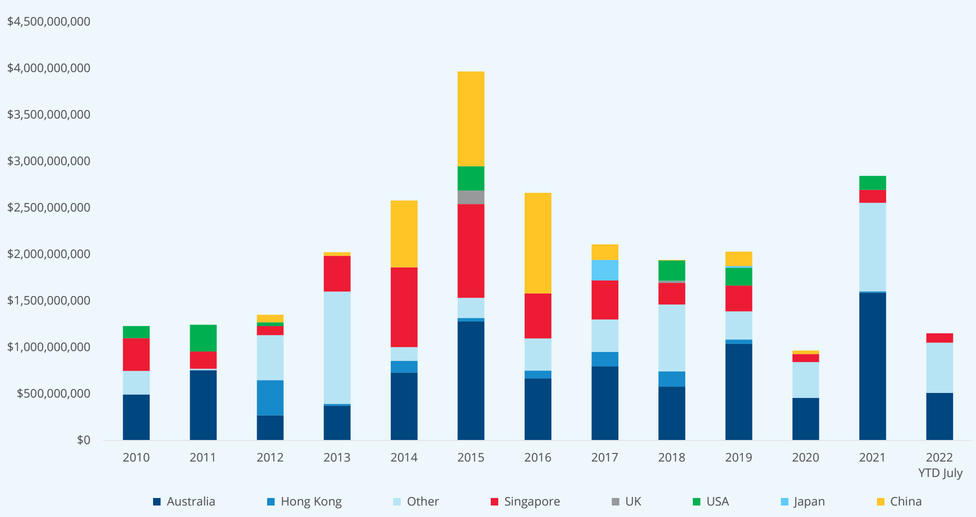
A Changed Investment Market

As the first half of the year closed, the overwhelming sense was that a sentiment shift was underway, whereby inflation and interest rates will be higher for longer. For the strategic long-term hotel investor, this is manageable but for investors who have short term positions, a quantum change has occurred. We have already started to see a fundamental shift in the most active purchasers in the market with bidding dominated by investment funds early in the year and the re-emergence and likely dominance of traditional hotel investors, notably offshore groups through Q2 2022. This is expected to remain as the year unfolds.

Offshore capital is a major part of Australian hotel investment activity (50% on average, per year) but had retreated over the past couple of years whilst borders remained closed. Over the year to July 2022, offshore capital accounted for approximately 56 per cent of deal flow, largely attributable to one major transaction but with the level of inquiry and activity from offshore groups increasing through the mid part of the year.

While volatility in currency movements is a short-term cause for concern, investors seeking to utilise a currency or hedging advantage could move into the market quickly while other investors take a back-seat. Singaporeans have been quick to move, noting the changed market dynamics, and being traditionally deft players in periods of capital and currency market displacement.

Australian Hotel Transactions - Origin of Purchaser by Value 2010 to YTD July 2022



SOURCE Colliers

Australian Dollar – Comparison to USD to July 2022

SOURCE Reserve Bank of Australia, Colliers

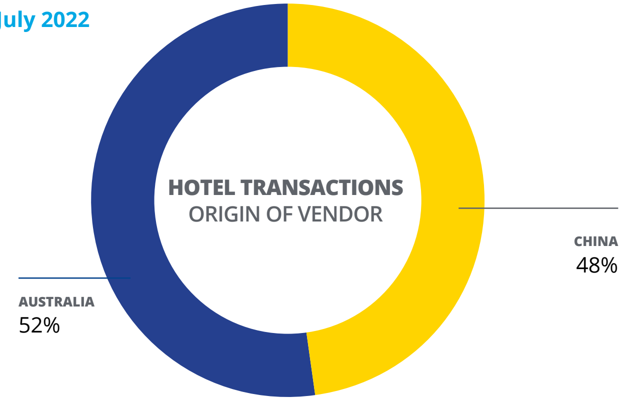
Chinese Exit Gains Pace

On the sell side, Chinese investors continue to be the most active. We saw the exit of Bright Ruby in H1 2022 with the sale of the Hilton Sydney for $530 million as well as some smaller assets in Cairns and Canberra. Together these sales total around 48 per cent of deal flow YTD July 2022 with more Chinese owned assets on the block in the second half of the year including Palazzo Versace on the Gold Coast, and Lindeman Island in the Whitsundays.

Whilst not included in our transaction totals, we also saw the sale of the country's most notable development site after years of uncertainty - One Circular Quay - by AWH Investment to Lend Lease and Mitsubishi Estate Asia for $800 million, adding further weight to this trend. Under the new ownership, the site will be developed into two towers comprising a 220-room Waldorf Astoria Hotel and 59-level luxury residential with an estimated completion value of $3 billion in 2027.

Chinese investors acquired $3.3 billion of investment grade hotels since entering the Australian hotel market in 2012 and with more assets under development, we would anticipate the sell down trend will continue.

Australian Hotel Transactions - Origin of Vendor YTD July 2022

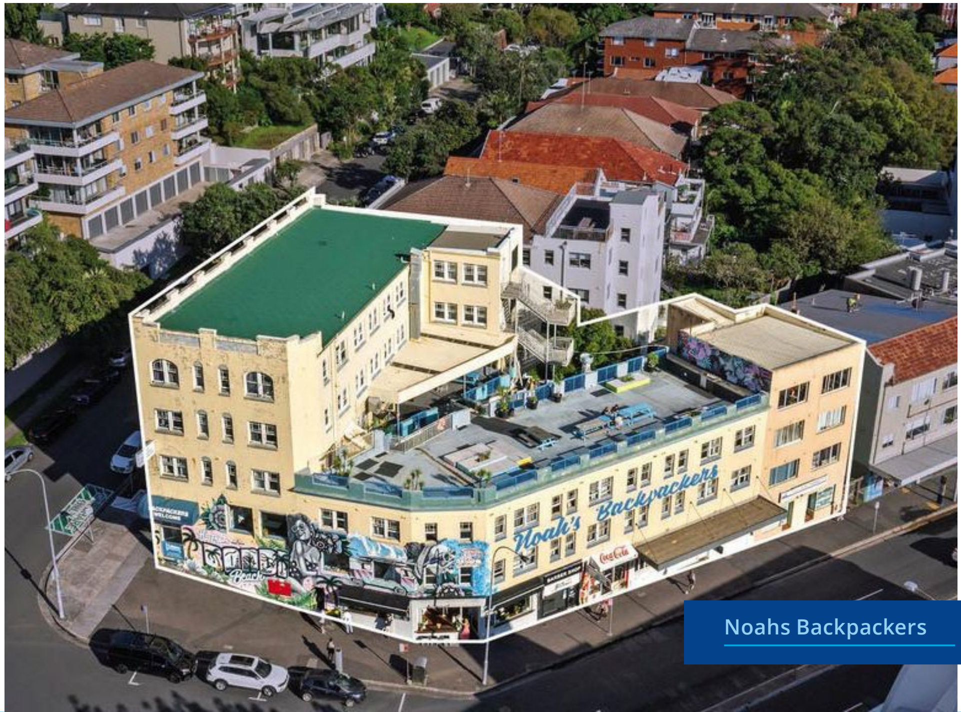


SOURCE Colliers

Conversion Sales Expected to Slow

Conversion sales continued to be a feature in H1 2022 with the sale of three assets for conversion totalling $124 million. This included Noahs Backpackers ($68 million), Hotel Lindrum ($50 million) and Hamilton Motel ($6 million) and the offering of Eden by Bayview in St Kilda. Whilst many of these hotels continue to be sold for a higher alternate use, escalating construction costs and interest rates are likely to slow future conversion sales.

A surge in residential new builds and renovations coupled with supply chain disruptions and a shortage of materials has resulted in an unprecedented spike in construction costs. For anyone who is looking to build or to renovate, or for someone who owns a construction business, it means they are likely to be facing significantly higher costs. This increase is likely to impact feasibilities moving forward and that may limit conversion opportunities. At the same time, CBD hotels are enjoying a strong resurgence in trade and the conversion metrics are becoming compromised as hotels offer immediate and strong cashflow in the current market.



Noahs Backpackers

Pricing Future Growth

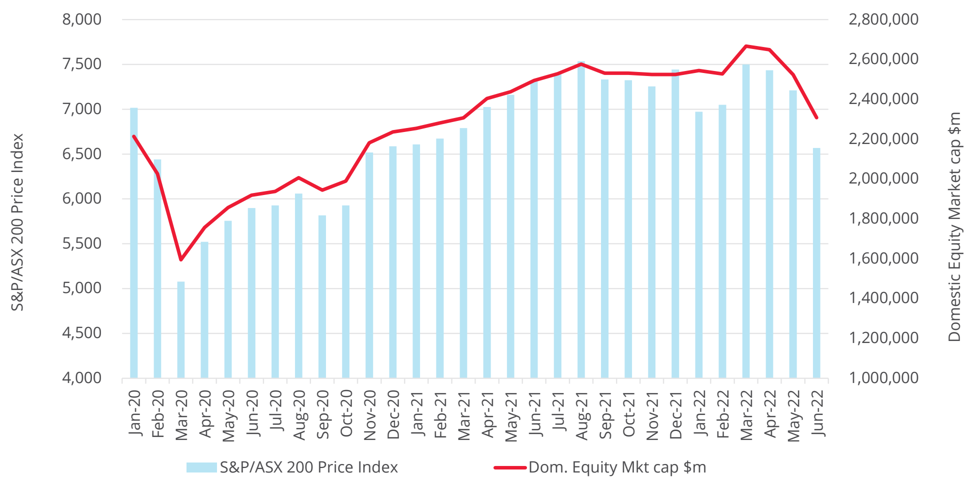
While interest rate increases and the higher cost of debt are being factored into the hotel investment landscape, the industry's continuing strong performance metrics have investors confident in a more normalised playing field and continued opportunities for future income growth.

The microeconomy of hospitality is decoupling from the macroeconomy. Strong corporate and consumer health, with good corporate profit margins and low unemployment is expected to continue to underpin domestic leisure travel in the near term and with the promise of a full business-transient recovery over the year ahead. Whilst international borders have reopened and cruise ships are back in Sydney Harbour, the monthly inbound arrivals are still only a fraction of the levels recorded in 2019, which augurs well for future growth. At the same time the rising cost of international airline travel is increasingly a deterrent for Australians heading overseas.

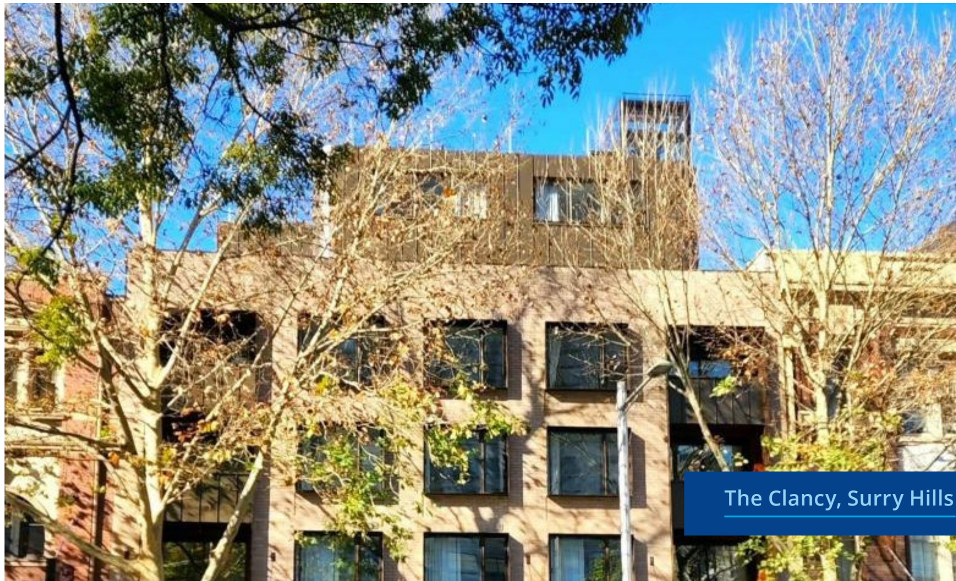
Hotels re-priced through COVID, but activity has bounced back. Notwithstanding, investors are focussed on assets where the earnings are "here and now", rather than those which are yet to reach stabilisation post-development. There are exceptions however, for example the sale of The Clancy in June 2022 – a 38-room newly constructed hotel due to open in August 2022 which sold just prior to its opening date in a deal by Colliers. Other newly constructed assets have not fared so well when offered for sale and have been withdrawn from the market.

Hotels offer a unique proposition in this environment with an immediacy of income which is highly desirable in this market. Marked-to-market on a daily basis, hotels have the ability to pass on rising costs immediately with dynamic pricing models that do not need to wait for contract terms to be reset. The predominance of domestic leisure travel, rather than corporate contracted rates, and a greater reliance on technology is also resulting in a nimbleness that Australian hotels – and indeed their owners - have long pursued. Over the decade however, as we adjust to higher interest rates, investors will need to avoid paying too much for growth, particularly those who have never experienced bear market investing.

Australian Stock Exchange – End-of-month values January 2020 to June 2022



SOURCE Australian Stock Exchange, Colliers



The Clancy, Surry Hills

Luxury or upper upscale hotels or those with a high proportion of Food & Beverage (F&B) are likely to fair worse in this inflationary environment where a higher proportion of the cost base is wages. These are clearly set to rise with the new Labor Australian Government implementing a 4.6% increase to the minimum wage effective from 1st July 2022. For all hoteliers, the labour crunch continues to be the biggest obstacle to overcome. Tight labour markets are anticipated for the foreseeable future, suggesting labour cost rises are likely to continue.

Notwithstanding, hotels have found a way to overcome this by using pricing to manage occupancy to a level which is serviceable. Hotel owners learned these lessons well during the pandemic with good operators achieving breakeven points previously unheard of in the global hotel operating landscape. As a result, room rates over the six months to June 2022 have increased to surpass 2019 in all ten major accommodation markets. This is in spite of the adverse impacts of Omnicon and the floods in early 2022.

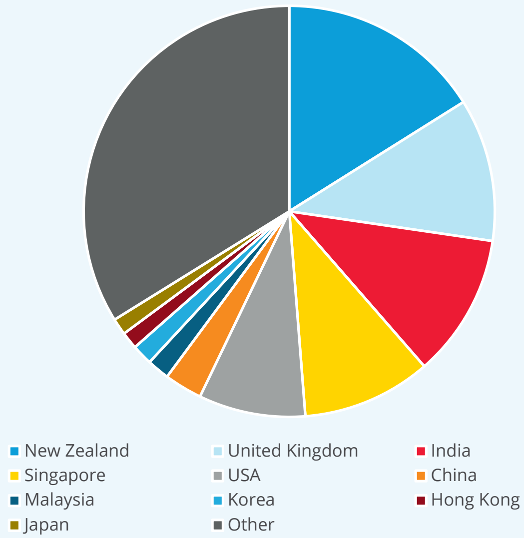
H1 2022 Average Room Rates compared to CY 2019

	H1 2022	H1 2019	Growth %	CY 2019
Darwin	$199.4	$140.4	42.0%	$146.2
Brisbane Centre	$209.6	$154.2	35.9%	$159.9
Cairns	$192.5	$145.6	32.2%	$148.3
Gold Coast	$257.9	$196.0	31.6%	$196.8
Adelaide Centre	$185.0	$151.3	22.3%	$154.4
Perth Centre	$197.7	$163.3	21.0%	$170.6
Canberra	$195.7	$167.1	17.1%	$170.5
Hobart	$209.1	$188.3	11.1%	$184.1
Melbourne Centre	$228.3	$206.0	10.8%	$205.9
Sydney Centre	$270.4	$249.8	8.3%	$252.6

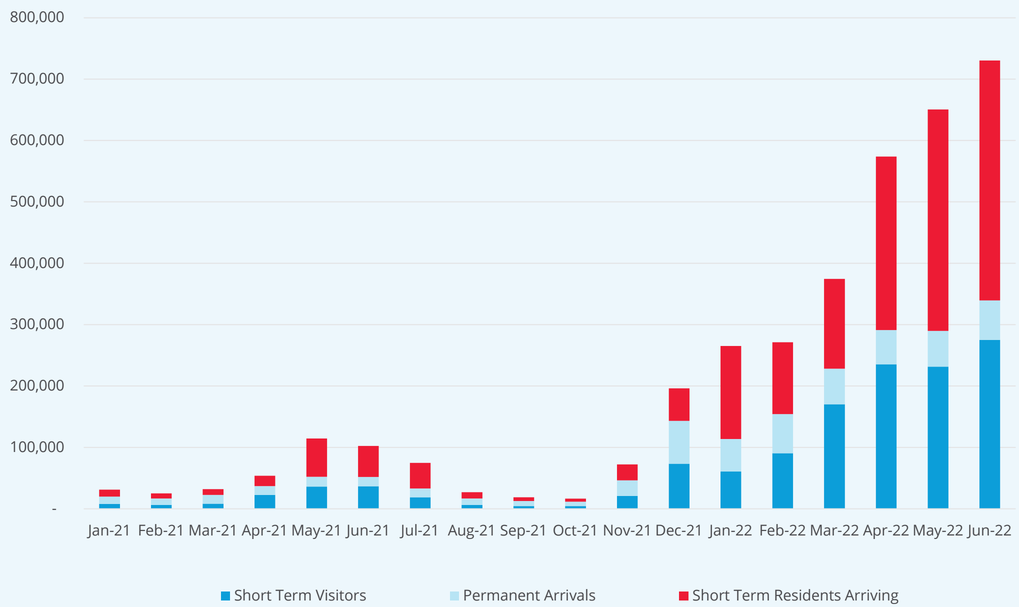
SOURCE STR, Colliers

A Snapshot of Post-COVID travel to Australia

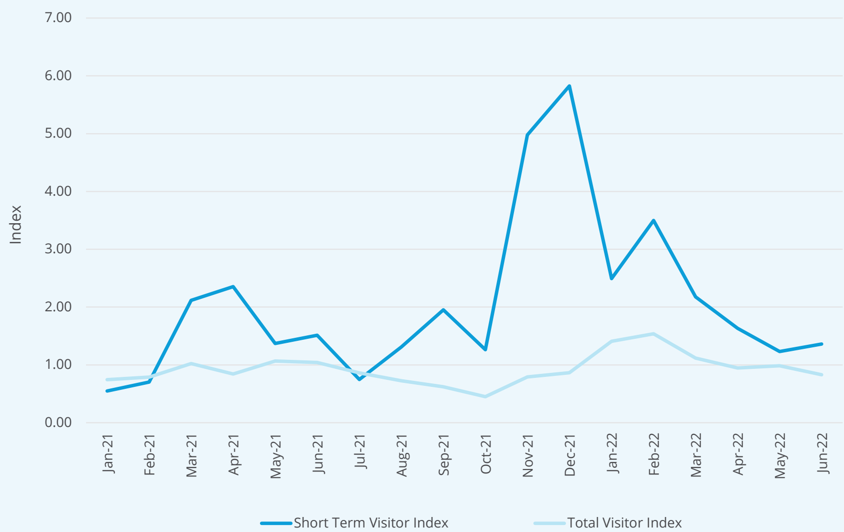
Profile of Short-Term Visitor Arrivals Financial Year to June 2022



Visitor Arrivals to Australia Jan 2021 to June 2022



Short Term Visitor Index – Arrivals v Departures
Above 1.0 indicates more arrivals than departures



SOURCE Australian Bureau of Statistics Overseas Arrivals and Departures

Impact on Hotel Yields

Higher costs for energy, base commodities and food driven by supply chain constraints and shortages will maintain inflationary levels in the short-term. Medium-term, although inflation levels are likely to ease, elevated wage costs will be the greatest pressure for many hotels. Traditionally high inflation leads to higher interest rates, and we are now seeing the commencement of a cycle of increasing interest rates by the Reserve Bank of Australia which is an attempt to reduce inflation. Logically with higher costs of borrowing this should put upward pressure on capitalisation rates assuming the required equity rate of return remains constant.

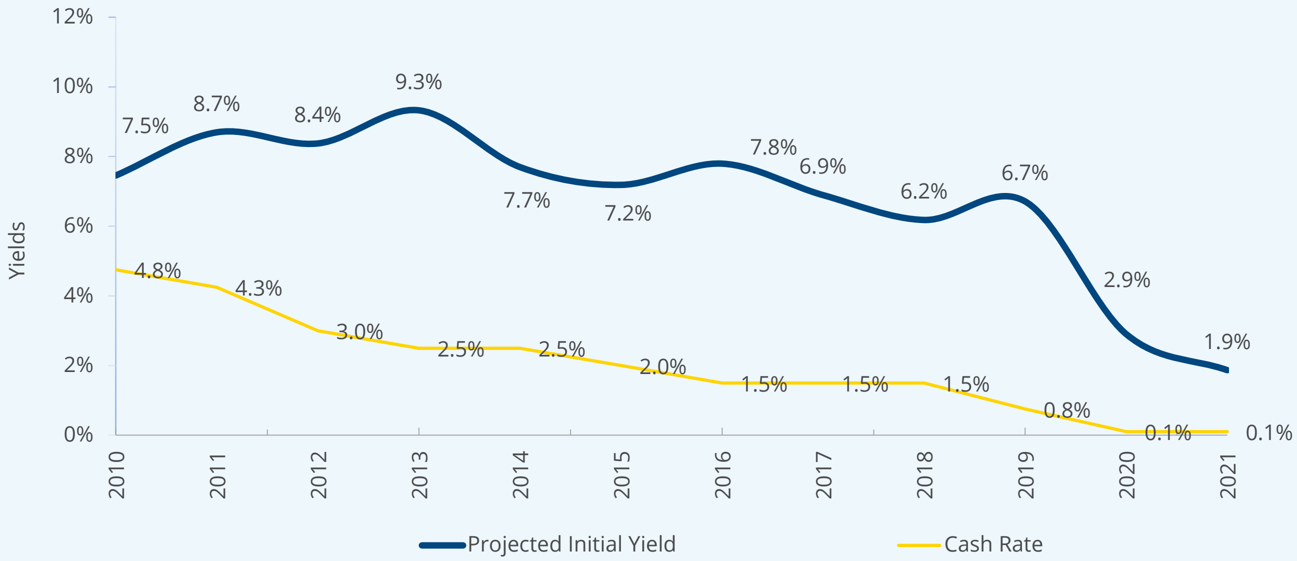
The government response has also become less certain as slower economic growth is being brought about by supply disruptions and the unwinding of emergency cash rate levels. While Australia has seen GDP growth forecasts cut for 2022 and 2023, the overall picture is nevertheless one of economic expansion.

Inflation is an incentive to invest in real assets whose nominal value will increase as opposed to cash equivalents whose value will be eroding.

Despite yield curve shifts as interest rates rise, investors are buying into growth as many believe RevPAR is going to keep increasing. Hotels which are enjoying higher levels of net operating income (NOI) may find this offsets increasing cap rates with respect to the overall impact on value.

Separating the myriad of impacts has therefore become complex and analysts will require a deep understanding of macro and micro markets and more importantly the investment drivers behind each deal.

Cash Rate v Yield Trends 2010 to 2021



SOURCE Reserve Bank of Australia, Colliers

NOTE: The initial yield is calculated as the projected first year's income divided by the purchase price for those transactions where information is available.

Outlook

Whilst Australia's hotel investment market may have paused, total annual transactions are still expected to meet Colliers' estimate of $2.4 billion for 2022 with more large single assets and portfolios currently in play or being mandated for sale in the second half of the year.

Despite the short-term macro-economic volatility, the Australian hotel investment market is showing maturity in its ability to react to new pricing norms in order to sustain activity. Investors continue to be drawn to the sector, as Australians have shown an appetite and willingness to spend on travel and tourism. Hoteliers are also blessed by the opportunity to reprice every day.

There is still a weight of money looking to invest and by historical standards, debt is still relatively cheap. This is resulting in diverse capital sources with distinct investment drivers currently pursuing opportunities. Global capital remains elevated – with US$3 trillion of dry powder available for spending into real assets, according to Preqin. Much of this capital has a general outlook across all real assets, but where specified, real estate represents 35% of the total. For the sector to remain attractive, pricing and growth fundamentals must remain competitive relative to other real estate assets and in this regard the Australian hotel sector remains well placed.

Summary of Key Trends

Hotels time to shine

+ Hotels remain attractive amidst rising costs as they are fairly inflation proof relative to other real estate sectors and with a deep understanding of the cost base developed over the past few years and a renewed ability to adjust accordingly.
+ The hotel asset space remains attractive for its ability to produce yield, unlike other asset classes.
+ Increase in replacement costs limiting viability of future new competition.

A growing disconnect

+ Unlike the macro-economy, which is expected to experience a slowdown, travel and tourism spend is accelerating as consumers shift from spending on goods to spending on services and experiences, such as travel.
+ With a potential economic recession on the horizon, there is reason to believe that there would be a lesser impact on the hotel industry:
  • Hotels remain a strong inflation hedge due to their ability to adjust selling rates on a nightly basis.
  • Demographic shifts continue to benefit travel: rising wages for the middle class, more people retiring younger, increased work flexibility and growth in bleisure travel.
+ To date the banks have remained tolerant, and now improving operating performance and a historical ability to outperform in an inflationary environment should stand the sector in good stead but credibility of the sponsor and their ability to maximise the recovery will be key.

Renewed interest for core CBDs and MICE hotels

+ Accelerating fundamental performance in city markets represents an opportunity for investors who wish to bank future growth. The reopening of state and international borders is bringing into question the sustainability of the regional travel boom. Queensland resort markets and drive markets are most at risk given the uncertain outlook and bid-ask-spread which is leading many investors to refocus on major CBDs.
+ For some labour-intensive businesses with a higher degree of services and food and beverage, it is hard to adjust the costs associated with supply chains. There are widespread issues with staffing across the board including payroll and availability of people, but the industry has become more responsive and cost pressures are being eased.
+ Investors see many catalysts for investment in CBD hotels with tourist attractions reopened and a strong take up at major events (e.g., VIVID and Formula 1) as well as a rebounding MICE sector.
+ Asset location, as opposed to demand segment, has become the focal point for investors.

Buyers highly motivated but vendors remain gun-shy

- Investors remain highly motivated to deploy capital, but are seeing fewer deals in the market.
- Most major investor types are actively looking to deploy capital, despite the potential economic headwinds.
- Low-leverage borrowers anticipate an investment advantage in the medium-term as secured debt costs increase, thereby making levered buyers less competitive.
- While transaction activity remains robust, it has decelerated through Q2, with fewer new listings taken to the market during the quarter and deals in play becoming extended.
- There is a significant amount of equity circulating hotels but only low levels of stock. This is particularly true in the value-add sector of the market where demand is strong from opportunistic investors. We expect to see a flight to quality with wealth preservation, key locations and strong brand or operators high on the investors list. Owner-operators will continue to grow their portfolios, particularly those that came out of the pandemic in good shape.

SOURCE Colliers

Forward bookings and travel intentions remain at record highs

- Resort destinations are providing investors with opportunities, as is the continued success of the regional Australia. The domestic market has recovered at a very quick pace, having benefitted from the re-opening of the country in early 2022.
- Winter 2022 is likely to show distinct trends and a desire for travel:
  - Accelerating demand, coupled with all-time highs in savings, will create tremendous pricing power which should result in continued ADR growth.
  - Leisure, Bleisure, and the re-emergence of group travel will be the key demand drivers.
  - After a poor Australian summer on the Eastern seaboard and cold snap through May, we will see record tourism inflows to Queensland from the southern states but outbound travel will also accelerate as revenge travel takes hold.
  - Outbound travel is at close to 2019 levels which could weigh on the tourism boom with Australians unable to traverse international borders and connect with family for the past three years. Offsetting this will be higher international airfares.

Distress on the horizon?

- Despite a challenged 24 months for most hotels, distress did not materialise.
- Some investors believe that the quick rise in debt costs could be the catalyst for an increase in distress, as lenders and owners of challenged or newly constructed assets decide to sell.
- Emotional distress will continue to be a factor after months of lockdowns and now the added pressures from rising energy costs and a lack of availability of staff to get the job done.

To sell or not to sell?

- Ultimately, hotels need to be able to generate returns and rising costs need to be managed. If you are an owner, it is a good time to sell. New equity will come with new ideas, new energy, and will suffer less from pandemic fatigue.
- We see little evidence in the last 12-18 months of pricing declining and the opening up of international travel on top of a strong domestic base recovering a break-neck speed will help increase investors' confidence.
- New buyers will be able to wait out potential wrinkles in performance in the next few years, whereas existing owners who hold on to assets could find themselves in a few years' time showing a weaker case for disposal.
- Second tier assets by location or with exposure to lower rate business may come under cash flow pressure.

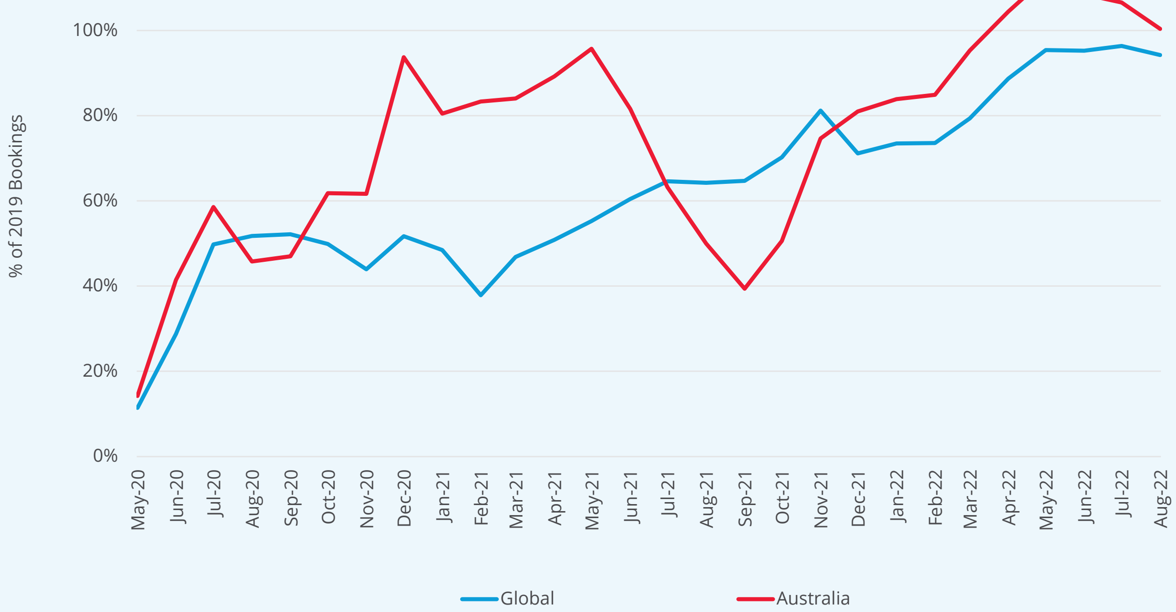
The Australian accommodation industry is largely recovering at a faster pace than what was originally anticipated at the beginning of 2022. The opening of all domestic borders has allowed for the flow of pent-up interstate leisure demand, followed by a promising start to the return of MICE demand.

Australian Hotel Bookings Trend Above the Global Average

According to SiteMinder's World Hotel Index the volume of hotel bookings in Australia built significantly from November 2021 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 once more and the relaxation of restrictions which coincided with the peak summer holiday period. This buoyant period has extended well into the start of 2022. At the start of August 2022, hotel bookings in Australia were at 100.4 per cent of the level recorded in 2019. This compares to 94.3 per cent globally during the peak summer season.

Hotel Trading

Australia v Global Hotel Bookings
2022 Bookings as a proportion of 2019 bookings



SOURCE SiteMinder World Hotel Index, Colliers

The Return of the Big Cities

Occupancy levels ranged between 80.2 per cent in Hobart and 53.4 per cent in Sydney during the first six months of 2022. All markets recorded average occupancies above 50% over the six-month period with stand-out performers being Hobart (80.2 per cent), Gold Coast (66.7 per cent), Canberra (66.2 per cent), and Adelaide (64.7 per cent).

Pleasingly the major capital cities showed a significant pick-up in demand, but with lower occupancies overall given the higher quantum of room stock. Sydney and Melbourne recorded average occupancies above 50 per cent for the first six months of the year which was a significant improvement over the same period last year (almost 20 per cent improvement for Sydney and 34.8 per cent improvement for Melbourne).

Office occupancies showed continual improvement across the country to June 2002 as Australian cities welcomed more workers back to the office and with some cities recording up to 80% occupancy on peak days. This momentum stalled in June and July however as a wave of omicron and flu cases kept workers away from the office.

The Property Council of Australia's July 2022 Office Occupancy Survey found that both Perth and Canberra defied the download trend to record office occupancies of 71% and 61% respectively. Overall occupancy levels ranged between 71% in Perth and 38% in Melbourne. This compares to 52% in Sydney and 53% in Brisbane. Anecdotally, we note that a high number of Australians look leave through the July school holiday period.

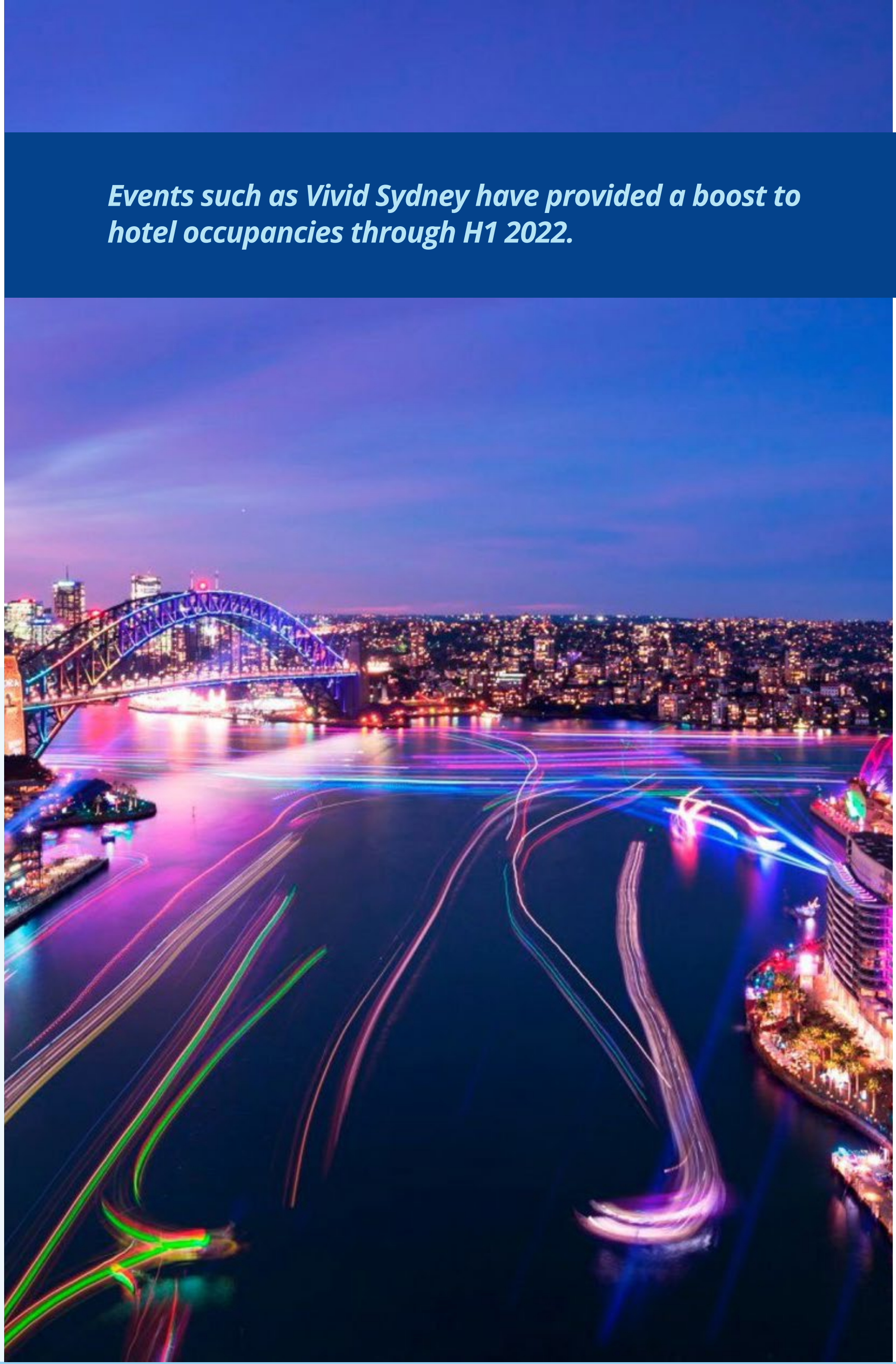
Although it is anticipated that a form of flexible working arrangements will remain, the recovery momentum is expected to resume with the Omicron wave having peaked and with spring around the corner. Improvements in office occupancy levels in the balance of the year should result in improved corporate demand for hotels.

Office occupancy as a percentage of pre-COVID levels

CBD	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Melbourne	4%	15%	32%	36%	48%	49%	38%
Canberra	7%	21%	45%	39%	60%	53%	61%
Sydney	7%	18%	41%	42%	55%	55%	52%
Brisbane	13%	41%	48%	51%	64%	64%	53%
Adelaide	11%	47%	61%	59%	71%	71%	64%
Perth	66%	55%	45%	50%	63%	65%	71%

SOURCE Property Council of Australia
NOTE: Office occupancy levels - PCA survey results

Events such as Vivid Sydney have provided a boost to hotel occupancies through H1 2022.



Diversity of Demand

We also highlight the pleasing return of MICE demand and larger sporting and cultural events across the country. Events such as Vivid in Sydney have boosted hotel occupancies over the period. Big international events have also returned to venues such as the Accor Stadium in Sydney with Guns n Roses scheduled to perform in November 2022 and Sydney Super Cup Soccer with Celtic F.C. versus Everton F.C. also in November 2022. Red Hot Chili Peppers and Ed Sheeran are scheduled for February 2023, both of which will draw large crowds.

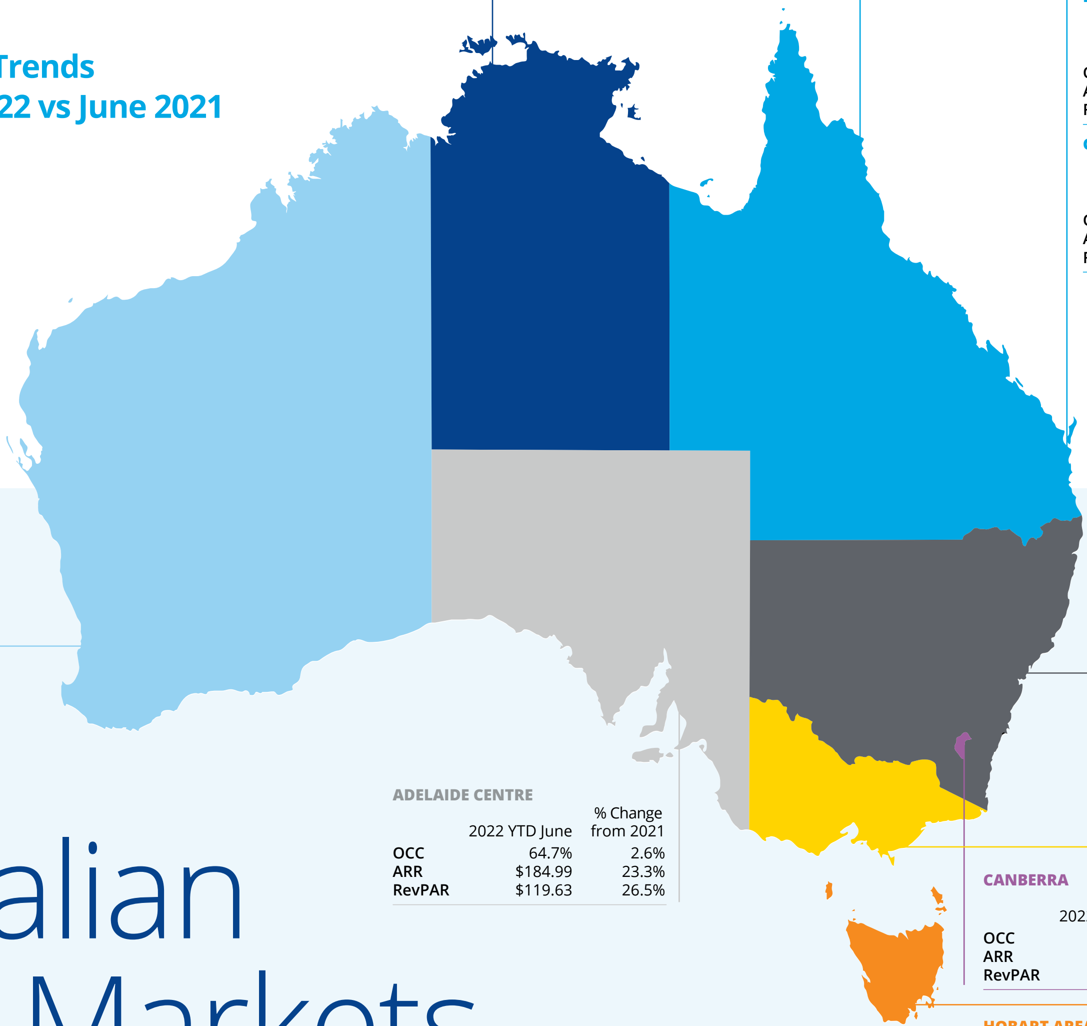
The return of the cruise sector has also been evident since April 2022 and 40 cruise ships are already scheduled to visit NSW during the next financial year, which is anticipated to generate billions of dollars for the NSW economy.

Reports from convention centres across the country also point to a return to attendees at their venues. ICC Sydney in its CEO update for June 2022 reported that ICC has greeted event attendees in numbers that are on par with pre-COVID visitation. The report notes the return of international business events in May, included the 20th International Conference on Soil Mechanics and Geotechnical Engineering and the INDO PACIFIC International Maritime Exposition 2022 attracted large numbers of business events attendees into Sydney CBD.

Meanwhile Melbourne continues to be a major drawcard for many international associations, with the city expecting to welcome 17,600 international delegates across 25 international business events before the year's end. The swift return to large delegations is spurred on with international travel made easier with no pre-departure COVID-19 testing requirements or quarantine for fully COVID-19 vaccinated international visa holders. We note the 151st International Air Transport Association (IATA) Slot Conference will welcome more than 1,000 aviation delegates this November at the Melbourne Convention and Exhibition Centre (MCEC). 230 airlines from across the globe will convene at MCEC from 15 to 18 November this year, delivering an estimated $4.7 million boost to Melbourne and Victoria's economy.

Recent Performance Trends
Year to Date - June 2022 vs June 2021

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



DARWIN AREA

	2022 YTD June	% Change from 2021
OCC	59.4%	0%
ARR	$199.35	24.1%
RevPAR	$118.50	24.1%

CAIRNS AREA

	2022 YTD June	% Change from 2021
OCC	59.7%	11.4%
ARR	$192.50	22.5%
RevPAR	$114.94	36.4%

BRISBANE CENTRE

	2022 YTD June	% Change from 2021
OCC	60.9%	18.2%
ARR	$209.61	25.6%
RevPAR	$127.74	48.4%

GOLD COAST

	2022 YTD June	% Change from 2021
OCC	66.7%	15.8%
ARR	$257.86	17.2%
RevPAR	$171.87	35.8%

SYDNEY CENTRE

	2022 YTD June	% Change from 2021
OCC	53.4%	18.1%
ARR	$270.43	25.5%
RevPAR	$144.31	48.2%

PARAMATTA AREA

	2022 YTD June	% Change from 2021
OCC	62.3%	29.8%
ARR	$190.58	29.0%
RevPAR	$118.64	67.5%

PERTH CENTRE

	2022 YTD June	% Change from 2021
OCC	56.9%	1.9%
ARR	$197.71	13.7%
RevPAR	$112.41	15.9%

SYDNEY AIRPORT

	2022 YTD June	% Change from 2021
OCC	60.7%	35.3%
ARR	$162.83	14.4%
RevPAR	$98.80	54.8%

NEWCASTLE

	2022 YTD June	% Change from 2021
OCC	68.8%	-5.1%
ARR	$190.14	9.2%
RevPAR	$130.90	3.6%

MELBOURNE CENTRE

	2022 YTD June	% Change from 2021
OCC	53.8%	34.8%
ARR	$228.28	33.1%
RevPAR	$122.86	79.4%

ADELAIDE CENTRE

	2022 YTD June	% Change from 2021
OCC	64.7%	2.6%
ARR	$184.99	23.3%
RevPAR	$119.63	26.5%

CANBERRA

	2022 YTD June	% Change from 2021
OCC	66.2%	9.0%
ARR	$195.65	12.9%
RevPAR	$129.61	23.0%

HOBART AREA

	2022 YTD June	% Change from 2021
OCC	80.2%	11.6%
ARR	$209.13	16.2%
RevPAR	$167.70	29.6%

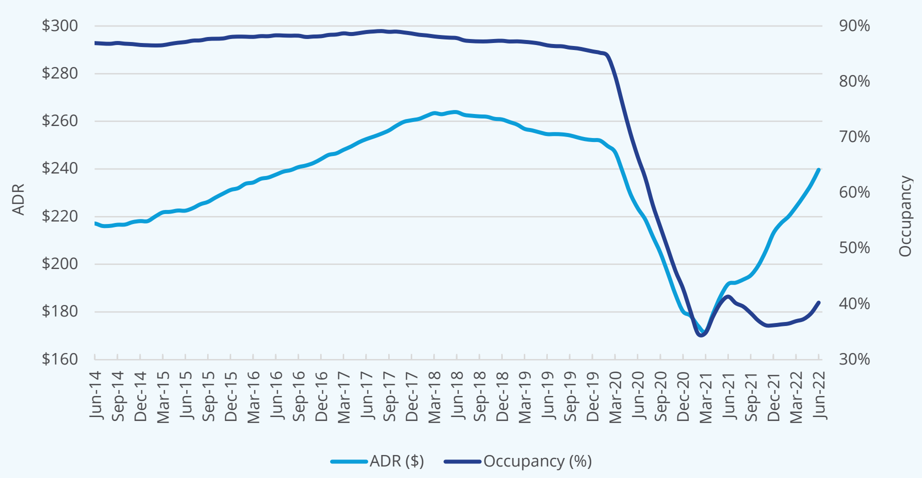
Australian Hotel Markets

SOURCE STR

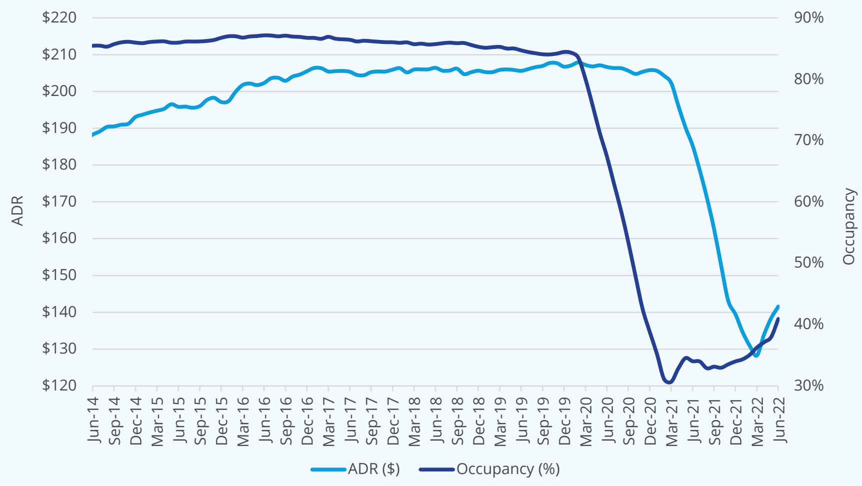
Trading Recovery Profile

Moving Annual Average Occupancy and ADR, June 2014 to June 2022

Sydney Centre

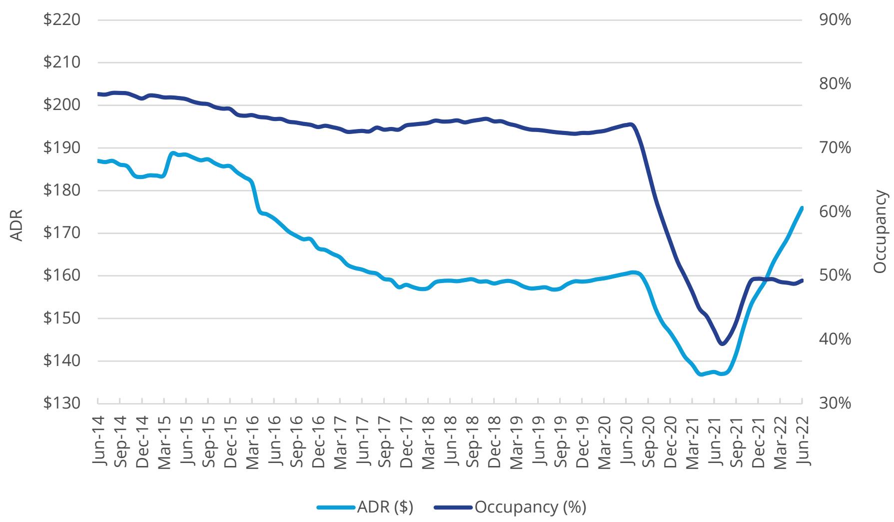


Melbourne Centre

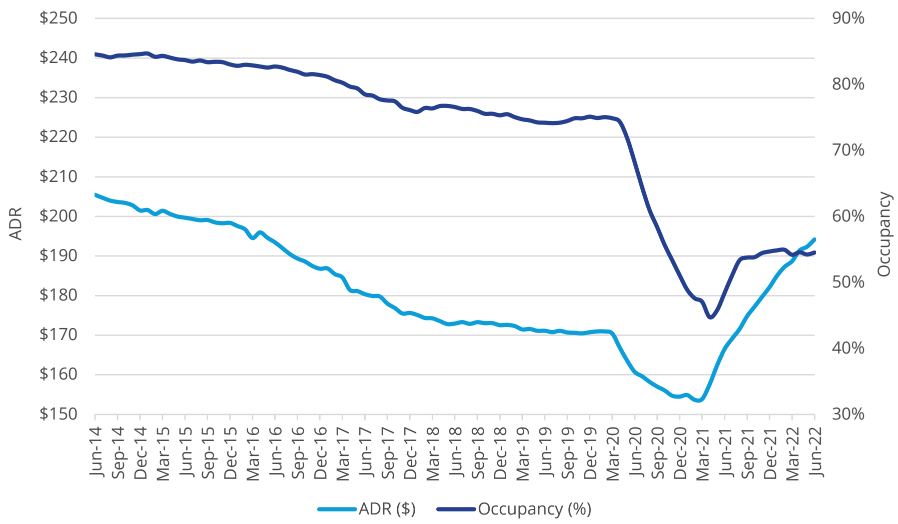


SOURCE STR, Colliers

Brisbane Centre



Perth Centre



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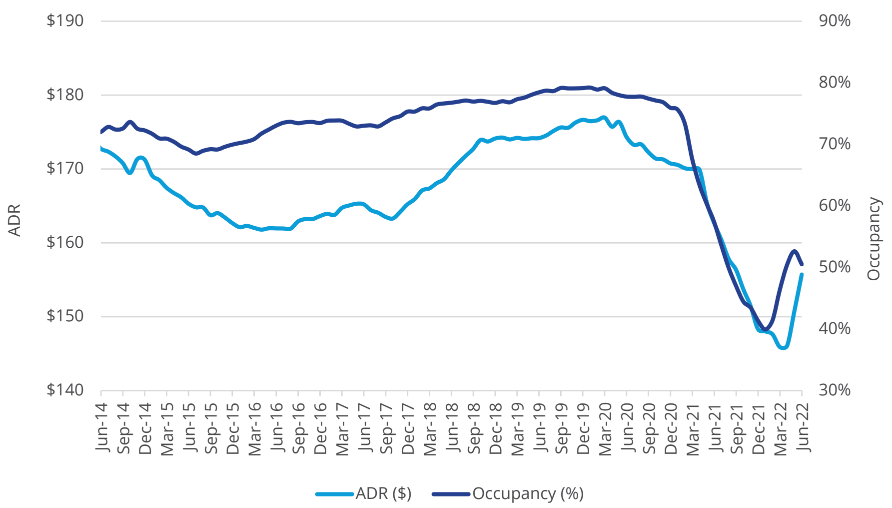
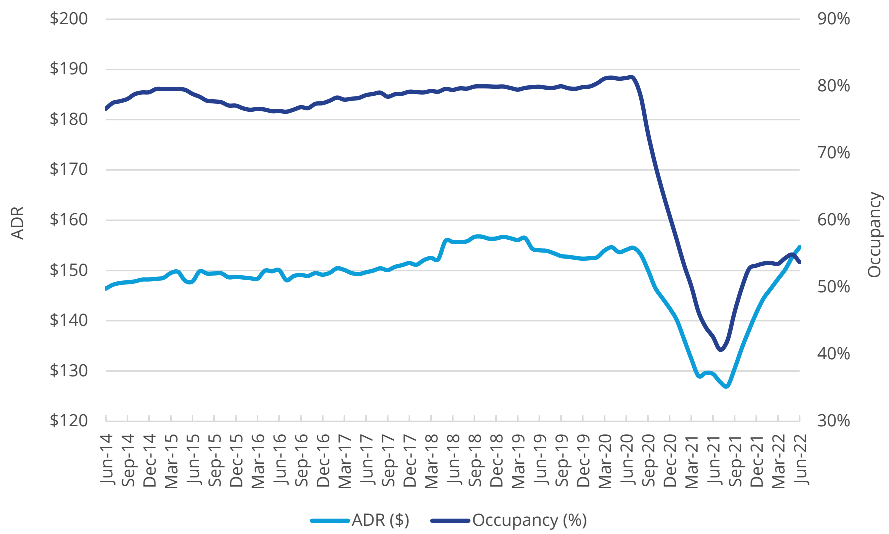
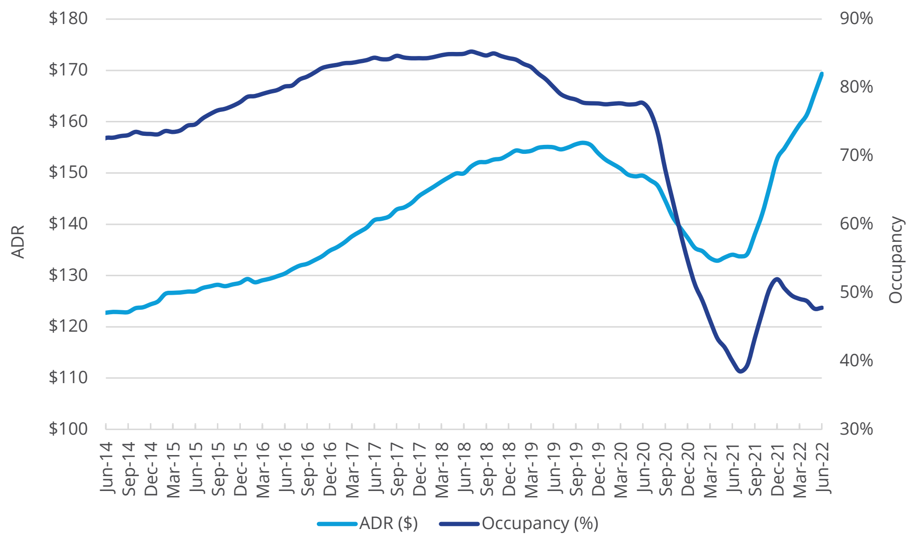


Adelaide Centre



SOURCE STR, Colliers

Cairns



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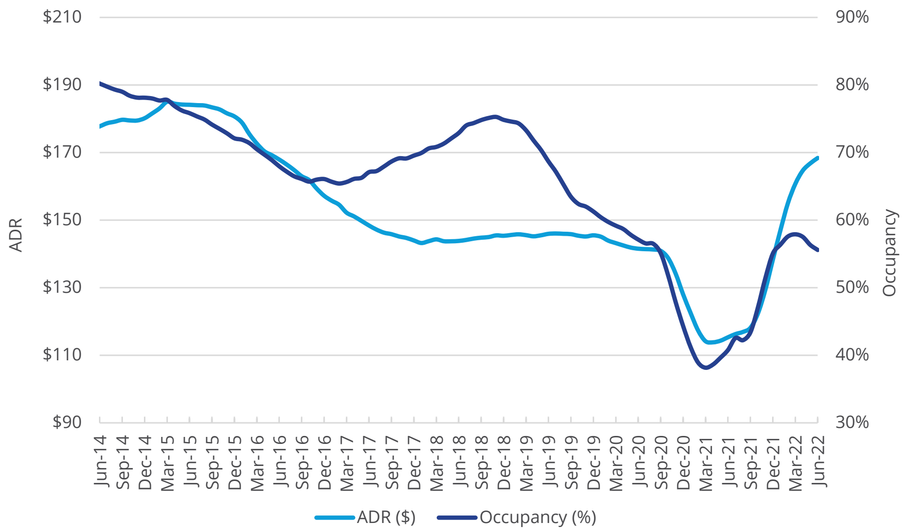

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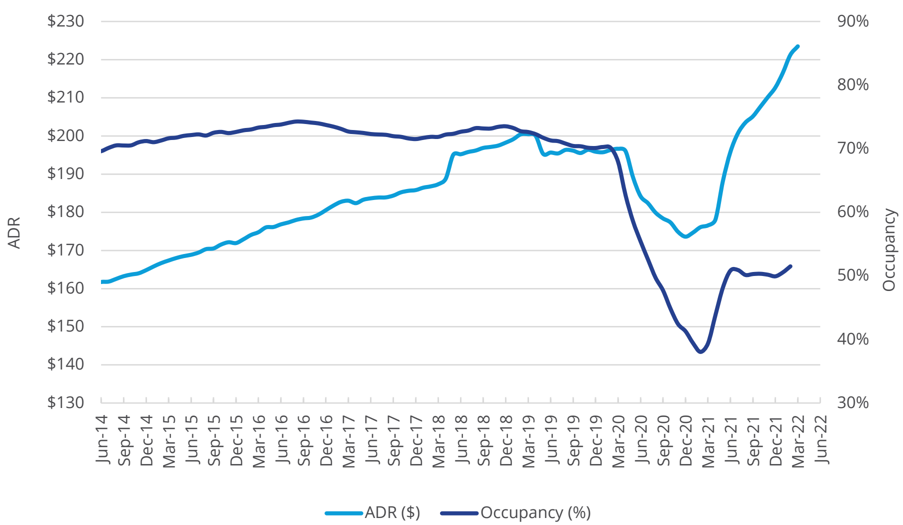

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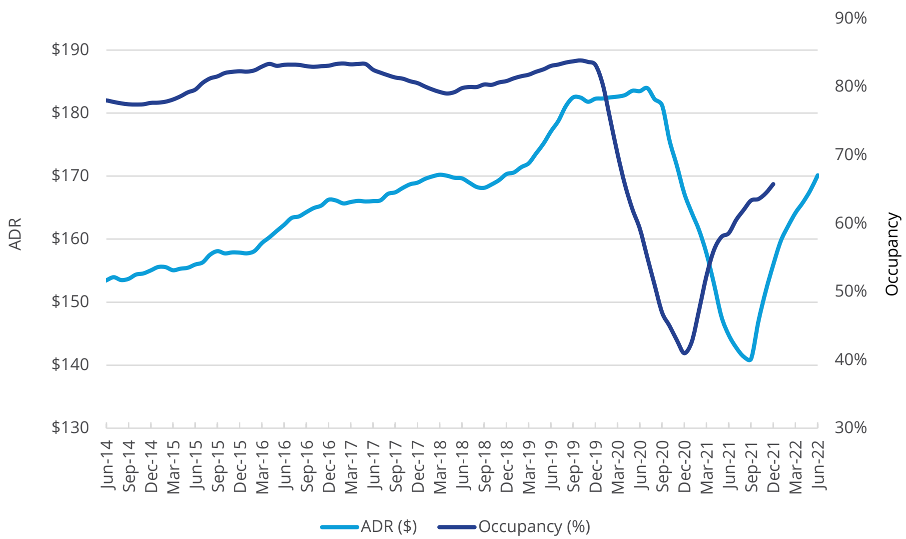


SOURCE STR, Colliers

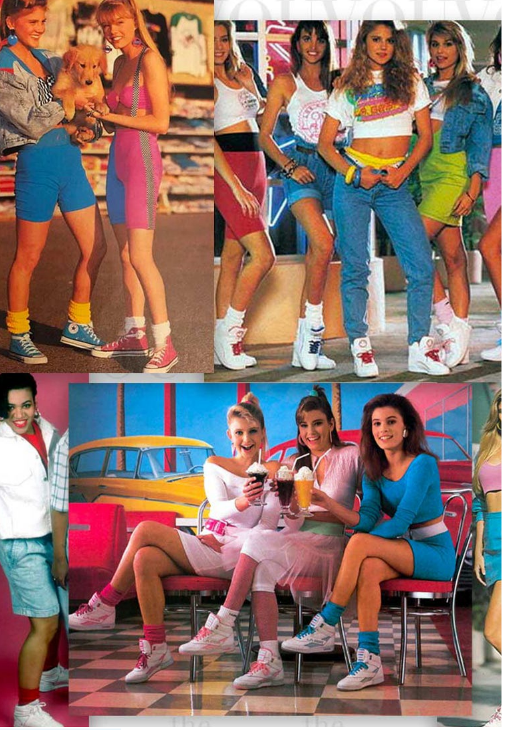
The last time Australia experienced a high inflationary environment was in the 1980s and was also a time when Sydney's hotels recorded a record period of growth, largely underpinned by strong gains in room rates.

Historically, pricing power has followed demand, and the markets with the strongest occupancy growth have posted the highest ADR gains, but that pattern has not held following the pandemic.

The recovery is once again being underpinned by rate recovery with rates reaching pre-pandemic levels extremely rapidly across the board, with ADR in the ten major accommodation markets above pre-pandemic levels year to date in 2022. While decreasing COVID concerns and the end to many pandemic-era restrictions have helped drive demand and, in turn, ADR, non-demand related cost and labour concerns are the primary force behind this downturn's strong ADR rebound.

But for how long can we expect this to continue?

Lessons from the Past



1980s - The 'Me Decade'

The 1980s was a decade of contrasts. The decade began with what is widely regarded as the deepest post-war recession which affected much of the world. In Australia this also coincided with a severe drought. But then the rains and the recovery arrived to create a strong period of growth. The Australian economy boomed - property values skyrocketed and many businesses made large profits. Many people became pre-occupied with making money and of course, spending it. Fashion, music and television from the decade was glitzy, showy and glamorous. In October 1987, however, everything changed again. All over the world, stock markets crashed and Australia went into economic recession. Businesses were forced to close, and many people lost their livelihoods.

Following the recession of 1982–83, inflation fell to about 5 per cent, but quickly rose again as the recovery proceeded, resulting in higher prices and an increased cost of living. Things were not helped by the large depreciation of the currency in 1985 and 1986, which pushed down the trade-weighted value of the Australian dollar by nearly 40 per cent in eighteen months. This was quite inflationary, given a background of already high inflation and relatively uncompetitive markets. This meant that price rises resulting from the exchange rate fall could be fairly easily passed on.

Macroeconomic Outcomes – Rates per Annum

	1980s
Real GDP growth	3.4
Real GDP growth per capita	1.8
Employment growth	2.4
Unemployment rate	7.6
CPI Inflation (excl interest)	8.1

SOURCE ABS, RBA

Sydney Hotels Catapulted onto the Global Stage

During this time, Japanese investors and local entrepreneurs were active in developing and acquiring hotels and resorts, often on the basis of optimistic forecasts regarding the expected level of future demand and income. This expansionary phase was also driven by the financial sector de-regulation from 1983 along with expansionary monetary policy following the stock market collapse of late 1987.

Supply increases in Sydney City averaged 5 per cent per annum over the decade but were outstripped by strong demand which averaged 6.2 per cent per annum. Many of Sydney's leading 5-star hotels either opened or commenced construction over this period. Examples include Park Hyatt, Marriott, InterContinental, Sir Stamford Circular Quay (Ritz Carlton) and the Four Seasons (the Regent).

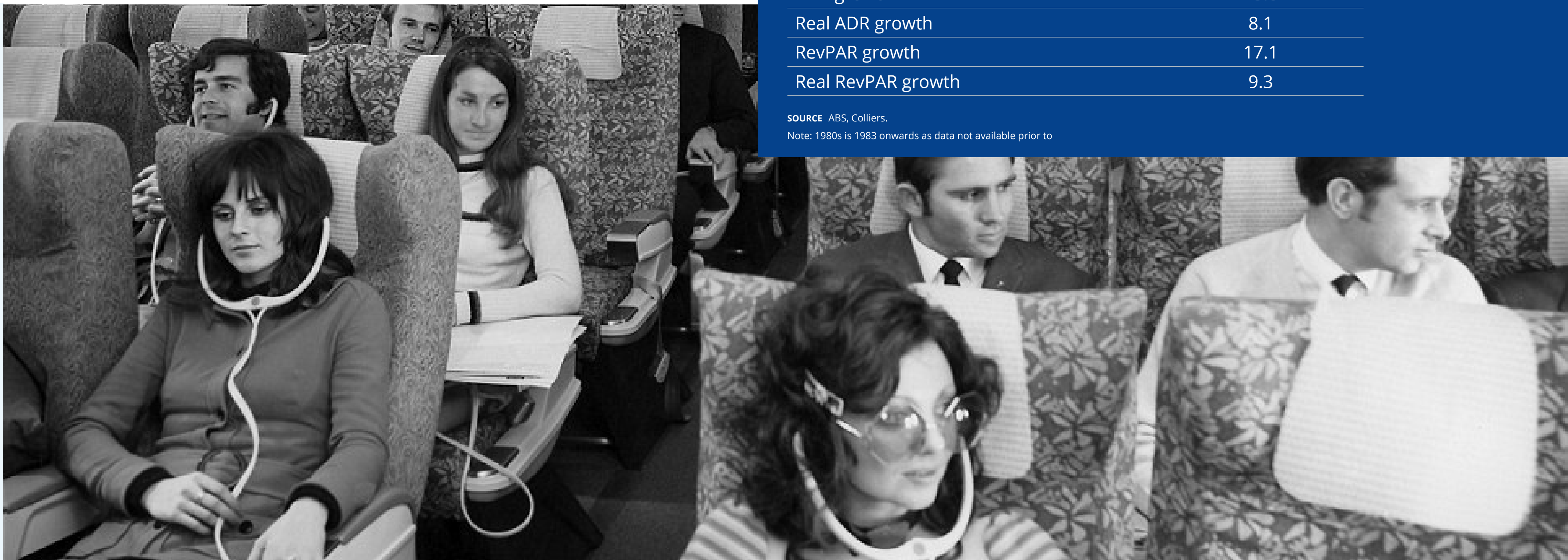
Changes in aviation and inward migration contributed to the growth in demand. The Boeing 747 went into service in the early 1970s, at a time of major societal change. It drove exponential growth in air travel, tourism, and connections between people around the world. In its first year, a fully-loaded 747 cut the cost of flying a passenger by half. Flying became instantly more accessible.

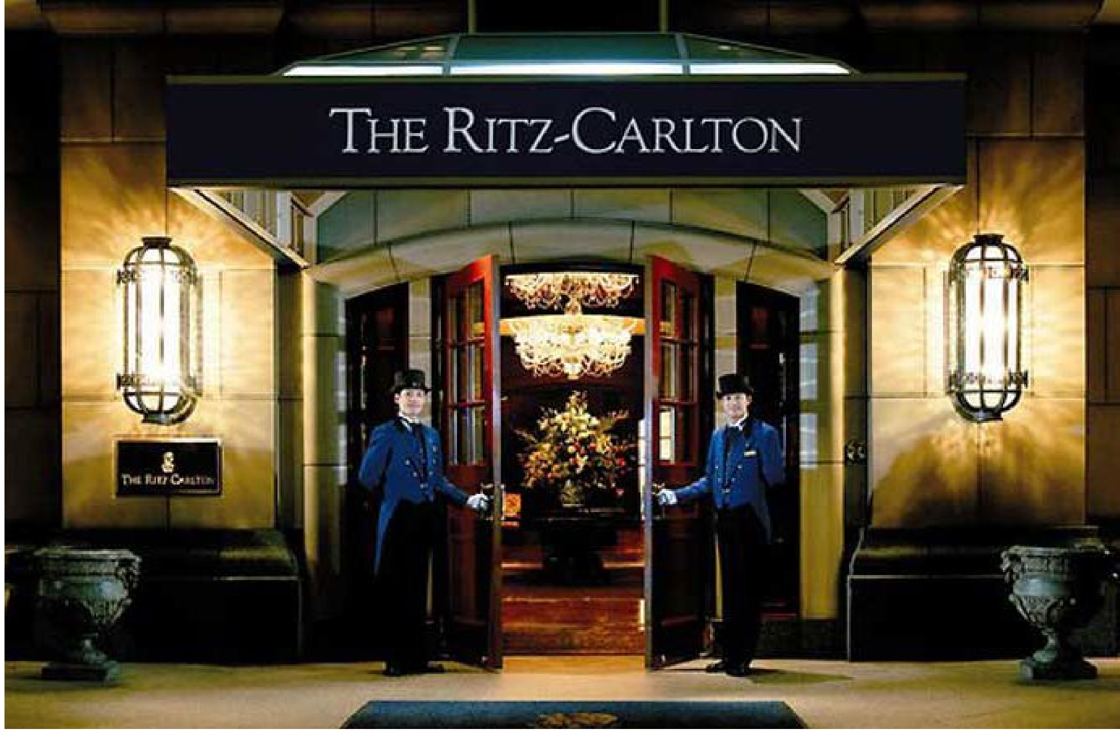
Sydney Hotels Key Performance Metrics – Rates per Annum

	1980s
Supply growth	5.0
Demand growth	6.2
Occupancy growth	1.1
ADR growth	15.8
Real ADR growth	8.1
RevPAR growth	17.1
Real RevPAR growth	9.3

SOURCE ABS, Colliers.

Note: 1980s is 1983 onwards as data not available prior to



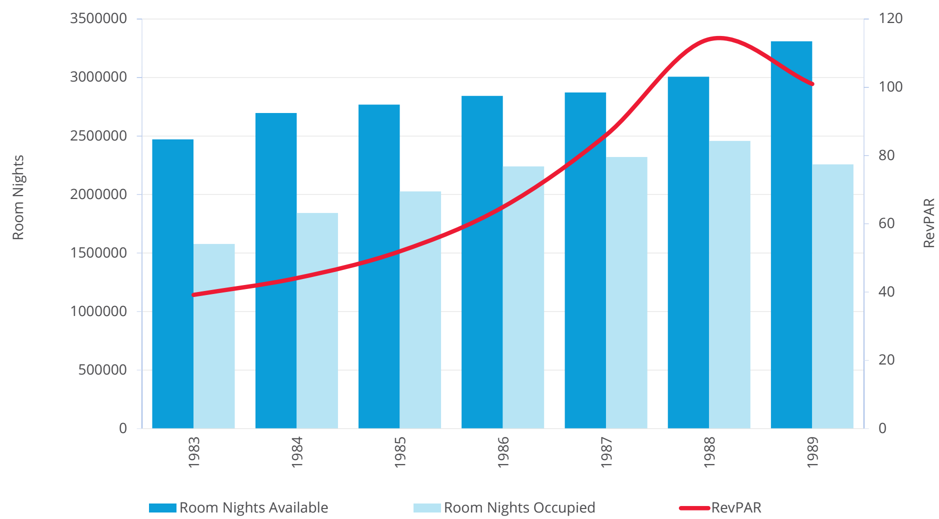


By the 1980s, migrants from all over the world had settled in Australia. Immigration rates peaked in 1988, when 254 000 people arrived in Australia amidst growing 'multiculturalism'. Large numbers of migrants from Asia, the Middle East, Europe, South America and Africa filtered into Australia enriching the local experience and creating strong ties to the rest of the world.

The Bicentenary of Australia was celebrated in 1988, marking 200 years of European settlement. Throughout the year, many Australians participated in events that celebrated the nation's European heritage and culture. In 1988, the World Expo trade show was held in Brisbane. Exploring the theme 'Leisure in the age of technology', the show was attended by around 14 million local and international visitors.

Against this backdrop, occupancy levels in Sydney increased from 63.8 per cent in 1983 to 81.7 per cent in 1988 and room rates recorded double digit gains averaging 18.3 per cent per annum over the five years.

Sydney City – Supply, Demand and RevPAR growth, 1983 to 1989



SOURCE ABS, Colliers

Similarities Today

Inflation has averaged 6.1 per cent through the year to June 2022 and the Australian Government is forecasting that it will peak in the December quarter at 7.75 per cent, before moderating through 2023 and normalising in 2024 to inside the RBA's target range. Whilst high – this is well below the levels seen in the 1980s - and is likely to remain elevated for a much shorter period of time.

Hotel rates, which are included in the basket of goods comprising the consumer price index (CPI), have risen alongside inflation as operators look to offset the rising costs of goods and services and wages. Notwithstanding, real ADR has exceeded the 2019 levels in most markets, meaning that the relative value of ADR and the purchasing power it represents has fully recovered to pre-COVID levels. This is quite a remarkable achievement.

The reopening of state and international borders after extended lockdowns has catapulted domestic travel growth, further boosted by government spending through voucher schemes and a dazzling array of events across the country.

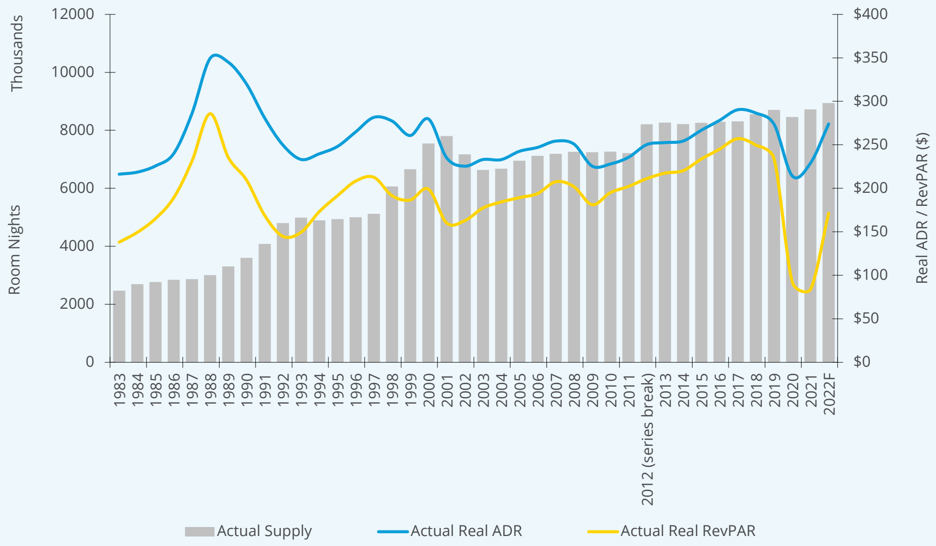
This is only expected to grow as the MICE segment continues to rebound and major sporting, music and cultural events remain a key feature on the national calendar. New COVID variants seem unable to quell Australian's appetite for travel and to socialise.

Key sources of pricing power have shifted over the course of the pandemic and contributed to room rate growth despite the low-demand environment. A shift in traveller type, from lower-rated group demand into higher-rated leisure guests, helped drive rates as well, as did staffing shortages, which necessitated increased employee wages and, in some cases, a cap on hotel occupancy.

The Australian hotel recovery remains a work in progress, although confidence in travel and hospitality's return is at an all-time high in large part due to the strength of industry ADR. Most major accommodation markets have pushed ADR ahead of pre-pandemic levels year, even as occupancy remains largely behind 2019 levels. With external pricing pressures like inflation at an all-time high, room rates will continue to be the key hotel performance success in 2022 and beyond.

Owners will also need to take care in chasing occupancy at the expense of rate as the market stabilises, eroding profitability. This will bring into question the value of lower rated business and business models which target this.

Sydney City – Supply, Real ADR and Real RevPAR, 1983 to 2022F



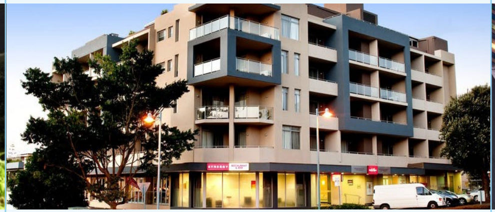
SOURCE ABS, STR, Colliers

Transactions 2022 YTD

ISSAC MOTEL MORANBAH

City Issac	State QLD
Sale Date Feb-22	Rooms n.a
Price $6,600,000	$ Per Room n.a

MERCURE CENTRO PORT MACQUARIE



City Port Macquarie	State NSW
Sale Date Mar-22	Rooms 72
Price $25,000,000	$ Per Room $347,222

HOTEL LINDRUM

City Melbourne	State VIC
Sale Date Mar-22	Rooms 59
Price $50,000,000	$ Per Room $847,458

HOTEL MOUNTAIN HERITAGE

City Katoomba	State NSW
Sale Date Mar-22	Rooms 43
Price n.a	$ Per Room n.a

BURNHAM BEECHES

City Yarra Ranges	**State** VIC
Sale Date Mar-22	**Rooms** 58
Price $16,600,000	**$ Per Room** $286,207

SCOTTY'S MOTEL

City Walkerville	**State** SA
Sale Date Mar-22	**Rooms** 52
Price $9,200,000	**$ Per Room** $176,923

GOLDEN AGE MOTOR INN

City Queanbeyan East	**State** NSW
Sale Date Mar-22	**Rooms** 59
Price $6,100,000	**$ Per Room** $103,390

AGNES WATER HOLIDAY PARK

City Agnes Water	**State** QLD
Sale Date Mar-22	**Rooms** n.a
Price $27,500,000	**$ Per Room** n.a

SUNSHINE TOWER HOTEL

City Cairns	**State** QLD
Sale Date Apr-22	**Rooms** 61
Price $10,700,000	**$ Per Room** $175,410

ESTATE TUSCANY

City Pokolbin	**State** NSW
Sale Date Apr-22	**Rooms** 38
Price $10,500,000	**$ Per Room** $276,316

CAMPBELL5 HOTEL

City Campbell	**State** ACT
Sale Date May-22	**Rooms** 63
Price $18,000,000	**$ Per Room** $285,714

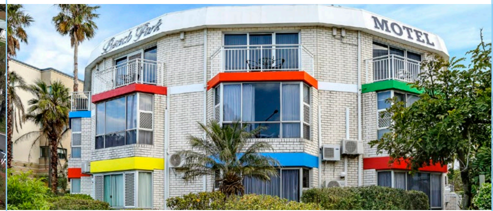
HILTON SYDNEY

City Sydney	**State** NSW
Sale Date May-22	**Rooms** 587
Price $530,000,000	**$ Per Room** $902,896

RYDGES NORTH SYDNEY

City: North Sydney	State: NSW
Sale Date: May-22	Rooms: 167
Price: $75,000,000	$ Per Room: $449,102

BEACH PARK MOTEL



City: North Wollongong	State: NSW
Sale Date: May-22	Rooms: n.a
Price: $9,800,000	$ Per Room: n.a

WESTWATERS HOTEL (MERCURE) & ENTERTAINMENT (LEASEHOLD)

City: Melton	State: VIC
Sale Date: May-22	Rooms: 98
Price: $85,000,000	$ Per Room: n.a

NOAH'S BACKPACKER HOSTEL

City: Bondi Beach	State: NSW
Sale Date: Jun-22	Rooms: n.a
Price: $68,000,000	$ Per Room: n.a

221 ROSSLYN STREET

City: Melbourne	State: VIC
Sale Date: Jun-22	Rooms: 99
Price: $32,000,000	$ Per Room: $323,232

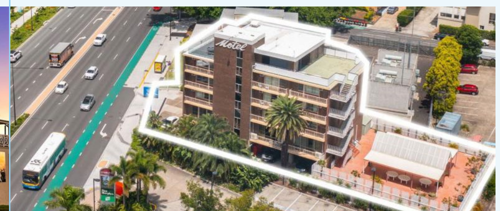
SURRY HILLS HOTEL

City: Surry Hills	State: NSW
Sale Date: Jun-22	Rooms: 38
Price: Confidential	$ Per Room: Confidential

BEST WESTERN SANCTUARY INN

City: Tamworth	State: NSW
Sale Date: Jun-22	Rooms: 60
Price: $18,200,000	$ Per Room: $303,333

HAMILTON MOTOR INN



City: Brisbane	State: QLD
Sale Date: Jun-22	Rooms: 22
Price: $6,000,000	$ Per Room: $272,727

TROPICAL HERITAGE CAIRNS

City	State
Cairns	QLD
Sale Date	**Rooms**
Jun-22	44
Price	**$ Per Room**
Undisclosed	n.a

BRIARS COUNTRY LODGE

City	State
Wingecarribee	NSW
Sale Date	**Rooms**
Jun-22	31
Price	**$ Per Room**
$18,500,000	$596,774

ELYSIAN RETREAT ON LONG ISLAND

City	State
Long Island	QLD
Sale Date	**Rooms**
Jun-22	10
Price	**$ Per Room**
$8,750,000	$875,000

HOOK ISLAND

City	State
Hook Island	QLD
Sale Date	**Rooms**
Jun-22	n.a
Price	**$ Per Room**
$10 - $12 million	n.a

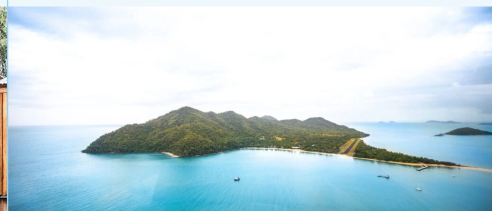
GAMBAROS BRISBANE*

City	State
Brisbane	QLD
Sale Date	**Rooms**
Jul-22	68
Price	**$ Per Room**
$25,000,000	$367,647

SALTBUSH RETREAT

City	State
Longreach	QLD
Sale Date	**Rooms**
Jul-22	44
Price	**$ Per Room**
$8,800,000	$200,000

DUNK ISLAND



City	State
Dunk Island	QLD
Sale Date	**Rooms**
Jul-22	n.a
Price	**$ Per Room**
$23,650,000	n.a

PEPPERS PERTH

City	State
Perth	WA
Sale Date	**Rooms**
Jul-22	120
Price	**$ Per Room**
$26,000,000	$216,666

*Transaction details as reported in media

Team

Team Transaction Services

Gus Moors
NSW, SYDNEY
Head of Hotels, | Australia
+61 404 005 066
Gus.Moors@colliers.com

Karen Wales
NSW, SYDNEY
National Director
+61 405 227 152
Karen.Wales@colliers.com

Kurt Thomas
NSW, SYDNEY
Director
+61 410 866 506
Kurt.Thomas@colliers.com

George Hudson
NSW, SYDNEY
Executive
+61 403 967 688
George.Hudson@colliers.com

Aleesha Balke
QLD, BRISBANE
Marketing & Team Assistant
+61 7 3026 3343
Aleesha.Balke@colliers.com

Team Valuation & Advisory Services

Christopher Milou
NSW, SYDNEY
Head of Hotels
+61 413 615 398
Christopher.Milou@colliers.com

Michael Thomson
NSW, SYDNEY
National Director
+61 412 053 598
Michael.Thomson@colliers.com

Baden Mulcahy
QLD, BRISBANE
National Director
+61 439 034 033
Baden.Mulcahy@colliers.com

Paul Ellis
QLD, BRISBANE
Associate Director
+61 484 900 212
Paul.Ellis@colliers.com

Denise Kirk
NSW, SYDNEY
Analyst
+61 2 9249 2046
Denise.Kirk@colliers.com

Emily Racki
NSW, SYDNEY
Assistant Valuer
+61 439 446 417
Emily.Racki@colliers.com

Gabby Hinz
QLD, BRISBANE
Assistant Valuer
+61 423 408 797
Gabby.Hinz@colliers.com

Anty Burnett
NSW, SYDNEY
Assistant Valuer
+61 431 043 019
Anty.Burnett@colliers.com

Carla Ingenito
NSW, SYDNEY
Team Assistant
+61 414 725 798
Carla.Ingenito@colliers.com