Hotels
Q3 Update 2023

Research Report

Colliers

Key Highlights

1 Transaction Activity

Volumes totalled $1.8 billion to Q3 2023, underpinned by some large asset trades. Offshore capital accounted for less than 20 per cent of deal flow with domestic investors and fund managers the most active.

Amidst a backdrop of challenging conditions across other property assets, hotels are emerging as a preferred sector or new entrants are partnering with known fund managers given the limited experience in direct hotel investment.

2 Supply

New supply is easing with few new projects expected to commence in the near term whilst construction and funding costs remain elevated.

Melbourne has dominated the supply landscape and surpassed Sydney to become Australia's largest CBD accommodation market in March 2023 and is expected to remain larger over the foreseeable future, thereby threatening Sydney's position as Australia's premier hotel market.

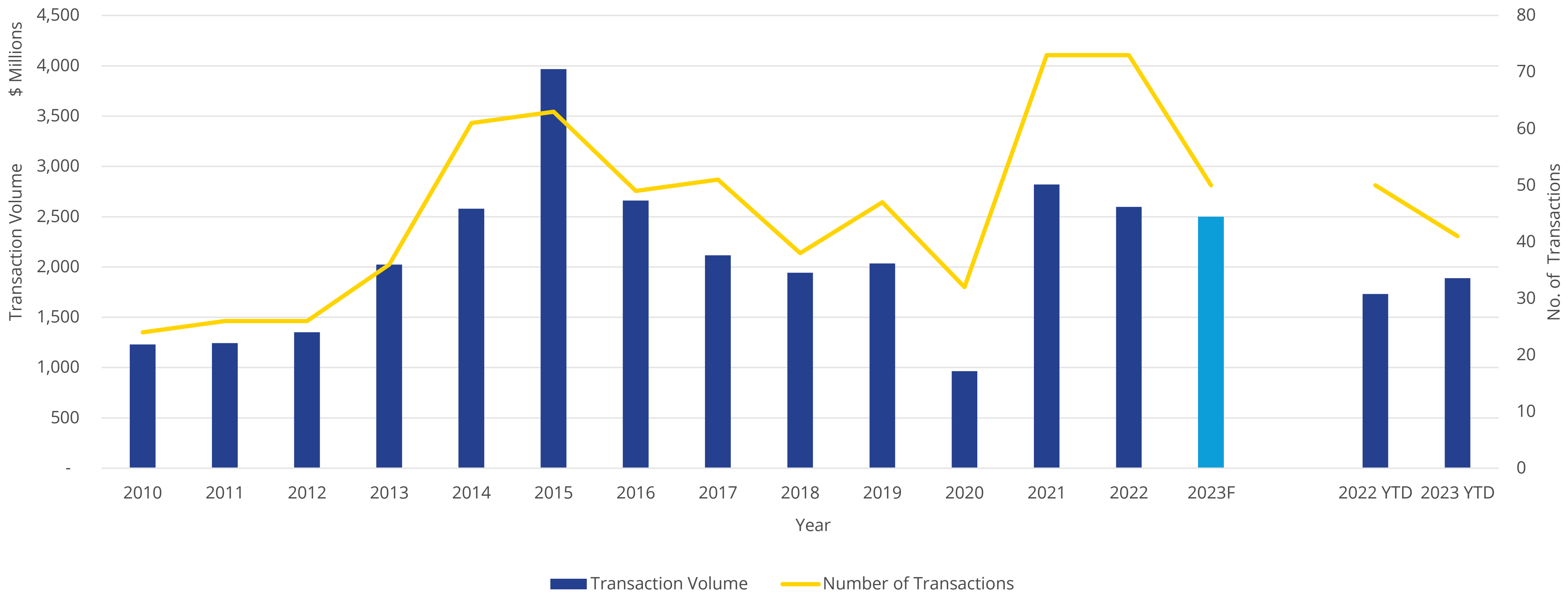
3 Demand

Domestic tourism has been the growth engine for Australia but signs that it is starting to slow with fewer trips being taken and a decline in the number of nights on a trip when compared to 2019. Major events continue to be strong drivers of hotel demand and present good opportunities to yield.

International tourism is yet to fully recover with nights and spend still 17% below 2019 with the high cost of travel to Australia weighing on the recovery. This is expected to abate over the coming year.

Demand tailwinds, easing supply, **high room rates** and the **return of international travel** have increased the **hotel industry's attractiveness.**

Hotel **Transactions**



Source: Colliers

Multiple stress points driving activity

- Deal flow has remained steady through 2023 and is expected to meet our full year forecast volume of $2.5 billion.
- Fewer asset trades however as strong performance has decoupled from tightening capital markets.
- More than $2 billion of hotel assets currently on market, 75% of which have been listed in Q3 2023. This indicates increased activity over the coming year.
- NSW has dominated transaction activity as must-have assets remain the most favoured and investors refocus back to the major cities with some rare buying opportunities arising.
- High debt costs, impending loan maturities, deferred capex and near-term lease expiries are expected to be the biggest trigger points for transactions over the coming year.
- New buyers can wait out performance wrinkles but owners who hold on may find a weaker case for disposal in the second half of 2024.

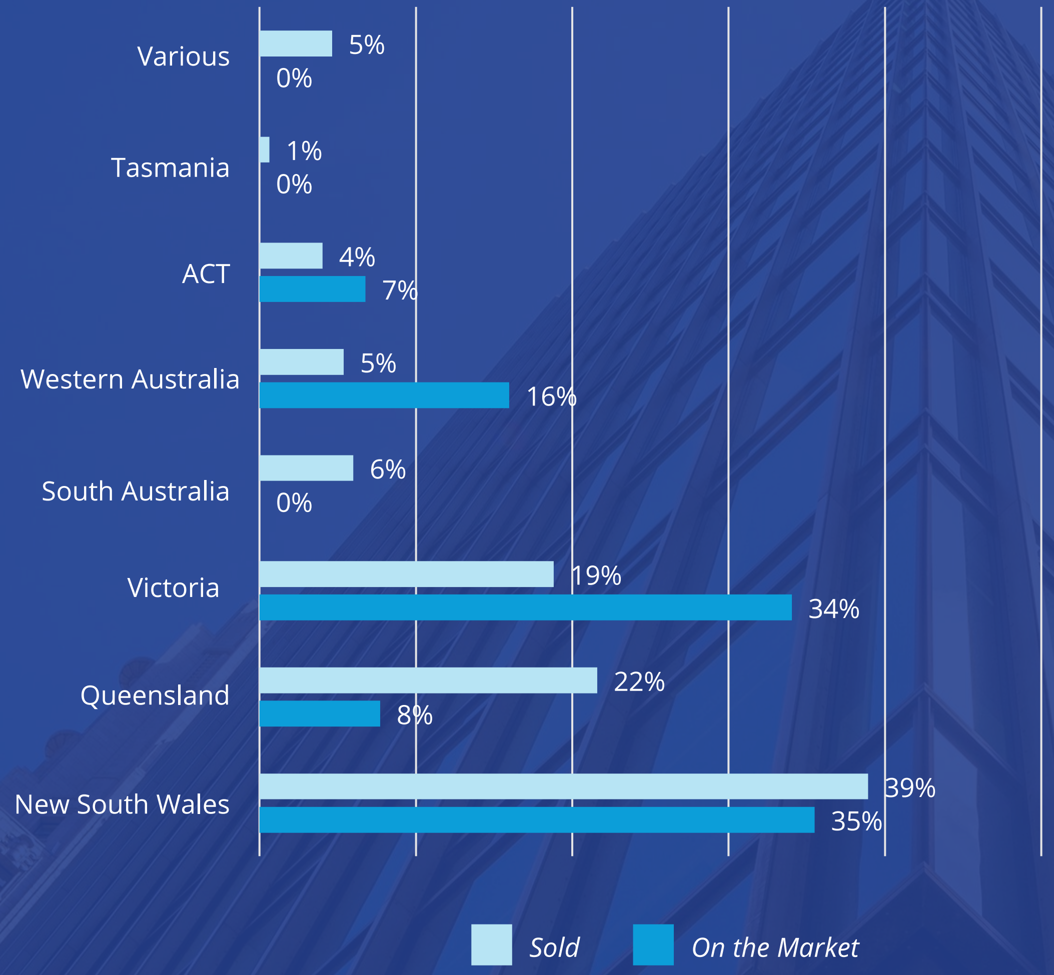
The **top two market factors** investors cited as having a negative impact on their real estate strategies in 2023.

85% Rising construction costs

77% Higher asset operating costs

Rolling 12 Months – Transactions & On the Market

% of total volume by State, Major Assets Listed on Market



Source: *Colliers*

Hotel Investment Trends

Cities are back in focus

Waldorf Astoria
Sydney, NSW

Date	Feb-23
Sale Price	$520,000,000
Price per Key	$2,363,636

Sofitel Adelaide
Adelaide, SA

Date:	Jul-23
Sale Price	$154,000,000
Price per key	$613,546 (incl retail)

Adelphi Hotel
Melbourne, VIC

Date	May-23
Sale Price	$25,000,000
Price per Key	$735,294

Abode Woden
Canberra, ACT

Date:	Jul-23
Sale Price	$41,500,000
Price per key	$273,026

Sheraton Grand Mirage Resort
Main Beach, QLD

Date:	Jun-23
Sale Price	$192,000,000
Price per key	$650,847

Frasers Place Melbourne
VIC

Date:	Aug-23
Sale Price	$32,400,000
Price per key	$289,286

Ibis and Novotel Melbourne
VIC

Date:	Jul-23
Sale Price	$170,000,000
Price per key	$360,169

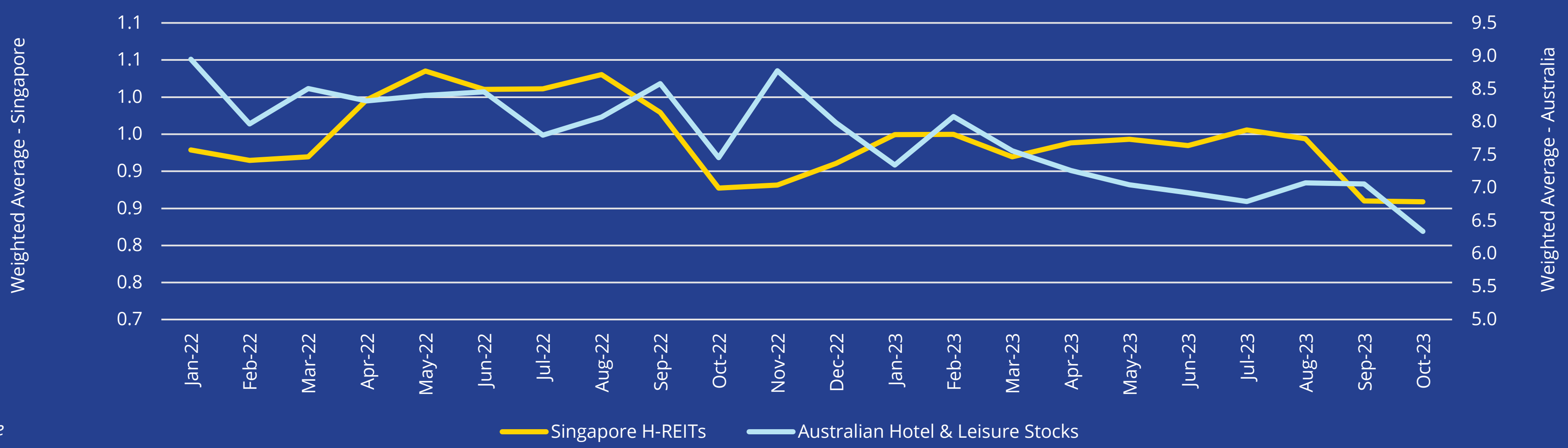
The Inchcolm
Brisbane, QLD

Date	Aug-23
Sale Price	$25,000,000
Price per Key	$500,000

Listed Hotel Stocks Valuation Indicator

- Stock market declines are often swifter and more brutal when it comes to the pricing of assets. Australian hotel real estate is a different ballgame altogether with much fewer transactions each year and annual price movements estimated through valuation. Nevertheless, stock markets can prove a good predictor for the direction of hotel values if not always the absolute level.
- Historically, Australian hotels have not been well regarded by the share market and those listed stocks which do have exposure to Australian hotel real estate derive considerable revenue from other income sources, e.g., gaming or entertainment. Singapore's h-REITs provide additional insight with many of these groups invested in Australian hotel real estate, whilst also being more exposed to global hotel markets.
- The impacts of a higher-for-longer world should mean that risk premiums go up, cap rates expand commensurate to that and that valuations reduce, if there is no income growth. This is where hotels have differed to other commercial real estate as many have continued to enjoy strong income growth amidst resurgent tourism markets.
- Using a weighted average stock price by market cap for selected stocks, our analysis shows how Australian hotel & leisure and Singaporean h-REIT stock prices have declined by 24.4 per cent and 15 per cent respectively since May 2022 when monetary tightening first began. We have excluded stocks which have been adversely impacted by unique events.

Listed Hotel Stocks – Weighted Average Price Jan 2022 to Oct 2023

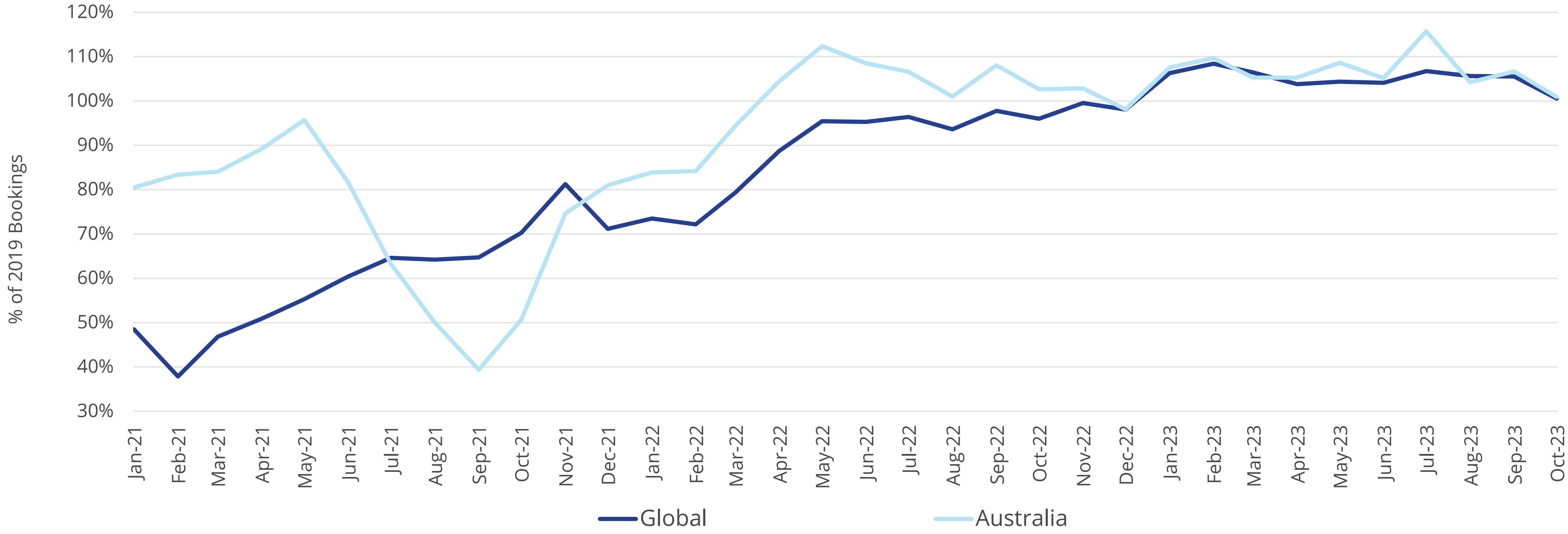


Source: *Yahoo Finance*

Hotel Booking Momentum

This chart sources booking data from Site Minder and compares the volume of bookings in Australia to globally referenced back to 2019. It highlights how Australia's large domestic tourism base continues to serve it well with bookings tracking above the global average. Bookings have remained above 2019 since April 2022, with Australian bookings above 100% - the exception being Dec-22 which was softer than anticipated.

Volume of Hotel bookings compared to 2019

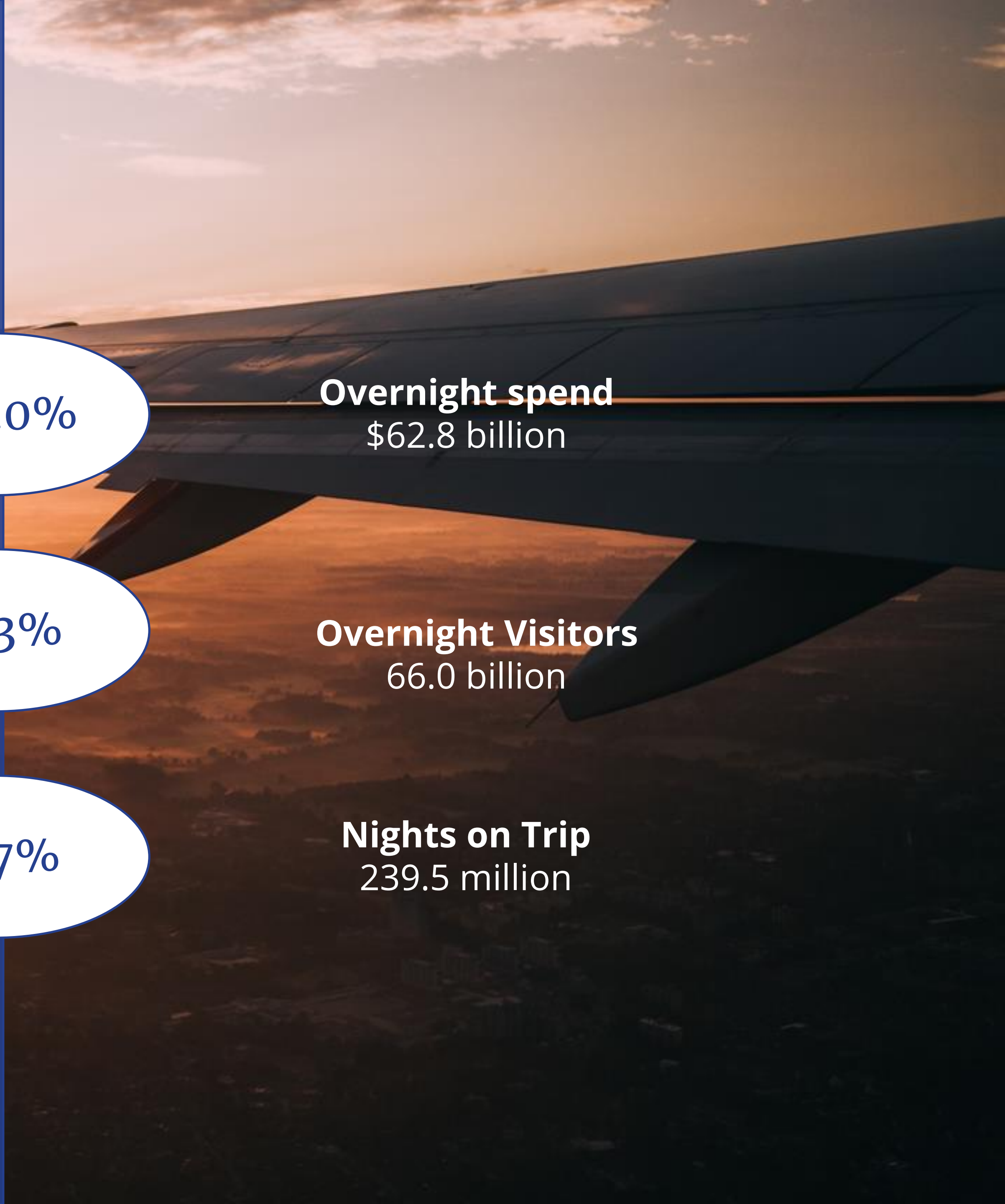


Source: *SiteMinder*

Domestic Travel

YTD July 2023 v 2019

- Domestic travel has remained robust despite recent economic headwinds from rising interest rates with visitors and visitor nights tracking slightly behind 2019 and spend well up over the seven months to 2023.
- Intrastate travel has seen the strongest gains in spend, up 37.7% compared interstate at 28.9%.
- QLD is the clear standout with the strongest gains in spend, up 45.8%. This compares to 32% and 31.8% in NSW and VIC respectively.
- ACT and VIC have seen the strongest gains in nights spent on trip, up 7.1% and 1.0% respectively.
- Regional markets continue to record gains in tourism spend with spend up more than 35% in regional NSW, VIC, QLD and SA.



+33.0%

Overnight spend
$62.8 billion

-3.3%

Overnight Visitors
66.0 billion

-1.7%

Nights on Trip
239.5 million

Source: *Tourism Research Australia, Colliers*

International Travel

YTD July 2023 v 2019

- International travel has been slower to recover with visitors, visitor nights and spend all tracking behind 2019 over the seven months to 2023.
- Holiday and business travel are the laggards with visitor nights down by 31% and 34% respectively. VFR travel has been quicker to recover.
- Differential in spend highlights the lower price sensitivity of business travellers with holiday spend -28.0% v 2019 and business spend down -11.4%.
- Of the major states, Victoria has been slowest to recover with visitors and spend down 39.3% and 33.6% compared to 2019.
- New South Wales and Queensland have fared better with visitors down 24.% and 31.7% respectively and spend down. Spend is down by 9.0% and 10.1% respectively.
- Capital cities and Gold Coast have seen a greater shortfall in international nights than regional Australia (-18.8% v -7.9%) whereas spend has held up better (-15.0% v -20.1%).

-27.1% — **Overnight visitors** 3.6 billion

-16.8% — **Visitor Nights** 137.3 million

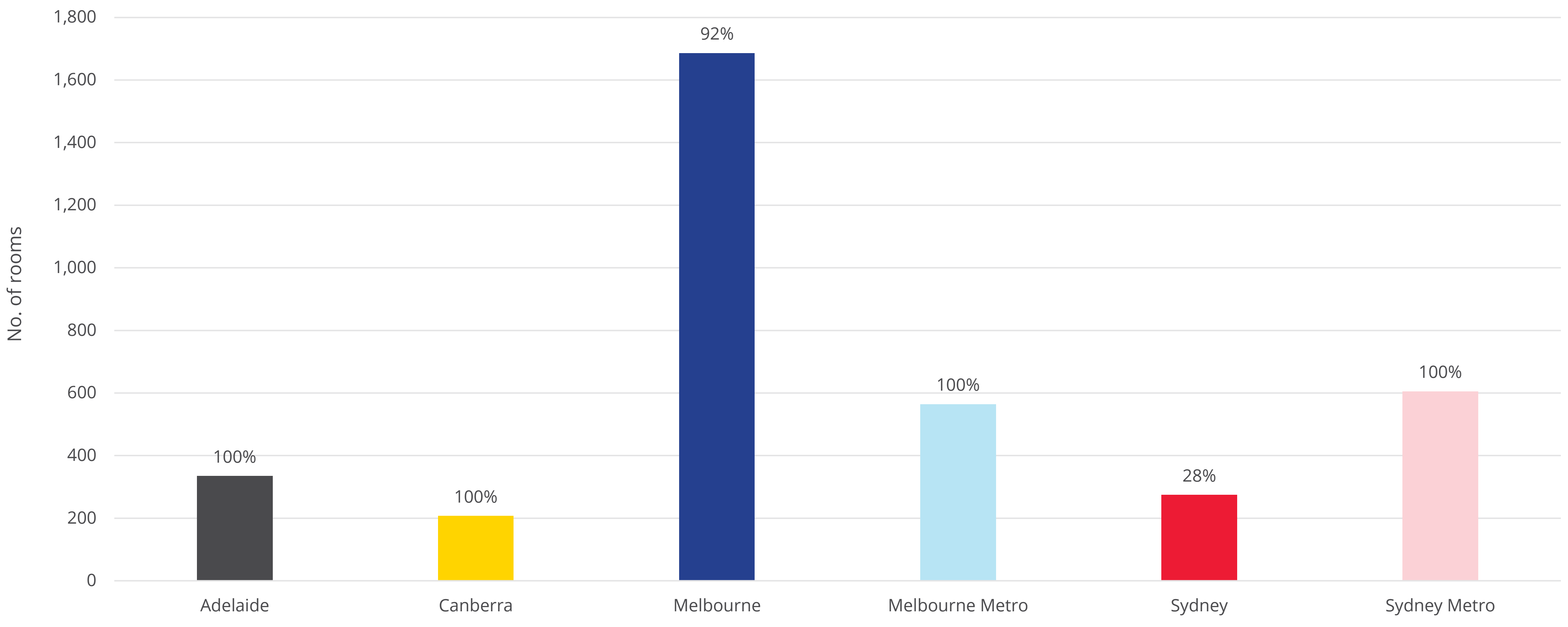
-15.7% — **Spend in Australia** $16.5 million

-9.6% — **Total Trip Spend** $24.7 million

Source: *Tourism Research Australia, Colliers*

Supply Trends

Summary of rooms opening by market in 2023, and percentage opened as at Q3



Source: Colliers

Key Hotel Openings Q3 2023

Meriton Canberra
Canberrra, ACT

Opened	Aug-23
Operator	Meriton
No. of Rooms	207
Grade	Upscale

Moxy Sydney Airport
Sydney Metro, NSW

Opened	Aug-23
Operator	Marriott
No. of Rooms	301
Grade	Upper Midscale

Meriton Suites
Melbourne, VIC

Opened	Sep-23
Operator	Meriton
No. of Rooms	298
Grade	Upscale

Holiday Inn & Suites Melbourne Geelong, VIC

Opened	Sep-23
Operator	IHG
No. of Rooms	180
Grade	Upscale

Citadines Walker
North Sydney, NSW

Opened	Sep-23
Operator	Ascott
No. of Rooms	252
Grade	Upscale

Source: Colliers

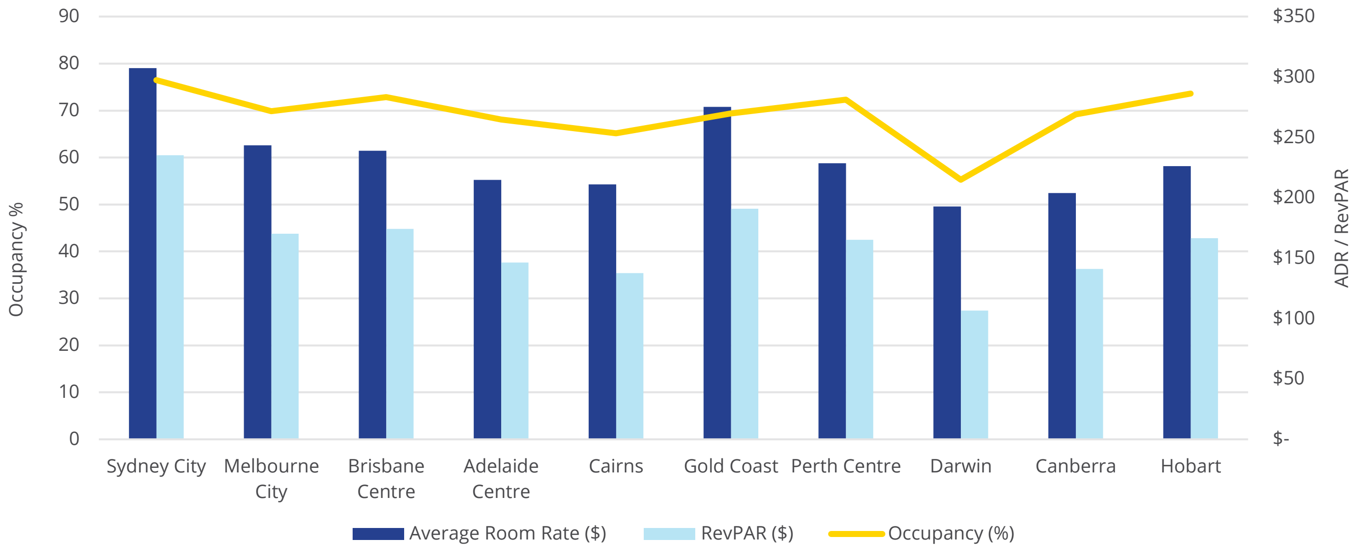
Hotel Performance

Over the year to September 2023:

- Sydney leads the country with the highest occupancy, ADR and RevPAR.
- Sydney is the only Australian market with an occupancy above 75 per cent, ADR above $300 and RevPAR above $200.
- Brisbane has recorded the strongest RevPAR growth when compared to 2019, up 50.9 per cent.
- Melbourne is the only market to have not recorded RevPAR growth when compared to 2019 with occupancies weighed down by new supply.
- ADR growth has been strongest in Brisbane, up 50.2 Per cent on 2019.
- Brisbane is the only market where occupancies are trending higher than 2019.
- Occupancies are lowest in Darwin at 55.3%.
- Darwin is also the only major hotel market where ADR is less than $200.

Source: *Colliers / STR*

Major Australian Hotel Markets
Moving Annual Average Occupancy, ARR and RevPAR to September 2023



	MAA to September 2023			% change 2019 vs 2023		
	Occ (%)	**ADR ($)**	**RevPAR ($)**	**Occ**	**ADR**	**RevPAR**
Sydney City	76.50	307.50	235.24	-11.1%	21.0%	7.5%
Melbourne City	69.88	243.48	170.13	-16.9%	18.4%	-1.6%
Brisbane Centre	72.85	239.03	174.14	0.5%	50.2%	50.9%
Adelaide Centre	68.09	214.96	146.36	-15.4%	40.8%	19.2%
Cairns	65.16	211.11	137.56	-16.1%	39.1%	16.8%
Gold Coast	69.40	275.26	191.03	-1.5%	40.8%	38.7%
Perth Centre	72.36	228.50	165.34	-3.4%	33.9%	29.3%
Darwin	55.31	192.92	106.70	-6.5%	34.7%	25.9%
Canberra	69.18	203.83	141.01	-11.0%	18.9%	5.8%
Hobart	73.63	226.16	166.53	-11.6%	23.9%	9.5%

Our expert's view

The flight to quality means the smart investor is really executing plans proactively. A key element to asset management is factoring in capital expenditure for asset upgrades and repositioning, to improve energy efficiency and overall operational costs. Distribution costs are a key focus as the cost base remains under pressure from high personnel and energy costs.

Neil Scanlan
National Director | Hotel Asset Management

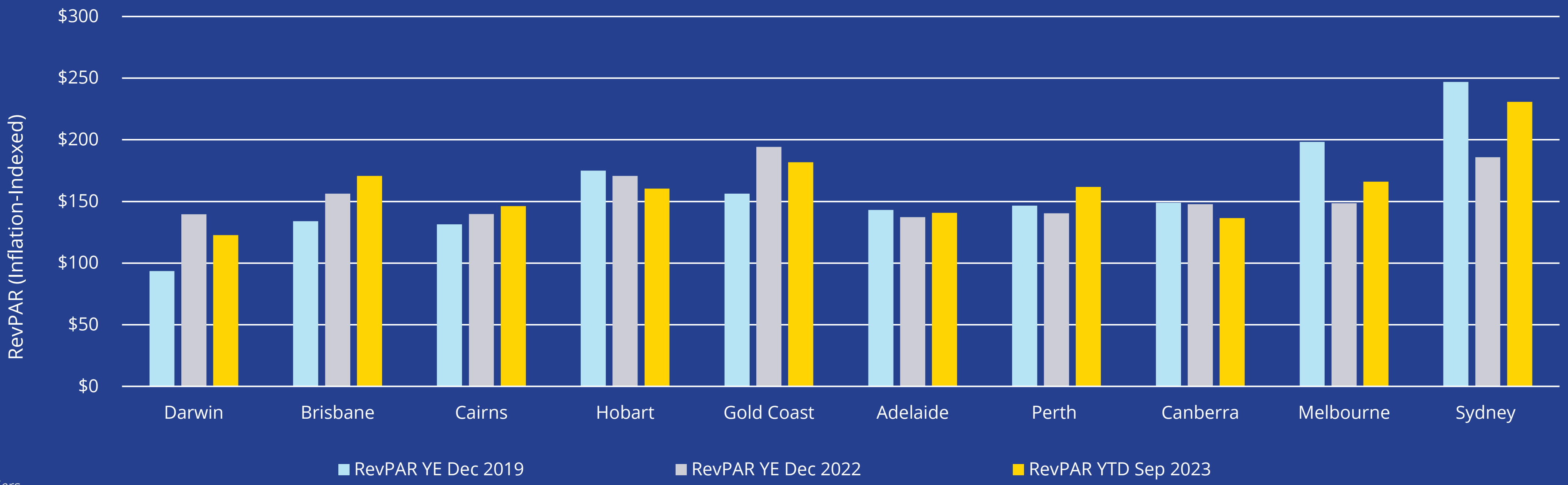
Where's **Hotel Alpha?**

Alpha is a term used to describe an investment strategy's ability to beat the market, or its "edge." Alpha is thus also often referred to as "excess return" or the "abnormal rate of return" in relation to a benchmark, when adjusted for risk.

In the wake of the pandemic, many experts anticipated a large-scale recalibration of the hotel industry, with fundamentally leaner and more efficient cost structures. However, the reality is complicated with many core issues hidden behind a veil of strong surges in hotel room rates:

- Only half of the ten major Australian hotel markets have achieved real RevPAR ie. adjusted for inflation above 2019 levels – those that have are predominantly driven by strong leisure demand (Darwin, Brisbane, Cairns, Gold Coast and Perth) and some of which are now experiencing a decline in performance in 2023.

Australian Hotel Market Inflation-Adjusted RevPAR



Source: *Colliers*

- Interest rate hikes since May 2022 have gradually impacted household discretionary spend dampening leisure spend with a switch to lower grades of accommodation or shorter durations of stay. Traditional hotel pricing strategies which seek to pass on these costs to the consumer now risk further curtailing demand.
- The pandemic has resulted in a significant shift in guest booking behaviour. The blurring of business and leisure travel has disrupted traditional hotel booking channels leading to elevated costs of distribution.
- Low unemployment levels and slower than anticipated return of internationally sourced labour continues to give rise to labour shortages and competitive wage pricing. With increases to Hospitality Industry Government Award (HIGA), the hospitality industry has seen wages increase by almost 20% since mid-2018.
- Further cost pressures are also evident in the procurement of essential supplies, with global events continuing to disrupt supply chains and escalating transportation and logistics costs. Some of these costs have outpaced wider levels of inflation and hotel revenue is now playing a game of catchup.
- Hotel owners and investors are exploring innovative solutions to address ballooning costs through the adoption of self-service check-in kiosks to the automation of back-office roles to reduce labour dependence.
- Hotels are also under growing pressure to their reduce carbon footprint which requires capital investment to achieve energy efficiencies and optimising HVAC systems, as well as key operational changes from adopting reusable in-room amenities to eco-conscious employee engagement and training.
- Hotels will not be able to rely on further capital injections from their owners in the face of squeezed profit margins, yield shifts and the increased cost of borrowing which has the potential to place pressure on asset values and further diminish the appeal of significant CAPEX.

Hotels need to recalibrate their modus operandi now in order to adapt to a fundamentally different operating environment and successfully navigate the course to uncover hotel ‘alpha’.

Novotel Brisbane Southbank
Accor Pacific's best performing property 2023

At Colliers, we utilise our expert market and operational knowledge together with detailed analytics platforms to assess the commercial performance of the hotel to identify opportunities and formulate strategies to achieve hotel alpha on behalf of our valued hotel owners:

- Detailed review of profit & loss accounts to identify key areas of cost containment
- Competitor and market performance assessments to help ensure top line revenue is maximised
- Oversight of delivery of capital expenditure in accordance with the strategic plans of the owner and ensuring the continuity of maximised performance

Hotel Experts

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Accelerating success.