

WESTERN SYDNEY HOTEL MARKET INSIGHT

SEPTEMBER 2016



Key Findings

Sydney currently captures 47% of international tourists into Australia at 3.4 million for the year to June 2016. Notably, this is a 33% increase from 2012

The pick-up in tourism has flowed through to the hotel sector with both **occupancy and average daily room rates across Sydney trending upwards**

Sydney average room rates have significantly outstripped the national average at 5.3% and 1.5% respectively in the 12 months to July 2016

Capturing 35% of Sydney's tourism market, Western Sydney is growing as a tourist hub, supported by its large population and abundance of natural tourism assets

With a shortage of hotel rooms across Western Sydney, highlighted by high occupancy levels, **there are significant opportunities to capitalise on this opportunity**

Transport infrastructure improvements, a growing major event's presence and an abundance of natural assets is positioning Western Sydney as a focal point for tourism within Sydney.

Market in Context

The Australian tourism sector continues to record solid growth despite recent weaknesses to the broader global economy, highlighted by the slowing pace of China and volatility in financial markets. This result has been underpinned by steady growth within the Australian economy (GDP was recorded at 3.3% annual growth to June 2016), a depreciating Australian Dollar (albeit remaining resilient) and increases in household spending capacity following two 25 bps interest rate cuts since May 2016 to a new historic low rate of 1.50%.

With hotel market performance directly tied to the fundamentals of the national and state economies, the resilience of the Australian, and more locally the NSW economy, has been a primary driver of the strong performance within the hotel sector. For Sydney, this trend is no different with the city being the global gateway into Australia, capturing 47% of international visitors into Australia and 32% of the international visitor expenditure pool in the 12 months to June 2016. Similarly, international tourism levels into Sydney are up 33% since 2012.

The Sydney hotel market is mature and well established, driven by demand from both business and leisure sectors. Over the long term, the Sydney hotel market is cyclical, with performance reflecting economic trends. Off the back of increased hotel requirements from both domestic and international visitors, the sector has performed well in recent years with occupancy, average daily rate (ADR) and revenue per available room (RevPAR) all trending upwards over the past three years.

With occupancy rates increasing across the broader Sydney region and hovering around 85%, it suggests there is an undersupply of hotel rooms. Developers have responded, with the supply pipeline picking up over the past 12 months, with prime sites being highly sought after by international and national hotel brands and developers.

With Sydney's population expected to grow to 6.4 million by 2036, coupled with the persistent influx of international tourists, there are many opportunities in the hotel sector. With the outlook for the AUD to trend lower over the next two years, it will also make domestic travel more appealing for both Australian residents and companies.

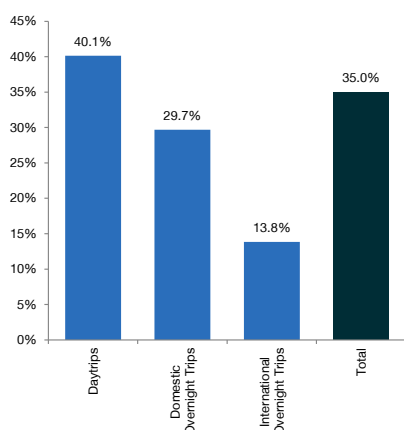
TOURISM & HOTEL VIEWPOINT

Over the past five years, there has been a significant pick-up in the demand for Sydney hotel accommodation, reflected by the strong performance in room occupancies and an increase in average daily rates (ADR). Driving this has been rapid growth in international tourism numbers, a limited supply pipeline (albeit expanding) and depreciation of the Australian Dollar (AUD) which has made international travel for Australians comparably more expensive.

In the 12 months to June 2016, there were 3.41 million international visitors into Sydney, supported by a significant pick-up from Asia. Similarly, international passenger growth through Sydney Airport is up 9.8% in the year to July 2016. Strong foreign nationality demand contributed to the international passenger growth with Chinese (+22.5%), USA (+18.3%), Japanese (+25.4%), South Korean (+22.9%) and Indian (+21.3%) arrivals all increasing. Chinese nationals increased by over 20,000 and were the largest foreign contributor of incremental passengers, primarily due to an increase in seat capacity from new and existing airline routes.

Notably, international tourism into Sydney is 40% larger than the second largest tourist destination in Melbourne. In addition to this, Sydney registered approximately 24 million domestic daytrip visitors and 10 million domestic overnight visitors over the past year.

FIGURE 1
Western Sydney Tourism
Share of Sydney Total, by Tourist Type, Mar 16



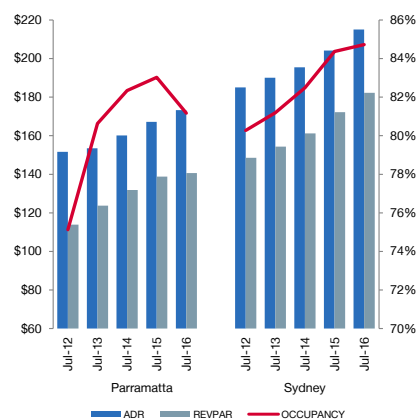
Source: TRA, Knight Frank Research
Note, Western Sydney includes the Blue Mountains

The Sydney hotel accommodation market has been the standout performer nationally, aided by the emergence of Western Sydney as a leisure and business destination. In comparison to other Australian cities where tourism is heavily focused in inner ring locations, Western Sydney captures 35% of tourist numbers into Sydney (see Figure 1).

With Western Sydney's population expected to grow to 3.6 million persons by 2036, at which point almost three in five people will live in the region, the next phase of growth opportunities in the hotel sector lies within the Western corridor of Sydney. A significant pipeline of transport infrastructure works, both underway and planned including Sydney's second airport at Badgerys Creek supports this view. The new airport, located 15 km from Penrith and 25 km from Parramatta will be a game changer for the broader Western Sydney region. Once operational from the mid 2020s, the airport is expected to accommodate five million passengers per annum, while further stages will be developed in response to demand.

Underpinned by domestic tourists visiting family and friends and the increased event and festival presence, the tourism sector in Western Sydney continues to grow. Western Sydney is home to some of Sydney's key tourism assets including the Blue Mountains, Parramatta and Nepean Rivers and the Hawkesbury which ordinarily provides a natural advantage for business development.

FIGURE 2
Hotel Sector Performance
ADR, Occupancy, RevPAR, YTD



Source: STR Global, Knight Frank Research

HOTEL PERFORMANCE

To illustrate the operating characteristics of the hotel market of competitive relevance, using Parramatta as a benchmark for the Western Sydney hotel market, we are able to compare hotel performance against the broader Sydney region. The key performance indicators are discussed below.

Strong international arrivals have led to a shortage of hotel rooms across the Sydney metropolitan region, highlighted by recent occupancy rate trends. Currently, as at July year-to-date (YTD) occupancy rates in Sydney average 84.7%, significantly above the Australian average of 74.9% for the same period, and trending 4.4% higher compared with YTD July 2012.

For Parramatta, YTD occupancy rates in the hotel market have increased from around 75% in 2012 to 81.2% in July 2016 (see Figure 2). This pick-up in recent years was largely in response to an increase in overnight visitation numbers to Parramatta off the back of increased corporate travel. The recent addition of 90 hotel rooms as part of the extension of the Parkroyal in Parramatta coupled with hotels pushing up daily room rates to drive RevPAR were the catalysts behind the moderate easing in recent months, down from the monthly high of 89.5% recorded in February 2016.

Tight occupancy rates are flowing through to average daily room rates (ADR) in both Parramatta and the broader Sydney region. In the 12 months to July 2016, the ADR across Parramatta measured \$173.20, up 3.6% on the 12 months prior. A large re-basing of room rates in the Sydney CBD as a result of occupancy rates hovering around 85% has meant that ADR across Sydney increased 5.3% over the past year to average \$215.00 during the 12 months to July 2016. In comparison, ADR nationally increased 1.5% over the same period.

A combination of increased occupancy and ADR has led to considerable upward pressure on Revenue per available room

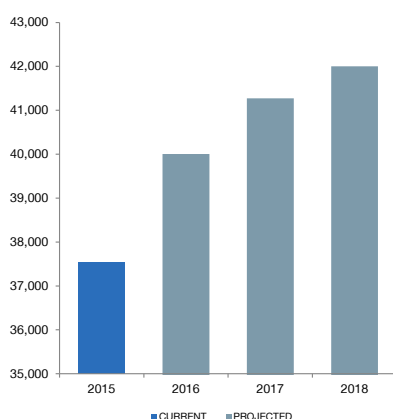
(RevPAR) in recent years. In the year to July 2016, RevPAR in Parramatta averaged \$140.60, compared to \$182.20 for Sydney over the same period. However, the RevPAR rate of growth recorded in Parramatta has outstripped the Sydney average over the past four years, up 23.4% and 22.7% respectively over the period (since July 2012).

Following a period of limited hotel room supply as developments were made unfeasible by the surge in residential development land values, Sydney will enter a period of increased supply over the next three years due to rising hotel earnings and planning concessions.

During 2016, 2,454 hotel and serviced apartment rooms are due for completion (25% of room supply is within Western Sydney), underpinned by Travelodge and the Pullman at Sydney Airport. However, over the short term supply will be balanced by the withdrawal of 227 rooms in the Mercure Potts Point and the soon to be closed Menzies Hotel (446 rooms). For Parramatta, room supply during 2016 will total 381 rooms and is the result of the recently completed \$25 million refurbishment and extension to the Parkroyal hotel and the pending completion of 254 serviced apartments as part of Meriton's Altitude development.

Beyond 2016, an additional 1,995 hotel rooms are earmarked for completion by 2018. As a result of the increased supply pipeline, by 2018, there is anticipated to be approximately 42,000 hotel rooms available across the broader Sydney region. Over this period, Parramatta will benefit from projects such as V by Crown.

FIGURE 3
Sydney Room Stock and Supply
2015 - 2018



Source: ABS, Knight Frank Research

FOCUS ON PARRAMATTA

Situated approximately 24km from the Sydney CBD, Parramatta has emerged as Sydney's second CBD with recent Government initiatives reinforcing it as the economic focal point within the Western Sydney metropolitan area. With Sydney continuing to evolve as a greater number of jobs are created in knowledge based industries, coupled with a structural shift in population growth to Sydney's west, Parramatta has become the logical choice for public and private sector investment.

With a population of 194,448 persons, Parramatta is set to become the strategic centre for Sydney's growth corridors of the North and South West, providing employment, cultural and educational opportunities to the broader region. Parramatta is a significant tourist centre within Western Sydney with the CBD itself receiving approximately 715,000 tourists per annum, underpinned by those attending sporting events and business/conference travellers.

Accommodation

There is a considerable offering of hotel accommodation in Parramatta, catering to a broad mix of markets including high-grade hotels down to smaller run motels. Currently, there are 1,565 rooms across nine establishments in the CBD and immediate surrounds, a large proportion of which is 4 or more stars. The largest hotel in the area is the Parkroyal Parramatta which following a recent 90 room expansion now offers 286 rooms. Other major hotels in Parramatta include Mantra Parramatta (231 rooms), Meriton Serviced Apartments Parramatta (202 rooms), Holiday Inn Parramatta (181 rooms) and the Novotel Sydney Parramatta (194 rooms).

Infrastructure Improvements

With Parramatta being recognised as Sydney's second CBD by both State and Federal Governments, the infrastructure

pipeline in the area is significant and once complete will change the way tourists move within and around the area. The pipeline of projects set to benefit Parramatta is underpinned by the Parramatta Light Rail project. With the light rail set to link Parramatta to Sydney Olympic Park (SOP), Parramatta will significantly benefit from sporting and other events held at the precinct stemming from accommodation spillover demand.

Similarly, planning is currently underway for a new metro line linking the Sydney CBD to Parramatta (via the Bays Precinct) with the possibility of an extension through to the Badgers Creek airport further down the track. Similarly, the WestConnex project which is under construction will support accessibility to Parramatta by road.

A new Western Sydney Stadium in Parramatta is also in the early planning stages and if constructed would result in a 30,000 seat stadium. A planning application has been lodged and once approved it would strengthen the broader Parramatta region as the sporting capital of Sydney.

The Opportunity

With a growing event presence, supported by the Powerhouse Museum moving to Parramatta in the early 2020s coupled with a new Western Sydney Stadium, Parramatta is set to become a significant cultural and sporting hub. Furthermore, with hotel occupancy rates in the area at or above 90% for particular months of the year, there is a shortage of hotel accommodation in the area. Although there is supply in the pipeline including serviced apartments as part of Meriton's Altitude development, additional capacity is needed of varying grade, particularly given the outlook for both domestic and international tourism levels.

With the decentralisation of Government departments to Parramatta, there also exists an opportunity to capture conference and business traveller demand.



OUTLOOK

Despite the modest outlook for economic growth globally, weighed down by more moderate growth within the Chinese economy, both domestic and international tourism into Australia is expected to strengthen. This outlook is founded on the view that the Australian Dollar will trend downwards over the coming two years which will create increased demand from Australians holidaying locally, and making Australia as a destination, relatively more affordable from an international perspective. Continued demand is forecast from Chinese tourists to the gateway destinations of Sydney and Melbourne, which will drive international visitor volumes to record highs.

A strengthening tourism outlook is expected to underpin growing demand for hotel and serviced apartment accommodation with occupancy and room rates expected to increase over the coming 12 months. Sydney is expected to again lead the way as occupancies are already high at around 85% on average.

As a result, significant upward pressure on room rates in Sydney is earmarked over the medium term. While the supply pipeline is picking up across Sydney, demand is expected to remain strong which will keep hotel occupancy rates at relatively high levels.

While Sydney room rates have been driven by inbound international tourists over the past 12 months, the opening of the \$1.5 billion International Convention Centre Sydney in late 2016 is expected to support increased hotel demand from the business and conference sector.

For Western Sydney, with a spate of infrastructure works in the pipeline making the area more accessible, business and tourist visitor levels to the area is expected to increase significantly over the next five years. Combine this with rapid population and employment growth and the opportunities for the hotel accommodation sector in the area will increase.

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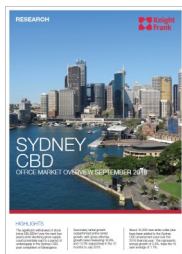
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