

GROWTH IN TRAVEL AND TOURISM, A REFLECTION OF THE WEAKENED AUD, CONTINUES TO DRIVE THE CAIRNS HOTEL MARKET

Across all hotel performance indicators the Cairns market outperforms all major Australian hotel markets (YTD August 2016), albeit rising from a low base. Improving sector performance has increased investor activity.

October 2016

The Queensland government has reaffirmed its commitment to growing tourism and making Queensland a major destination for millions of Asian visitors, by releasing **an extra \$33.5m in funding over four years for the Connecting with Asia Fund**

Over the year to August 2016, 151,263 more passenger arrivals were recorded at Cairns Airport, compared with the previous year

There are 28 domestic ports and 9 international cities reached by scheduled flights from Cairns. The 10th international destination will be Seoul when Jin Air commences in December.

Over \$200m of hotel assets have traded since May 2015 highlighting investor confidence



PAUL SAVITZ
Director
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“Off the back of increased hotel requirements from both domestic and international visitors, the Cairns hotel sector has transformed into a market of renewed opportunity.”

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The tourism and hotel sector along Queensland's tropical north coast has enjoyed a renaissance over the past five years, despite recent weaknesses to the broader state and global economies. One of the standout performers across this market during recent times has been Cairns.

Over the past five years, there has been a significant pick-up in the demand for Cairns hotel accommodation, reflected by the strong performance in room occupancies and an increase in average daily room rates. Occupancy (YTD) across the Cairns hotel market has increased from 68.6% in 2012 to 83.3% in August 2016, with recent individual months (July and August) recording occupancy upwards of 92%.

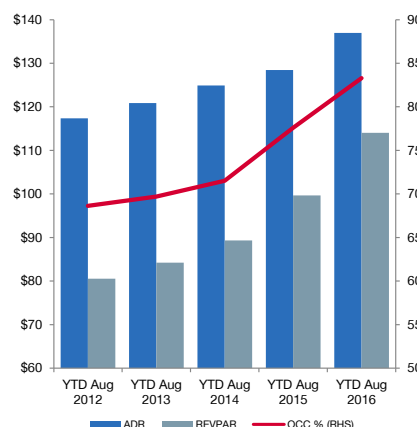
Tightening occupancy rates are flowing through to average daily room rates (ADR) across the Cairns market (see Figure 1). In the year to August 2016, the ADR across Cairns measured \$136.96, up 7.2% on the eight months equivalent prior, and 16.7%

above the August 2012 YTD figure.

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 August 2016, RevPAR averaged \$114.02, up 13.0% compared to the same period in 2015, and 41.5% since YTD 2012.

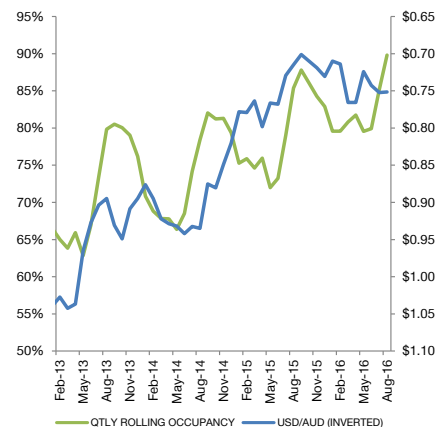
One of the main driving forces has been the depreciation of the Australian Dollar (AUD), which has made international travel relatively more affordable to those countries with currencies closely linked to the US Dollar (USD), such as the Chinese Yuan Renminbi. Figure 2 highlights this close inverse correlation ($r = -0.72$) of a declining AUD and increasing hotel occupancy. As the AUD has weakened against the USD, occupancy across the Cairns market has trended in a positive trajectory. The depreciation of the AUD has also increased domestic travel as overseas vacations for Australians became comparably more expensive.

FIGURE 1
Hotel Sector Performance - YTD
ADR, Occupancy, RevPAR



Source: Knight Frank Research, STR Global

FIGURE 2
Impact of a Weakening AUD
USD/AUD vs Occupancy (rolling 3 months)



Source: Knight Frank Research, STR Global, RBA

Growth in travel and tourism to Cairns is reflected in the most recent arrival figures to Cairns Airport (see Figure 3). For the latest month of August, passenger arrivals have increased by 8,054 and by 18,508 compared with the same months in 2015 and 2014 respectively. Since January 2016, growth in arrivals on an annual monthly rolling basis, has been close to 7%.

With the Cairns population expected to grow by 30,500 over the next 10 years (2016-2026), or by 19%, at which point almost 195,000 will live in the Cairns LGA, the next phase of growth opportunities in the hotel sector will be underpinned by domestic tourists visiting family and friends and an increased CBD business presence.

With strong trading activity, and a diminutive CBD supply pipeline investor confidence has been boosted, reflected in \$125m worth of Cairns hotel assets

transacting so far in 2016. The 4-star Rydges Esplanade Hotel, which comprises 242 rooms and includes a range of leisure and business facilities, sold in September 2016 for \$40m to Mulpha Australia, an investment arm of the Malaysian group Mulpha International.

This follows the agreed c\$48m sale (awaiting settlement) in June of the 314 room Novotel Cairns Oasis Resort to Melbourne based private investor Yong Quek's Shakespeare Property Group. This was the Groups second Cairns hotel transaction in a year, after purchasing the five-star Pullman Cairns International hotel in May 2015 for \$75m.

The third significant 2016 transaction was the \$34m acquisition of the 246 room Rydges Tradewinds, by GA Group Australia in March. GA will undertake a major refurbishment of the property in 2017, and upgrading of the hotel to create a 5/6 star offering.

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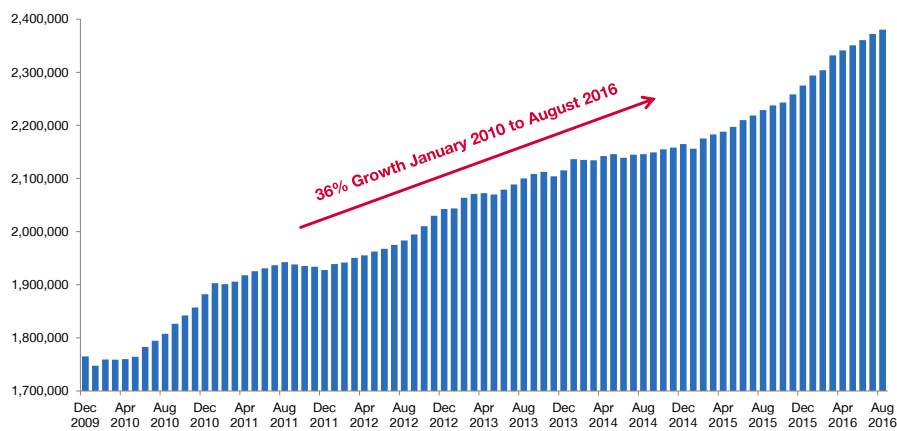
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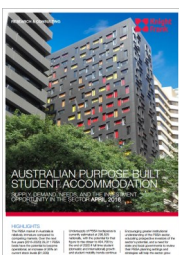
FIGURE 3
Growth in Arrivals—Domestic & International Combined
Cairns Airport



Source: Knight Frank Research, Cairns Airport Pty Ltd

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