

# SYDNEY OLYMPIC PARK HOTEL MARKET BRIEF

## JUNE 2017



### Key Facts

**The Australian tourism sector continues to go from strength to strength**, with international visitor growth increasing 9.2% over the 12 months to March 2017.

**International visitor numbers into Sydney increased 10.1% over the year to March 2017 (3.7 million visitors)**, currently capturing 47% of all overseas tourists into Australia.

Reflective of increased demand, **hotel occupancy rates in Sydney Olympic Park have increased from 62.4% in April 2013 to 76% in April 2017 (YTD)**.

With hotel operators continuing to drive ADR, **RevPAR rates have increased 32.4% over the past four years in Sydney Olympic Park**, well above the 26.7% recorded for Sydney over the same period.

There is a limited supply pipeline and combined with increasing occupancy levels in Sydney Olympic Park, **returns from hotels is expected to continue to improve**.

Through increased sporting and entertainment events, coupled with a pick-up in corporate travel, demand for hotel accommodation in Sydney Olympic Park has increased significantly since 2013.

### Market in Context

The Australian tourism sector continues to go from strength to strength, underpinned by a resurgence in international visitors brought about by steady growth in the Australian economy (+2.4% annual growth to December 2016), a depreciating Australian Dollar (albeit remaining resilient) and increases in household spending capacity as a result of historically low interest rates (cash rate sitting at 1.5%). In the 12 months to March 2017, 7.7 million international tourists visited Australia, up 9.2% from the prior corresponding period and well above the historical growth rate of 3.5% per annum. Highlighting the resilience of the sector, recent growth in international visitor numbers into Australia has come at a time when global financial markets have shown increased volatility.

For Sydney, international visitor numbers grew by 10.1% in the 12 months to March 2017, the highest annual growth of all the capital cities. Over the 12 month period, 3.7 million international tourists visited the harbour city, accounting for 47% of all overseas tourists into Australia.

The Sydney hotel market is mature and well established, driven by demand from both the business and leisure sectors. With hotel market performance directly tied to the fundamentals of the local economy, the growth of the NSW economy has been a primary driver of the strong performance within the hotel sector over the past five years. Off the back of increased hotel requirements from both domestic and international visitors, the sector has performed well since 2013 with hotel performance metrics in Sydney significantly outstripping national averages over the same period. With occupancy rates across the broader Sydney region currently averaging 86.8%, Sydney hotels are nearing full capacity and highlights the opportunity for additional supply.

Hotel performance in Sydney Olympic Park has mirrored recent trends for the broader Sydney region. Although occupancy rates in Sydney Olympic Park are lower than the Sydney average at 76% versus 86.8%, occupancy growth in Sydney Olympic Park has significantly outstripped the Sydney average, increasing from 62.4% in April 2013 to 76% in April 2017 (YTD).

# TOURISM & HOTEL VIEWPOINT

The tourism sector is a key contributor to Sydney's economic output, accounting for almost 5% of Sydney's gross regional product and employing more than 74,000 people. Reflected by the strong performance in hotel metrics, a large share of Sydney hotels are operating at near capacity several nights a week, compounded by the lack of supply brought to market in recent years. Aiding this occupancy growth has been material increases in holiday and education visitation into Sydney, while solid fundamentals in the NSW economy has led to a pick-up in corporate travel into Sydney.

## International Arrivals

Sydney is Australia's global gateway city, currently capturing almost half (47%) of all international visitors into Australia. In addition, international visitation into Sydney is 43% larger than the second largest tourist destination of Melbourne. In the 12 months to March 2017, there were 3.7 million international visitors into Sydney, supported by a significant pick-up from Asia and the continued inbound arrival of New Zealanders. Notably, international aviation passenger growth into Sydney was its strongest in 12 years,

with an additional two million international seats entering the Sydney market throughout 2016. Similarly, international passenger growth through Sydney Airport is up 7.2% in the year to April 2017 compared to the same period in 2016.

Over 750,000 annualised new international seats have already been announced in 2017. The additional services have been focussed on Asia, with new and increased capacity to China, Vietnam, Korea, Indonesia and Hong Kong. The growth of the Chinese market received a further boost in December 2016 with the signing of an historic new China-Australia air services agreement. The agreement immediately removed all capacity restrictions on airlines flying to and from Chinese cities and is expected to generate a new wave of growth from this important market in 2017 and beyond.

For Sydney Olympic Park, approximately 30,000 international visitors stay in the precinct per annum, making it the 15th most popular region in Sydney to stay for international visitors. In regards to Western Sydney, only the Blue Mountains and Parramatta are ahead of Sydney Olympic Park in regards to overnight international visitors.

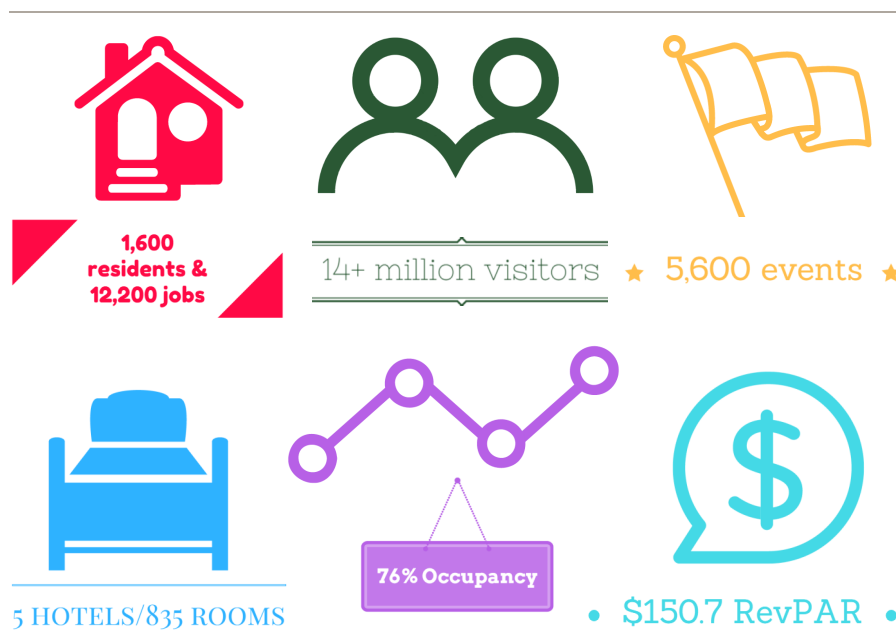
## Accommodation Demand

The Sydney hotel accommodation market has been the standout performer nationally, aided by the emergence of Western Sydney as a leisure and business destination and more specifically Sydney Olympic Park. Sydney Olympic Park attracts a mix of over 14 million domestic and international visitors a year and plays host to over 5,600 events annually. The precinct is home to some of Australia's largest sporting and entertainment events across its stadiums, indoor arenas and sporting fields. One of the precinct's largest events, the Sydney Easter Show, attracted over 920,000 people through its gates in 2017. The numerous events hosted across the precinct throughout the year ensures non-seasonal demand for hotel accommodation.

Historically, demand for hotel accommodation in Sydney Olympic Park has been driven by sporting, entertainment and conference events. However, with the number of jobs within the Sydney Olympic Park precinct forecast to rise significantly over the next 15 years, coupled with the global and national company tenant profile (Samsung, NRMA, Lion Group and CBA), the forecast employment growth will have positive demand implications for the hotel market. With Sydney Olympic Park expected to bolster its position as a major employment hub, it is anticipated that the business sector, stemming from visiting interstate and overseas employees to new and expanding business, will become more of a contributing factor to the demand for hotel accommodation.

Sydney is currently in the midst of an infrastructure boom with an unprecedented amount of funds being directed towards building a new airport as well as roads, tunnels and railways. Notably, a large share of these projects will directly benefit Sydney Olympic Park, ultimately improving connectivity to the CBD, Sydney Airport and other parts of Sydney. The recently announced Sydney Metro West underground rail project connecting the Sydney CBD to Parramatta, via Sydney Olympic Park and The Bays Precinct will be a catalyst for further investment in Sydney Olympic Park, underwriting increased demand for hotel accommodation given the

FIGURE 3  
Sydney Olympic Park Tourism & Hotel Dashboard



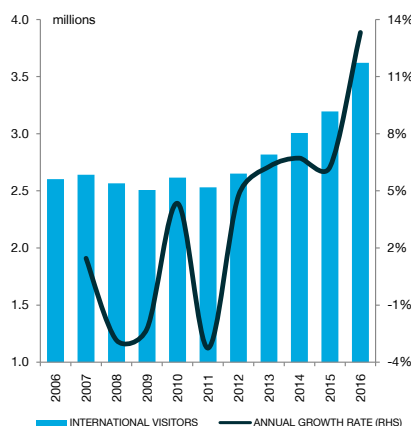
reduced travel times. In combination with the WestConnex road project and stage two of the Parramatta Light Rail (Camellia to Strathfield via Sydney Olympic Park), accessibility to and from Sydney Olympic Park will improve exponentially.

The new Badgerys Creek airport, located 27 km from Sydney Olympic Park is expected to accommodate five million passengers per annum once operational and will be a game changer to tourism and accommodation demand in Western Sydney. Given Sydney Olympic Park's strategic location within Sydney, existing accommodation providers will directly benefit. In addition, with Western Sydney's population expected to grow to 3.6 million persons by 2036, at which point almost three in five Sydney residents will live in the region, the next phase of growth opportunities across all real estate sectors lie within the Western corridor of Sydney.

## Current & Future Room Supply

At present, there are 835 hotel rooms across five hotels in Sydney Olympic Park, underpinned by the Pullman (218 rooms) and Novotel (177 rooms) hotels. Notably, existing room supply is skewed towards 4.5+ star accommodation, representing 64% of rooms. No new hotels have been added to the market since 2012 (Quest Apartments). Looking ahead, there are no additional rooms in the short to medium term pipeline, however there is potential for additional supply to be added through the release of new sites. We note, beyond the Sydney Olympic Park precinct, there are

FIGURE 1  
Sydney International Visitors  
Year to December



Source: TRA, Knight Frank Research

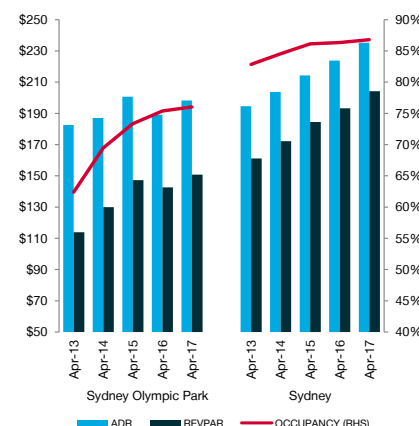
several hotel projects in the pipeline, largely stemming from Parramatta including QT Hotel (252 rooms) and Altitude serviced apartments (254 apartments).

## Hotel Trading Performance

To illustrate the operating characteristics of the hotel market, we have compared the hotel performance of Sydney Olympic Park against the broader Sydney hotel market. Over the past five years, there has been a significant pick-up in the demand for hotel accommodation within Sydney, reflected by the strong performance in room occupancies and an increase in average daily room (ADR) rates. Occupancy (YTD) across the Greater Sydney hotel market has increased from 82.8% in 2013 to 86.8% in April 2017. This result has stemmed from a surge in international arrivals into Sydney and coupled with limited room additions has led to a relative shortage of hotel rooms across the Sydney metropolitan region.

For Sydney Olympic Park, YTD occupancy rates in the hotel market have increased significantly over the past four years, from 62.4% in 2013 to 76.0% in April 2017 (see Figure 2). While still down from the Sydney average, occupancy levels in Sydney Olympic Park have increased in response to limited new supply and an increase in overnight visitation to the precinct due to major events and corporate travel. Notably, the precinct's low office vacancy rate of 2.9%

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



Source: STR Global, Knight Frank Research

has been a catalyst for the healthy corporate travel sector within the Park.

An increase in occupancy rates has led to an increase in average daily room rates (ADR) in both Sydney Olympic Park and the broader Sydney region. In the 12 months to April 2017, ADR in Sydney Olympic Park measured \$198.20, up 4.8% 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 5.1% over the same period to \$235.30. By comparison, ADR nationally increased by just 1.4% over the same 12 month period.

The confluence of increased occupancy levels and ADR has led to considerable upward pressure on Revenue Per Available Room (RevPAR) in recent years. In the year to April 2017, RevPAR in Sydney Olympic Park averaged \$150.70, compared to \$204.20 for Sydney. However, the RevPAR rate of growth recorded in Sydney Olympic Park has outstripped the Sydney average over the past four years, up 32.4% in Sydney Olympic Park, compared to 26.7% for Sydney over the period (since April 2013).

## ROOM SUPPLY

### PULLMAN

Opened 2008  
Upper Upscale Class / 5\*  
218 Standard Room & Suites  
Meeting rooms for up to 220

### NOVOTEL

Opened 2000  
Upscale Class / 4.5\*  
177 Standard Room & Suites  
Conference facilities for up to 600

### QUEST APARTMENTS

Opened 2012  
Upscale Class / 4.5\*  
140 One, Two & Three Bedrooms

### IBIS

Opened 2009  
Midscale Class / 3.5\*  
144 Standard Rooms

### IBIS BUDGET

Opened 2008  
Economy Class / 2\*  
156 Standard Rooms

Source: STR, Sydney Olympic Park website



# OUTLOOK

- Over the next five years, both domestic and international tourism in Australia is expected to strengthen. Domestically, tourism growth is forecast to increase by 16.2% over the next five years (Tourism Research Australia), while aviation capacity growth between Australia and overseas markets is expected to result in a 31% increase in international visitors over the same five year period (Tourism Research Australia).
- 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. With occupancy rates across the broader Sydney market currently averaging 86.8%, hotels are nearing capacity several nights a week. Although lower than Sydney, occupancy levels in

Sydney Olympic Park have increased significantly in recent years, highlighting the increased demand for accommodation in the precinct from corporate travellers and visitors attending events.

- With the hotel supply pipeline picking up across Sydney, new supply is not considered to impact the market before 2018 and is expected to only cause a modest reduction in room occupancies. Although there is the potential for future supply through the release of new sites, there are no identified hotel projects in the pipeline within the Sydney Olympic Park precinct. Subsequently, occupancy and RevPAR rates in Sydney Olympic Park are expected to trend above inflationary growth over the short to medium term, providing scope for additional accommodation provisions to be added to the market.

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