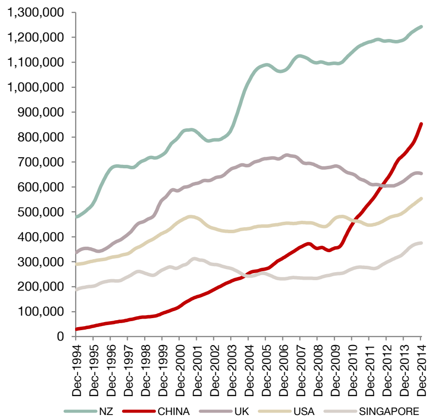
RECORD NUMBER OF TOURISTS ENTERING AUSTRALIA WITH CHINESE VISITORS LEADING THE GROWTH

As the Australian Dollar loses strength against major global currencies inbound tourist levels continue to grow, with record tourist numbers from 10 of the 15 largest countries by visitor number, contributing to positive performance of Australian hotels and an upswing in retail spending.

Latest government tourism trend data shows that there were 588,500 short-term visitor arrivals during December 2014, an increase of 0.5% compared with November 2014. This monthly growth follows 21 continuous monthly increases in short-term visitor arrivals to Australia, with the last monthly fall being February 2013. The current trend estimate for short -term visitor arrivals is 6.1% higher than a year ago. This trend is likely to continue, as preliminary estimates for short-term visitor numbers over the first quarter of 2015 average 640,000 per month.

The largest nation by visitor number to Australia remains New Zealand, which in December 2014 recorded a record number of monthly (104,900) and annual visitors (1,242,500). However, the major story over the past 20 years is the growth of Chinese visitors to Australia. In December 1994, 2,900 Chinese nationals visited Australia, compared to a record 76,700 Chinese nationals visiting Australia in December 2014, the equivalent to an increase of 2,545%. To put that growth into perspective the number of visitors from New Zealand, the UK, and the US have grown by 153%, 76% and 102% over the same period. However, exponential growth in Chinese visitors has only really occurred in the past five years, with the annual number of short term visitors more than doubling from 354,900 in December 2009 to 853,200 in December 2014 (Figure 1).

FIGURE 1
20 year annual short-term visitor levels: Chinese growth



Source: Knight Frank, ABS (rolling annual trend data)

Furthermore, it is no coincidence that over the period between April 2011 and December 2014 the number of Chinese visitors grew at its fastest pace. Over that same period, the Australian dollar depreciated by 28% against the Chinese Renminbi, underpinning greater purchasing power and global movement of Chinese nationals, alongside better air connections and less stringent visa requirements. Since December 2014 the value of the AUD against the Renmimbi has fallen further by 3%, therefore, we can only assume that Chinese tourist numbers will see similar trend increases into 2015, when actual country specific data is released.

FIGURE 2
Performance of Australia, Sydney & Melbourne Hotels

Source: Knight Frank, STR Global

In addition, Tourism Research Australia's latest September 2014 survey shows that the number of nights per visitor to Australia increased by 3% and spending per trip rose 9%, to a record AUD30.7bn for the year. Total spending equates to around AUD$4,900 per visitor. However, the average spend by a Chinese tourist is around 50% higher at AUD$7,362, increasing by 5.6% over the past year. Soaring inbound Chinese tourists numbers and rising average spend is due in part to advantageous exchange rates, but mainly down to the rise of the middle class and their associated wealth. The number of tourists to Australia, from China and other Asian nations, is only going to increase, as estimates suggest that Asia will represent 66% of the global middle class by 2030, equivalent to growth of 3.1 billion people from 2009.

Growth in tourist numbers, especially those who spend above trend can only be good news for retailers and hoteliers. The latest seasonally adjusted ABS data shows retail sales have risen 0.7% for the first three months of 2015, following a rise of 1.2% in the December 2014 quarter and a rise of 1% in the September quarter. These figures are positives for retailers given the perceived flatness in domestic consumer confidence. By state the largest growth in retail sales, on an annualised basis, has been NSW (3.9%), 110 bps above the national average. Retail spending levels in NSW, and likewise Victoria (3.4%), appears to be partly influenced by discretionary spend from increasing tourist numbers, especially Chinese visitors, to both Sydney and Melbourne, Australia's two largest tourist destinations. Furthermore, growth in retail spending and international tourism across Sydney and Melbourne aligns with the accelerating trend of global retail brands seeking space in both these CBD retail markets.

Over the long term, the Australian hotel market is cyclical, with performance reflecting economic trends. However, due partly to the boost from Chinese tourists over the most recent three year period all key hotel performance indicators, Occupancy, Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) have all shown annual increases. Occupancy across Australia now (April 2015 YTD) trends at 76% whilst ADR ($187) and RevPAR ($142) have increased by 6% and 9% respectively since the same period two years ago (see Figure 2). Sydney and Melbourne, Australia’s two largest hotel markets, rely more heavily on the corporate sector for demand, particularly for upscale and luxury hotels, compared with the rest of the country, as well as serving the majority of inbound tourists. Occupancy in both those two cities is currently trending almost 4% higher than at April 2013, whereas RevPAR is up 16% and 13% respectively over the past two years.

There is no sign of occupancy rates in core Sydney and Melbourne hotel markets abating, and consequently the hotel asset sales market is surging, led by Chinese and South-East Asian buyers collecting the highest priced assets. Over the last six months alone, three c$450m sales in Sydney have occurred. They include the most recent $445m sale of the Westin Hotel at No.1 Martin Place to Singapore developer Far East Organisation and Hong Kong's Sino Group, the $442m sale of the Hilton Hotel on George Street, to Singaporean Investment House Bright Ruby, and thirdly, late in 2014 Sunshine Insurance Group (Chinese) bought Sheraton on the Park for $463m. Additionally, in Melbourne Singaporean group Tuan Sing purchased its joint venture partner’s 50% share of the Melbourne Grand Hyatt off market for a 100% equivalent price reputedly somewhere over $350m.

Whilst we anticipate room nights demand to increase and development of new hotel capacity to remain a challenge due to the differential between development cost and value on completion, we expect appetite for hotel assets to strengthen, headed by Asian high net worth individuals, operators and institutional investors.

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For more information on Retail and Hotel markets, alternative asset classes, global property flows into Australia or if you require property due diligence or detailed market assessments, including socio-demographic profiling, supply and demand forecasts, competitor profiling and development recommendations, please contact Paul Savitz or Luke Crawford to discuss your research requirements.

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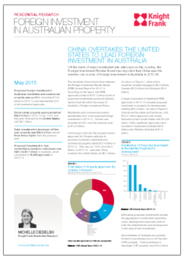

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