

## SUPPLY OF NEW HOTEL ROOMS IS ON THE INCREASE IN BOTH THE CBD AND INNER CITY AREAS

Metrics for the hotel market have remained soft over FY2015 with business travel recovering from recent lows. At the same time recent and forecast supply has been boosted by infrastructure concessions and development aligned with residential apartment projects.

### December 2015

After delivery of 911 new hotel rooms in 2014, supply is expected to be lower in 2015 at 507 rooms before accelerating to average 1,300+ rooms per annum for the next three years.

Both occupancy and REVPAR have shown modest results over FY2015.

Investment demand for hotels has been high in Sydney, Melbourne and also the Gold Coast markets. This has begun to flow into the Brisbane market with greater off-shore interest and investment.



**JENNELLE WILSON**  
Senior Director – Research QLD

“Supply will increase dramatically over the next three years; expect increased pressure on older stock to refurbish or trigger change of use.”

The Brisbane market, particularly the CBD and surrounding inner city suburbs, is currently experiencing a surge in new construction. This has arisen in part due to incentives offered by the Brisbane City Council to boost supply, after fears that the City would lack the capacity required to host large events, triggered by the G20 in November 2014.

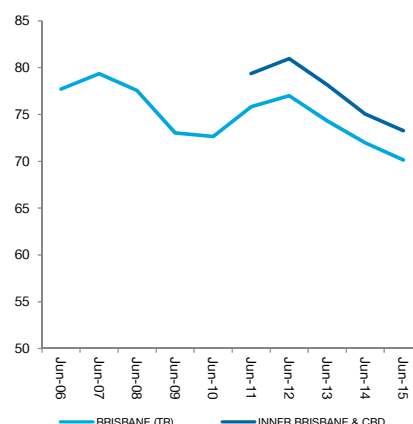
### Market Metrics

As shown in Figure 1 below, the average occupancy rate for the Brisbane Tourist Region (TR) has responded to the general economic and business conditions at the time. Using annual averages to remove seasonal variability, it can be seen that high occupancy was experienced during the lead up to the GFC, with the expected dip through 2009 and 2010. There was a resurgence in occupancy levels during 2011 and 2012, boosted by the upswing in resource sector investment and high business travel levels. Since FY2012 the occupancy levels have steadily slipped to now be below GFC levels.

Revenue per available room (REVPAR) grew strongly prior to the GFC and then again between 2010 and 2012 as the undersupply of hotel rooms for business travelers became more obvious, particularly in Inner Brisbane. The REVPAR has since reduced as occupancy continued to slip due to the drop in business travel. According to Tourism Research Australia (TRA) the FY2014 had the lowest level of domestic business visitors to Brisbane in 10 years.

International visitor numbers to Brisbane grew by 9.8% in FY2015 (TRA), with 1,066,121 international visitors recorded. Domestic visitor numbers also grew, although by a more modest 4.7% over the same period with 5,413,000 visitors. Domestic business travel in particular increased strongly, up by 22.7% over the year; returning to levels last seen in FY2012. While only accounting for 20% of total visitors to Brisbane, domestic business travelers are of particular importance to the Brisbane CBD and inner city occupancy & REVPAR levels.

FIGURE 1  
**Brisbane Hotel Occupancy**  
% Annual Average Occupancy 12 months to



Source: Knight Frank Research/ABS

FIGURE 2  
**Brisbane Hotel REVPAR**  
\$ Annual Average REVPAR 12 months to



Source: Knight Frank Research/ABS

# ACCOMMODATION SUPPLY IS SET TO SURGE IN INNER BRISBANE & CBD WITH 4,056 ROOMS SLATED TO BE ADDED 2016-2018—A CIRCA 35% INCREASE ON CURRENT STOCK LEVELS

TABLE 1

## Inner Brisbane & CBD Major Hotel/Serviced Apartment Supply – 100+ rooms

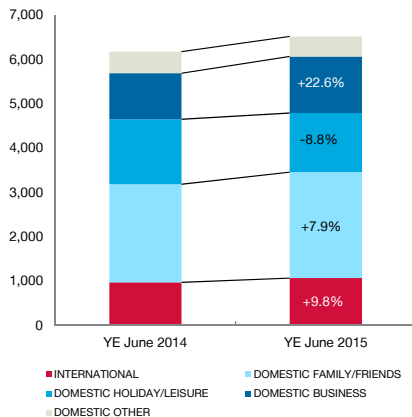
Project Name	Precinct	Developer	Operator	Star Rating~	Status	No. Rooms	Date
103 Mary St, Brisbane	CBD	Sam Chong	Four Points Sheraton	4.0	Complete	246	2014
70 Queen St, Brisbane^	CBD	Silverneedle	NEXT	5.0	Complete	150	2014
43 Herschel St, Brisbane#	CBD	Meriton	Meriton	5.0	Complete	199	2014
130 Logan Rd, Woolloongabba	Inner	Pelicano Group	Quest	4.5	Complete	132	2014
80 Albert St, Brisbane^	CBD	Frasers Hospitality	Capri by Frasers	4.5	Complete	239	2015
360 Edward St, Brisbane‡	CBD	Existing Bld	Mantra	4.5	Complete	114	2015
959 Ann St, Fortitude Valley	Inner	Chrome AP No 1	Alex Perry Hotels	5.0	Complete	143	2015
King St, Bowen Hills	Inner	Denwol Group & Baron Corporation	Rydges	4.0	Construction	208	Mar 16
40 Elizabeth St, Brisbane	CBD	Action Group Aust	Ibis	3.5	Construction	368	Mar 16
252 St Pauls Tce, Spring Hill	Inner	Richmont Holdings	Mantra	4.0	Construction	108	Jun 16
171 George St, Brisbane^	CBD	Toga Hotels Aust	Adina Apart. Hotels	4.0	Construction	201	Jun 16
209 Grey St, South Brisbane#	Inner	Anthony John Gp	Emporium	5.0	Construction	142	Late 16
168 Wharf St, Spring Hill	Inner	Pro-Invest Group	Holiday Inn Express	4.0	Construction	226	Late 16
214 Vulture St, South Brisbane#	Inner	Horan Group	tba	4.0	Construction	134	Late 16
90 Campbell St, Bowen Hills	Inner	Auscom Projects	tba	tba	Approved	140	Mid 17
72 McLachlan St, Fortitude Valley#	Inner	Portfolio Group	Wyndham	4.5	Approved	134	Late 17
46 James St, Fort Valley	Inner	Malouf Family	tba	4.0	Dev Application	178	Late 17
133 Grey St & Melbourne St, South Brisbane	Inner	Doma Group	Little National Hotel	tba	Proposed	160	Late 17
38 Cordelia St, Sth Brisbane	Inner	Kinstone	tba	4.0	Approved	238	2017/18
300 George St, Brisbane	CBD	Shayer Group	W Hotels	5.0	Construction	305	2018
111 Mary St, Brisbane#	CBD	Sam Chong	Westin	5.0	Approved	286	2018
Howard Smith Wharves	CBD	Deague Group/ Adam Flaskas	Art Series Hotel Group	5.0	Preferred Developer	150	2018
Queens Wharf—VIP Hotel	CBD	Destination Brisbane	Tba	6.0	Preferred Developer	c1,100 total	2020—2022
Queens Wharf—The Darling	CBD	Destination Brisbane	Star Entertainment	5.0			
Queens Wharf—Dorsett	CBD	Destination Brisbane	Far East	4.0			
Queens Wharf—Rosewood	CBD	Destination Brisbane	Rosewood	5.0			
Queens Wharf—Ritz Carlton	CBD	Destination Brisbane	Ritz-Carlton	5.0			
120 Lutwyche Rd, Windsor#	Inner	Private Investor	tba	tba	Dev Application	121	Mooted
188 Wickham St, Fort Valley	Inner	Offshore Developer	tba	tba	Approved	198	Mooted
Musgrave Rd, Red Hill	Inner	LMRM Pty Ltd	tba	3.0	Dev Application	184	Mooted
Remora Rd, Hamilton	Inner	Resource Connect	tba	tba	Dev Application	200	Mooted

**Source:** Knight Frank Research ~achieved or reported targeted self-rating # development also contains additional residential units ^conversion of an existing building to hotel use ‡ former residential building now operated as a serviced apartment hotel. Inner = Inner Brisbane (see definition p.4) Fort Valley = Fortitude Valley

FIGURE 3

**Brisbane (TR) Visitor Numbers**

'000 No. of visitors per annum



Source: Knight Frank Research/Tourism Research Australia

## Development Activity

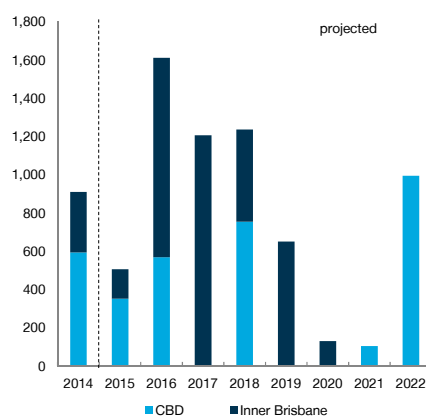
The number of 3-5 star rooms grew strongly by 5.5% p.a (2,305 rooms) between 2006 and 2010 within the Brisbane Tourism Region. However from 2010 through to the end of 2013 there was virtually no new supply. To counteract this diminishing development pipeline, particularly for business travelers in the CBD, the Brisbane City Council (BCC) introduced a reduction in infrastructure charges for hotel applications in order to stimulate development activity. The reduction was available for 4 and 5 star hotels which were granted development approval between July 2011 and July 2015.

In response to both the infrastructure charge reductions and perceived demand, new supply in the CBD and Inner Brisbane increased in 2014 with 911 new hotel rooms delivered. This was

FIGURE 4

**Inner Brisbane & CBD Hotel Supply**

No. of proposed additional rooms

Source: Knight Frank Research/Cordell Connect  
No. rooms from active proposals with development approval, current application or preferred developer

largely within the CBD, dominated by the Four Points Sheraton Hotel (246 rooms), the expansion of NEXT by 150 rooms at 70 Queen St and the completion of the Infinity development at 43 Herschel St, where some 199 units are being operated as serviced apartments by Meriton. Additionally, 316 rooms were completed in Inner Brisbane across Petrie Terrace, Fortitude Valley and Woolloongabba.

Completions during 2015 have been dominated by conversions of existing assets with the 239 room 4.5 star Capri by Frasers, a former office building at 80 Albert St, CBD along with the 114 room conversion of a residential building at 360 Edward St to a Mantra-managed serviced apartment complex. The other major completion was the 143 room Alex Perry Hotel in the Fortitude Valley.

New supply will jump to 1,612 rooms during 2016 with much of the increase coming from Inner Brisbane with 1,043 rooms plus the CBD adding 569 rooms.

New supply will remain high during 2017 and 2018 with 1,207 and 1,237 additional rooms respectively. Supply in 2018 will be again dominated by the CBD with the expected completion of the Shayer Group's 305 room W hotel and Sam Chong's 286 room Westin-committed development. From a current estimated stock base in the order of 11,680 rooms in Inner Brisbane & CBD (ABS), the slated supply 2016-2018 would be a gross increase of c35% on current room numbers; but some attrition of projects not yet under construction is likely.

Beyond 2018 the development pipeline is less clear, however is expected to be dominated by the Queens Wharf development in the CBD. The Destination Brisbane consortium has reached contractual close on the 9.4 ha Queens Wharf site currently occupied by existing State Government offices and low-rise heritage buildings. The integrated resort project will involve the delivery of some 1,100 new hotel rooms under five operators which are new to Brisbane, including Ritz Carlton, a Rosewood Hotel, a Dorsett, The Darling and a six star VIP hotel. The existing Treasury hotel is to be converted into high end retail and the current casino converted to a new Ritz Carlton hotel. The time frame for construction on the project is over the period 2017 – 2022 and also includes some 2,000 residential apartments.

## Investment Activity

Investment activity in the hotel sector across Brisbane has been higher in 2015 with a number of significant sales. This has followed the generally stronger transaction levels, particularly from offshore buyers, in the Gold Coast and northern Queensland markets.

TABLE 2

**Inner Brisbane & CBD Major Hotel Sales**

Property	Star Rating	Price \$m	No. rooms	Initial Yield	Vendor	Purchaser	Date
Rendezvous Hotel, 103 George St, CBD	4.0	29.50	99	6.2%	BLM Brisbane	GMT Brisbane Property	Jun 15
Next Hotel, 70 Queen St, CBD	4.5	133.00	304	7.9%	Silverneedle Group	Challenger Life	Feb 15
Adina, 11 Ivory Lane, CBD	4.0	50.00~	162	5.9%	Toga Far East Hotels	Mapletree	Jan 15
Il Mondo, Rotherham St, Kangaroo Point	4.0	13.50^	40#	7.2%	GBW Developments	Offshore Investment Syndicate	Aug 14

Source: Knight Frank Research ~sold with a 1 year leaseback ^ sold with VP #40 keys across a variety of configurations

Purchasing activity has also been very strong within the Sydney and Melbourne markets, with offshore investors now holding some 88% of the 4 and 5 star hotel rooms in the Sydney CBD, up from c50% five years ago. Three sales in the Inner Brisbane & CBD market during the past year have been to offshore entities as interest, particularly from Asian buyers, has broadened to include Brisbane.

The most recent sale of the Rendezvous Hotel at 103 George St is indicative of the increased demand in the George Street precinct, following confirmation of the Queens Wharf development which will rejuvenate the precinct. The purchaser is a private investor based in Singapore.

In a more passive investment Challenger Life have purchased the recently expanded and refurbished NEXT Hotel in the Queen Street Mall with a 10 year leaseback to the Silverneedle Group, reflecting a yield of 7.9%. This \$133 million sale is the most significant recent sale in the Brisbane hotel market. Going forward the growing interest from offshore buyers, coupled with an increasing pool of modern assets, is expected to trigger additional transactions.

#### Definitions:

Brisbane Tourist Region—ABS defined region which generally correlates with the Greater Brisbane statistical area. This excludes both the Gold Coast and Sunshine Coast regions.  
Inner Brisbane—Suburbs immediately surrounding the CBD within a band of c.2km. This includes Spring Hill, Fortitude Valley, Kangaroo Point, Woolloongabba, New Farm, South Brisbane, Newstead-Bowen Hills, Windsor, Milton & Toowong. To calculate the **ABS Occupancy & REVPAR** summary data for the Inner Brisbane & CBD precinct the individual suburb data, where available, is weighted by the number of rooms to create a weighted average for the total precinct.

## Outlook

The Inner Brisbane and CBD hotel market is undergoing a generational change, with currently slated new supply 2016-2018 representing 35% increase on current Inner Brisbane & CBD room levels. This will place pressure on older stock and may trigger refurbishment or redevelopment amongst some older accommodation, particularly those which are also land rich.

As calculated by the ABS, both occupancy rates and REVPAR have shown only modest results for FY2015 with both measures remaining well below the levels seen FY2011 to FY2013. Within an environment of strong supply, maintenance or improvement of these indicators will depend on solid growth in visitors both international and domestic.

Recent visitor nights data has shown encouraging signs with good annual growth across both international visitors (up 9.8%) and also domestic business travel (up 22%). Recently published data from the TRA indicates that for the combined Brisbane & Gold Coast region total visitor nights are forecast to grow by an average of 4.1% per annum 2016-2020 which provides some scope for the industry to absorb the additional supply.

## RESEARCH

### Jennelle Wilson

Senior Director, Queensland  
+61 7 3246 8830  
[Jennelle.Wilson@au.knightfrank.com](mailto:Jennelle.Wilson@au.knightfrank.com)

### Matt Whitby

Group Director, Head of Research & Consulting  
+61 2 9036 6616  
[Matt.Whitby@au.knightfrank.com](mailto:Matt.Whitby@au.knightfrank.com)

## CAPITAL MARKETS

### Ben McGrath

Managing Director—QLD  
Senior Director—Institutional Sales  
+61 7 3246 8814  
[Ben.McGrath@au.knightfrank.com](mailto:Ben.McGrath@au.knightfrank.com)

### Justin Bond

Senior Director—Institutional Sales  
+61 7 3246 8872  
[Justin.Bond@au.knightfrank.com](mailto:Justin.Bond@au.knightfrank.com)

## PUBS & HOTELS

### Donald Watson-Brown

Director—Pubs & Hotels  
+61 7 3246 8892  
[Donald.Watson-Brown@au.knightfrank.com](mailto:Donald.Watson-Brown@au.knightfrank.com)

### Ryan O'Hanlon

Director—Pubs & Hotels  
+61 7 3246 8807  
[Ryan.O'Hanlon@au.knightfrank.com](mailto:Ryan.O'Hanlon@au.knightfrank.com)

## VALUATIONS

### Alistair Bell

Director—Hotels & Leisure  
+61 2 9036 6763  
[Alistair.Bell@au.knightfrank.com](mailto:Alistair.Bell@au.knightfrank.com)

### Samantha Freeman

Director—Valuations  
+61 3 9604 4709  
[SFreeman@vic.knightfrankval.com.au](mailto:SFreeman@vic.knightfrankval.com.au)

### Gordon Price

Managing Director—Valuations QLD  
+61 7 3193 6880  
[Gordon.Price@qld.knightfrankval.com.au](mailto:Gordon.Price@qld.knightfrankval.com.au)

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