

GENERATIONAL CHANGE UNDERWAY IN THE CBD & INNER BRISBANE HOTEL MARKET

Visitor numbers have been improving over the past two years, underpinned by domestic business travel and international visitors. Strong supply of new room stock has diluted this visitor improvement with both occupancy and RevPAR remaining on a downward trend.

March 2017

After delivery of 967 new hotel rooms in 2016, supply is expected to be similar in 2017 (929 rooms) and higher in 2018 (1,242 rooms) before a hiatus emerges prior to the Queens Wharf development coming online 2022+

Both occupancy and RevPAR have shown further declines over FY2016 as the market absorbs this new stock.

Investment demand for hotels continues to build for the Brisbane market, particularly from offshore buyers, however available stock has remained low.



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Senior Director – Research QLD

“Investment in the Brisbane tourism market continues to grow with strong new construction levels and major infrastructure projects such as the second Brisbane runway and Queens Wharf integrated resort”

Construction and new proposals for additional supply has continued to emerge over the past year as the Brisbane market, particularly in the CBD and inner suburbs, is within a strong supply cycle for new hotel rooms.

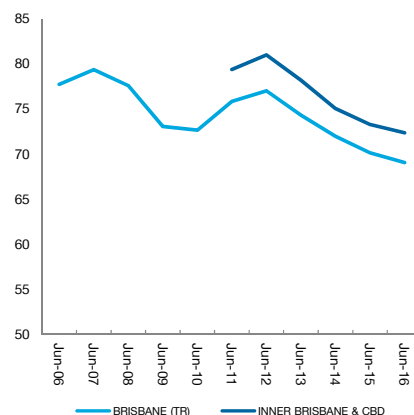
Market Metrics

The average occupancy rate for the Brisbane Tourist Region (TR) has continued to respond to the general economic and business conditions. Using annual averages, which removes seasonal variability, it can be seen that annual average occupancy continued to fall through to June 2016 with 69% for the Brisbane Tourism Region (TR) as a whole and 72% for the CBD and Inner Brisbane. This is slightly lower than the 70% and 73% recorded for the markets in the year prior with the occupancy levels remaining below the pre-GFC and mining boom peaks of 2007 and 2012. Monthly data from STR Global indicates this trend is continuing with occupancy for the second half of 2016 lower than in H2 2015.

Revenue per available room (RevPAR) followed a similar pattern to occupancy levels, falling steadily over the past three years. While room rate discounting has been easing over the past two years, the lower occupancy has seen RevPAR fall to \$117 for the whole Brisbane TR and \$127 for CBD and Inner Brisbane.

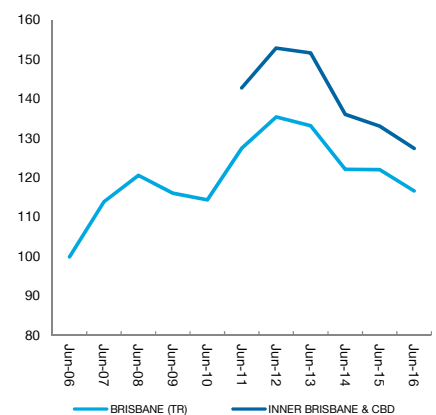
While the hotel market has been faced with increasing room numbers, the visitor numbers to Brisbane have been showing improvement. International visitor numbers to Brisbane grew by a further 9.9% for the year ending September 2016 to 1,190,000 visitors. Over the same period domestic visitors number also increased, up by 5.0% to 5,542,000. Domestic holiday visitors saw the greatest growth, up by 17.5%, with domestic business travel growing by 5.4%, consolidating the 25.9% increase of the year before. 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

2,385 ROOMS WERE ADDED IN THE THREE YEARS 2014-2016 (GROWING STOCK BY 37%); A FURTHER 2,747 ROOMS ARE FORECAST IN THE NEXT THREE YEARS, AND 2,400 FOR 2020+

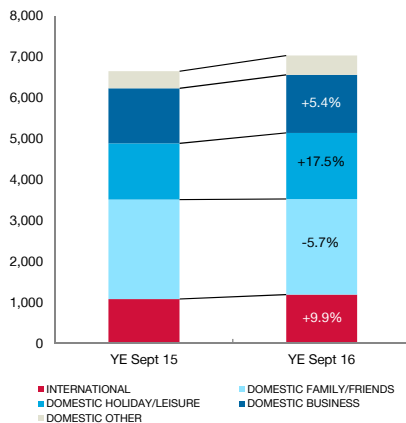
TABLE 1

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

Project Name	Precinct	Developer	Operator	Star Rating~	Status	No. Rooms	Date
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	Complete	208	2016
40 Elizabeth St, Brisbane	CBD	Action Group Aust	Ibis Styles	3.5	Complete	368	2016
252 St Pauls Tce, Spring Hill	Inner	Richmont Holdings	Mantra	4.0	Complete	108	2016
214 Vulture St, South Brisbane#	Inner	Horan Group	Swiss-Belhotel	4.5	Complete	134	2016
168 Wharf St, Spring Hill	Inner	Pro-Invest Group	Holiday Inn Express	4.0	Construction	226	Apr 17
171 George St, Brisbane^	CBD	Toga Hotels Aust	Adina Apart. Hotels	4.0	Construction	201	Oct 17
300 George St, Brisbane	CBD	Shayher Group	W Hotels	5.0	Construction	305	Dec 17
209 Grey St, South Brisbane#	Inner	Anthony John Gp	Emporium	5.0	Construction	142	Mar 18
46 James St, Fortitude Valley	Inner	Malouf Family	TFE Hotels Collection	4.0	Construction	178	Mar 18
111 Mary St, Brisbane#	CBD	Sam Chong	Westin	5.0	Construction	286	Oct 18
38 Cordelia St, Sth Brisbane	Inner	Kinstone	Novotel	4.0	Construction	238	Dec 18
133 Grey St & Melbourne St, South Brisbane	Inner	Doma Group	Little National Hotel	4.0	Proposed	164	2018
7 Remora Rd, Hamilton	Inner	Resource Connect	tba	tba	Approved	200	2018
Howard Smith Wharves	CBD	Deague Group/Adam Flaskas	Art Series Hotel Group	5.0	Prelim Approval	164	2019
28 McDougall St, Milton	Inner	Zappala Family	tba	tba	Dev Application	168	2019
458 Brunswick St, Fortitude Valley	Inner	Pointcorp	IHG—Hotel Indigo	4.0	Dev Application	140	2020
Queens Wharf—VIP Hotel	CBD	Destination Brisbane	Star Entertainment	6.0			
Queens Wharf—The Darling	CBD	Destination Brisbane	Star Entertainment	5.0			
Queens Wharf—Dorsett	CBD	Destination Brisbane	Far East	4.0	Preferred Developer	c1,100 total	2022—2024
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	Approved		
144 Logan Rd & Deshon St, Woolloongabba (Tower 5)	Inner	Pelicano Group/Perri Projects	tba	4.0	Approved	144	Mooted
153 Campbell St, Bowen Hills	Inner	Sentinel Funds Mgt	tba	tba	Approved	154	Mooted
352 Vulture St, Woolloongabba (Tower 3)	Inner	Global Management Group	tba	tba	Approved	290	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)

FIGURE 3
Brisbane (TR) Visitor Numbers
'000 No. of visitors per annum



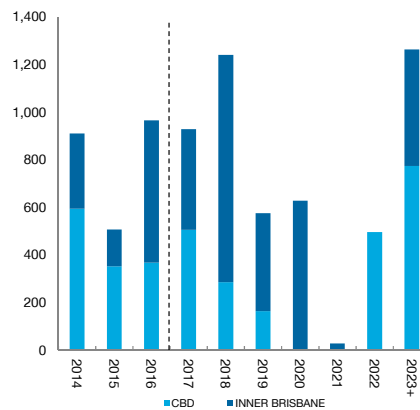
Source: Knight Frank Research/Tourism Research Australia

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 by 911 new hotel rooms in 2014 and 507 in 2015.

FIGURE 4
Inner Brisbane & CBD Hotel Supply
No. of new or proposed additional rooms



Source: Knight Frank Research/Cordell Connect
No. rooms from active proposals with development

The CBD dominated this new supply with 948 new rooms while there were only 470 new rooms added in Inner Brisbane over the two year period.

Completions were high again during 2016 with 967 new rooms added to the Brisbane hotel market, however in 2016 the completions in Inner Brisbane (599 rooms) were higher than for the CBD (368 rooms). Notable supply in 2016 included the 368 room 3.5 star Ibis Styles at 40 Elizabeth St, CBD; the 208 room, 4 star, Rydges RNA at King St, Bowen Hills and the 4.5 star, 134 room, Swiss-Belhotel which opened at 214 Vulture St, South Brisbane.

Supply for 2017 is also expected to be elevated with 929 rooms to be added to new hotel stock. The largest of these is the 305 room, 5 Star W Hotel in the Brisbane CBD followed by the 226 room Holiday Inn Express at 168 Wharf St, Spring Hill, expected to open April 2017.

Despite the high supply levels expected in 2017 and also 2018 (1,242 new rooms slated) there has been a reduction in the proposed medium term hotel supply for Brisbane with a number of projects deferred. In the main, these were projects outside of the CBD which combined a hotel and residential component. It is expected that projects without operator commitment, or in secondary locations, will continue to be deferred, likely reducing the potential 2,747 new rooms mooted for completion 2017-2019.

However, as shown in Table 1, there remains a good pipeline of supply with hotel operators new to the Brisbane market. Following Swiss-Belhotel's entrance to the Brisbane market in 2016, W Hotels, Sage, TFE Hotels Collection, Westin and Hotel Indigo are all new to Brisbane and will be open within the next three years. Beyond this time the Queens Wharf development will also introduce a number of new brands to the Brisbane market including Dorsett, The Darling, Rosewood and Ritz-Carlton, a further indication of the maturity of the Brisbane Hotel market. This growth in international brands as well as the sheer scale of the proposed new supply is likely to continue to cause older stock and private operators to leave the market.

The longer term requirement for increased numbers and better quality hotel rooms for the Brisbane market is predicated by the fundamental improvements to tourist infrastructure which are underway across the city. The completion of the second runway at Brisbane airport in 2020 will open the city to a host of new direct routes. The Queens Wharf development will also provide a high-end entertainment and gambling precinct within the city.

TABLE 2
Inner Brisbane & CBD Major Hotel Sales

Property	Star Rating	Price \$m	No. rooms	Initial Yield	Vendor	Purchaser	Date
Jephson Hotel, 53 Jephson St, Toowong	4.0	15.80	51	6.3% [^]	Developer	Private Investor	Nov 16
TRYP by Wyndam, 20 Constance St, Fortitude Valley	4.0	20.33	65	7.8%	Private Investor	Aligned Funds Mgt	Dec 15
Rendezvous Hotel, 103 George St, CBD	4.0	29.50	99	6.2%	BLM Brisbane	GMT Brisbane Property	Jun 15

Source: Knight Frank Research [^]purchased by an owner operator

Investment Activity

Despite increased investor interest there has been little hotel investment activity across Brisbane in the past year. While the Gold Coast and Cairns have recorded a number of hotel transactions, there was only the one major hotel transaction in the CBD and Inner Brisbane market in 2016.

The significant sale of 2016 was the \$15.8 million transfer of the Jephson Hotel, Toowong in Inner Brisbane. The property was purchased by local private investors with the hotel having been in operation since 2011. The other significant investment sale for the hotel market occurred in late 2015 when the TRYP Hotel, Fortitude Valley was purchased by Aligned Funds Management for \$20.33 million, on a reported yield of 7.8%.

The recent lower transaction levels for the hotel market in Brisbane is in direct contrast to the level of investor interest which has been steadily building but thwarted by a lack of stock available. Despite the current relatively weak trading fundamentals for the city overall, the level of investment in tourism infrastructure, along with the anticipated future growth in visitor numbers has boosted the demand for hotel investments.

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 continues to undergo a generational change, with currently slated new supply 2016-2020 representing 38% increase on Inner Brisbane & CBD room levels as at the start of 2016. This is likely to continue or accelerate the attrition of older stock or smaller operations. Despite positive tourism visitor data for the Brisbane region, up by 5.3% in the year to September 2016, key indicators for the hotel sector continued to weaken over FY2016 as the new supply was absorbed.

Longer term, the forecasts for the tourism industry remain up-beat with Australia and Queensland in favour as a safe destination while the generally weaker AUD continues to benefit the sector. Tourism Research Australia forecasts average growth in visitor numbers of 4.2% per annum for the five years to 2020/21 for the combined Brisbane and Gold Coast Region. In a boost for the CBD and surrounds business travel will be the fastest growing driver with 5.3% average annual growth. The \$1.35 billion second runway at the Brisbane airport and \$2 billion integrated resort at Queens Wharf are providing the industry with confidence that investment in the Brisbane tourism market will continue to build.

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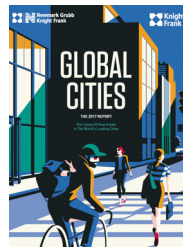
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