

## Trading performance expected to improve

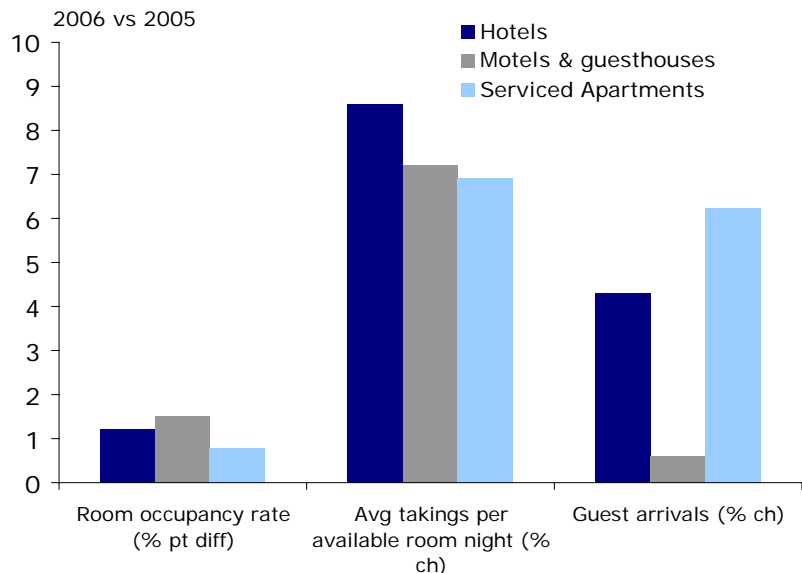
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The tourist accommodation sector, focusing on hotel, motels & guesthouses and serviced apartments, has performed strongly this year, with room rates reaching record highs after several years of sluggish growth. The improved conditions reflect, in part, a slowdown in growth in room supply in recent years after strong building activity in 1998-1999 and again in 2004-2005. Demand for tourist accommodation has edged up, reflected by a stronger pick-up in international visitor arrivals. Inbound travel for the first six months of this year rose by 4.2% compared with the same period in 2006. The domestic travel market has also held up well.

## Accommodation trends improve



Sources: ABS, Economics@ANZ

Recently-released projections by the Tourism Forecasting Committee show inbound travel rising by an average rate of 5% per year over the medium term and this bodes well for tourist accommodation operators. While the strong Australian dollar is likely to dampen forecasts over the short-term, our projections for a softer A\$ profile over the medium term should lend support to growth in international visitor arrivals. The rapid economic development in emerging markets, particularly India and China, and strong currencies in Europe also bode well for the tourism sector. Domestic travel should hold steady. The outlook for business travel is positive, supported by healthy business investment and corporate profitability. Increased airline capacity and competitive airfares are expected to underpin growth in domestic holiday travel, although the strong Australian dollar has made overseas travel more attractive.

Overall, supply and demand conditions in the tourist accommodation sector are now more evenly balanced, providing scope for further improvements in performance over the coming year. Given the improved trading environment, investment interest in the accommodation sector is expected to stay positive as limited investment stock and a rise in room rates enhance its attractiveness.

## Our Vision:

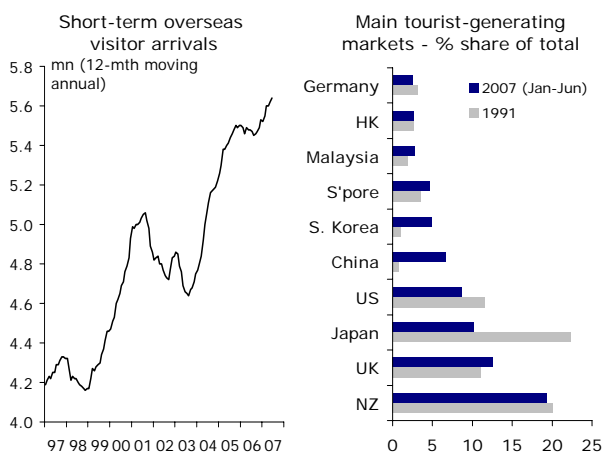
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## Positive outlook for industry

The trading performance across most tourist accommodation segments has improved. Average takings per available room for total establishments (ie. hotels, motels & guesthouses and serviced apartments) was \$95.10 in March quarter 2007 compared with \$86.60 in Q1 2006 and is the highest rate since the start of the series in 1997. Room occupancy rates have also firmed and are tracking at record levels. The outlook remains positive as demand and supply conditions are more evenly balanced.

The global growth picture augurs well for the tourism sector. The world economy is forecast to continue to expand at above-trend rates, with developing economies playing an increasingly important role. The Chinese and Indian economies, in particular, are forecast to grow by more than 8½% per annum over the next few years, offering strong potential for overseas travel as their middle-class population expands. China is now among Australia's top five tourist-generating markets and India is fast gaining ground to becoming among the top ten. Traditional source markets of New Zealand and Europe, particularly the UK, are also expected to perform well. However, the Japanese market, which is a major tourist-generating market, has been a laggard. Its market share has declined from first place in the early 1990s to become the third largest source market after New Zealand and the UK. Marketing efforts continue to be aggressive with new initiatives including the targeting of the short-term student market and the making of a Japanese soap opera set in Australia. However, this market is likely to take longer to recover given the weak yen and cheaper holiday destinations across Asia.

### International visitor arrivals and top markets

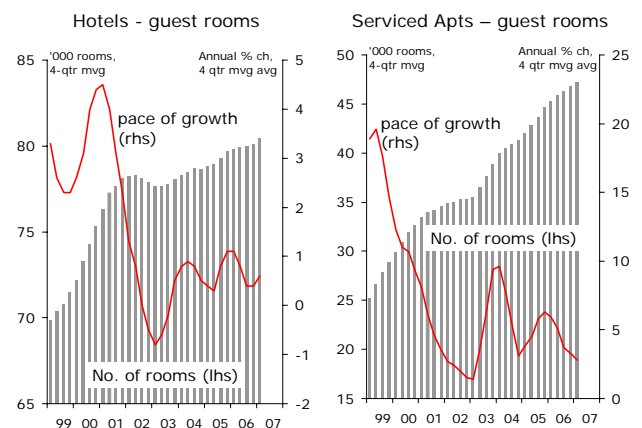


Sources: ABS, Economics@ANZ

Overall, while not likely to revert to the double-digit annual rates of growth recorded prior to the Asian crisis, international visitor arrivals are expected to expand at a steady pace over the next few years. Growth projections range between 4.5-5.5% per annum. Data for the first six months of this year show that inbound travel has been off to a good start despite the Australian dollar reaching multi-year highs against a number of currencies.

The domestic travel market is expected to hold up well. In the year ended March 2007, domestic visitor nights in hotels, motels, bed & breakfast and self-catering cottage or apartments were up 7.4% compared with the corresponding period of the previous year. Relatively healthy business investment and corporate profits are likely to continue to underpin strength in the business travel segment. Domestic leisure travellers are likely to benefit from more competitive air-fares and more frequent flights with the launch of Tiger Airways later this year and the expansion of routes serviced by other domestic airlines. Already, we have seen amazing flight deals as competition intensifies. This favours the tourist accommodation sector although segments largely dependent on road travel may be adversely affected.

### Growth in room supply stabilises

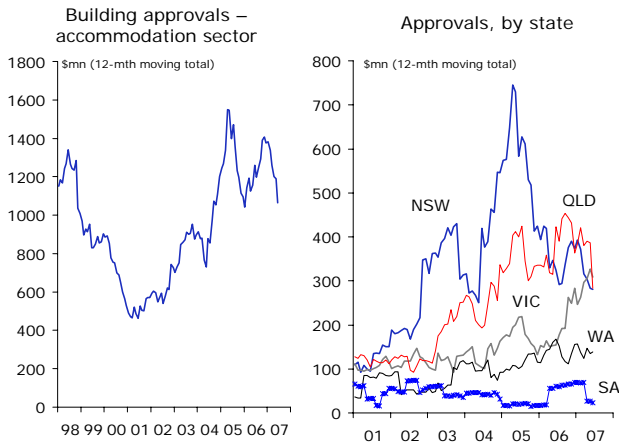


Sources: ABS, Economics@ANZ

On the supply side, there has been a slowdown in growth in room supply in recent years after strong building activity in 1998-1999 and a pick-up in 2004-2005. This is particularly evident in the serviced apartments segment where annual growth in room supply is tracking at less than 5%. Despite the growth in outbound travel, demand for motels & guesthouses, which largely cater to domestic travellers, has also improved, with average takings per room night occupied rising by 4.5% over the year to the March quarter on the back of a 2 percentage point increase in the room occupancy rate to close to 59%.

Looking ahead, growth in new construction is expected to be impeded by limited availability of prime space and accelerating land and construction costs. This gives scope for further room rate hikes over the coming year. Building approvals data for the first half of this year suggest some softening in activity ahead. Projects are likely to be dominated by renovation/refurbishment activity as well as boutique and resort development. Investment interest in the accommodation sector is expected to stay positive as limited investment stock and an improvement in room rates enhance its attractiveness.

**Building activity slows down**

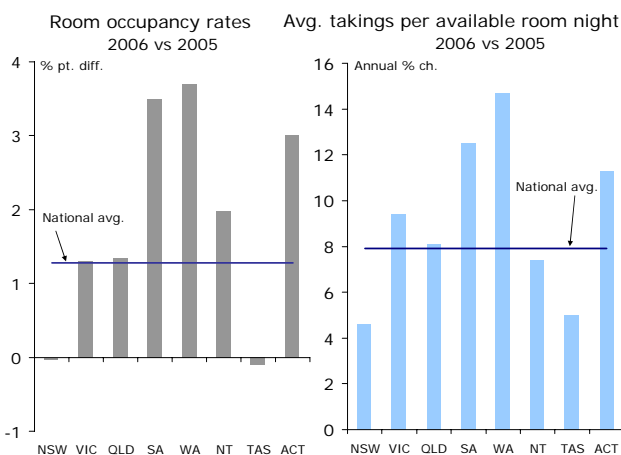


Sources: ABS, Economics@ANZ

**Trends across the country**

The tourist accommodation market in **Victoria** remains healthy although annual growth in average takings per room night occupied has slowed. The construction spurt prior to the Commonwealth Games saw more than 1,700 rooms (+4.9%) added to the total stock between December 2004 and March 2006. Despite additional supply, occupancy rates have continued to climb, rising to 69% in the March 2007 compared with 66.4% in Q1 2006, assisted by a strong events calendar. The commencement of new services and expansion of routes offered by overseas carriers (eg. Etihad Airways, Indian Airlines, Qatar Airways) as well as the development of the convention centre will continue to draw both leisure and business travellers and support further building in Melbourne CBD over the medium term. Building approvals have ticked up in recent quarters suggesting a steady pipeline of work ahead. Further hotel development in the Melbourne Airport precinct is expected over the next few years complementing extensive commercial property development in the nearby business park.

**Accommodation trends by state**



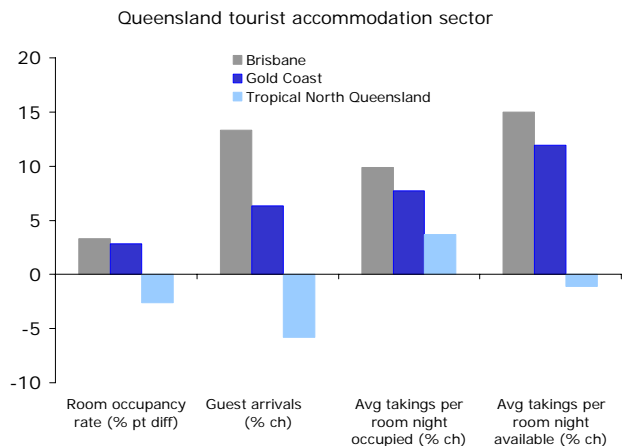
Sources: ABS, Economics@ANZ

Average hotel takings per available room night in **New South Wales** have grown at an annual rate of 15% in the last six months underpinned by strong occupancy rates which have averaged at 78%

compared with the national average of 73%. Major hotel refurbishments are near completion and new makeovers are likely to be of a smaller scale. The serviced apartments segment has also performed well. Despite an increase of around 700 rooms (+7.3%) over the past year, the room occupancy rate stayed above 70% in Q1 2007. Limited new supply becoming available, the strong corporate market and events calendar with the APEC Economic Leaders meeting in September 2007 and World Youth Day in July 2008 should see occupancy and revenue indicators remaining solid across the board.

Performance across **Queensland** is likely to be mixed. Strong demand in Brisbane has propelled room rates to record highs. Average takings per room night occupied for hotels, motels and serviced apartments were up nearly 10% over the year to the March quarter, supported by an increase in guest arrivals of 13%. Prospects for further increases in room rates should raise scope for new developments although construction costs remain a major drawback. Gold Coast tourist accommodation also fared well with room rates up 7.7% during the same period although new supply is likely to limit the scope for stronger rate rises. Performance in Tropical North Queensland, however, has been less favourable with demand, occupancy and revenue data slipping, possibly reflecting the impact of a weak Japanese market which is a major tourist-generating market for the north. Japanese visitor arrivals to Australia declined by 13% in the first six months of this year compared with the same period in 2006.

**Queensland accommodation**



Sources: ABS, Economics@ANZ

Revenue indicators for hotels, motels and serviced apartments in the **Northern Territory** have not been as strong as other states, with average takings per room night occupied growing by around 3.4% in 2006 against the national average of 5.8%. An expected increase in airline services with the expansion of routes offered by low-cost carriers serving as a gateway to Asia would help to draw more international tourists. From December 2007, Tiger Airways will boost its Singapore-Darwin service to daily flights, adding another 37,000 seats a year on this route and has also announced a new

Melbourne-Alice Springs service. Nevertheless, expected supply coming on stream over the next few years is likely to cap a pick up in room rates. Although building approvals data has softened in recent months, there is a relatively strong pipeline of work ahead. Two hotel developments and a convention centre are underway as part of the Darwin city Waterfront Project.

The tourist accommodation sector in **Western Australia** will continue to be underpinned by the resources boom. Room and occupancy rates jumped by 10.9% and 5.2 percentage points respectively over the year to the March quarter. These increases were well above the national average. Corporate demand is expected to stay healthy and the domestic leisure market and international tourist arrivals should also pick up, boosted by the expansion of capacity by low-cost carriers. Despite the expected increase in supply over the next few years, buoyant demand is likely to support further improvements in occupancy and revenue indicators, albeit at a less robust pace.

Tourist accommodation supply in **South Australia** has declined slightly with the number of establishments with 5 rooms or more, falling by 3% over the year to the March quarter. Guest arrivals have, however, risen, auguring well for the tourist accommodation sector. Room occupancy rates climbed by 2.3 percentage points between Q1 2006 and Q1 2007 to 63.8% and average takings per room night occupied rose by around 4% over the same period. Adelaide's tourist accommodation market has outpaced the state average with occupancy rates reaching 75.3% in the March quarter and takings rising by 5.8% in annual terms. Average takings in the tourist regions have been mixed with Eyre and Fleurieu Peninsulas reporting flat growth while Barossa and Limestone coast recorded strong gains of between 7-16% over the year to the March quarter. Overall, the outlook for further increases in room rates is favourable given an expected pick-up in demand and limited supply coming on stream.

Room occupancy rates in hotels, motels & guesthouses and serviced apartments in **Tasmania** have been a little soft over the past few quarters although there has been a steady increase in takings. On the supply side, growth in building approvals over recent months has eased although there is a steady supply expected to come on stream. Active promotion of Tasmania as a tourist destination is likely to lift demand in coming years and support further growth in room rates. The state government has earmarked some \$75 mn to be spent over the next few years to market tourism in the state.

The tourist accommodation sector has performed strongly in **ACT** with the room occupancy rate climbing to 74.6% in the March quarter from 70.3% in March 2006, supported by a 16% increase in guest arrivals. This has underpinned solid growth in room rates with average takings per room night

occupied rising by 12.8% over the year to the March quarter and the average takings per available room increasing by close to 20%. The outlook for the accommodation sector remains favourable given the strong business travel market supported by an active political calendar and fresh advertising campaigns aimed at drawing the domestic leisure traveller and the international visitor accompanied by limited increases in room supply.

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