

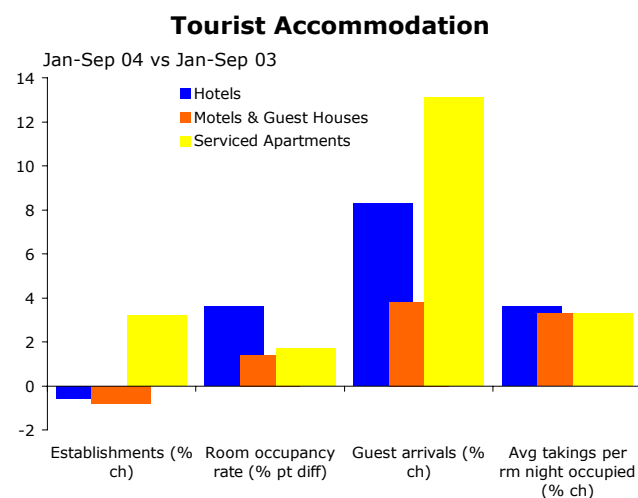
# Industry Brief

## Tourist Accommodation market

The tourist accommodation industry, as a whole, had a relatively good year in 2004 with a strengthening in occupancy levels and room rates after a very challenging operating environment in recent years. The outlook for 2005 remains favourable but competition within the industry will be keen, limiting the scope for room rate increases. This report focuses on hotels, motels & guest-houses and serviced apartments

### Overseas tourist arrivals recover after 3 successive years of decline

Some 5.2 million tourists visited Australia in 2004, up 10% from a year earlier. This marked the first increase in the number of international visitor arrivals since 2000 and was a welcome break for tourist accommodation operators who saw a lift in occupancy rates and average takings. According to the ABS, takings from accommodation by licensed hotels, motels & guest-houses and serviced apartments amounted to \$4.2 billion during January-September 2004, up 10% from the same period in 2003. The last time accommodation takings grew by double-digits was in the year of the Sydney Olympics.



Although there were fewer hotels, the number of guest rooms increased between September 2003 and September 2004, reflecting the completion of refurbishment and expansion work in some hotels. With about 40% of hotel guests comprising overseas visitors, the rebound in tourist arrivals has certainly benefited this segment and has helped to improve room rates. Victoria, Queensland, Tasmania, the Northern Territory and ACT saw guest arrivals in excess of the national average rate of 8.3%. Tasmania recorded the strongest growth in average takings per room night occupied of 6.5%, followed by New South Wales (6.3%). In Victoria, growth in average takings was flat but the state saw the highest increase in room supply of over 700 rooms between September 2003 and September 2004, 85% of the total increase Australia-wide.

Motels, however, continue to face increasing pressure. Being in the "middle" of the market, motel operators have to compete with hotels and serviced apartments, on the one hand and bed & breakfasts and caravan parks etc, on the other. This segment is also heavily reliant on inter and intra-state domestic travel and also travel by road. Competitive air travel and hotel accommodation packages have added pressure on this market. All states/territories except Western Australia and Tasmania recorded a decrease in the number of motel guest rooms. In terms of guest arrivals, Queensland, Western Australia and the Northern Territory recorded an increase of between 7-9% during January-September 2004 compared with the same period in 2003 but the rest averaged 0.8%. Nevertheless, average takings per room night occupied edged up, with Queensland, Tasmania, the Northern Territory and ACT recording rises of between 4½ and 6%.

Serviced apartments have become increasingly popular in recent years with average takings per room night occupied holding up against hotels and motels, despite the significant increase in supply. As of September 2004, serviced apartments accounted for some 20% of total room supply (ie. hotel, motels and serviced apartments) compared with 17% in September quarter 2000. There was a significant increase in serviced apartment rooms in New South Wales (590) and Queensland (676) between September 2003 and September 2004 but average room rates have held up well. South Australia saw a 36% increase in guest arrivals, which helped to lift average takings by 5%. The Northern Territory serviced apartment market also benefited from a significant rise in the number of guests of 27% and average takings per room night occupied rose by 2½%.

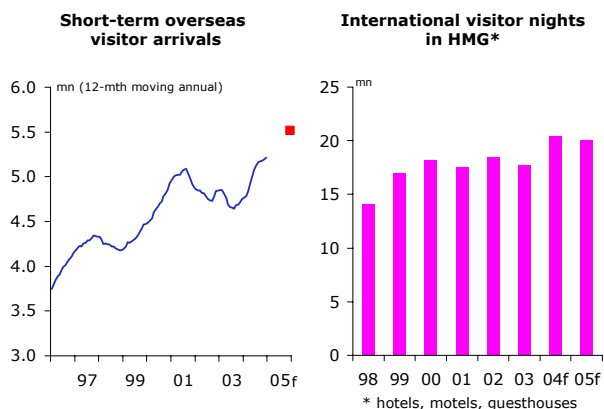
### Steady growth outlook for the tourist accommodation market in 2005

International visitor arrivals are likely to grow at a healthy, albeit slower, rate after the strong rise in 2004. Global economic growth is forecast to ease in 2005 to around 4% from an estimated 5% last year. The strong Australian dollar is also likely to impact on travel plans. It is forecast to climb towards 80-84 US cents during the first half of the year before retreating slightly. In addition, competition from other tourist destinations remains keen. More

recently, the proliferation of budget air carriers in Asia has spurred short-haul, intra-Asian travel. This partly explains the weak growth in visitor arrivals from Southeast Asia of only 2.7% in 2004 despite a pick-up in economic growth in the region.

According to the Tourism Forecasting Committee (TFC), overseas visitor arrivals are expected to grow at a slower, albeit healthy, pace of 5-6% per year in 2005 and 2006. International visitor nights in hotels, motels and guest-houses are forecast to decline marginally in 2005 on the back of the strong showing in 2004 which is estimated at 15.3%. In absolute terms, however, international visitor nights remain quite strong, and are expected to exceed the levels reached over the past ten years except for 2004.

### Overseas visitors



Source: ABS, Tourism Forecasting Committee (Dec 04), Economics@ANZ

Domestic travel has not been as vibrant as expected when measured in terms of visitor nights. Buoyed by robust employment growth, competitive airfares and holiday packages, one would have thought that this market would have fared better. For the first nine months of 2004, domestic visitor nights rose by only 1.9% compared to the same period in 2003. This can be partly explained by a rebound in overseas travel, spurred by the strong Australian dollar and pent-up demand for travel as security fears faded somewhat. Short-term departures grew by some 30% during January-November 2004 compared with the corresponding period in 2003, the highest rate on record. Apart from travel, shopping was high on the agenda with retail trade, at least in the first half of 2004 growing at a robust pace, and motor vehicle sales, exceeding expectations.

Domestic visitor nights in hotels, motels and guest-houses grew by 4.8% during January-September 2004 against the same period in 2003. However, more chose to stay with friends' or relatives or in holiday homes, with domestic visitor nights in these

categories of accommodation rising by 5.8% and 12% respectively.

### Domestic Visitor Nights (million)

Type of Accommodation	Jan-Sep 03	Jan-Sep 04
Hotel, resort, motel etc	54.4	57.0
Guest house, B&B	2.1	2.2
Self catering cottage or apartment	21.9	18.5
Caravan park, commercial camping ground	23.5	22.9
Caravan or camping on private property	9.9	10.4
Friends or relatives	90.4	95.6
Own property (eg. holiday house)	7.9	8.8
Total*	222.4	226.7

\*: includes visitor nights where accommodation for each stopover was not asked

Source: Tourism Research Australia

Domestic travel in terms of visitor nights is likely to expand at a steady pace of around 1% in 2005 and 2006. This slight moderation in growth partly reflects the likely restraint on discretionary spending due to more subdued wealth gains. This, however, is likely to be partly offset by the possibility of overseas trips being replaced by interstate travel instead. Accommodation operators will continue to face pressure from the wider range of facilities available to the domestic leisure traveller. Corporate travel is likely to hold up, underpinned by strong corporate profits and solid business investment. In terms of visitor nights, business travellers account for about a third of guests in hotels, motels and guest-houses.

On the supply side, building approvals data signal a further expansion in activity in the tourist accommodation sector but not at the rapid pace seen in the late 1990s. Approvals, in nominal terms, for 2004 were up around 10% from 2003 with robust growth in activity expected in 2005 in New South Wales.

Overall, relatively healthy overseas demand for accommodation and steady growth in domestic travel should bode well for tourist accommodation operators. However, competitive pressures between different types of accommodation and the coming on stream of more capacity will keep a lid on room rate increases.

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