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Hotel capital flows break new ground

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The big issue for our market is the emergence of China as a source of hotel property capital. This phenomenon of a concentrated source of capital is nothing new. In the mid to late 1980s it was Japanese capital dominating Australian hotel property, and the 1990s post-1992 was dominated by Singaporean investors.

However, on this occasion the capital flow is larger and more pervasive in terms of property profile. During 2015 China based capital (mainland and Hong Kong) may account for over 60 per cent of major hotel transactions throughout Australia. This will range from $4 million motels to +$400 million hotels.

So, what are the major implications? In my view there are four:

1. Many Chinese companies buying now are new to hotel investment. They are institutions with minimal or no existing hotel investment exposure or often companies that created wealth through non-hotel industries. Therefore, hotel operators will need to ensure their new owners understand the key terms of the hotel operating agreement; namely the budget approval process, cash flow management, approval process for senior executive appointments, the capital expenditure approval process including owner’s contractual obligations;

2. The majority of the CEO and chairpersons for the new Chinese investors cannot speak English. This is not a criticism, just a fact, just as most Australian senior executives doing business in China cannot speak a Chinese dialect. However the point is, an important ingredient for successful hotel investment is good communication between the owner and operator. Clearly, there will be bilingual intermediaries but we know what happens when a story is told to one person, who then passes the story to another person. Therefore, make sure key messages (hotel may fail to make budget!) are correctly conveyed to the appropriate operative in China whom will be the person ultimately approving the annual trading and cap ex budget;

3. The degree of foreign ownership of Australian hotels over the next few years will be extensive. This may lead to calls from certain non-aligned sectors to restrict foreign ownership. I would warn (and conflict acknowledged) this would be a negative outcome for the hotel industry. Hotel investment is like mining investment; it offers the opportunity for good returns but requires significant capital. Our mining industry would not have its current scale if it had to rely too much on domestic capital. It is the same for hotel property, and

4. Chinese investment in the hard assets will further stimulate Chinese visitation to Australia. The challenge will be not to fall over ourselves to overtly pamper Chinese visitors so that their Australian experience is diluted and becomes an extended China experience. This was a mistake with the Japanese visitor boom of the 1980s which failed to be sustainable. Chinese visitors come to a foreign country to experience local cuisine, and to meet the locals and other international visitors; not to be herded on tours exclusively for Chinese. They like to shop independently and not be forced into specific shops.

I hope you find this edition both interesting and informative and as always your feedback is encouraged and welcomed.

Stephen Burt
Managing Director
Hotels | Asia Pacific
stephen.burt@colliers.com
Hotel property capital flows to alternative assets

With the large weight of capital entering the market within major capital cities and limited investment opportunities for hotels, we are witnessing an increased level of interest in alternative accommodation asset classes. Conditions in the hotel sector are being underpinned by the declining Australian dollar which encourages domestic tourists to holiday locally, and makes Australia a more attractive destination for overseas visitors.

By Nora Farren
Director | Research
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There are a large number of major hotel and tourism projects under construction or in planning as Australia looks to upgrade its tourism offer to capture demand from growing Asian markets such as China. This growth and capital expenditure will contribute to the transition away from resources focused investment. China is now Australia’s second-largest inbound market behind New Zealand, and the most lucrative in terms of money spent per visitor. Growth in visitors from China has been driven in part by increased aviation capacity, primarily from Chinese carriers. There is currently a cap on aviation capacity due to a bilateral agreement between Australia and China, but negotiations could see more flights permitted. This would further benefit visitor, accommodation and investment markets.

Over the year-to-date December 2014, major Australian city hotels saw revenue per available room (RevPAR) increase by an average of 2.8 per cent, with a wide divergence in the performance of individual markets. The strongest growth in RevPAR was recorded in Cairns at 10.3 per cent; the Gold Coast also experienced solid growth at 9.6 per cent. The Queensland accommodation market has performed well of late, benefiting from the fall in the Australian dollar as more Australians holiday at home. Most leisure destinations across Australia have seen an improvement in demand, trading conditions and value levels. The Canberra market experienced the largest decline in RevPAR across major Australian city markets falling seven percent. A major driver of demand in the Canberra market is government related business, and with cutbacks in spending and in public sector jobs, this has detrimentally impacted occupancy and room rates.

The general trend has been improving revenue and a tightening in capitalisation rates, especially at the top end of the market where for the right asset, capitalisation rates have come down. In the prevailing favourable interest rate and trading environment, capitalisation rates for trophy assets are likely to move to five percent. Suburban hotels with development potential have been viewed positively by local purchasers and more traditional developers; whilst larger city hotels have been sought after by offshore capital. An interesting trend has also been the expansion of domestic food and beverage owners into traditional accommodation hotels. There is potential for more hotels to be offered for sale given the supply pipeline in some markets. We expect the major Queensland markets (Tropical North Queensland, Brisbane and Gold Coast) will see increased transactional activity during 2015 driven by a lack of stock to meet investor demand in the two preferred markets of Sydney and Melbourne.
**MARKET DYNAMICS**

**Australian accommodation indicators**

**Occupancy**

According to data from STR Global for the year-to-date December 2014, the average occupancy rate across the major Australian city markets was 78.4 percent, up from 77.6 percent the previous year. The highest occupancy rate during the year to December 2014 was maintained in Sydney City at 86.5 percent, closely followed by Melbourne City at 85.7 percent. The strongest growth in occupancy during the year-to-date December 2014 occurred in Cairns, where occupancy grew by 5.1 percent to 74.3 percent. Solid growth was also recorded for the Gold Coast up five percent to 71.2 percent, and for Adelaide up 4.7 percent to 79.6 percent occupancy. Declines were recorded in Darwin, down 5.3 percent to 76.0 percent, and for Canberra which fell three percent to 70.8 percent occupancy. Overall for the year-to-date December 2014 average occupancy across the major Australian city markets increased 1.1 percent.

**Average daily rates**

According to data from STR Global for the year-to-date December 2014, the average daily room rate across the major Australian city markets was $177.80, showing an increase of 1.6 percent over the previous year. The strongest growth in average daily rates during the year-to-date December 2014 occurred in Cairns, where rates grew 4.9 percent to $127.70. Solid growth was also recorded on the Gold Coast up 4.4 percent to $167.26 and in Darwin, also showing growth of 4.4 percent to average $189.42. The largest decline in average daily room rates was recorded in Canberra, where rates fell 4.1 percent to $162.31. The Perth market also experienced a decline in average daily rates of four percent to $200.97. Overall for the year-to-date December 2014 average daily rates across the major Australian city markets increased 1.6 percent.

**RevPAR**

According to data from STR Global, average growth in RevPAR across the major Australian capital city markets was 2.8 percent for the year-to-date December 2014. The highest RevPAR nationally continues to be held by Sydney City at $188.14, showing growth of four percent. The strongest annualised growth in...
RevPAR occurred in Cairns which was up 10.3 percent to $94.84, although this market continues to show the lowest RevPAR of all the major Australian markets. Solid growth was also recorded on the Gold Coast, up 9.6 percent to $119.10. Declines in RevPAR were recorded in Canberra down seven percent to $114.93; and in Perth where RevPAR fell 3.8 percent to $167.91.

### REVPAR MAJOR AUSTRALIAN CITY HOTEL MARKETS YEAR TO DATE DECEMBER 2014

<table>
<thead>
<tr>
<th>City</th>
<th>RevPAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>$188.14</td>
</tr>
<tr>
<td>Melbourne</td>
<td>$169.32</td>
</tr>
<tr>
<td>Brisbane</td>
<td>$147.17</td>
</tr>
<tr>
<td>Adelaide</td>
<td>$199.17</td>
</tr>
<tr>
<td>Cairns</td>
<td>$194.84</td>
</tr>
<tr>
<td>Gold Coast</td>
<td>$119.10</td>
</tr>
<tr>
<td>Perth</td>
<td>$167.91</td>
</tr>
<tr>
<td>Darwin</td>
<td>$143.88</td>
</tr>
<tr>
<td>Canberra</td>
<td>$114.93</td>
</tr>
</tbody>
</table>

Source: STR Global/Colliers Edge

### Overseas arrivals and departures

The regular data source for overseas arrivals and departure statistics used by Colliers International is temporarily unavailable. The regular monthly release of data has been delayed due to passenger card processing issues as announced by the Department of Immigration and Border Protection (DIBP). The Australian Bureau of statistics (ABS) is working closely with DIBP to resume the regular release of this data. The data outlined below is preliminary estimates modelled by the ABS using a combination of historical data and information about travellers from the DIBP. The final, full set of data will be released by the ABS in May 2015.

International visitors to Australia continue to grow strongly, underpinned by growth in the leisure market. The number of arrivals to Australia visiting friends and relatives showed the strongest growth over 2014, closely followed by visitors arriving for a holiday. China continues to grow at an increasing rate, and remains Australia’s most valuable international tourism market. There have also been strong increases in expenditure from Thailand and Taiwan. Expenditure from traditional markets continues to grow, particularly from the UK, Germany and the United States. With strong growth across both emerging and traditional markets, most states across Australia have seen record numbers of visitor arrivals during 2014.

Preliminary estimates from the ABS show that during the December quarter 2014 there was a total of 4.34 million overseas arrivals to Australia. During the month of October 2014 there were a total of 1,297,000 departures (up 5.4 percent); in November 2014 there were 1,362,900 departures (up 4.5 percent) and during the month of December there were a total of 1,713,700 departures (up 1.7 percent). While total overseas departures are greater than total overseas arrivals, the gap has been narrowing.

### TOTAL OVERSEAS ARRIVALS TO AUSTRALIA

<table>
<thead>
<tr>
<th>Month</th>
<th>No. of Arrivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct-2014</td>
<td>1,297,000 (+5.4%)</td>
</tr>
<tr>
<td>Nov-2014</td>
<td>1,362,900 (+4.5%)</td>
</tr>
<tr>
<td>Dec-2014</td>
<td>1,713,700 (+1.7%)</td>
</tr>
</tbody>
</table>

Source: ABS/Colliers Edge

Australians continue to travel overseas in record numbers however total expenditure remained relatively unchanged over 2014. This is the first plateau in expenditure since 2010, reflecting a decrease in outbound business travel on the back of a weaker Australian dollar. Holiday continues to be the main reason for overseas travel by those departing Australia, with visiting friends and relatives the fastest growing purpose of travel. Preliminary estimates from the ABS show that during the December quarter 2014 there was a total of 1,297,000 departures (up 5.4 percent); in November 2014 there were 1,362,900 departures (up 4.5 percent) and during the month of December there were a total of 1,713,700 departures (up 1.7 percent). While total overseas departures are greater than total overseas arrivals, the gap has been narrowing.

### TOTAL OVERSEAS DEPARTURES FROM AUSTRALIA

<table>
<thead>
<tr>
<th>Month</th>
<th>No. of Arrivals</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Dec-2014</td>
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</tr>
</tbody>
</table>

Source: ABS/Colliers Edge
Domestic visitor market

Domestic travel by Australians increased seven percent during the year ending December 2014, to a new high of 81.4 million overnight trips. Domestic visitor nights increased nine percent to 309 million, and expenditure on domestic tourism was $54.4 billion during 2014, up six percent. The increase was driven by growth in business travel and those travelling to visit friends and relatives. During 2014, domestic overnight trips for business grew by 17 percent to 16.3 million trips, 61.5 million nights and spend of $13.3 billion. The number of travellers visiting friends and relatives increased by 11 percent to 29.4 million during 2014, with expenditure reaching $12.3 billion, up five percent. Overnight holiday travel was down one percent and expenditure was steady. Despite the overall number of domestic day trips being flat during 2014 at 164 million trips, expenditure decreased by two percent to $18 billion. There was a sharp increase in overnight trips involving going to festivals, fairs or cultural events – this category was up 21 percent to 2.9 million in 2014. Strong growth was also recorded in going to the markets, which was up 12 percent to 9.2 million domestic overnight trips. The strongest growth in domestic overnight visitors by state was recorded in the Northern Territory (up 36 percent) and Western Australia (up 20 percent). Despite overall healthy growth in domestic travel, Australians continue to show a preference for holidaying overseas although, growth is expected to moderate as the impact of the lower Australian dollar starts to flow through and impact travel plans in 2015. The Australian dollar remains an important factor in underpinning price competitiveness for both inbound and domestic travel.

Passenger and aircraft movements

Over the 2014 calendar year total passenger movements were 147 million showing an annual increase of 1.5 percent, down from growth of 2.8 percent in 2013. Average annual growth over the last five years has been 3.6 percent, slower than the long-term (10 year) average which sits at 4.6 percent. Growth in aircraft movements was negligible during 2014 at just 0.1 percent, down from growth of 2.2 percent recorded in 2013. This is well below both the five and 10 year average annual growth rates which sit at 3.1 percent and 2.2 percent respectively. According to the International Air Transport Association (IATA) consumers will see a substantial increase in the value they derive from air transport in 2015. Globally air travel is accelerating, with industry growth expected to be the strongest in 2015 since 2010. This will be driven partly by the upturn of the economic cycle, but consumers will also benefit from cheaper travel due to the fall in fuel prices. Figures from the Bureau of Infrastructure, Transport and Regional Economics show the number of international seats to and from Australia grew by just 1.4 percent in December 2014 compared with December 2013. Domestically, the fall in the Australian dollar means foreign airlines have an added incentive to keep airfares steady rather than lower them. The Australian dollar has declined by around 17.5 percent against the US dollar since September 2014. The price of jet fuel has fallen by around 26 percent (in Australian dollars) over the same period, which will help offset the currency fall for foreign carriers.

Sheraton Noosa, Sunshine Coast
Valued on behalf of Karedis and Laundy Groups
Cross-border capital driving demand

Hotel transaction activity for 2015 is off to a solid start, with eight sales recorded year-to-date 2015 for a total of $242.3 million. There is strong demand from both local investors and offshore groups led by purchasers from China. Last year saw record levels of trading activity in the Australian hotel sector with $2.66 billion worth of assets traded across 72 transactions. This reflects an increase of 36 per cent on 2013 levels, when $1.96 billion worth of hotels sold. Some owner-operators of 5-star hotels are taking advantage of strong market conditions to bring assets to the market. There is strong interest in prime CBD locations, chiefly from overseas buyers. At the smaller end of the market the Significant Investor Visa Programme continues to fuel interest from mainland China. In contrast, there is a lower level of interest in regional locations which largely comprise domestic purchasers. Suburban hotels with development potential have been viewed positively by local purchasers and more traditional developers. A significant number of major leisure assets have been put to the market over the past year, with mixed results. We expect owners to continue to explore exit strategies in these markets as market conditions provide potential trading upside and new buyers emerge.

ORIGIN OF HOTEL PURCHASERS BY VALUE

The purchaser profile of Australian hotel investors continues to be dominated by buyers from Asia. Similar to trends in other property sectors, the emergence of Chinese investors has been a feature of the hotel market in 2014. This incorporates two different categories of investor – those looking to acquire trophy assets at the top end of the market; and within the mid and lower end of the market, investors looking to take advantage of the new Significant Investor Visa. Year-to-date 2015, Chinese investors have already acquired four Australian hotel assets worth over $162 million. During 2014, Chinese investors made 12 purchases for a total of $815.2 million. Local investors were also very active during 2014, picking up 35 assets for a total of $827.5 million. We expect strong interest and acquisition activity from Chinese investors to continue over the course of this year. During 2015 China based capital (mainland and Hong Kong) is expected to account for over 60 per cent of major hotel transactions throughout Australia. This will range from $4 million motels to +$400 million hotels.

So far across hotel transactions in 2015, the average value is $30.2 million. With a number of large assets currently on the market, the average value should increase as the year progresses. Following a number of large transactions over the past few years, the average value of hotel transactions during in 2014 was $37 million compared with $33.4 million (excluding portfolio transactions) in 2013 and $55.3 million in 2012. Year-to-date 2015 the largest hotel transaction has been the sale of the Novotel Brighton Beach in New South Wales for $84.75 million (hotel component only) to Oscars Hotels; the vendor was Brookfield. The largest single asset traded during 2014 was the Sheraton on the Park in the Sydney CBD for $463 million. The hotel was purchased by the Sunshine Insurance Group from China; the vendor was Starwood from the United States.
Across Australia there is strong interest in prime CBD locations, primarily from offshore buyers, while regional markets are experiencing lower levels of interest and mostly comprise domestic purchasers. By value, year-to-date 2015 sales activity has been dominated by Australian and Chinese purchasers. Whilst demand is expected to continue for good quality assets, older properties whose trading performance may be impacted by new supply are anticipated to see softer demand. There has been strong trading of hotel assets in New South Wales and Victoria, with a new record recently set in the Sydney market. We expect the major Queensland markets (Tropical North Queensland, Brisbane and Gold Coast) will see increased transactional activity during 2015 driven by a lack of stock to meet investor demand in the two preferred markets of Sydney and Melbourne. Hotel assets remain tightly held across Canberra, Adelaide and Perth with limited transaction activity in these markets. Melbourne City continues to benefit from a strong event calendar and the closure of the Sydney Convention Centre. Business demand generally improved across most regions, with some stability returning to markets previously impacted by the slowdown in resources investment. The impact of pending supply in Melbourne is yet to be quantified however there is a significant level of new stock proposed. The Brisbane market is also beginning a substantial supply cycle. In comparison to Melbourne and Brisbane, the supply outlook for Sydney remains relatively benign.

Major sales around the nation

- Rydges Darwin Airport: $84 million
- Hyatt Regency, Perth: $116 million for 50%
- Next Hotel, Brisbane: $133 million
- Sheraton on the Park, Sydney: $463 million
- Grand Hyatt, Melbourne: $164 million for 50%
- Abode Hotel, Canberra: $28.8 million
New South Wales

By Michael Thomson
National Director, Valuation | Hotels
michael.thomson@colliers.com

MAJOR TRANSACTIONS

<table>
<thead>
<tr>
<th>HOTEL</th>
<th>ROOMS</th>
<th>RATING</th>
<th>DATE</th>
<th>PRICE</th>
<th>$ PER ROOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Novotel Northbeach, Wollongong</td>
<td>204</td>
<td>4.0</td>
<td>Mar-14</td>
<td>$47.0m</td>
<td>$236,000</td>
</tr>
<tr>
<td>City Airport Motor Inn</td>
<td>116</td>
<td>4.0</td>
<td>Apr-14</td>
<td>$23.88m</td>
<td>$205,862</td>
</tr>
<tr>
<td>Hotel 1888, Pyrmont Sydney</td>
<td>90</td>
<td>4.0</td>
<td>Apr-14</td>
<td>$32.8m</td>
<td>$364,444</td>
</tr>
<tr>
<td>Sofitel Wentworth Hotel Sydney</td>
<td>436</td>
<td>5.0</td>
<td>May-14</td>
<td>$201.0m</td>
<td>$461,009</td>
</tr>
<tr>
<td>Blue Hotel</td>
<td>100</td>
<td>5.0</td>
<td>Jul-14</td>
<td>$32.0m</td>
<td>$320,000</td>
</tr>
<tr>
<td>City Hotel (hotel component only)</td>
<td>52</td>
<td>3.5</td>
<td>Sep-14</td>
<td>$19.5m</td>
<td>$375,000</td>
</tr>
<tr>
<td>Chifley Wollongong</td>
<td>180</td>
<td>4.0</td>
<td>Sep-14</td>
<td>$22.1m</td>
<td>$122,778</td>
</tr>
<tr>
<td>Quest Olympic Park</td>
<td>140</td>
<td>4.0</td>
<td>Oct-14</td>
<td>$39.4m</td>
<td>$281,429</td>
</tr>
<tr>
<td>Quest Campbelltown</td>
<td>81</td>
<td>4.0</td>
<td>Oct-14</td>
<td>$19.0m</td>
<td>$234,568</td>
</tr>
<tr>
<td>Quest Mascot</td>
<td>91</td>
<td>5.0</td>
<td>Oct-14</td>
<td>$24.0m</td>
<td>$263,736</td>
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<tr>
<td>Sheraton on the Park</td>
<td>557</td>
<td>4.0</td>
<td>Nov-14</td>
<td>$463.0m</td>
<td>$831,239</td>
</tr>
<tr>
<td>Chifley Penrith</td>
<td>223</td>
<td>4.0</td>
<td>Nov-14</td>
<td>$24.0m</td>
<td>$107,623</td>
</tr>
<tr>
<td>Holiday Inn Sydney Airport</td>
<td>250</td>
<td>4.0</td>
<td>Dec-14</td>
<td>$53.0m</td>
<td>$212,000</td>
</tr>
<tr>
<td>Diamant Hotel</td>
<td>77</td>
<td>4.0</td>
<td>Dec-14</td>
<td>$23.5m</td>
<td>$305,195</td>
</tr>
<tr>
<td>Novotel Brighton Beach (hotel component only)</td>
<td>296</td>
<td>4.0</td>
<td>Jan-15</td>
<td>$85.0m</td>
<td>$287,162</td>
</tr>
</tbody>
</table>

There has been an increase in sales activity in the New South Wales hotel market and we note that subsequent to the record set by the Sheraton on the Park sale, both the Hilton and Westin in Sydney have been put to the market.

Market drivers

Trading environment

- According to the STR Global research data, Sydney experienced another year of occupancy in the high 80s in 2014 similar to 2013. Taking into account off peak periods, the City continues to trade close to capacity. Average room rates were the highest in the country but growth was relatively modest at approximately 3.5 percent.

Future supply

- In comparison to Brisbane and Melbourne, the supply outlook remains relatively benign with the exception of the Sydney Airport Precinct, where there is the potential for a further nine hotels to be added to supply however we believe it is unlikely all of these will proceed.

- The most significant likely additions to supply in the short-term are the 281 Tankstream Hotel due to open in September 2015, the Four Points by Sheraton extension (a further 222 rooms) in 2016, and the 616 room Sydney Convention Centre Hotel to be operated as a Sofitel, opening in 2017.

Capital market participants

- Two of the City’s five star owner operators have taken the opportunity to sell in the current strong market being Starwood and Hilton. However both have, or are selling subject to 50-year management agreements in order to secure these flagship locations. Starwood sold to a Chinese owner and it looks like Hilton will follow this trend. At the smaller end of the market the Significant Investor Visa Programme continues to fuel interest from Mainland China.

- An interesting trend has been the expansion of domestic food and beverage owners into traditional accommodation hotels with Oscars purchasing both the Novotel in Wollongong and Novotel Brighton Beach.

Value benchmark implications

- The general trend has been improving revenue and a tightening in capitalisation rates especially at the top end of the market where for the right asset capitalisation rates have come down to six percent. The consequence is a growth in values. In the prevailing favourable interest rate and trading environment, capitalisation rates for trophy assets are likely to move to five per cent.

Summary of future outlook

- Sydney will benefit from major new infrastructure currently under construction in the City and in particular the new Sydney Convention Centre which is due to open in December 2016. With limited new supply we anticipate the continuance of high occupancy rates and the opportunity for more rate growth.
During 2014 there was an increased number of sales in Victoria (around $494 million) compared to 2013 (around $159 million), with the year highlighted by the sale of the Park Hyatt, Grand Hyatt (50 percent interest) and Bell City Hotel. Whilst there has been an increase in Asian buyer appetite, the sale of Bell City was to a local fund, with funds partly sourced from offshore significant investor visa applicants. The sale of the Grand Hyatt occurred as a result of a partnership buyout with a 50 percent stake sold to Tuan Sing based in Singapore, from Morgan Stanley. The Park Hyatt was one of the first significant hotel sales to a Chinese purchaser being the Beijing based Fuh Wah International.

**Market drivers**

**Trading environment**
- Melbourne City continues to benefit from a strong event calendar and the closure of the competitor Sydney Convention Centre. Occupancy within Melbourne City according to STR Global increased by 2.5 per cent for the calendar year December 2014 to reach the mid 80s.
- Average Daily Rates increased by inflation over 2014, to sit just below $200 and the consequence was approximately 5 per cent RevPAR growth.

**Future supply**
- Melbourne absorbed approximately 572 new rooms across 2014, with ongoing supply over a three year window to increase room count by around 24 per cent however we believe it is unlikely all of these will proceed.

- A number of mooted hotels and sites with DA approval exist, however the viability of some of these is likely to be questioned as Melbourne absorbs sites already under construction.

**Capital market participants**
- Ongoing demand for hotels from offshore purchasers continues and is dominated by Mainland China and Singapore. Suburban hotels with development potential have been viewed positively by local purchasers and more traditional developers, whilst larger city hotels have been sought after by offshore capital.

**Value benchmark implications**
- We are seeing growth in values in the Melbourne market from a combination of continued improvement in trading performance, strong investor appetite, limited available stock and relatively low cost of finance. All of the above are putting downward pressure on capitalisation rates.

**Stock availability**
- In contrast to Sydney there have been limited premium CBD hotels offered to the market via full public campaigns, however there is the potential for more hotels to be offered to the market on the back of the significant new supply pipeline.

**Summary of future outlook**
- Proposed and mooted stock may impact on occupancy and room rates in the medium term however Melbourne’s strong events calendar and appeal to international travellers should soften the impact of stock increases.
Queensland

By Baden Mulcahy
Director, Valuation | Hotels
baden.mulcahy@colliers.com

MAJOR TRANSACTIONS

<table>
<thead>
<tr>
<th>HOTEL</th>
<th>ROOMS</th>
<th>RATING</th>
<th>DATE</th>
<th>PRICE</th>
<th>$ PER ROOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jupiters Townsville Hotel Casino</td>
<td>194</td>
<td>4.5</td>
<td>Jan-14</td>
<td>$70,000,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Bay Village Tropical Retreat</td>
<td>72</td>
<td>4.0</td>
<td>Mar-14</td>
<td>$7,000,000</td>
<td>$104,167</td>
</tr>
<tr>
<td>Sunnybank Star Motel &amp; Apartments</td>
<td>60</td>
<td>3.5</td>
<td>May-14</td>
<td>$12,580,000</td>
<td>$209,667</td>
</tr>
<tr>
<td>Ibis Budget, Windsor</td>
<td>50</td>
<td>2.5</td>
<td>Jun-14</td>
<td>$6,350,000</td>
<td>$127,000</td>
</tr>
<tr>
<td>Sheraton Noosa</td>
<td>176</td>
<td>5.0</td>
<td>Dec-14</td>
<td>$108,000,000</td>
<td>$613,636</td>
</tr>
<tr>
<td>Next Hotel &amp; Retail, Brisbane</td>
<td>304</td>
<td>4.5</td>
<td>Mar-15</td>
<td>$133,000,000</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Market drivers

Trading Environment

• The Brisbane market experienced the beginnings of a supply cycle in 2014. Growth in room supply over the year was matched by demand growth, which resulted in a relatively flat occupancy profile in the high 70 percent range. The Gold Coast and Cairns markets experienced strong demand growth over 2014.

• Demand within regional markets remains varied. Business demand generally improved across most regions, with some stability returning to markets previously impacted by the slowdown in the resources boom. Leisure demand however, fluctuated and inbound demand remained relatively flat in comparison to southern states.

Future supply

• The Brisbane accommodation market saw over 600 rooms added to the market during 2014, with a further 3,000 plus new rooms expected to be added to supply over the next four years to 2018. The Gold Coast has two new hotel projects (Jewel 300 rooms and the Jupiters Casino expansion) which are expected to be open by 2018. The Singaporean based Banyan Tree has also purchased a site for the development of a new concept hotel and apartment development under the Cassia brand.

• Given the recent change of state government in Queensland, the future of the proposed major Casino Resort projects on the Gold Coast, in Cairns and Brisbane are being reviewed, however, the new government has indicated preliminary support for the Brisbane proposal. These proposals could significantly alter the longer term supply outlook for their respective regions.

Capital market participants

• Offshore groups and Investment Visa applicants (predominantly from China) acquired three of the last four major asset transactions and are continuing to express interest in potential acquisitions. Domestic owner operators, high net worth individuals, and private investors continue to be active.

• We anticipate that all major Queensland markets (Tropical North Queensland, Brisbane and Gold Coast) will see increased transactional activity during 2015 on the back of a lack of stock to meet investor demand that cannot be satisfied in the two preferred markets of Sydney and Melbourne.

Value benchmark implications

• Trading conditions have been flat in the Brisbane market, with limited capital growth of late. Future supply increases are expected to reduce market occupancies and moderate growth prospects.

• Most leisure destinations have seen an improvement in demand, trading conditions and value levels. Regional markets will continue to show a range of value movements dependent upon individual market dynamics and economic conditions.

Stock availability

• The Brisbane market continues to be tightly held, with most owners taking a wait and see approach to future supply. A significant number of major leisure assets have been put to the market over the past year, with mixed results. We expect owners to continue to explore exit strategies in these markets as market conditions provide potential trading upside and new buyers emerge.

Summary of future outlook

• The Brisbane trading market is expected to be challenged by the volume of new room supply entering the market to 2018 and the perceived impact by purchasers on trading levels. This will most likely to be felt in lower grade and older stock as the better quality existing and new hotels ‘buy’ business.
Western Australia

By Daniel Crotty
Senior Valuer, Valuation | Hotels
daniel.crotty@colliers.com

Market drivers

Vendors
- The Perth market has been tightly held with very limited transactional activity over the past twelve months. Of those properties sold or marketed, the vendors have predominantly been private investors (local and offshore).

Purchasers
- The single transaction of note in the CBD (Criterion Hotel) was to a Singapore based investor.
- Hotel Ibis Styles, located in the southern regional centre of Albany, was acquired by ASX listed Elanor Investors Group.
- Offshore based investors and private syndicates (local and interstate) have been active in the CBD development market with several sites purchased with the intent of hotel development.

Benchmark implications
- There has been no significant transactional data to an indication of benchmark movement. The largest hotel transaction in 2014 was in fact the acquisition by Singapore based Tuan Sing of their JV partners (Morgan Stanley) 50 percent interest in Grand Hotel Group which includes the Hyatt Perth.

Value movement
- There has been no demonstrable evidence to suggest a significant shift in values has occurred over the past 12 months, despite softer trading conditions.
- Stock remains tightly held and demand for CBD sites suitable for hotel development appears firm.

Stock availability
- There is limited stock currently being marketed for sale and a complete absence of four and five star hotels on the market.

MAJOR TRANSACTIONS

<table>
<thead>
<tr>
<th>HOTEL</th>
<th>ROOMS</th>
<th>RATING</th>
<th>DATE</th>
<th>PRICE</th>
<th>$ PER ROOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pinctada Resort, Cable Beach</td>
<td>72</td>
<td>4.0</td>
<td>Oct-14</td>
<td>$5.70m</td>
<td>$189,474</td>
</tr>
<tr>
<td>Hotel Ibis Styles, Albany</td>
<td>50</td>
<td>4.0</td>
<td>Oct-14</td>
<td>$5.00m</td>
<td>$100,000</td>
</tr>
<tr>
<td>Criterion Hotel, Perth</td>
<td>69</td>
<td>3.5</td>
<td>Mar-14</td>
<td>$16.50m</td>
<td>$239,130</td>
</tr>
<tr>
<td>Kununarra Country Club, Kununarra</td>
<td>90</td>
<td>4.0</td>
<td>Feb-14</td>
<td>$9.10m</td>
<td>$101,111</td>
</tr>
<tr>
<td>Ibis Budget Perth Airport Hotel, Redcliffe (Pending)</td>
<td>73</td>
<td>2.5</td>
<td>Dec-14</td>
<td>$14.75m</td>
<td>$202,055</td>
</tr>
<tr>
<td>Hyatt Perth Complex (50%)*</td>
<td>367</td>
<td>5.0</td>
<td>Sept-14</td>
<td>$116.25m</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Includes office, car park and development land.

South Australia

By Heath Dowling
Director, Valuation | Hotels
heath.dowling@colliers.com

The South Australian market has benefited significantly from increased demand which can be associated with the opening of the redeveloped Adelaide Oval coupled with the convention centre upgrade and construction of the Royal Adelaide Hospital. Demand from both corporate and leisure markets have improved, although there has been a sharp recent increase in supply.

Market drivers

Trading environment
- Adelaide experienced good growth in demand during 2014.

BENCHMARK IMPLICATIONS

- There has been no significant transactional data to an indication of benchmark movement. The largest hotel transaction in 2014 was in fact the acquisition by Singapore based Tuan Sing of their JV partners (Morgan Stanley) 50 percent interest in Grand Hotel Group which includes the Hyatt Perth.

Value movement
- There has been no demonstrable evidence to suggest a significant shift in values has occurred over the past 12 months, despite softer trading conditions.
- Stock remains tightly held and demand for CBD sites suitable for hotel development appears firm.

Stock availability
- There is limited stock currently being marketed for sale and a complete absence of four and five star hotels on the market.

According to STR Global Research data, the city occupancy increased to 79.6 percent in 2014 (2013: 76 percent) and average room rate increased slightly to $149.69 (2013: $148.38).
- However, supply has now increased to a point which may restrict RevPAR growth.

Future supply
- Recent additions to the market include the 311 room Ibis Hotel, the 105 room Quest King William South, and the 174...
The ACT continues to be a tightly held market with limited transactional activity to analyse. One of its unique characteristics is its dominance by local owner operators typified by groups such as Doma and the Capital Hotel Group both of whom have either added or are soon adding new supply into the market.

Market drivers

Trading environment

• A major driver of demand in the ACT is government related business and with cutbacks in spending and in public sector jobs this has detrimentally impacted occupancy and room rates. STR Global research suggests in 2014 that occupancy declined by approximately three percent to currently sit in the low 70s.

• Average room rates in 2014 declined by approximately four percent and currently sit in the low $160s.

• However occupancy in January 2015 has shown modest growth over the same period in 2014 indicating the first signs of recovery.

Future Supply

• There were two additions to supply in the market in 2014 being the 213 room Avenue constructed by the local Capital Hotel Group and the reopening post extensive refurbishment of the Hotel Kurrajong owned by NRMA. Further supply to be added in 2015 includes the Vibe Canberra Airport and Little National with the former also being developed by the Airport owner and the latter being developed by the Canberra based Doma Group.

Capital market participants

• As commented ACT Hotels have traditionally been tightly held with vendors and purchasers dominated by locally based investors. However, we understand the Abode was purchased by a Malaysian investor which could be the start of a new trend due to the strong competition in the other major State Capitals.

Value benchmark implications

• With so few sales to analyse it is difficult to predict trends for capitalisation rates and IRR movement. Clearly the market’s confidence needs to be improved from seeing a return to positive occupancy and rate growth. This most likely will be achieved from a stronger event calendar and increased government spending. Until this happens we are likely to continue to see a risk premium in yields in comparison to the State capitals on either side of the City being Sydney and Melbourne.

Stock Availability

• While we are aware of several of the smaller local hotels being available we are not aware of any current full market sales campaigns associated with Canberra’s larger hotels.
Our perspective  HOTELS

**SYDNEY AND MELBOURNE SHOW STRONGEST HOTEL MARKET INDICATORS FOR 2014**

<table>
<thead>
<tr>
<th>City</th>
<th>OCC%</th>
<th>ADR</th>
<th>RevPAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SYDNEY</strong></td>
<td>86.5%</td>
<td>$217.40</td>
<td>$188.14</td>
</tr>
<tr>
<td><strong>MELBOURNE</strong></td>
<td>85.7%</td>
<td>$197.49</td>
<td>$169.32</td>
</tr>
<tr>
<td><strong>BRISBANE</strong></td>
<td>79.7%</td>
<td>$187.94</td>
<td>$169.52</td>
</tr>
<tr>
<td><strong>ADELAIDE</strong></td>
<td>79.5%</td>
<td>$187.94</td>
<td>$169.52</td>
</tr>
<tr>
<td><strong>CAIRNS</strong></td>
<td>74.3%</td>
<td>$177.94</td>
<td>$169.52</td>
</tr>
<tr>
<td><strong>GOLD COAST</strong></td>
<td>71.2%</td>
<td>$167.26</td>
<td>$169.52</td>
</tr>
<tr>
<td><strong>PERTH</strong></td>
<td>83.6%</td>
<td>$200.97</td>
<td>$167.91</td>
</tr>
<tr>
<td><strong>DARWIN</strong></td>
<td>76.0%</td>
<td>$189.42</td>
<td>$143.88</td>
</tr>
<tr>
<td><strong>CANBERRA</strong></td>
<td>70.8%</td>
<td>$162.21</td>
<td>$143.93</td>
</tr>
</tbody>
</table>

**WHO WERE THE PURCHASER PROFILES CONTRIBUTING TO $2.66 BILLION DURING 2014?**

- Singapore: 32.2%
- Australia: 31%
- China: 30.6%
- Other: 5%
- Hong Kong: 4.7%

**FUN FACTS**

- **Caravanning and camping** saw the largest growth of 7% for any accommodation type (year ending December 2014).

- **Overnight trips** involving going to festivals, fairs or cultural events increased by 21% and going to the markets was up 12% (year ending December 2014).

How else can we help you?
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Accelerating success.
HOTELS IS THE SECOND STRONGEST PERFORMER BY SECTOR FOR 2014
During 2014 there were a number of high profile sales of trophy hotel assets owned by operators, who sought to monetise their property holdings, while retaining long term management agreements with the incoming purchaser. The Waldorf Astoria in New York was perhaps the best example of this, with Hilton selling this prized 1,413 room property to the Chinese insurance group, Anbang, for US$1.95 billion, or US$1.4 million per key. As part of this sale, Anbang agreed to enter into a 100 year management agreement for Hilton to stay operating this property.

Closer to shore, the sale of the Sheraton on the Park by Starwood Hotels and Resorts to another Chinese insurance group, Sunshine Insurance Group (SIG), closed at the end of last year. The property sold in excess of A$500 million (once a product improvement plan cost was factored into the transaction), representing just over A$900,000 per key. As part of the sale, SIG agreed to enter into a 50 year management agreement with Starwood.

Given these new benchmark prices per key metrics and the associated long-term management agreements that formed part of these sales, it raises the question - does vacant possession still drive a premium in the sale of a hotel asset?

Unlike other property assets classes, the ability to purchase a hotel with vacant possession (VP) has traditionally provided extra value, when compared to properties encumbered with an unbreakable hotel management agreement (HMA). The primary reason for this situation is that hotels, unlike commercial or retail real estate, are going concern businesses, where a strong partnership between the owner and the operator is required to maximise value. Owners are therefore highly incentivised to work with preferred operators and on HMA terms that allow the owner strong input into the running of the business. For this reason, hotels which allow VP on sale typically draw a much deeper pool of buyers. Not only will they attract investors keen to install their own preferred operator on owner friendly HMAs, but well capitalised operators seeking to gain a foothold in the market will also be drawn.

Whilst there are few if any recent major CBD sales to demonstrate what the price of a hotel would have sold for if it had VP as opposed to being encumbered, broad opinion suggests that this added premium historically ranges from 10-20 percent. In market cycles where the level of buyers far outweighs the number of sellers, VP becomes less of a critical factor in buyers’ decision making, and therefore the premium paid for VP lessens.
An interesting case study is currently at play in the Sydney five star hotel market. The Sydney Hilton is being sold by Hilton, with a long term management agreement as part of the sale. Further down George Street, the Westin Hotel is also on the market, but with just four years to run on its HMA. While the two properties are not directly comparable in terms of size, location etc., it will be interesting to view the sale metrics of both properties post transaction to determine what premium, if any, the Westin achieved due to its shorter management agreement term.

Perhaps one of the most telling points in this topic is the degree of difficulty in convincing operators to allow vacant possession upon sale when negotiating a new management agreement. This is one of the most contested clauses and generally only offered up by operators in situations where an owner has the most leverage (i.e. it is a prized hotel keenly sought by numerous operators). Operators are keenly aware of the historic value that VP provides and that their tenure is severely compromised by granting this clause. Furthermore, for those publically listed operator groups, they understand that analysts value their stock based on the future income streams and VP clauses potentially jeopardise this stream. On the weight of this, it may still be argued that VP carries a premium, if for no other reason that it is becoming rarer in the managed hotel environment.

While the sale of the Waldorf Astoria and the Sheraton on the Park may signal the markets increased willingness to accept long term management agreements, it must be stressed that both assets could be viewed as high profile trophy hotels in highly sought after markets. These transactions perhaps say more about the weight of capital, particularly from the well-capitalised Chinese market, than they do about the value of VP. Vacant Possession will continue to command a premium, though it may be less of a necessity to buyers in key gateway city markets. For other markets, which don’t have the same weight of capital pressure, or which do not currently appeal to the offshore buyers, VP will continue to be a desired option for which purchasers are willing to pay a premium.
Opportunities, implications and challenges

By Mark Woodbridge
PHD Candidate | School of Business
University of Western Sydney

Dr Colin Sheringham
School of Business
University of Western Sydney

We are about to experience profound and widespread change in the international hotel industry. This change will be driven by something few of us have ever heard of – “The Internet of Things” (IoT). After the implementation of the IoT, the hotel industry will have been transformed. Along the way creating an unprecedented level and quality of commercial opportunities for hotels of all standards.

What is the internet of things?

In its basic configuration, the IoT consists of a series of “smart” devices that are interconnected in a high speed, secure network. The smart devices connected to the IoT will be able to pass information between each of the interconnected devices and groups of devices. “So what!” I hear you say. We have had computer networks, ranging from Local Area Networks (LANs) in offices to large-scale networks such as various hotel company distribution networks, for many years. What is different with the IoT? The big difference is the “intelligence” in both the devices connected to the network and the network itself.

An example that can demonstrate the anticipated relative power and related impact of the IoT is the difference between a 1970s slow, unstable dial-up connection to the Internet and a contemporary, fast, high capacity, very secure broadband service using the Australian National Broadband Network. Both of these connections provide access to the Internet. However, the consumer “experience” is vastly different.

Jeremy Rifkin of the Wharton School at the University of Pennsylvania recently described the IoT as something that “will connect everything with everyone in an integrated global network.”

Rifkin envisages a large scale, comprehensive network that addresses all aspects of life. His forecast IoT network functionality is seen as providing high speed, high capacity, and secure Internet access through all forms of connectivity that we use today, with an emphasis on mobile service. It is reasonable to assume that in the future, there will be other forms of connectivity that have not yet been invented.

The biggest benefit of the IoT is that it gives us a unique opportunity to talk to the analogue world around us (machines, people, animals, plants, things) in a digital way, with all the benefits of digital communication. Smartphones are one of the most popular and successful devices ever invented. Now we are witnessing the next evolutionary step as mobility and computing are finding their way into smaller and more diverse devices. The key trends that are driving this latest development of technology are:

• Miniaturization, and better power management at the device level
• Affordability
• The elimination of wires - more and more things are becoming wireless.
The IoT is predicted by some industry authorities to have very significant and some might say “game changing” impacts by enabling business to:

- Develop new business models
- Establish real-time information on mission-critical systems
- Diversify corporate revenue streams
- Achieve global visibility
- Conduct efficient intelligent operations.

Research and analysis by IDC, a leading International IT research firm, can help put the role and potential impact of the IoT into clearer and more useful context. About 30 years ago, there were just 1,000 connections to the Internet worldwide. Today, there are about 13 billion connections to the Internet. This is still just one percent of what’s possible. According to IDC, the economic opportunity to connect the unconnected systems and devices to the IoT totals $19 trillion.

**Disruption**

The IoT is today a source of considerable actual and potential disruption. As the IoT expands over coming years, the form and impact of the related disruption will become clearer. The prospect of an IoT comprised of hundreds of billions of smart devices, including smartphones, smart cars, smart computing tablets, smart household devices and very much smarter computers provides an indication of the potential for large scale disruption. Brody and Pureswaran in the journal, Strategy and Leadership, recently identified five major sources of IoT related disruption. These are:

- Unlocking excess capacity of physical assets
- Creating “liquid”, transparent marketplaces
- Radical re-pricing of credit and risk
- Improving operational efficiency
- Digitally integrating value chains.

Combined, these items will shift the IoT from being an experiment to being a compelling element of business strategy.
ALTERNATIVE ACCOMMODATION INVESTMENTS

By Christopher Milou
Director, Valuation | Hotels
christopher.milou@colliers.com

With the large weight of capital entering the accommodation space within the major capital cities and limited investment opportunities for hotels, we are witnessing an increased level of interest in the alternative accommodation asset classes comprising boarding houses, backpacker establishments, student accommodation and tourist parks, to name a few. The focus of this commentary is to provide a broad guide on two of these asset classes including boarding houses and backpacker establishments.

Boarding houses

Boarding houses generally fall into two categories, the traditional boarding house with shared facilities generally of an older nature and the ‘new generation’ boarding houses which comprise of self-contained studio rooms up to a maximum of 25sqm plus ensuites and kitchenettes.

A traditional boarding house is generally of an older nature with long term tenants typically on a weekly rental basis. The investment can provide an owner with a steady income stream although there are generally limited opportunities for any significant growth in revenue. There is also potential for a residential conversion at any point in time in the future subject to Council Approval. We note that a council contribution may need to be payable to compensate for any loss in affordable housing.

Within NSW, ‘new generation’ boarding houses have come into play since the introduction of the Affordable Housing SEPP of 2009. There have been a number of new generation boarding houses built within the metropolitan areas of Sydney. Some of the design parameters for boarding houses are outlined below.

Under the State Environmental Planning Policy (Affordable Rental Housing) 2009, a consent authority must not consent to development to a boarding house unless it is satisfied of each of the following:

1. If a boarding house has five or more boarding rooms, at least one communal living room will be provided.
2. No boarding room will have a gross floor area (excluding any area used for the purposes of private kitchen or bathroom facilities) of more than 25sqm.
3. No boarding room will be occupied by more than two adult lodgers.
4. Adequate bathroom and kitchen facilities will be available within the boarding house for the use of each lodger.
5. If the boarding house has capacity to accommodate 20 or more lodgers, a boarding room or on site dwelling will be provided for a boarding house manager.
6. If the boarding house is on land zoned primarily for commercial purposes, no part of the ground floor of the boarding house that fronts a street will be used for residential purposes unless another environmental planning instrument permits such a use.
7. At least one parking space will be provided for a bicycle, and one will be provided for a motorcycle, for every five boarding rooms.

From a developer’s perspective there are some additional incentives. Zoning typically is not an issue, with boarding houses permissible within residential and mixed use zones. Also there are additional floor space concessions available to a developer including additional floor space ratio of 0.5:1 where the existing floor space ratio is 2.5:1 or less or an additional 20 percent where the existing ratio exceeds 2.5:1. The land however needs to be close to public transport and within walking distance of a town centre or mixed-use area.

However, we have observed a number of examples where there have been development proposals rejected by Council due to neighbourhood opposition to having boarding house developments within their backyard due to the perception that boarding houses attract lower socio economic tenants which impact on the neighbourhood.

From a landlord perspective, there are essentially no rent limits that can be charged unless specified in a development approval by council (though from our experience this is rare). Typically the landlord can charge a market rental. Boarding houses are generally considered affordable housing as a consequence of the size of the

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accommodation which has an upper limit in room size of 25sqm and therefore cheaper than standard sized apartments.

There are also Land Tax exemptions for owner’s who adhere to the NSW Office of State Revenue rental thresholds that can be charged. In 2014 the thresholds reflected where less than full board and lodging was provided, the maximum tariff charged per room was no more than $227 per week for single accommodation or $378 per week for family or shared accommodation. Where at least 80 percent of the rents within a development are below these thresholds, no land tax is payable within NSW.

The boarding house investment provides a landlord with a quasi-residential type income risk profile with reduced levels of volatility in comparison to a tourism based hotel which has daily fluctuations in trade. We are of the opinion that net yields generally range between seven percent and nine percent depending on location, quality of the inclusions and tenancy profile.

Overall boarding houses are sought after because they generally offer higher returns than standard residential properties however they also have some negative factors which should be considered.

In comparison to residential, boarding houses cannot be strata subdivided. Also given the relatively unique asset class there is shallower pool of buyers chasing boarding houses and as such selling periods can be somewhat prolonged. They can also be more difficult to manage than standard residential apartments which could increase the cost of management.

**Backpackers**

Backpackers provide for another form of an alternative accommodation investment. Unlike boarding houses however, backpackers are subject to tourism market fundamentals as opposed to the general residential rental market.

Overall the backpacker market has remained relatively stable over the past two to three years and demand remains solid, particularly in beachside and inner city locations. The weak performance of the Australian Dollar in recent times is stimulating demand in this cost-conscious market segment.

We note that full service hotels generally transact at lower yields relative to backpacker establishments given the greater scope for increases in hotel revenue compared to a backpacker establishment. With backpacker establishments we highlight that this is highly price sensitive market and as such any potential for significant levels of growth in bed rates is reduced.

We are seeing the emergence of premium backpacker establishments which cater to a more niche market. In these newer establishments we are seeing a greater emphasis on communal entertainment areas, more spacious rooms and increased levels of service and offerings including some ensuited rooms. In these establishments the opportunity to grow revenue is greater as they also tap into the budget hotel market.

From an operational performance perspective we note that not unlike budget hotels the profitability as a percentage of total revenue is greater than that of full service hotels given the limited services provided and reduced staffing costs.

In terms of investment demand, these types of properties are generally tightly held as evidenced by the limited transactions over the past few years. Most recent transactions have been smaller fringe CBD or beachside backpackers, typically in the sub $5 million range. Sales evidence reflects a range of between $20,000 to $60,000 per bed and yields ranging from 8.5 percent to 12 percent depending on offering with the range reflecting variances in location, quality of accommodation and offering.

We are of the view that there are opportunities to enter the backpacker investment market where the level of investor demand is typically lower compared to full-service hotels. Our experience of the market is that offshore investors are yet to familiarise themselves with the concept of the backpacker establishment. Any offshore interest is typically for hotel conversions.
A new frontier

By Ben Player
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Theme parks offer an exciting business proposition catering primarily to the leisure and tourism market. Theme parks can be generally categorised into two key markets, being Destination based and Tourism based. In some instances, the tourism based products create a destination precinct, such as the Gold Coast with six attractions.

Destination Parks include assets whereby their location is vital to their operation as a park. Such examples include The Sydney Harbour Bridge Climb, Scenic World at the Blue Mountains and various Ski Resorts. These assets have significant appeal to the tourism market whereby the visitor uses the parks facility to enjoy the attractions of the local area.

Tourism Parks rely primarily on visitors to the area with the parks providing an entertainment option during a stay in the area. The Gold Coast has morphed as the Theme Park capital in Australia with various attractions.

Barriers to entry

The key barriers to entry, as with most developments are planning and the upfront development costs. Further, unlike more traditional real estate and tourism products, forecasting visitations and average spend per customer are sometimes difficult to estimate. The highly subjective forecasting can often deter potential investors for new parks. These barriers to entry protect existing operators within the market.

A recent proposal is for a Chinese Theme park to be located at Wyong on the Central Coast of NSW, with an estimated cost of $500 million. The park is still in the planning process, however if constructed, would represent the largest single investment of a theme park in recent times.

Key valuation considerations

There are limited transactions of theme parks, with prime assets seldom sold. Secondary assets also transfer infrequently, and as such there is a lack yield evidence. Nonetheless, benchmarking of yields from dated transactions to more traditional going concern assets provides a reasonable guide for comparison.

Key considerations in maintaining value in theme parks are:

- Consistent Turnover and EBITDA trends
- Ongoing Capex to ensure market share
- Diversification of income streams.
The first two are relevant to many asset classes and are primarily controlled through good management. Diversification of income can be somewhat more difficult. International theme parks have been very good at attaching accommodation to their assets. The inclusion of accommodation enables the park operator to have more control of the visitors and increase their average spend.

Accommodation not only includes room revenue, but also confines the visitor to the park increasing F&B sales. Operators with more than one park also have the advantage of providing package deals which also increases the appeal to the consumer. The provision of accommodation allows for non-core business such as functions and weddings in non-peak periods.

Merchandise done properly, is also another profitable cash generating unit, and can significantly enhance revenue without the requirement for significant capital expenditure. The explosion in the demand for good coffee, together with its high profitability should also be considered for tired parents.

**Outlook**

The expansion of theme parks internationally combined with a historically high Australian dollar has been detrimental to the local tourism market and theme park operators. The decline in the Aussie Dollar since September 2014 is likely to benefit Theme Parks two fold. Firstly, domestic travel is likely to increase as the affordability of international holiday’s decrease. Secondly, international visitors are likely to increase due to the increased affordability of tourism in Australia.

The challenge for domestic operators of theme parks will be their ability to engage with international visitors and ensure booking and payment prior to arrival in Australia. This will require more sophisticated marketing and distribution than what is currently the norm within the Australian theme park market.
Five points to consider before selling your pub

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Like most successful business undertakings, selling a pub - or more to point; selling a pub for a favourable price - is a process demanding careful planning and preparation. Regardless of style, location and form of ownership (leasehold, freehold going concern of freehold investment), the focus of vendor planning and preparation should be on maximising the financial return to the purchaser and insuring your ability to clearly demonstrate that return. In order to achieve this, some fundamental areas of the business and/or property should be carefully considered and appropriately acted upon well ahead (at least 12 to 18 months) of putting your pub on the market. In this article, we discuss five of those areas.

Maximise business income and profitability

Any and all measures should be taken to ensure business income and profitability is maximised. In terms of ‘top line’ income, this could include assessing the pub’s operating hours, product offering and operating procedures. In terms of ‘bottom line’ profit, major expense items such as cost of goods and employment costs should be addressed and brought into line with current industry benchmark (or better).

Ensure the accuracy of financial statements and reports

For varying reasons, financial statements and reports within the pub industry can sometimes fall short of actual financial performance. Financial statements should accurately reflect ‘top line’ income and ‘bottom line’ profit. All cash income should be declared and all employment costs should be ‘on the books’. While an un-taxed dollar may be enticing to some, the real cost of that dollar should be understood. As it is very unlikely that all the costs associated with earning the un-taxed dollar are also undeclared, the effect to your bottom line is greater than just the profit margin you would have made on that dollar – it is in fact, one whole dollar. In a hypothetical scenario where your estimated business value is based on a 33.3 percent yield (three times EBITDA), the absence of that dollar comes at a cost of three dollars when the business is eventually sold.

Maximise tenure

An often overlooked opportunity to ‘maximise the financial return to the purchaser’ is in maximising the tenure or length of lease associated with a (leasehold) pub. Put simply, the more trading time a purchaser has available to them, the higher the financial return they stand to receive.
Identify and nurture potential growth areas

Most business purchasers believe that they can operate and grow the business better than the last operator. In the book ‘The Art of War’, Sun Tzu says “build your opponent a golden bridge to retreat across”. In a similar fashion, a vendor can potentially use a purchaser’s belief in their own ability to your advantage – ensure potential growth areas exist and highlight those areas in your marketing campaign.

Know your value and selling strategy

The most effective sale campaigns are usually those that have a clearly defined set of goals and a confident method of delivery to the market. In other words, know that the price, terms and conditions you are willing to accept are realistically achievable and have no hesitation in publicly demanding them from the market. When combined with the ability to demonstrate the strength of your business, the right asking price and selling method can deliver a higher sale price and a quicker sale. It is often the pub that ‘tests the water’ or approaches the market in a half-hearted manner that stagnates and becomes stale – the best way to dilute selling price. While there are many more elements that need consideration before making the decision to sell a pub, it is the five discussed above that most frequently make the difference between a favourable sale and a not so favourable sale.
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IN THE LAST 18 MONTHS

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Bell City Hotel
Preston, VIC
AUD$142.8 million
844 room hotel, 5,000sqm office tower and DA for residential development

Savoy Tavern
Melbourne CBD, VIC
AUD$44.5 million
Operating tavern acquired as hotel development site

Darwin FreeSpirit Resort,
Darwin, QLD
AUD$23.15 million
11.25 hectare resort comprising 121 cabins, 20 studio rooms, 265 powered caravan/camping sites

City Hotel
Sydney, NSW
AUD$21 million
52 room hotel located in the heart of Sydney CBD

Hotel Development Site
Brisbane, QLD
AUD$17.275 million
1,628sqm hotel development site sold via EOI campaign

Haven Inn
Glebe, NSW
AUD$13.5 million
Purchasers representative in the sale of 59 room hotel

Archer Hotel
North Adelaide, SA
$8.37 million
An iconic pub in the heart of North Adelaide, featuring a beer garden and large balcony

Australian Sunrise Lodge
Sydney, NSW
AUD$4 million
22 room motel sold by exclusive Expressions of Interest campaign

Travelodge Asia Brand Rights
Asia Region
Confidential
Sale of brand rights to Asia region for iconic Travelodge hotel brand

Sydney Conference & Training Centre
Sydney, NSW
Confidential
3.5 hectare training facility with 56 rooms featuring six conference rooms & nine breakout rooms

Paradise Palms Golf Course
Cairns, QLD
Confidential
18 hole championship golf course plus management rights to 48 apartments and 25 hectares of development land

Castaway Hotel and Apartments,
Highlands Lodge and 9 Freehold lots
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Novotel Sydney Manly Pacific
Sydney, NSW
Full service hotel
Full service hotel with 213 rooms and 100 carparks

Macquarie University Village
NSW
Student Accommodation
894 bed student accommodation

Next Hotel Brisbane
Brisbane, QLD
Hotel
304 room hotel with 48 parking bays, plus big box retail

Novotel Northbeach
Wollongong, NSW
Hotel
4.5 star hotel with 204 rooms

Marriott Resort & Spa
Gold Coast, QLD
Hotel
5 star high rise hotel with 329 rooms

Quest Mackay
Mackay, QLD
Serviced Apartments
Mixed use high rise development with 62 apartments and 115 keys

Intercontinental Hotel & Sanctuary Cove Marina
Gold Coast, QLD
 Resort/Marina
5 star resort providing 176 guest rooms and suites

Sheraton Noosa
Sunshine Coast, QLD
Resort
5 star resort providing 176 guest rooms and suites

The Elephant Arms Hotel
Fortitude Valley, QLD
Pub
Comprises a refurbished, older style heritage listed four level building constructed in the late 1880s

Indooroopilly Bowls Club
Indooroopilly, QLD
Club
Modern 4,507sqm club facility

Stamford Plaza
Adelaide, SA
Full Service Hotel
5 star hotel with 343 rooms including 21 suites

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