



Horwath HTL™

Hotel, Tourism and Leisure

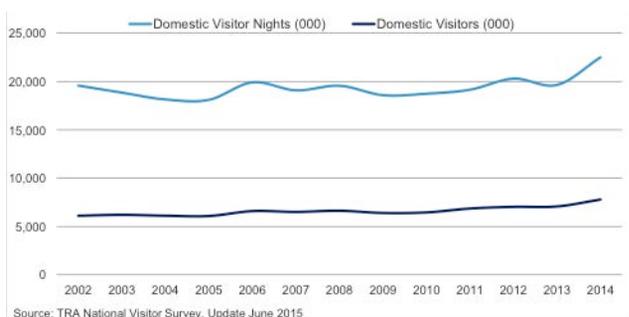
Special Market Reports

Issue 48 - MELBOURNE

October 2015

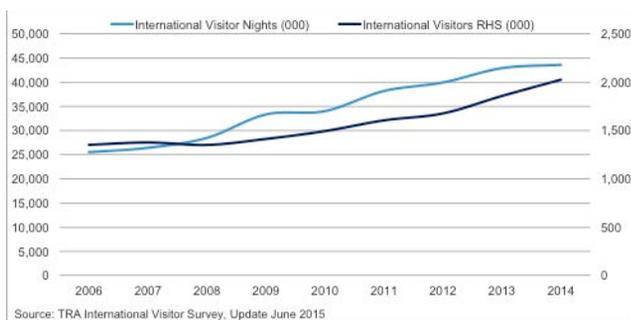
Melbourne Domestic Visitation

Melbourne received a record 7.8 million domestic overnight visitors in 2014, yielding 22.5 million visitor nights. While domestic visitor nights were at first not significantly impacted by the global financial crisis, growth did then slow to a trickle between 2010 and 2013. It has only been in the past year that Melbourne once again witnessed robust visitor growth.



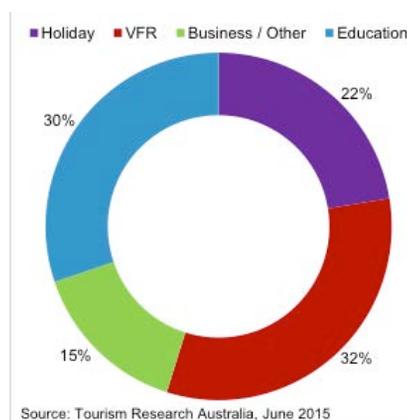
Melbourne International Visitation

As evidenced throughout Australia, international visitors are the main engine of growth, with visitors and visitor nights growing by a CAAG rate of 7.9% and 6.4% respectively since 2010. In 2014 Melbourne welcomed 2.03 million international visitors who generated a total of 43.6 million visitor nights. The long average length of stay for international visitors (21.5 nights) is to a large part due to the significant number of international students, studying in Melbourne.

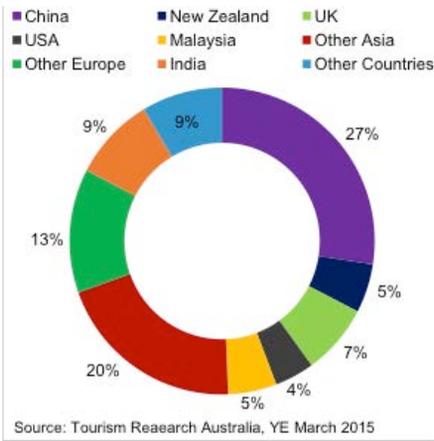


The strong growth in international visitor nights has been predominantly driven by visitors from Asia. China continues to be the largest inbound market in both actual visitors and total visitor nights, accounting for a massive 24% of visitor nights. The remaining Asian markets together make up a further 34% of all visitor nights. As a region, Asia therefore represents 62% of total international visitor arrivals, up slightly from 2014. Europe, which makes up an additional 21% of visitor nights, saw its share remain almost unchanged from last year. The remaining countries, representing 18% of arrivals, are also fairly unchanged from last year.

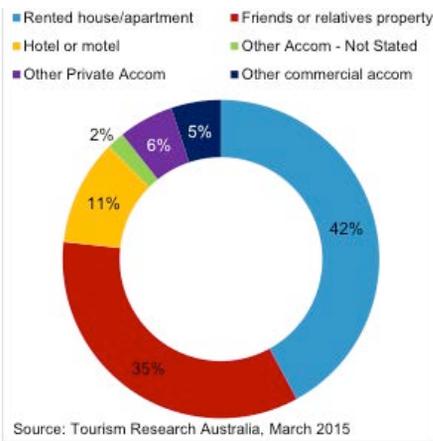
International Visitors by Purpose of Visit



International holiday travellers made up almost half (48%) of the visitors to Melbourne; however, their shorter length of stay means that they account for just 22% of visitor nights. Conversely, those visiting for the purpose of education represent a mere 5.3% of visitors yet they stay for an average of around four months and therefore generate a third of total visitor nights. Those visiting friends or relatives (VFR) or conducting business stay for an average of 23 and 18 days respectively.



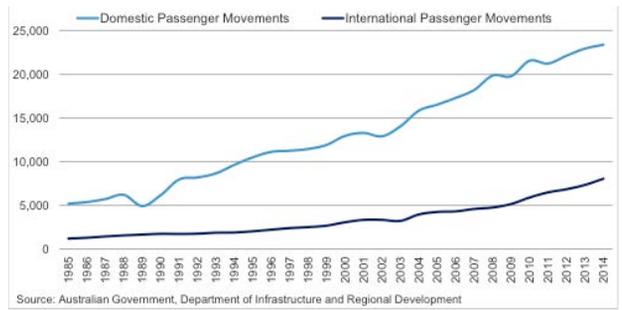
International Visitors by Accomodation Type



Given that Education and VFR account for 62% of visitor nights, it is unsurprising that 77% of international visitors stay in either a rented house/flat or at a friends or relatives place. Only 11% of visitor nights are spent in a hotel, a figure unchanged since 2011. These figures tend to suggest that alternate accommodation products such as Airbnb and HomeAway have so far had a limited impact on international accommodation preferences.

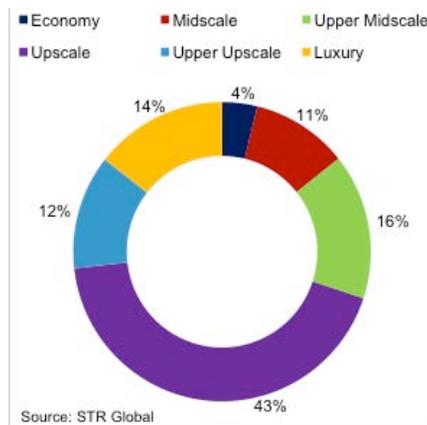
Melbourne Airport

Melbourne Airport, the nation’s second largest, saw 31.4 million passenger movements in 2014, with total passenger movements growing at a CAAG rate of 4.8% since 2009. International passengers have again been the major driver of growth, having grown at an average annual rate of 9.4% over the past five years.



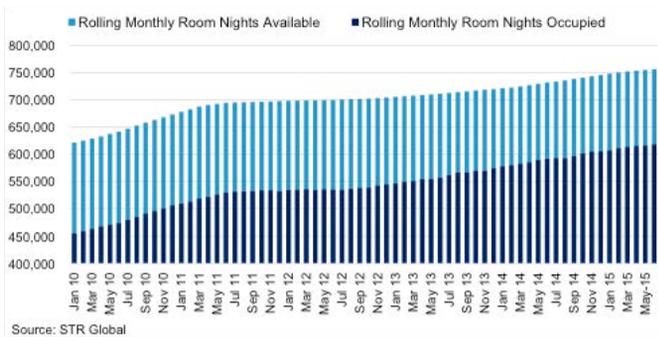
Hotel Market Overview

According to STR Global, 56% of hotel rooms in Melbourne are classed as either Upscale or Upper Upscale (4-4.5 star). The Economy and Midscale segments (3-3.5 star) account for only 30% of rooms while Luxury rooms make up the remaining 14%.



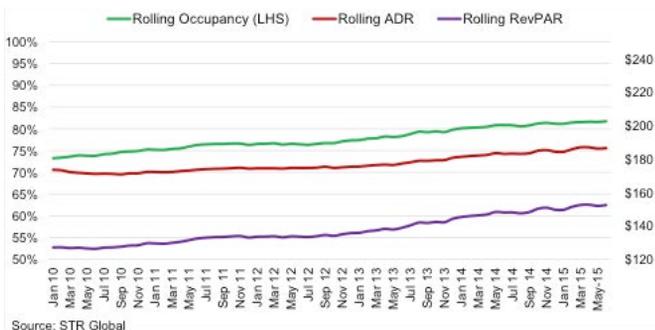
Historical Demand & Supply

The Australian Bureau of Statistics latest Melbourne Tourism Region hotel data report Melbourne as having 303 star-rated hotels, totalling 27,900 rooms. Supply in the Melbourne market grew at a CAAG rate of 3.3% in the five years to June 2015, slightly above the historic long-term average of approximately 2.6%. Demand meanwhile continues to outstrip supply, having increased at a CAAG rate of 5.5% over the same five year period.



Historical Market Performance

In the 2015 financial year, Melbourne was the second best performing hotel market in Australia, after Sydney in terms of RevPAR. According to STR Global, the city recorded an average occupancy of 82% and an ADR of A\$187. In February 2015, occupancy peaked at a record of 89%, with ADR cresting the following month at A\$205.



The data also shows that over the past year the busiest days continued to be Wednesday through Friday and Saturday.

Sunday, the quietest day of the week, saw the largest occupancy increases of 4.6% over the past three years. Conversely, and unsurprisingly, Saturday saw only half that amount of growth indicating that supply is significantly constrained on specific days.

As a consequence of the continuing high demand recorded over the past year, average room rates achieved on the busiest days (Friday & Saturday) grew by 15% in three years, compared to growth of just 7% on the relatively quieter days of the week.

Hotel Transactions

Melbourne may not have witnessed the same frenzied sales activity as Sydney has over the past 18 months; however, there have still been a number of notable transactions including:

Property	Star Rating	Sales Price (\$m)	Rooms	\$/room
Oaks on Lonsdale	4.5	\$65	148	\$439,189
Park Hyatt Melbourne	5	\$106	240	\$441,667
Ibis Styles Kingsgate Hotel	3	\$27.3	171	\$159,357
Ibis Melbourne Hotel and Apartments	3.5	\$27.4	250	\$109,600
Grand Hyatt Melbourne	5	\$118.5	272	\$435,662
Hotel Saville	3	\$7.4	35	\$210,000
Chifley Doveton	4.5	\$10.8	128	\$83,984
Bell City Hotel (2 sites)	4	\$142.9	844	\$169,313
Prince of Wales Hotel	4.5	\$45	39	\$1,153,000
Pensione Hotel Melbourne	3.5	\$26	114	\$228,070

Source: Horwath HTL Australia

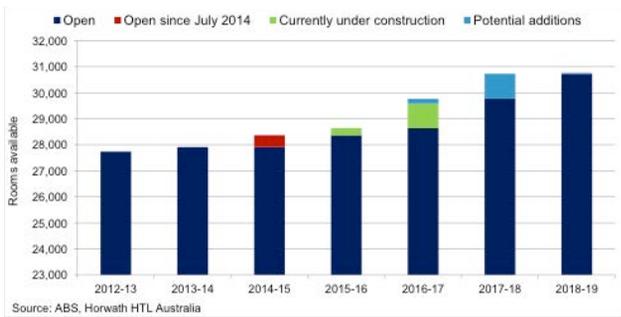
Recent Additions

Like Sydney, Melbourne has seen few new hotel additions over the past ten years. New supply is however starting to make its way into the market. In the past year the city has seen 459 new rooms opening at the Art Series Hotel Larwill, Quest Tullamarine, Brady Hotel Melbourne, Wyndham Hotel at The William and St Jerome's: The Hotel (Rooftop).

Future Additions to Supply

New hotels to open in Melbourne include the 87-room Peppers Docklands and the 182-room QT Melbourne, both slated for completion in early 2016

Other projects that are likely to open in 2017 include the 269 room Four Points Docklands, 281-room Parkroyal Docklands and the 166-room Hyatt Place Essendon Fields.

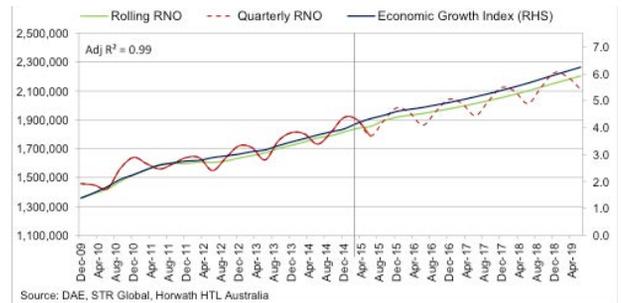


Horwath HTL Australia estimates that there are approximately 3,700 rooms in the Melbourne pipeline which are likely to come online between now and 2019. Of this the majority can be expected to open in the 2016-17 and 2017-18 financial years. The compound average growth over this period is expected to be 2.2%, is expected to be absorbed into the market relatively easily.

Melbourne Demand Outlook

Sydney may still be Australia’s gateway city, but according to the Australian Bureau of Statistics Melbourne is growing faster and will become Australia’s largest city by 2053. Melbourne has both a diverse economy and is regarded as Australia’s premier events destination.

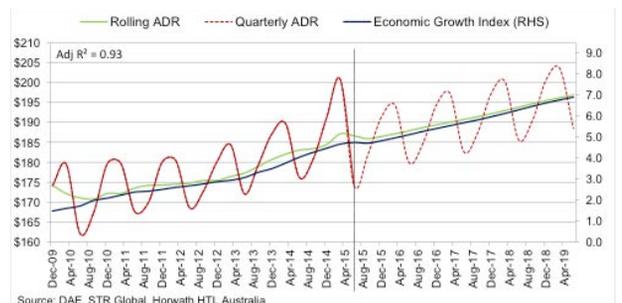
Given its importance as both a business centre and leisure destination, the demand for accommodation is unsurprisingly closely tied to the health of the underlying Victorian economy and the number of international arrivals. There exists an extremely strong (Adj R2 0.99) historical correlation between Room Nights Occupied (RNO) and an index of fifteen economic growth indicators. Based on the strength of the historical correlation, economic forecast data from Deloitte Access Economics can be used to project the future growth in demand for hotel rooms.



Applying this methodology, Horwath HTL Australia forecasts that RNO will grow 3.6% in the current 2015-16 financial year, down slightly from 4.5% in the year ended June 2014. Growth is then expected to decrease slightly to 3.3% in 2016-17 before rebounding to 4.1% in 2017-18. Horwath HTL Australia forecasts a long-term outlook for RNO of 4.1%, slightly below the 5-year historical average.

Melbourne Rate Outlook

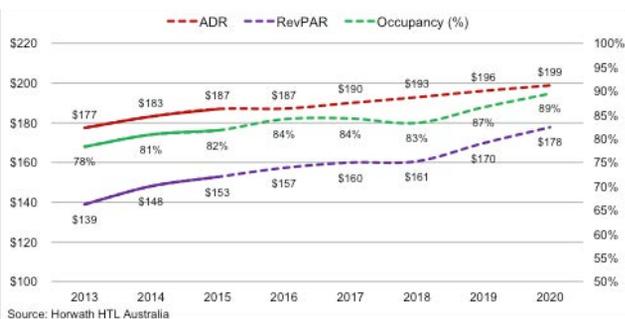
There also appears to be a very strong correlation (Adj R2 0.93) between Victoria’s economic health and ADR growth. Melbourne has traditionally struggled in achieving meaningful rate growth, with historical ADR growing by an average of just 1.8% per year, well below inflation. Utilising a similar causal econometric model, we forecast that ADR will struggle to grow in the current 2015-16 financial year. ADR is then projected to increase 1.5% to A \$190 in 2016-17 and by 1.5% again the following year to A\$196.



Hotel Market Projections

Victoria had it tough while the rest of the nation was riding the highs of the mining boom over the past few years. The State has few natural resources and as Australia’s strongest manufacturer it suffered as the Australian dollar reached record highs. The sustained fall in the \$A has therefore been a blessing for the State which has seen its unemployment rate finally fall back down below the national average. Export industries such as tourism are thriving and international education has recently become the State’s biggest export.

The most recent financial year ended June 2015 saw occupancy for the Melbourne tourism region rise 1% to 82%, a new record. Limited supply in 2016 is anticipated to help occupancy continue to grow to a record 84%. Further additions to supply, and an anticipated hiatus for Melbourne’s business events market due to the opening of Sydney’s new convention centre may then cause occupancy to stagnate for a few years. Demand is however projected to grow steadily and therefore occupancy should once again see some healthy growth in 2019 and 2020.



Overall, the 2015-16 financial year is set to be another stellar year for Melbourne’s hotel market, with RevPAR likely to grow 3% over the previous year to A\$157. Even the additions to supply in the next few years should not cause RevPAR growth to fall into negative territory; however, we then anticipate a period of low growth in FY17 and FY18. Overall we forecast RevPAR to grow at a CAAG rate of 3.1% in the years to 2019-20.

WRITTEN BY:



STEFAN MUFF
Consultant

Horwath HTL Australia
email: smuff@horwathhtl.com

Stefan Muff is a Consultant at Horwath HTL Australia in Sydney where he focuses on conducting hotel feasibility studies, operator selections, operational reviews and asset management. He is highly knowledgeable on the performance of Australia’s diverse hotel markets and specialises in producing hotel market outlooks. Stefan is also a regular contributor to both internal and external publications and has written for the Global Hotel Network among others. Stefan’s 10 years’ of experience in the hotel industry started with operational roles in Australia, Switzerland, France, the US and later China, where he was involved in the pre-opening of the largest conference hotel, the Kempinski Qingdao. Prior to joining Horwath HTL Australia in Sydney, Stefan worked as a consultant for AHS Advisory in Sydney and before that PKF Hotels in Shanghai, conducting feasibility studies and market reviews throughout greater China. Stefan grew up in Singapore and Sydney and then completed his Bachelor of Science in International Hospitality Management at the École hôtelière de Lausanne, Switzerland.

HORWATH HTL AUSTRALIA

Level 15, 1 O Connell Street
Sydney, NSW 2000, Australia
+61 2 8249 4482

www.horwathhtl.com



ASIA PACIFIC

AUCKLAND, NEW ZEALAND
auckland@horwathhtl.com

BANGKOK, THAILAND
ischweder@horwathhtl.com

BEIJING, CHINA
beijing@horwathhtl.com

HONG KONG, SAR
hongkong@horwathhtl.com

JAKARTA, INDONESIA
jakarta@horwathhtl.com

KUALA LUMPUR, MALAYSIA
kl@horwathhtl.com

MUMBAI, INDIA
vthacker@horwathhtl.com

SHANGHAI, CHINA
shanghai@horwathhtl.com

SINGAPORE, SINGAPORE
singapore@horwathhtl.com

SYDNEY, AUSTRALIA
rdewit@horwathhtl.com

TOKYO, JAPAN
tokyo@horwathhtl.com

AFRICA

CAPE TOWN, SOUTH AFRICA
capetown@horwathhtl.com

DAKAR, SENEGAL
bmontagnier@horwathhtl.com

EUROPE

AMSTERDAM, NETHERLANDS
amsterdam@horwathhtl.com

ANDORRA LA VELLA, ANDORRA
vmarti@horwathhtl.com

BARCELONA, SPAIN
vmarti@horwathhtl.com

BUDAPEST, HUNGARY
mgomola@horwathhtl.com

DUBLIN, IRELAND
ireland@horwathhtl.com

FRANKFURT, GERMANY
frankfurt@horwathhtl.com

ISTANBUL, TURKEY
merdogdu@horwathhtl.com

LISBON, PORTUGAL
vmarti@horwathhtl.com

LIMASSOOL, CYPRUS
cmichaelides@horwathhtl.com

LONDON, UK
eheiberg@horwathhtl.com

MADRID, SPAIN
vmarti@horwathhtl.com

MOSCOW, RUSSIA
mohare@horwathhtl.com

OSLO, NORWAY
oslo@horwathhtl.com

PARIS, FRANCE
pdoizelet@horwathhtl.com

ROME, ITALY
zbacic@horwathhtl.com

SALZBURG, AUSTRIA
austria@horwathhtl.com

WARSAW, POLAND
dfutoma@horwathhtl.com

ZAGREB, CROATIA
scizmar@horwathhtl.com

ZUG, SWITZERLAND
hwehrle@horwathhtl.com

LATIN AMERICA

BUENOS AIRES, ARGENTINA
cspinelli@horwathhtl.com

SÃO PAULO, BRAZIL
mcarrizo@horwathhtl.com

MEXICO CITY, MEXICO
mjgutierrez@horwathhtl.com

DOMINICAN REPUBLIC
speralta@horwathhtl.com

SANTIAGO, CHILE
cspinelli@horwathhtl.com

BOGOTA, COLOMBIA
mjgutierrez@horwathhtl.com

NORTH AMERICA

ATLANTA, USA
pbreslin@horwathhtl.com

CHICAGO, USA
tmandigo@horwathhtl.com

DENVER, USA
jmontgomery@horwathhtl.com

MIAMI, USA
acohan@horwathhtl.com

MONTREAL, CANADA
pgaudet@horwathhtl.com

NEW YORK, USA
pbreslin@horwathhtl.com

TORONTO, CANADA
pgaudet@horwathhtl.com