

# HOTEL FUTURES UPDATE

December Quarter 2005

## 2005 beats expectations, demand growth slowing

### Introduction

In this update we report on data recently published by the Australian Bureau of Statistics (ABS) for the December quarter 2005. This data and other relevant information is compared to our full year 2005 forecast and to update the short term element of the annual forecasts published in *Hotel Futures 2005*.

*Hotel Futures 2005* and Hotel Futures Quarterly updates are available on our website, located at [www.dransfield.com.au](http://www.dransfield.com.au).

### National – December Quarter 2005

In the December 2005 quarter the Australian hotel market performed strongly with room yields increasing 6.2%. Demand increases of 2.2% fully absorbed the 1.8% increase in supply resulting in a slight 0.4% increase in occupancies to 76%. Occupancy growth varied between cities with Darwin and Canberra recording the highest increases of 8.1% and 6.9% respectively. Sydney (-3.4%), Brisbane (-2.8%) and Gold Coast (-0.8%) all recorded falls in occupancy after strong corresponding quarters in 2004. Market wide supply increases of 1.8% were driven by Melbourne (5.7%), Darwin (4.8%), Sydney (4.6%) and Brisbane (4.4%). Supply decreases in Cairns (-6.7%), Adelaide (-5.2%) and Perth (-3.1%) against forecast full year supply increases in each of these cities indicates a delay in completion of construction which may impact the first half of 2006. Quarterly yield growth was driven primarily by strong 5.7% rate growth with stable supply and demand conditions. Most cities recorded

rate growth exceeding 4% except for Perth (2.5%) and Adelaide (1%). Double-digit yield growth was recorded in Darwin (14.0%), Canberra (11.6%) and Hobart (10.3%).

For the full year ending December 2005, all cities except Sydney exceeded our full year yield forecast. Overall yields increased by 7.5% compared to our forecast of 6.3% growth. The strong performance was primarily a result of improved average room rate growth of 6% compared to a forecast of 4.9%. This impressive result coincided with slightly lower than expected increases in demand and supply, indicating that the historical trend of stagnant rates in good market conditions has been replaced with more aggressive pricing, particularly in the major markets of Sydney, Melbourne and Brisbane. Our *Hotel Futures 2005* full year forecast of 7.8% growth in 2006 is likely to be slightly downgraded in *Hotel Futures 2006* due to the reduced demand outlook, higher 2005 yield base and delayed supply.

International arrivals in the first half of the year were strong, offset by a weak second half resulting in a relatively static full year result. Increasing oil prices and a high interest rate climate globally appear to have dampened international travel into Australia from key Asian markets. It is difficult to predict the longevity of these economic factors however it is likely that hoteliers with high a international content will show caution with rate growth strategies. Anecdotal evidence has five star hotels with high international content performing below the general market.

2005 Weighted Quarterly Change in Room Yields by Major Markets

Market	March 2005 Qtr	June 2005 Qtr	6 Mths to June 2005	Sept 2005 Qtr	Dec 2005 Qtr	Full Year Actual	Full Year F'cast
Adelaide	0.0%	7.8%	3.7%	12.0%	4.8%	5.8%	3.9%
Brisbane	16.4%	16.3%	16.5%	7.0%	5.9%	10.9%	10.5%
Cairns	8.0%	1.1%	4.3%	8.9%	7.7%	6.4%	3.5%
Canberra	4.5%	9.0%	6.8%	5.8%	11.6%	7.7%	3.5%
Darwin	10.8%	14.7%	13.5%	6.5%	14.0%	11.1%	7.7%
Gold Coast	5.7%	6.7%	5.8%	5.2%	4.7%	5.4%	4.1%
Hobart	6.3%	10.6%	7.9%	16.1%	10.3%	9.9%	6.8%
Melbourne	10.7%	10.7%	10.7%	4.7%	6.9%	8.6%	7.0%
Perth	3.1%	14.8%	8.6%	7.9%	5.0%	7.4%	5.1%
Sydney	11.1%	2.3%	6.9%	5.3%	3.2%	5.5%	7.2%
<b>Total Market</b>	<b>9.2%</b>	<b>7.8%</b>	<b>8.5%</b>	<b>7.0%</b>	<b>6.2%</b>	<b>7.5%</b>	<b>6.3%</b>

**Australian Hotel Market – December 2005 Quarter and Market by Market Performance**

Market	Supply		Demand		Occupancy		Average Room Rate		Room Yield	
	Dec Qtr % Chg	F'cast % Chg	Dec Qtr % Chg	F'cast % Chg	Dec Qtr % pt Chg	F'cast % Chg	Dec Qtr % Chg	F'cast % Chg	Dec Qtr % Chge	F'cast % Chg
Adelaide	-5.2%	1.1%	-1.6%	2.5%	3.8%	1.4%	1.0%	2.5%	4.8%	3.9%
Brisbane	4.4%	3.1%	1.4%	5.0%	-2.8%	1.8%	9.0%	8.5%	5.9%	10.5%
Cairns	-6.7%	4.0%	-4.1%	2.5%	2.7%	-1.4%	4.8%	5.0%	7.7%	3.5%
Canberra	1.0%	1.0%	8.0%	2.5%	6.9%	1.5%	4.4%	2.0%	11.6%	3.5%
Darwin	4.8%	4.3%	13.2%	7.0%	8.1%	2.5%	5.4%	5.0%	14.0%	7.7%
Gold Coast	1.8%	1.9%	1.0%	2.0%	-0.8%	0.1%	5.6%	4.0%	4.7%	4.1%
Hobart	1.3%	1.3%	6.9%	3.5%	5.5%	2.2%	4.6%	4.5%	10.3%	6.8%
Melbourne	5.7%	2.0%	6.7%	6.0%	1.0%	3.9%	5.9%	3.0%	6.9%	7.0%
Perth	-3.1%	2.9%	-0.7%	3.0%	2.4%	0.1%	2.5%	5.0%	5.0%	5.1%
Sydney	4.6%	3.3%	1.1%	4.5%	-3.4%	1.1%	6.8%	6.0%	3.2%	7.2%
<b>Total Market</b>	<b>1.8%</b>	<b>2.6%</b>	<b>2.2%</b>	<b>3.9%</b>	<b>0.4%</b>	<b>1.3%</b>	<b>5.7%</b>	<b>4.9%</b>	<b>6.2%</b>	<b>6.3%</b>

Source: ABS Catalogue 8635 and D.A. Dransfield & Co 2006

Note: Average Room Rates Net of GST

## Adelaide

In the December 2005 quarter Adelaide hotels performed well with room yields increasing 4.8% following a significant 5.2% supply reduction. Demand decreased 1.6% resulting in a 3.8% increase in occupancies to 75.8%. Average room rates increased slightly, by 1%, assisting the yield growth in the quarter.

Full year room yields increased by 5.8%, above our forecast 3.9%. The market has benefited from strong demand growth of 4.2% and supply withdrawal of 2%. This has led to occupancies increasing by 6.3% for the full year versus our forecast 1.4% increase. The favourable market conditions with full year occupancies above 71%, again failed to translate into appropriate rate increases. Rates actually decreased by 0.4% against a forecast increase of 2.5%. There remains scope for rate increases. We expect that *Hotel Futures 2005* full year forecast of 6.6% growth in 2006 will be maintained in *Hotel Futures 2006*.

## Brisbane

In the December 2005 quarter, Brisbane hotels continued to record strong growth with yields increasing 5.9%. Demand growth of 1.4% failed to fully absorb a 4.4% increase in supply, leading to a 2.8% reduction in the existing high levels of occupancy to 77.7%. Supply decreased 1.6% against a full year forecast increase of 4% with a number of substantial projects being delayed and now forecast to come on line in the first half of 2006. As a result of the delays, occupancy has increased slightly by 1% against a forecast decline of 1.4%. This is likely to unwind when the new supply comes on

line. Rate growth of 9% was exceptional coming off a high 2005 quarter (6.3% increase in the December 2004 quarter).

Full year room yields increased by 10.9%, in line with our forecast 10.5%. Brisbane yield growth slowed in the second half of 2005 after averaging 16.5% in the six months to June 2005. This was expected following the high base established by the very strong second half of 2004. Full year demand growth of 4% was in line with our 5% forecast and supply growth of 4.4% was slightly higher than the 3.1% forecast. Occupancy declined by 0.4% against forecast growth of 1.8%. The strong full year yield growth was primarily driven by an 11.4% increase in average room rates, slightly above our 8.5% forecast. Brisbane hoteliers continue to capitalise on the strong trading conditions where occupancies remain close to 80%. We expect our *Hotel Futures 2005* full year forecast of 5.7% growth in 2006 to be maintained in *Hotel Futures 2006*.

## Cairns

In the December 2005 quarter, yields increased by 7.7%, following a 6.7% reduction in supply. Demand declined by 4% resulting in a 2.7% increase in occupancy. Room rate growth of 4.8% was consistent with the first three quarters of 2005 and our full year forecast growth of 5.0%.

Full year yields increased by 6.4%, higher than our 3.5% forecast following a delay in supply and despite softer than expected demand. Room rate growth of 5.3% was in line with our 5.0% forecast. The late supply is now forecast to come on line in the first half of 2006. With softer than

expected demand conditions from 2005 we are likely to downgrade our short term forecast for Cairns, with a recovery in the medium to long term. We expect our *Hotel Futures 2005* full year forecast of 4.3% growth in 2006 to be slightly downgraded in *Hotel Futures 2006*.

## Canberra

In the December 2005 quarter, Canberra hotels recorded strong yield growth of 11.6%, the best performing quarter for Canberra in 2005. Strong demand growth of 8% easily absorbed a 1.0% increase in supply, boosting occupancies by 6.9% to 71.0%. Average rates increased by 11.6% off a low December 2004 base when rates declined 5.5%.

Full year yields recorded growth of 7.7%, higher than our forecast 3.5%. Canberra was again characterised by moderate demand growth, 3.9%, which fully absorbed the minimal supply increase of 0.5%. The favourable conditions allowed occupancy to increase 3.3% to 69.3%. Average room rates grew strongly at 4.3% against a forecast 2% reflecting a willingness of hoteliers to act on favourable market conditions. Following the higher than expected base established in 2005 our *Hotel Future 2005* full year forecast for 2006 of 4% growth may be slightly downgraded, however we expect the longer term outlook for Canberra to be maintained in *Hotel Futures 2006*.

## Darwin

The current strength of the Darwin market continued through the December quarter with room yields increasing 14.0%. The past two years have seen double-digit yield growth. Modest supply increases of 4.8% were outstripped by a 13.2% increase in demand resulting in occupancies increasing by 8.1% to 64.1%. Hoteliers' confidence continued as average rates increased 5.4%.

Impressive full year yield growth of 11.1% was above our 7.7% forecast. Strong demand growth of 8.5% fully absorbed the 4.9% increase in supply driving full year occupancies up 3.4% to 69.5%. Strong annual rate growth of 7.5% was above our full year forecast of 5.0%. We expect that our *Hotel Futures 2005* full year forecast of 9.4% growth in 2006 will be upgraded as the market continues to show favourable trading conditions.

## Gold Coast

In the December 2005 quarter Gold Coast hotels recorded moderate yield growth of 4.7%. The result was driven by relatively stable supply and demand, 1.8% and 1% growth respectively, together with strong average rate growth of 5.6%. Occupancies remain strong at 73.1% and will support further rate growth.

Full year yield growth of 5.4% was slightly above our forecast of 4.1%. Static supply and demand were below our growth expectations of 1.9% and 2% respectively. The full year yield result was driven by rate which increased 6% against our forecast of 4%. It appears that a level of supply forecast to come on line in 2005 has been delayed until 2006, which may slightly impact our earlier existing growth expectations in the first half of 2006. We expect our *Hotel Futures 2005* full year forecast of 4.2% in 2006 to be maintained or slightly downgraded in *Hotel Futures 2006*.

## Hobart

The Hobart hotel market recorded another outstanding quarter with room yields increasing by 10.3%. Room yields have recorded double digit growth in three out of four quarters in 2005. Supply increases of 1.3% were outstripped by a strong 6.9% increase in demand. Occupancies increased by 5.5% to 77.0%. Average room rates continued recent trends increasing by 4.6% as the market remains buoyant.

Full year yield growth of 9.9% exceeded our full year forecast of 6.8%. Demand increases of 6.6% for the full year were above our forecast of 3.5% and was the primary driver in the above forecast performance. Supply increases of 2.4% were slightly above our forecast increase of 1.3% and room rates increased 5.6% against our forecast of 4.5%. The Hobart market continues to show resilience against the high base set in 2003 and 2004. This is an encouraging sign and may result in a slight upgrade of our *Hotel Futures 2005* full year forecast of 4.9% growth in 2006.

## Melbourne

In the December 2005 quarter Melbourne hotels recorded strong yield growth of 6.9%. A substantial 5.7% increase in supply was fully absorbed by a 6.7% increase in demand resulting in a slight 1.0% increase in occupancies to 77.5%.

Average rates continued the growth trend of the June and September quarters increasing 5.9%.

Full year room yields increased 8.6%, slightly exceeding our forecast of 7.0%. With supply and demand slightly performing above our forecast, the full year yield growth is primarily the result of a 4.4% increase in average rates versus a 3.0% forecast increase which is an encouraging sign for the Melbourne market given its historic trend of rate decline since 1998. We expect that our *Hotel Futures 2005* full year forecast of 13.2% growth in 2006 will be maintained.

## Perth

In the December 2005 quarter Perth hotels recorded moderate yield growth of 5.0%. Slight reductions in demand (-0.7%) and supply (-3.1%) saw occupancy rates increase by 2.4% to 80.3%. Average rates increased by 2.5% in the quarter.

Full year yield growth of 7.4% was slightly above our 5.1% forecast, primarily as a result of a 3.3% reduction in supply versus a forecast 2.9% increase. This suggests that a number of projects currently under construction have been delayed and may impact the first half of 2006. Demand remained static against a 3% growth forecast which was a disappointing result after the last 3 years of accelerating demand growth. Average rates increased by 4.0% and in line with our full year expectation of 5.0%. With concerns regarding the demand for Perth hotels and the likely impact of new supply in the first half of 2006, we expect our *Hotel Futures 2005* full year forecast of 9.3% growth in 2006 to be downgraded with a partial recovery in the medium to long term.

## Sydney

In the December 2005 quarter Sydney hotels recorded room yield growth of 3.2%. Supply increases of 4.6% and a 3.4% decrease in demand resulted in a 3.4% decline in occupancy to 79.7%.

Full year yields increased 5.5%, slightly below our 7.2% forecast. Supply performed in line with expectations increasing 4.1% against a forecast of 3.3%. Demand increased 2.7% against a forecast of 4.5% resulting in occupancies failing to reach 80% as forecast. Average rates increased 6.9% against a forecast of 6%, partially offsetting the impact of the reduced demand outcome on the full year

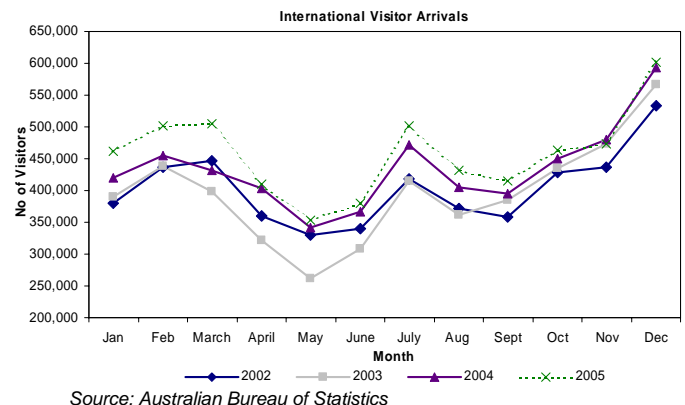
yield result. Given the existing strong trading conditions and limited new supply forecast to come on line in the short term, our *Hotel Futures 2005* full year forecast of 7.7% growth in 2006 is likely to be maintained.

## International Arrivals & Departures

International Arrivals increased by only 0.9% in the December Quarter resulting in overall growth in 2005 of 5.4%. The result is lower than the October TFC forecast of 3.7% growth for the December quarter and 6.4% annual growth for 2005. October growth of 2.8% was in line with expectations, while the November Quarter declined by 1.5% to a level below 2003. The decline in November was the first month of negative growth for five years. While December rebounded slightly to record growth of 1.4%, the quarter in general was affected by a sharp decline in our traditional source markets, particularly South-East Asian Countries.

Of particular concern were the large falls in arrivals from Taiwan, Singapore, Malaysia and Indonesia in November and December. It was the resurgence of these markets at the beginning of the year that fuelled much of the bullish speculation of international visitor growth for the region of 7.0% - 8.0%. Weakness in the Japanese tourist numbers (down 3.5%) remains a concern in light of their improving economy.

Some softening was expected on the back of the extremely strong December 2004 quarter and caution should be exercised when assessing quarter on quarter results. The persistence of high petrol prices has led to a trend of lower growth since August this year and worse than expected results for international arrivals in the back half of the year.



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## D A Dransfield & Co

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Our experience includes a wide range of projects involving over 30,000 hotel rooms and numerous food and beverage outlets in more than 300 hospitality enterprises. In addition to producing the Hotel Futures series, other hotel and resort services provided by our organisation include:

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