

HOTEL FUTURES UPDATE

June Quarter 2005

Forecasts Maintained for Solid Yield Growth

Introduction

In this update we report on data recently published by the Australian Bureau of Statistics (ABS) for the June quarter 2005. This data, together with more recent information, is compared to our full year forecast for 2005 to revise the short term element of the forecasts published in the annual edition of *Hotel Futures 2005*.

Hotel Futures 2005 and Hotel Futures Quarterly updates are available on our website, located at www.dransfield.com.au.

National – June Quarter 2005

In the June 2005 quarter the Australian hotel market performed strongly, with room yields increasing 7.8% compared to the same quarter in 2004. Moderate demand increases of 3.6% fully absorbed the small 1.6% increase in supply, and national occupancies increased to 69.6% (1.3 points). Occupancy movement varied between cities with Adelaide recording the highest increase of 6.4 points (10.7%) whilst Cairns (-2.7 points), Sydney (-1.8 points) and Gold Coast (-0.2 points) recorded falls in occupancy. Supply increases remained minor in most markets except for Darwin (4.8%), Brisbane (4.9%) and Sydney (3.2%). Yield growth was recorded in all cities albeit only modest in Cairns (1.1%) and Sydney (2.3%). Double-digit yield growth was present in five cities, most notably Brisbane (16.3%), Perth (14.8%) and Darwin (14.7%).

Year to date yield growth of 8.5% exceeds the forecast of 6.3% for the full year, however we are holding our long term forecast as conditions are expected to soften in the back half of the year against stronger prior corresponding periods.

Economic Summary and Risks

The International visitor arrival numbers for the first half of 2005 have exceeded expectations, growing by 8.0% compared to the same period in 2004. This is higher than the Tourism Forecasting Council estimate of 6.9% growth (TFC, April 2005), which itself was upgraded earlier in the year. Figures in the June quarter were not as strong as the 12.3% opening quarter, with growth of 2.9% recorded. It is expected that growth performance in the remainder of the year will be more modest, reducing to the forecast levels.

Some volatile global economic conditions are important to consider in the outlook for growth in short-term tourism. Increases in oil prices are a major risk and have a direct impact on the tourism industry, particularly international flows. Jet fuel is up over 30% for airlines and some of the increase in costs is being passed on to consumers. Accompanied by a climate of higher interest rates, the global market is entering a period of uncertainty. These pressures are likely to test the resilience of international travel in the remainder of the year

**Australian Hotel Market (Weighted) – Room Yield Movements
Hotel Futures 2005 vs 6 months Actual to June 2005**

Market	Yield Change			2005 Short Term Forecast Status
	3 mth Chg to June 04	6 mth Chg to June 04	2005 Annual Forecast	
Adelaide	7.8%	3.7%	3.9%	Hold
Brisbane	16.3%	16.5%	10.5%	Slight Upgrade
Cairns	1.1%	4.3%	3.5%	Hold
Canberra	9.0%	6.8%	3.5%	Hold
Darwin	14.7%	13.5%	7.7%	Hold
Gold Coast	6.7%	5.8%	4.1%	Hold
Hobart	10.6%	7.9%	6.8%	Hold
Melbourne	10.7%	10.7%	7.0%	Hold
Perth	14.8%	8.6%	5.1%	Hold
Sydney	2.3%	6.9%	7.2%	Hold
Total Market (Weighted)	7.8%	8.5%	6.3%	Hold

Australian Hotel Market – June 2005 Quarter and Market by Market Performance

Market	Supply		Demand		Occupancy		Average Room Rate		Room Yield	
	Jun Qtr % Chg	F'cast % Chg	Jun Qtr % Chg	F'cast % Chg	Jun Qtr % pt Chg	F'cast % Chg	Jun Qtr % Chg	F'cast % Chg	Jun Qtr % Chge	F'cast % Chg
Adelaide	-2.0%	1.1%	8.4%	2.5%	10.7%	1.4%	-2.6%	2.5%	7.8%	3.9%
Brisbane	4.9%	2.1%	9.6%	4.5%	4.4%	2.3%	11.4%	5.0%	16.3%	7.4%
Cairns	1.4%	4.0%	-2.7%	4.0%	-4.0%	0.0%	5.3%	4.0%	1.1%	4.0%
Canberra	0.4%	1.0%	5.5%	2.5%	5.0%	1.5%	3.8%	2.0%	9.0%	3.5%
Darwin	4.8%	4.4%	6.9%	3.0%	2.0%	-1.3%	12.5%	3.5%	14.7%	2.2%
Gold Coast	0.7%	1.9%	0.4%	3.5%	-0.3%	1.5%	7.1%	4.0%	6.7%	5.6%
Hobart	2.9%	1.3%	7.5%	2.0%	4.5%	0.7%	5.9%	3.0%	10.6%	3.7%
Melbourne	1.3%	2.0%	7.2%	4.0%	5.8%	1.9%	4.7%	3.0%	10.7%	5.0%
Perth	-1.9%	2.6%	3.9%	5.5%	5.9%	2.8%	8.4%	5.0%	14.8%	8.0%
Sydney	3.2%	3.4%	0.7%	4.5%	-2.5%	1.1%	4.9%	6.0%	2.3%	7.2%
Total Market	1.6%	2.5%	3.6%	3.9%	1.9%	1.4%	5.8%	4.4%	7.8%	5.9%

Source: ABS Catalogue 8635 and D A Dransfield & Co 2005

Note: Average Room Rates Net of GST

The Australian dollar has been performing better than expected with the boom in commodity prices and high interest rate differentials resulting in strong resident departures of 10% compared to June 2004. There is a growing concern that this structural appreciation may reduce our competitiveness as a tourism destination in the long term and lead to lower long-term growth forecasts. The Cairns market has been adversely affected by the appreciation against the Japanese Yen.

Adelaide

In the June 2005 quarter Adelaide recorded strong yield growth of 7.8%. Demand growth (8.4%) and a supply decrease (2.0%) resulted in occupancies increasing a large 10.7% to 66.4% in the quarter. Average room rates however fell by 2.6%. This continues a recent trend evident in Adelaide and contrary to sound market fundamentals. Hotel owners appear to be hesitant to raise room rates, despite very strong demand and growing occupancy rates. Adelaide experienced supply increases in the latter end of 2004 and the lack of growth in room rates may be a combination of the pessimism surrounding the new supply given the long term static nature of Adelaide room rates. Our forecast for Adelaide in *Hotel Futures 2005* is maintained.

Brisbane

In the June 2005 quarter Brisbane hotels recorded exceptional yield growth of 16.3% compared to June 2004. Strong demand growth of 9.6% easily absorbed a 4.9% increase in supply and an 11.4% increase in rates. Market

wide occupancies of 80.7% were 3.5 points higher than June 2004.

Brisbane continues to exceed forecasts as a result of the strong international arrivals in 2005 and strong economic conditions. Global economic growth is expected to weaken in the upcoming quarter, with higher interest rates and a stronger Australian dollar detracting from overseas spending. We expect that yield growth in the Brisbane market will exceed the short term forecast (7.2%) in *Hotel Futures 2005*, however by a reduced margin than current data suggests as supply comes on line.

Cairns

In the June 2005 quarter Cairns room yields increased marginally by 1.1%, compared to a strong June 2004 with 21.2% yield growth. Demand growth fell by 2.7% while supply increased by 1.4%. As a result, occupancies fell by 2.7 points to 64.7%. Average room rates increased by 5.3%. Cairns is on track to achieve our *Hotel Futures 2005* full year forecast for yield growth of 3.5%.

Canberra

In the June 2005 quarter, the Canberra market exceeded expectations with yields increasing by 9.0%. A 5.5% increase in demand easily outstripped the minimal 0.4% increase in supply. These prevailing conditions led to a 5.0% increase in occupancy to 69.2% and a 3.8% increase in average room rates.

Canberra has experienced an extended period of limited supply growth accompanied by steady demand growth. This has created upward opportunity on occupancy and average rates. Canberra is currently performing above yield growth expectations of 3.5%, however market conditions will need to remain extremely favourable to sustain this margin. We expect that conditions will soften slightly with a more apprehensive consumer market. Our forecast in *Hotel Futures 2005* is maintained.

Darwin

The momentum of the Darwin market continued through the June quarter with room yields increasing 14.7%, the sixth consecutive quarter of double-digit yield growth. This result is particularly impressive given it follows an exceptional June 2004 quarter with 23.9% growth. Supply increases of 4.8% were outstripped by 6.9% demand growth and occupancies increased 1.5 points to record 76.1%. Darwin hotel managers have reversed a cautious trend now raising rates by 12.5%. Darwin's strong quarterly performance has led to year to date performance being significantly higher than our full year forecast (13.5% versus 7.7% yield growth respectively). The increase in room rates by such a significant margin is an indicator that the market has broken resistance and entered a new level of confidence. As forecast in *Hotel Futures 2005* we expect longer term yield growth to be tempered by supply increases matching demand growth. Our forecast is held.

Gold Coast

In the June 2005 quarter, the Gold Coast recorded solid yield growth of 6.7%. Static market conditions continued with supply increasing by 0.7% and demand by 0.4%. Consequently, occupancy fell by 0.2 points to 60.8% in the June quarter. Yield growth was created by average room rates increasing by 7.1% suggesting confidence remains in a static environment. This continues a long term trend in the Gold Coast, with flat growth conditions not impacting rate and yield growth. Yield growth of 5.8% in the six months to June 2005 is slightly above our *Hotel Futures 2005* forecast for the year of 4.1%. Our full year forecast is maintained as expected supply comes on in the last two quarters.

Hobart

The Hobart market had an outstanding June 2005 quarter, with room yields increasing by 10.6%. Increased supply of 4.8% was outstripped by a 7.5% increase in demand. Occupancy increased by 2.8 points, reaching record highs of 64.6% in what is traditionally Hobart's quietest quarter. Average room rates grew by 5.9% and have grown by 5.7% year to date.

In the six months to June 2005, yield growth is 1.1 points above expectations. Conditions for the upcoming months are more subdued, with growth expected to moderate as a result of a high base and growing economic concerns. Our full year forecast of 6.8% yield growth is maintained.

Melbourne

In the June 2005 quarter Melbourne hotels recorded an exceptional 10.7% increase in room yields. With relatively static supply increasing only 1.3% and a substantial 7.2% increase in demand occupancies increased 5.8% to 72.7%. Rates followed demand and occupancy growth increased by 4.7%.

This follows a strong 2004 when demand significantly outstripped supply (5.4%) resulting in yield growth of 3.3%. With weaker economic conditions expected forecast we maintain our *Hotel Futures 2005* forecast for 7% yield growth in 2005.

Perth

In the June 2005 quarter, Perth hotels recorded strong 14.8% yield growth even compared to a strong June 2004 quarter (7.2% yield growth). Demand growth of 3.9% was accompanied by supply withdrawal of 1.9%. As a result, occupancy increased by 4 points to 70.8% and average room rates also increased by 8.4%. The increase in room rates is substantial, with Perth hotel owners traditionally tentative in the June quarter. This reflects growing confidence in the market with improved air access.

The Perth market has responded to a slower than expected start, and yield growth for the first six months is 8.6%, 3.5 points higher than our forecast for 5.1%. We expect that softening economic conditions may impact the Perth market, less heavily than the past. We maintain our long term forecast for Perth.

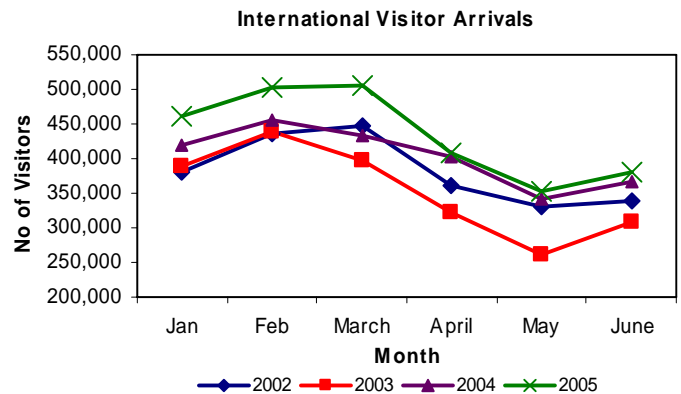
Sydney

The Sydney hotel market stabilised in the June quarter 2005 with yields increasing slightly by 2.3%. This was compared to a strong June 2004 quarter, which experienced yield growth of 19.5%. Demand increased by 0.7% in the June 2005 quarter, while supply increased by 3.2% with the re-opening of the Hilton. This resulted in occupancy falling to 71.8% (a fall of 1.8 points). Average room rates increased by 4.9% as occupancies remain above threshold levels. This is a positive result considering that June 2004 experienced such significant growth.

Sydney has benefited from the strong international visitor growth this year. Softening demand and yield growth in the June quarter is evidence of the market stabilising. Our *Hotel Futures 2005* forecast is consistent with current performance, and we maintain our forecast.

International Arrivals

In 2005 year to date growth in arrivals is 8%, largely attributable to the atypical strength of the March quarter arrivals (12.3% growth). The June quarter softened somewhat, likely due to higher oil prices and the interest rate climate. The growth in the June quarter was not as strong as the corresponding 2004 quarter, compared to the SARS affected 2003 period. The latest TFC report forecasts 6.9% growth in international arrivals in 2005, implying further softening in the remainder of the year. This is consistent with our forecasts.



Source: Australian Bureau of Statistics

D A Dransfield & Co

D. A. Dransfield & Co is a specialist consulting, financial advisory, asset management and reconstruction practice, advising the tourism and hospitality industries.

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:

- Equity Raising and Asset Sales
- Independent Expert's Reports
- Transaction Management
- Asset Management and Monitoring
- Management Selection
- Re-Financing
- Bank Security and Operational Reviews
- Pre-Investment Reviews and Due Diligence
- Valuation Reviews
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- Profit Improvement
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Our consulting work is focussed on practical and implementable advice which we are often asked to execute. This is reflected in the establishment of EcoPoint, a resort management and development business owned with Babcock & Brown Limited to bring capital and professional management to under-utilised coastal property.

The firm practises solely in the provision of value added financial services for hospitality enterprises. For further information on the range of services we provide and the ways in which we can assist you please contact:

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