

# HOTEL FUTURES UPDATE

March Quarter 2006

## Rates increase despite soft demand

### Introduction

In this update we report on data recently published by the Australian Bureau of Statistics (ABS) for the March quarter 2006. This data, together with more recent information, is compared to *Hotel Futures 2005* full year forecast for 2006.

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

### National – March Quarter 2006

March 2006 quarter saw yield growth of 5.9% which was characterised by relatively stable supply and demand, both below prior expectation levels. This resulted in revenue growth slightly below expectations from a higher 2005 base. Supply increases of 2.3% were absorbed by 2.2% demand growth resulting in stable occupancy at 75.0%. Yield growth was caused by an impressive 6% increase in average rates.

Yield growth was very strong in Adelaide (21.0%), Perth (16.7%), Canberra (11.8%), Melbourne (10.6%) and Brisbane (9.4%). All cities recorded positive yield growth except Sydney which fell by 2.6% following a 1.8% decline in demand.

### Economic Conditions

The global economy is facing a relatively uncertain period with discretionary household spending being impacted heavily by record oil prices and higher interest rates. The Australian dollar has also maintained a relatively strong position against other currencies and this has reduced forecast growth in arrivals.

Domestic tourism is facing a difficult period in the short term with higher petrol prices and evidence of reduced discretionary spending likely to restrict growth. This may be partially offset by the potential slow down in domestic outbound travel for similar reasons.

Australian Hotel Market – March 2006 Quarter and Market by Market Performance

Market	Supply		Demand		Average Room Rate		Room Yield	
	Mar 06 Qtr % Chg	HF05 F'cast for 2006 % Chg	Mar 06 Qtr % Chg	HF05 F'cast for 2006 % Chg	Mar 06 Qtr % Chg	HF05 F'cast for 2006 % Chg	Mar 06 Qtr % Chg	HF05 F'cast for 2006 % Chg
Adelaide	-4.4%	1.0%	4.5%	3.5%	10.7%	4.0%	21.0%	6.6%
Brisbane	7.8%	6.3%	10.3%	6.0%	6.9%	6.0%	9.4%	5.7%
Cairns	-3.0%	5.2%	1.1%	3.5%	3.1%	6.0%	7.4%	4.3%
Canberra	-0.8%	1.5%	5.3%	3.0%	5.3%	2.5%	11.8%	4.0%
Darwin	2.8%	1.7%	7.0%	6.0%	-1.5%	5.0%	2.5%	9.4%
Gold Coast	2.4%	3.8%	0.7%	3.0%	4.3%	5.0%	2.6%	4.2%
Hobart	0.8%	2.1%	3.7%	3.5%	6.1%	3.5%	9.1%	4.9%
Melbourne	4.1%	3.5%	1.9%	8.5%	12.9%	8.0%	10.6%	13.2%
Perth	0.4%	3.3%	7.1%	6.5%	9.4%	6.0%	16.7%	9.3%
Sydney	4.1%	4.3%	-1.8%	5.0%	3.3%	7.0%	-2.6%	7.7%
<b>Total Market</b>	<b>2.3%</b>	<b>3.7%</b>	<b>2.2%</b>	<b>5.2%</b>	<b>6.0%</b>	<b>6.3%</b>	<b>5.9%</b>	<b>7.8%</b>

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

Note: Average Room Rates Net of GST

## Adelaide

In the March 2006 quarter, Adelaide hotels room yields increased by a massive 21% as a result of 'Eventful Adelaide' that included the Adelaide Cup Carnival, Adelaide Fringe and the 'Clipsal 500'. Exceptional rate growth of 10.7% was bolstered by moderate demand growth of 4.5% and a supply reduction of 4.4%. This allowed occupancy to increase to a high 78.6%.

The March 2006 result was in contrast to Adelaide's pattern of limited room rate growth despite favourable trading conditions. The net supply reductions are likely to be a timing issue rather than permanent reduction with evidence of new supply to come on line in 2006. The rate increases seen in March are largely the result of the major events held and are not expected to continue at this level throughout the year. Our HF2005 forecast for 4.6% yield growth for 2006 will be significantly upgraded with the March result being so far above expectations.

## Brisbane

In the March 2006 quarter Brisbane hotels recorded yield growth of 9.4% from a balanced mix of demand and room rate growth. Demand growth of 10.3% outstripped supply growth of 7.8%, leading to occupancy growth of 1.7 points to 74.2%. Average rates increased by 6.9%, a strong performance following a 16.3% increase in average rates in the March 2005 quarter.

Brisbane has continued performing very strongly with consistent demand growth and high occupancy providing hoteliers the opportunity to increase room rates. Brisbane is benefiting from a period of strong economic fundamentals and positive growth in international and domestic visitor flows. The Brisbane market appears to be well positioned to absorb any new supply when it comes on line in 2006 which should see rate growth continue for the full year. We expect that our long term forecast from 2005 will be upgraded in *Hotel Futures 2006*.

## Cairns

In the March 2006 quarter Cairns room yields increased by 7.4% following a strong March 2005 result. Demand growth of 1.1% and a 3.0% reduction in supply resulted

in occupancy increasing by 4.2 points to 64.9%. Cairns recorded moderate rate growth at 3.1% in the quarter.

The impact of Cyclone Larry (mid March) did not have a major impact on hotels with lower cost accommodation being impacted to a greater extent. The short to medium term impact of Cyclone Larry will not be fully known until the June quarter results are released but is likely to be negative as rainfall has continued at record levels. At this stage, our long term forecast for Cairns will be slightly downgraded in *Hotel Futures 2006*.

## Canberra

In the March 2006 quarter Canberra hotels performed strongly with room yields increasing 11.8%. Demand growth of 5.3% and supply withdrawal of 0.8% allowed occupancy to increase by 6.2 points to 70.3%. Average rates increased by 5.3% as a result of the continuing good demand conditions and static supply. Supply in the Canberra market has declined in the last two years and it appears this trend may be continuing in 2006. With occupancy rates tracking close to 70% the market might expect new supply commencements in the short term. The Canberra market continues to perform in line with expectations and we expect our *Hotel Futures 2006* forecast will be maintained.

## Darwin

The Darwin market finally steadied in the March 2006 quarter with room yields increasing by a reduced level of 2.5%. This was the first quarter of single-digit yield growth after five consecutive quarters of double-digit yield growth. Modest supply increases of 2.8% were absorbed by strong demand growth of 7.0%. Resulting occupancy increased 2.0 points to record 51.5% in the quarter. Hoteliers exercised caution this quarter with average rates decreasing by 1.5% after an extended period of strong rate growth.

The Darwin market appears to have steadied after significant growth over the last 12-18 months. Trading conditions remain buoyant with strong demand still present and only modest supply increases expected. These trading conditions are in line with our forecast and we expect that our *Hotel Futures 2006* forecast for 2006 of 9.4% growth will be slightly downgraded.

## Gold Coast

In the March 2006 quarter Gold Coast hotels recorded yield growth of 2.6%. Demand growth of 0.7% was not able to absorb the 2.4% increase in supply resulting in a 1.7 point reduction in occupancy. Despite the soft demand conditions, average rates increased 4.3% which was the primary driver of yield growth in the quarter.

Gold Coast hotels are performing in line with our *Hotel Futures 2005* forecast and we expect this to continue for the remainder of the year. Accordingly our *Hotel Futures 2006* forecast of 4.2% growth is likely to be maintained.

## Hobart

In the March 2006 quarter Hobart hotels performed strongly with yields increasing 9.1%. Moderate demand growth of 3.7% fully absorbed the 0.8% increase in supply resulting in a high occupancy of 86.8%. Average rate growth continued strongly at 6.1%. Yields exceeded \$100 for the first time increasing to \$104.85.

International visitor arrivals to Tasmania in 2005 increased by 20% from 2004 and domestic growth remained buoyant and is not showing the expected signs of slow down in figures released as yet. Nevertheless there have been growing fears in Tasmania over weakening domestic spending patterns that are likely to depress further growth in demand in the upcoming months. With many hoteliers fearful of a slowdown, rates are unlikely to improve substantially and in combination with the likelihood of weaker occupancy could lead to significant weaker growth in yields in the remainder of 2006. Despite the continued strong data we expect trading to return to previously forecast levels and it is unlikely our forecast of 4.9% growth will be upgraded in *Hotel Futures 2006*.

## Melbourne

In the March 2006 quarter Melbourne hotels recorded yield growth of 10.6%, below expectations. Room yields were driven by the impact of the Commonwealth Games that saw average rates increase 12.9%. Room demand was surprisingly weak with growth of only 1.9% which could not fully absorb the 4.1% increase in supply. As a result, occupancy fell by 1.7 points to 79.0%.

The lower than expected demand during the Commonwealth Games period will impact our *Hotel Futures 2006* forecast as our previous demand growth forecasts were based on the March quarter having a significant impact on the full year result and they are below our previously held full year expectations. With supply and average rates performing in line with expectations, our *Hotel Futures 2006* forecast for 2006 of 13.2% full year growth is likely to be downgraded substantially to approximately 6%, still a healthy number.

## Perth

In the March 2006 quarter Perth recorded high yield growth of 16.7%. Strong demand growth of 7.1% and average rate growth of 9.4% were the primary yield drivers. Minimal supply increases of 0.4% allowed occupancies to increase 5.0 points to 79.4%. Room supply continues to be delayed and will impact future quarterly results in the balance of 2006.

The demand growth recorded in the March quarter was encouraging after softening in the second half of 2005. The strengthening demand may be reflective of the marketing campaign undertaken by Tourism Western Australian and the strong economic conditions that continue in Western Australia with the booming resources market. Supply commencement continues to be delayed and may be the result of the historically erratic underperformance of Perth hotels. The strong March 2006 quarter is not sustainable at the same level over the full year, as occupancies will be reduced when new supply comes on line which will also increase pressure on average rates. The strong start to the year will see our *Hotel Futures 2006* forecast slightly upgraded on prior year expectations.

## Sydney

In the March 2006 quarter Sydney hotels performed poorly with room yields decreasing by 2.6% following a strong March 2005 quarter. A 4.1% increase in supply was not absorbed by a 1.8% decrease in demand resulting in occupancy falling 4.9 points to 79.6%. Average rates increased by 3.3%. The Sydney hotel market was the only market to record yield decline with the fall in demand of particular concern in short term forecasts.

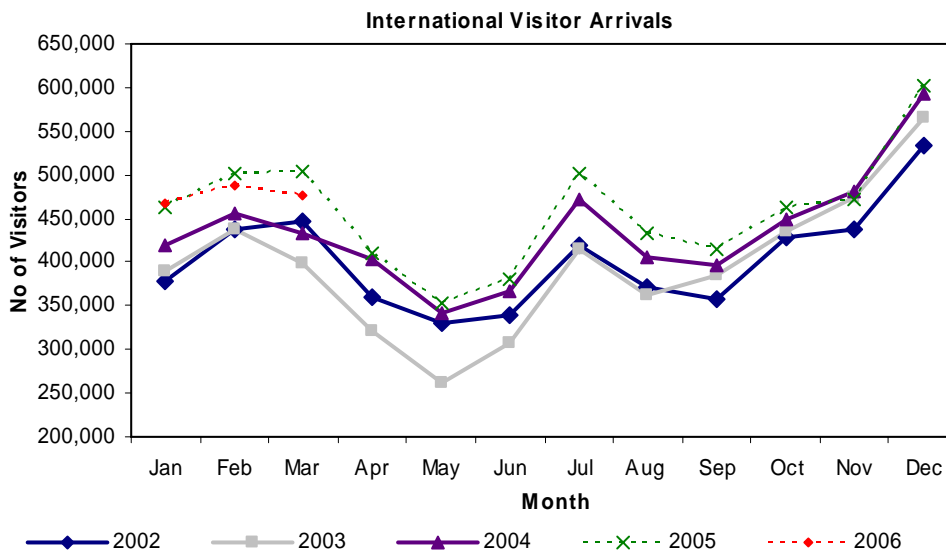
The decline in international visitors has a greater impact on the Sydney hotel market given the high international guest content. Our *Hotel Futures 2006* forecast will take regard of the decline in international visitors which will likely result in a slight downgrade to the forecast.

## International Visitor Summary

Related to the very strong March 2005 quarter, the March 2006 quarter recorded a slight decrease of 3% in international visitor arrivals. There were 1.4 million visitor arrivals in the first 3 months of 2006 with growth in arrivals most significant from India (27%), France (10%) and Canada (7%).

After strong growth in 2005, there was a decline in arrivals from some South-East Asian countries including Malaysia (12%), Singapore (11%) and Hong Kong (9%). Traditional markets such as UK (down 4%) and New Zealand (3%) were in line with overall reduction in arrivals. The Easter period fell later this year, in April, compared to March in 2005 and resulted in weaker international travellers when compared to last year's first quarter figures.

Recent forecasts by the Tourism Forecasting Council have downgraded forecasts for International visitor arrivals in 2006 to 2.8% (April 2006 forecast) from 3.2% as a result of global economic concerns.



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