

HOTEL FUTURES UPDATE

March Quarter 2005

International Visitor Growth Soars!

Introduction

In this update we report on data recently published by the Australian Bureau of Statistics (ABS) for the March quarter 2005. This data, together with more recent information, is compared to our full year forecast for 2005 to revise our short term 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 – March Quarter 2005

In the March 2005 quarter the Australian hotel market was quite buoyant with room yields increasing 9.2% compared to the same quarter in 2004. Demand growth of 3.3% with static supply resulted in average occupancy of 75.0% (up 2.3 points) with every city except Gold Coast (which remained the same) recording a higher occupancy than the corresponding March 2004 quarter. Supply increases remained minor in most markets with the most significant increase in Darwin (4.2%), Brisbane (3%) and Sydney (2.9%). Yield growth was recorded in all cities except Adelaide where yields remained constant. Double-digit yield growth was present in some cities, most

notably Brisbane (16.4%), Darwin (10.8%) and Melbourne (10.7%). In Sydney and Brisbane, increasing rates (7.9% and 16.3% respectively) impacted the market as a whole with Australia wide rates increasing 5.8% in the quarter.

International Visitor Summary

The March 2005 quarter recorded significant increases in international visitor arrivals relative to the same period in 2004 with arrivals increasing by 11.8%. Stronger international growth figures are a result of the low 2004 base impacted by adverse international events, continuing recovery of the Japanese economy and the strength of traditional UK (up 24.1%) and New Zealand (up 16.1%) markets. As expected growth in the March quarter was considerably higher than the period last year as figures in 2005 were assisted by the Easter period falling in March this year rather than in April as was the case in 2004. Full year growth in visitor arrivals in 2004 was 9.9% and is expected to be 5.8% in 2005. Visitor arrivals have now recovered to the levels seen before September 2001 and are reaching record highs, acting as the key driver of strong inter-city performance.

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

Market	Supply		Demand		Occupancy		Average Room Rate		Room Yield	
	Mar Qtr % Chg	F'cast % Chg	Mar Qtr % Chg	F'cast % Chg	Mar Qtr % pt Chg	F'cast % Chg	Mar Qtr % Chg	F'cast % Chg	Mar Qtr % Chge	F'cast % Chg
Adelaide	0.7%	1.1%	4.0%	2.5%	3.3%	1.4%	-3.2%	2.5%	0.0%	3.9%
Brisbane	3.0%	2.1%	3.1%	4.5%	0.1%	2.3%	16.3%	5.0%	16.4%	7.4%
Cairns	0.8%	4.0%	3.4%	4.0%	2.6%	0.0%	5.2%	4.0%	8.0%	4.0%
Canberra	-1.3%	1.0%	-0.5%	2.5%	0.8%	1.5%	3.7%	2.0%	4.5%	3.5%
Darwin	4.2%	4.4%	11.1%	3.0%	6.7%	-1.3%	3.9%	3.5%	10.8%	2.2%
Gold Coast	-4.2%	1.9%	-4.2%	3.5%	0.0%	1.5%	5.7%	4.0%	5.7%	5.6%
Hobart	0.2%	1.3%	0.8%	2.0%	0.6%	0.7%	5.7%	3.0%	6.3%	3.7%
Melbourne	0.9%	2.0%	10.5%	4.0%	9.5%	1.9%	1.1%	3.0%	10.7%	5.0%
Perth	-4.9%	2.6%	-3.9%	5.5%	1.1%	2.8%	2.0%	5.0%	3.1%	8.0%
Sydney	2.9%	3.4%	5.9%	4.5%	3.0%	1.1%	7.9%	6.0%	11.1%	7.2%
Total Market	0.1%	2.5%	3.3%	3.9%	3.2%	1.4%	5.8%	4.4%	9.2%	5.9%

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

Note: Average Room Rates Net of GST

Economic Conditions

International growth conditions are showing signs of volatility, with upward pressure on interest rates and a stronger Australia dollar potentially causing a reduction in the strength of the current market.

International visitor growth will come back to forecast levels in the next quarter (6% growth) and yield growth will be more moderate in the next quarter.

Adelaide

In the March 2005 quarter Adelaide's hotels room yields remained stable. Demand growth of (4.0%) in a static supply period resulted in occupancies increasing 3.3 points to record 71.9% in the quarter. Contrary to expectations, these factors did not improve average room rates, which fell by 3.2% suggesting demand may have been driven by rate reductions. This is a consistent feature of the Adelaide market, reflecting an over-cautious approach by hotel managers in response to favourable economic conditions. Adelaide has also experienced significant supply increases in the past year that appears to have suppressed room rates in the March quarter, despite the significant increase in demand. It is expected that this static trend will continue in the short to medium term and our longer term forecast is likely to be maintained or slightly upgraded.

Brisbane

In the March 2005 quarter Brisbane hotels recorded exceptional yield growth, increasing 16.4% from March 2004. Slight demand growth of 3.1% absorbed a 3.0% increase in supply. Average rates increased a significant 16.3% as the market continues to benefit from good demand growth and historic under supply.

Brisbane is benefiting from a period of strong economic fundamentals and a return to high scale international and domestic visitor flows. With stability in the interest rates and competitive exchange rate, hotel owners have become less cautious in raising room rates. Rates in Brisbane for 2004 grew by only 4.5% and the current spike in rate rises is reflective of the more alluring climate present for hotel owners to make adjustments, including high occupancies and strong demand.

Accordingly, we expect that our long term forecast from 2004 will be upgraded in *Hotel Future's 2005*.

Cairns

In the March 2005 quarter Cairns room yields increased by 8.0% on the back of a poor March 2004 result. Demand growth of 3.4% with static supply conditions resulted in occupancy increasing by 1.6 points to record 62.3%. Cairns recorded strong rate growth in the quarter with average rates increasing 5.2% on the back of improved demand compared to 2004. The lower than expected supply increase (likely to be a timing issue) has had a positive influence on occupancy and rates and we would expect our long term forecast for Cairns to remain unchanged in *Hotel Futures 2005* providing demand persists.

Canberra

In the March 2005 quarter Canberra hotels performed well with room yields increasing 4.5%. Demand growth reduced by 0.5% on the back of an equally strong comparative March 2004 quarter. Supply reduced by 1.3%, continuing the trend of supply withdrawal from 2004. With the reduced supply, average room rates increased by 3.7% from a relatively low 2004 base. The Canberra market is benefiting from continual supply reduction from 2004 (2.5%), offsetting the poor demand climate (-0.5%). We expect our long term *Hotel Futures 2004* forecast will hold for 2005 or be slightly upgraded due to the low 2004 base.

Darwin

The strength of the Darwin market continued through the March quarter with room yields increasing 10.8%, the fifth consecutive quarter of double-digit yield growth. The yield growth is even more impressive given that it comes off a high March 2004 base which increased 13.8% on the back of the Bali bombings. Modest supply increases (4.2%) were absorbed by demand growth (11.1%) and occupancy increased 3.1 points to a record 49.5% in the quarter. Hoteliers remained cautious with average rates increasing only 3.9% in the quarter. We expect that our long term forecast for Darwin in *Hotel Futures 2005* will be upgraded.

Gold Coast

In March 2005 quarter Gold Coast hotels recorded moderate yield growth of 5.7%, explained entirely by the 5.7% growth in the average rate that was accompanied by stable occupancies. Supply withdrawal (4.2%) was matched by declining demand (4.2%), which meant rate changes dictated the change in yields over the March Quarter. We expect the market to continue performing as expected in the second quarter of 2005, with our long term *Hotel Futures 2004* forecast remaining unchanged.

Hobart

In the March 2005 quarter Hobart hotels recorded another good result with room yields increasing 6.3%. A modest 0.2% increase in supply was fully absorbed by a 0.8% increase in demand. Confidence in the market remains strong with average rates increasing 5.7% on a strong corresponding March 2004 quarter when rates increased by 6.6%. Hobart is currently at the investment crossroads with rate opportunity likely to lead to increased supply and a more competitive trading environment.

The Hobart market continues to enjoy its strongest period in the March Quarter, fuelled by domestic leisure visitation. Occupancy of 84.4% provided an attractive environment for Hotel managers to implement rate rises, despite flat demand and supply. We expect trading to return to more normal levels in the upcoming months and the longer-term forecast in 2005 will represent an upgrade on our 2004 forecast.

Melbourne

In the March 2005 quarter Melbourne hotels recorded a strong 10.7% increase in room yields. Relatively static supply (0.9%) and a large increase in demand (10.5%) resulted in occupancies increasing 7.0% points to record 80.7% in the quarter. Demand growth in Melbourne had recently been at the expense of average room rates, but in March 2004 there was a 1.1% increase in room rates which suggests the market may have finally turned after a relatively slow 2004.

The Melbourne hotel market has historically been able to generate demand growth, albeit at the expense of average rate. This trend was reversed in the March

2005 Quarter and we expect Melbourne to continue growing strongly as exposure of the Commonwealth Games increases. With stable supply forecast through 2005, we expect that our long term *Hotel Futures 2004* forecast will be upgraded.

Perth

In the March 2005 quarter Perth hotels recorded modest yield growth of 3.1%. Declining demand (-3.9%) was matched by a fall of 4.9% in supply. March 2004 proved to be a strong year for Perth and the 2005 figures reveal stability in market conditions rather than a substantial drop off. Average rates increased 2.0%, a good result considering the slow down from the corresponding March 2004 quarter.

Perth has benefited from improved air services, both domestic and international that have increased affordability and convenience of Western Australia as a tourist destination. Occupancy in the March quarter 2005 also increased by 0.8%. Demand and supply conditions remain soft, slightly offset rate growth opportunity. As a result we expect that the forecast for the longer term yield will be downgraded in *Hotel Futures 2005*.

Sydney

In the March 2005 quarter Sydney hotels performed strongly with room yields increasing 11.1%, despite coming off the back of a very strong March 2004 quarter. An increase in supply of (2.9%) was fully absorbed by an increase in demand (5.9%) and average rates increased by 7.9%. Sydney hoteliers are continuing to attempt to recoup some of the losses of previous years, which has led to consistent increases in room rates over the past two years.

The strength of the Sydney market continues, with occupancy increasing by 2.5 points to 84.5%. With the Sydney Hilton coming online, we expect the June Quarter to be characterised by reduced occupancy, continued demand and rate growth resulting in yield growth. This more normalised market framework should lead to our long-term forecasts being maintained.

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:

- Profit Improvement
- Transaction Management
- Asset Management and Monitoring
- Bank Security and Operational Reviews
- Pre-Investment Reviews and Due Diligence
- Valuation Reviews
- Equity Raising and Asset Sales
- Independent Expert's Reports
- Industry Education
- Management Selection
- Reconstruction and Insolvency
- Re-Financing

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 in extracting additional value from hotel investment, please contact:

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