

HOTEL FUTURES UPDATE

September Quarter 2005

Strong Growth Slightly Above Expectations

Introduction

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

In the September 2005 quarter the Australian hotel market performed strongly, with room yields increasing 7.0% compared to the same quarter in 2004. Demand increases of 2.5% absorbed the 2.3% increase in supply resulting in stable occupancies at a high of 75%. Occupancy growth varied between cities with Hobart and Adelaide recording the highest increases of 4.4 and 5.4 points respectively. Melbourne (-1.1 points), Sydney (-2.0 points), Darwin (-0.6 points), Brisbane (-2.6 points) and Gold Coast (-0.6 points) all recorded falls in occupancy after strong corresponding quarters in 2004. Market wide supply increases of 2.3% were influenced by Darwin (6.0%), Brisbane (5.3%), Hobart (5.2%) and also Sydney (5.7%) with the reintroduction of the Hilton rooms. The quarterly yield growth was driven primarily by strong rate growth of 6.8%. All cities recorded rate growth with most exceeding 5%, up to 10.3% in the case of Brisbane. Adelaide (3.4%) and Perth (3.5%) were the lower rate performers which continues the historic trends in these cities. Double-digit yield growth was present in Hobart (16.1%) and Adelaide (12.0%).

Year to date yield growth of 8.0% is above our *Hotel Futures 2005* forecast of 6.3% for the full year, however we have maintained our full year forecast in five cities as conditions are likely to slightly weaken in the last quarter of the year. Upgrades in the remaining five cities represents a small upgrade to the already positive growth forecast. Average rates continue to exceed expectations and with the current lag in supply, our 2005 full year forecast is likely to be slightly exceeded.

Australian Hotel Market (Weighted) – Room Yield Movements
Hotel Futures 2005 vs 9 months Actual to September 2005

Market	Yield Change			2005 Short Term Forecast Status
	3 mth Chg to Sept 04	9 mth Chg to Sept 04	2005 Annual Forecast	
Adelaide	12.0%	6.3%	3.9%	Small Upgrade
Brisbane	7.0%	12.7%	10.5%	Hold
Cairns	8.9%	6.1%	3.5%	Small Upgrade
Canberra	5.8%	6.4%	3.5%	Small Upgrade
Darwin	6.5%	10.2%	7.7%	Hold
Gold Coast	5.2%	5.8%	4.1%	Small Upgrade
Hobart	16.1%	10.3%	6.8%	Small Upgrade
Melbourne	4.7%	8.7%	7.0%	Hold
Perth	7.9%	8.4%	5.1%	Hold
Sydney	5.3%	6.4%	7.2%	Hold
Total Market (Weighted)	7.0%	8.0%	6.3%	Hold

Source: Australian Bureau of Statistics / D.A. Dransfield and Co.

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

Market	Supply		Demand		Occupancy		Average Room Rate		Room Yield	
	Sept Qtr % Chg	F'cast % Chg	Sept Qtr % Chg	F'cast % Chg	Sept Qtr % pt Chg	F'cast % Chg	Sept Qtr % Chg	F'cast % Chg	Sept Qtr % Chg	F'cast % Chg
Adelaide	-1.2%	1.1%	7.0%	2.5%	8.3%	1.4%	3.4%	2.5%	12.0%	3.9%
Brisbane	5.3%	3.1%	2.1%	5.0%	-3.0%	1.8%	10.3%	8.5%	7.0%	10.5%
Cairns	-1.7%	4.0%	1.1%	2.5%	2.8%	-1.4%	5.9%	5.0%	8.9%	3.5%
Canberra	2.0%	1.0%	2.6%	2.5%	0.6%	1.5%	5.2%	2.0%	5.8%	3.5%
Darwin	6.0%	4.3%	5.3%	7.0%	-0.7%	2.5%	7.2%	5.0%	6.5%	7.7%
Gold Coast	1.2%	1.9%	0.3%	2.0%	-0.8%	0.1%	6.1%	4.0%	5.2%	4.1%
Hobart	5.2%	1.3%	14.1%	3.5%	8.4%	2.2%	7.1%	4.5%	16.1%	6.8%
Melbourne	2.0%	2.0%	2.2%	6.0%	-1.3%	3.9%	6.1%	3.0%	4.7%	7.0%
Perth	-3.3%	2.9%	0.8%	3.0%	4.2%	0.1%	3.5%	5.0%	7.9%	5.1%
Sydney	5.7%	3.3%	3.0%	4.5%	-2.5%	1.1%	8.0%	6.0%	5.3%	7.2%
Total Market	2.3%	2.6%	2.5%	3.9%	0.2%	1.3%	6.8%	4.9%	7.0%	6.3%

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

Note: Average Room Rates Net of GST

Adelaide

Adelaide hotels recorded exceptional yield growth of 12.0% in the September 2005 quarter. Demand growth of 7.0% easily outstripped the 1.2% supply decrease. Occupancy increased 5.4 points to record 70.6% in the quarter. Average room rates increased by 3.4%. This continues the good year to date performance in Adelaide with yield growth of 6.3%. Hotel owners finally appear to be raising room rates, due to strong demand and growing occupancy results. It is expected that our long term forecast for Adelaide in *Hotel Futures 2005* will be maintained, however our 2005 full year forecast may be slightly exceeded.

Brisbane

Brisbane hotels recorded strong yield growth of 7.0% in the September 2005 quarter. Demand growth of 2.1% failed to absorb a strong 5.3% increase in supply, resulting in reduced yet still high occupancies of 84.4% (2.3 points below September 2004).

The Brisbane market steadied during the September quarter following strong international arrivals in the first half of 2005 together with a favourable trading environment and six monthly growth to June of 16.5%. We expect our 2005 forecast for yield growth of 10.5% to be maintained as the market continues to realign with forecast levels in the second half of the year.

Cairns

Cairns room yields increased significantly by 8.9% in the September 2005 quarter. Demand growth increased by 1.1%, whilst supply reduced by 1.7%. The result was occupancies grew by 2.3 points to 83.9%. Strong average rate growth of 5.9% fuelled the yield growth. Year to date yield growth of 6.1% is expected to realign closer to our *Hotel Futures 2005* forecast of 3.5% with the majority of the forecast supply additions to come on line in the December quarter, a small upgrade is likely to our forecast.

Canberra

In the September 2005 quarter, Canberra hotels steadied compared to the high (9%) growth recorded in the June quarter, with yields increasing by 5.8%. A moderate 2.6% increase in demand fully absorbed the 2.0% increase in supply. Average rate growth continues to exceed expectations increasing 5.2%.

Canberra has experienced an extended period of stagnant supply accompanied by steady demand growth. This has allowed occupancy to steadily increase and now hoteliers appear to have commenced seeking and securing meaningful rate increases. Canberra is continuing to perform above our annual revenue growth expectations (6.4% vs 3.5%), however market conditions would have to remain extremely favourable to sustain this margin. We expect that growth rates will continue to soften in the final quarter of 2005 and we expect a slight upgrade to our full year 2005 forecast in *Hotel Futures 2005*.

Darwin

The impressive growth momentum for the Darwin market normalised in the September quarter, with room yields increasing 6.5%, the first quarter of single-digit yield growth after 6 successive quarters of double-digit growth. Strong supply increases (6.0%) outstripped demand growth (5.3%) resulting in a slight decrease in occupancies (0.6 points) in the quarter. The yield improvement was stimulated by average rate growth of 7.2%, the second consecutive quarter of strong rate growth and an indication that hoteliers are now beginning to recognise the strong fundamental trading environment experienced in the year to date.

Year to date yield growth of 10.2% is above our full year forecast of 7.7%. The market is expected to realign closer to the full year forecast in *Hotel Futures 2005* as the December quarter is expected to record only moderate yield growth compared to a strong December 2004 quarter.

Gold Coast

The Gold Coast recorded moderate yield growth of 5.2% in the September 2005 quarter. Static market conditions continued with supply increasing by 1.2% and demand by 0.3%. Consequently, occupancy fell by 0.4 points to 70.4% in the September quarter. Yield growth was stimulated by average rate increases of 6.1%. This has been consistent with the Gold Coast hotel market performance in 2005, with flat market conditions not impacting rate growth opportunities averaging 6.3% year to date yield. Performance year to date in 2005 is slightly above our forecast (5.8% vs 4.1%), and we expect our full year forecast in *Hotel Futures 2005* to be slightly exceeded.

Hobart

The Hobart hotel market recorded another outstanding quarter with room yields increasing by 16.1%. Large supply increases of 5.2% were again outstripped by a 14.1% increase in demand. Occupancies increased by 4.4 points to 56.8%. Average room rates increased by 7.1% and have grown by 6.2% year to date.

In the nine months to September 2005, yield growth is 10.3%, well above our full year forecast of 6.8%. This is similar to conditions last year and we subsequently upgraded our forecast. Given the high base set in 2004, we remain cautious, however we expect our *Hotel Futures 2005* full year forecast to be slightly exceeded.

Melbourne

In the September 2005 quarter Melbourne hotels recorded a moderate 4.7% increase in room yields, following a strong performance in the first half of 2005 (10.7% increase in room yields). With relatively static supply (2.0%) and a moderate increase in demand (2.2%) occupancies fell 0.9% to record 74.6% in the quarter. Average rates continued the recent upward trend increasing by 6.1%.

Over the last three years, Melbourne has experienced the unusual conditions of strong demand growth and rate decline. This is a response to the market being over supplied resulting in discounting room stock. In 2005 the Melbourne market has reversed this trend with average rates increasing in the first quarter to record year to date growth of 3.9%. Providing hoteliers continue this trend beyond the Commonwealth Games, demand spike, our long term forecast in *Hotel Futures 2005* will be achieved. With the market performing as expected year to date, we maintain our 2005 forecast from *Hotel Futures 2005* of 7% growth.

Perth

Perth hotels recorded strong yield growth of 7.9% in the September 2005 quarter. Occupancies increased 3.1 points to 75.0% in the quarter following static demand growth of 0.8% and supply withdrawal of 3.3%. Average room rates increased by 3.5% continuing the current year trend with positive rate growth in all three quarters. The increase in average room rates year to date (4.6%) is well above the historic average (1.9% since 1997) and reflects growing confidence in the market with improved access.

The Perth market has responded well to a slower than expected start, with room yields for the first nine months of 2005 increasing 8.4% compared to our annual forecast of 5.1%. Year to date supply decreases of 3.4% are expected to reverse in the December quarter with substantial supply forecast to come on line adding pressure to rates and occupancy. We anticipate that with the softer than expected demand conditions year to date, yield growth will realign with our 2005 full year forecast in *Hotel Futures 2005* upon introduction of the supply.

Sydney

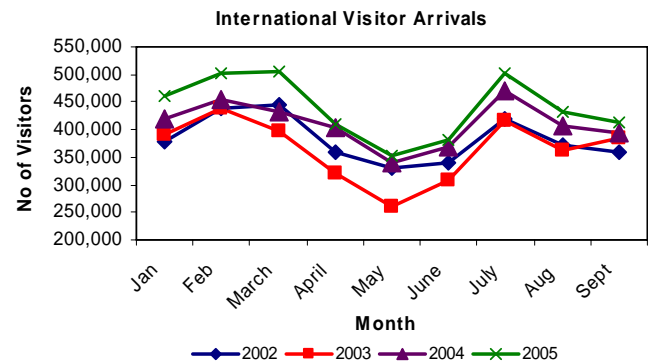
The Sydney hotel market stabilised in the September quarter 2005 with yields increasing by 5.3% compared to 8.5% in the six months to June and our annual forecast of 7.2% which anticipated a softer second half. Demand increased by 3.0%, but did not fully absorb the supply increase of 5.7%. This resulted in occupancy falling 2.0 points to 76.2%. Average room rates significantly increased by 8.0% as occupancies remain above median levels. Year to date yield growth of 6.4% is consistent with our forecast with all key market indices performing in line with forecast. As a result we expect our 2005 full year forecast in *Hotel Futures 2005* will be maintained.

International Arrivals & Departures

International Arrivals increased by 5.9% in the September quarter, recovering from a flat June quarter. Concerns that high fuel costs and increasing interest rates would impact traveller numbers significantly might prove to be overstated, although September visitor growth of 4.8% was weaker than July and August. Much of the growth in International arrivals in this period can be attributed to resurgence from some Asian source countries, in particular Taiwan (61.5%), Singapore (16.5%), Indonesia (15.7%) and Malaysia (15.4%).

Weakness in the Japanese market (down 4%) remains a concern in light of the improving Japanese economy.

Cumulatively, arrivals for the first nine months of 2005 are up 7.3% compared to 2004, still higher than the TFC forecast of 6.4% growth for 2005 (*TFC October 2005*). The revised TFC forecast represents a reduction on the April forecast of 6.9% attributed to external shocks such as higher oil prices accentuated by Hurricane Katrina and terrorism in Indonesia and London. A stronger than expected Australian dollar has also negatively impacted on Australia's competitiveness as a tourist destination. After exceptional first quarter growth, softening in the June and September quarters has resulted in the growth reducing towards forecast levels. Given the considerable strength of the December 2004 quarter, it is expected that full year arrival figures will reduce to the levels forecasted by the TFC.



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
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- Reconstruction and Insolvency
- Profit Improvement
- Industry Education

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:

Dean Dransfield

D A Dransfield & Co
 Level 10, 45 Clarence Street, Sydney NSW 2000
 Tel: (61 2) 9277 5500
 Fax: (61 2) 9277 5599
 Email: mail@dransfield.com.au
 Website: www.dransfield.com.au

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