



D. A. DRANSFIELD & CO

HOTEL FUTURES 2005



**A review of the revenue performance of major Australian Hotel Markets
with forecasts to 2013**



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HOTEL FUTURES 2005

INTRODUCTION

This ninth edition of *Hotel Futures* contains information on the revenue performance of major Australian Hotel Markets and forecasts to 2013. The report is based on supply and demand information available as at October 2005.

In producing *Hotel Futures*, D.A. Dransfield & Co have committed to making available long term historical information, and making accessible to investors and other stakeholders one integrated view of what the future for hotels might look like. Investors now have available to them forecasts of key demand drivers, published by Tourism Research Australia, and information on supply published by the Tourism Forecasting Committee and a number of other government and private sources. *Hotel Futures* seeks to interpret these indicators by combining them together in a supply/demand equation to forecast hotel revenues

The forecasts presented are dynamic and each of the assumptions that drive the forecasts are interrelated. Occupancies impact on room rates and both impact on supply. Rate also impacts on demand. The forecasts are likely to be more reliable in the short-term, say two to four years, than in the longer term. The longer term forecasts are a guide which reflects general trends rather than an attempt to predict the likely actual result at a particular point in time. The tail of the forecast is entirely dependent on short and mid term results and as events change in the short term the long term forecast will need to be adjusted. The forecasts are smoothed to avoid excessive influence from any erratic short term behaviour. Actual historic market performance has tended to be erratic around general trends.

Hotel Futures 2005 seeks to project a moderate view of the impact of current demand and supply expectations on occupancies and room rates. By necessity, any forecast relies on a number of critical assumptions and there are differing views on what might happen in the future. There is a tendency for developers and operators to have an optimistic view of the future, as opposed to the more conservative approach of the banking sector. In preparing these forecasts, we seek to be neither conservative nor optimistic.

These forecasts are reviewed on a quarterly basis with short term forecasts revised taking regard of actual performance and current market conditions. The quarterly updates are available electronically from our website www.dransfield.com.au.

SOURCES OF HISTORIC/FORECAST DATA

Where it is noted that Australian Bureau of Statistics (ABS) data has been used in our analysis, this refers only to historic data. Forecasts are solely the product of D. A. Dransfield & Co, though the construction of the forecast may rely on information published by Tourism Research Australia.

Tourism Research Australia was created on 1 July 2004 and brings together the Australian Tourism Commission, See Australia, the Bureau of Tourism Research and the Tourism Forecasting Council.

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DISCLAIMER

D.A. Dransfield & Co accepts no responsibility for any action taken or any failure to act, in reliance upon the information contained in this report. The projections contained in this report are estimates and represent only one possible result, depending on the assumptions made. Potential users of these forecasts should satisfy themselves as to the current market conditions. Individual hotel performance may differ to market averages. No liability for negligence or otherwise is assumed by D. A. Dransfield & Co for the material contained in this report.

Hotel Futures 2005 was compiled by Dean Dransfield, Trent Ottawa, Chris MacDonnell, Emma Lindell and Jonathan Belz

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D.A. Dransfield & Co is a specialist asset management, consulting, financial advisory 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 throughout Australia. Hotel and resort services provided by our organisation include:

- Tourism Asset Management
- Transaction Management
- Total Feasibility Analysis
- Profit Improvement
- Bank Security and Operational Reviews
- Pre-Investment Reviews and Due Diligence
- Valuation Reviews
- Equity Raising and Asset Sales
- Independent Expert's Reports (AFSL licence holder)
- Industry Education
- Management Selection
- Reconstruction and Insolvency
- Re-Financing
- Design commercialisation

Our consulting work is focussed on practical and realistic 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. EcoPoint presently operates 5 resorts and tourist parks (www.ecopoint.com.au) and is actively looking for additional sites.

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 visit our website www.dransfield.com.au or contact Dean Dransfield at dean.dransfield@dransfield.com.au

OVERVIEW

In presenting a market forecast it is important for readers to accept that individual hotels will be influenced by the market, but will not behave in an identical manner. The market forecast is a guide against which the past and expected future performance of any particular hotel may be reviewed.

An overview of major hotel markets' performance in 2004, and our summary of forecast changes in revenue per available room (yield) for *Hotel Futures 2005* is:-

Australian Major City Hotels

Location	2004						Forecast Average Revenue Growth	
	Rooms	Occupancy	ARR	Actual Yield	Actual Yield Change	Forecast Yield Change	2005-2007	2005 - 2013
Adelaide	4,467	66.9%	\$113.66	\$76.08	3.0%	3.3%	5.8%	2.7%
Brisbane	6,151	79.2%	\$115.32	\$91.39	8.8%	6.6%	7.2%	2.3%
Cairns	7,623	69.9%	\$105.26	\$73.54	10.2%	5.3%	4.8%	4.7%
Canberra	4,921	67.1%	\$106.08	\$71.20	2.9%	3.9%	4.6%	2.4%
Darwin	2,736	67.2%	\$104.15	\$70.03	16.8%	11.1%	7.9%	3.8%
Gold Coast	13,240	69.5%	\$108.70	\$75.60	11.3%	4.7%	5.0%	3.4%
Hobart	2,385	67.7%	\$107.20	\$72.54	7.0%	4.3%	4.8%	1.8%
Melbourne	13,807	73.4%	\$134.43	\$98.64	3.3%	-4.3%	5.4%	3.2%
Perth	5,834	72.3%	\$100.66	\$72.79	4.1%	4.2%	7.7%	4.2%
Sydney	18,293	79.1%	\$150.98	\$119.42	6.3%	8.5%	8.0%	2.9%
Total Market	79,457	73.0%	\$123.32	\$89.98	6.6%	4.1%	5.6%	3.3%

Notes: Total market yields are weighted

A comparison of actual and forecast results in 2004 key indicators is:

Changes in Key Australian Revenue Indicators – 2004

	Supply Change	Demand Change	ARR Change	Occupancy
2004 Forecast	1.8%	4.2%	1.7%	71.7%
2004 Actual	2.3%	6.6%	2.4%	73.0%

The Australian hotel market performed stronger than expected in 2004 due to positive changes in the key revenue indicators resulting in revenue (yields) increasing nationally by 6.2% compared to our forecast 4.1% and following a 4.7% increase in 2003. The actual results were very encouraging with eight cities achieving above forecast yields and the two remaining cities only slightly below expectations. Demand growth was the driving force behind the positive result, at 6.6% compared to 4.2% forecast. International arrival figures recorded substantial improvement growing 9.9% compared to the SARS affected 2003 results. Many markets appear to have returned to more normalised seasonal trends. As at 30 June 2005, the Australian market is performing better than we had initially expected with yields having increased by 8.5% compared to forecast full year yield growth of 6.6%. Much of the year's expected supply has not yet come online and we expect that the remainder of the year will be softer, offsetting the first half results.

Our market by market snapshot of performance and forecasts is:

Adelaide

In 2004 Adelaide hotels performed above our expectations with room yields increasing 3.0% compared to the forecast 0.5%. Reported supply increases of 5.9% were significantly up on the 1.7% forecast following delayed pick up of serviced apartments new openings in the ABS survey. Strong demand growth of 8.1% substantially exceeded our 3.5% forecast partly supply induced. Rates were slightly reduced on forecast increasing 0.9% compared to forecast 1.5% despite the improved demand/supply equation. The Adelaide market reached its cyclical trough in 2004 and is expected to enter a period of gradual recovery as supply increases ease allowing rates to grow after 6 stagnant years. In the six months to June 2005 Adelaide hotels are slightly above our 2004 forecast with room yields increasing 3.7% versus forecast 3.3%. This results from improved demand conditions (6.8% versus forecast 2.5%) with slightly reducing supply. *The long term nominal yield forecast is for growth to average 2.7% and represents a slight 1.4% upgrade on last years average real yield forecast.*

Brisbane

In 2004 Brisbane hotels performed better than expected with room yields increasing 8.8% compared to the forecast 6.6% increase. This was primarily the result of 5.6% demand growth compared to the 3.0% forecast, which fully absorbed a 1.4% supply increase. Average rates increased by 4.5% slightly above our 4% forecast. Market-wide occupancy levels increased to a record 79.2%. With moderate supply muted and continuing strong demand expectations, the market is well placed for considerable rate growth in the short term. In the six months to June 2005 Brisbane hotel yields have increased 16.5% (rate growth of 13.8%) versus our *Hotel Futures 2004* forecast of 6.4% for the full year and we have upgraded 2005 growth expectations to 11.5%. *The long term nominal yield forecast is for growth to average 2.3%, representing a 3.7% upgrade to last year's average real yield forecast.*

Cairns

In 2004 Cairns hotels performed well ahead of expectations with room yields increasing 10.2% compared to forecast 5.3%. Strong demand growth of 8.3% compared to the SARS affected 2003 was higher than our 6.0% forecast. Supply increases of 3.9% in line with our forecast 3.1% were comfortably absorbed. The market responded to the improved conditions with full year rates increasing 5.8% compared to forecast 2.5%. The Cairns market is expected to remain strong in the short term however new supply constrains the forecast to the pre-existing level despite short term over performance. In the six months to June 2005 Cairns hotel yields have increased 4.3% slightly below the 5.2% forecast in *Hotel Futures 2004* for the full year. We have downgraded 2005 growth expectations to 3.5% from the higher 2004 base. *The long term nominal yield forecast is for growth to average 4.7%, representing a minor 1.1% downgrade to last year's average real yield forecast.*

Canberra

In 2004 Canberra hotels performed slightly below expectations with room yields increasing 2.9% compared to forecast 3.9%. The main factor behind this poor performance was reduced demand of 1.3%, versus forecast growth of 1.5%. Continued supply withdrawal of 2.5% was in line with the forecast withdrawal of 2.3%. Despite the poor market conditions average rates increased marginally by 1.6% versus a static forecast. With limited supply mooted the market is well placed for moderate short term rate growth before the next cycle commences. In the six months to June 2005 Canberra hotel yields have increased 6.8% versus a *Hotel Futures 2004* forecast of 3.0%. We have upgraded 2005 growth expectations to 3.5% following year to date performance. *The long term nominal yield forecast is for growth to average 2.4%, representing a 3.0% upgrade to last year's average real yield forecast.*

Darwin

In 2004 Darwin hotels performed well ahead of expectations with room yields increasing 16.8% compared to the forecast 11.1%. Large demand growth of 17.7% (forecast 10%) fully absorbed a 3.3% increase in supply and full year occupancies increased 8.1 percentage points to record 67.2%. This is the highest occupancy level recorded in Darwin hotels since 2000. Given its close proximity to Asia this market had been adversely impacted by SARS in 2003 and growth rates were inflated compared to a poor prior year. Despite this growth, average rates only increased marginally by 2.6% in line with forecast 2.0%. This situation has improved in the first half of 2005 with rates up 9.3%. This market is benefiting from improved access with the expansion of air services and the commencement of train services on the Ghan railway.

In the six months to June 2005 Darwin hotel yields have increased 13.5% versus our *Hotel Futures 2004* forecast of 1.6% for the full year and we have upgraded 2005 growth expectations to 7.7%. *The long term nominal yield forecast is for growth to average 3.8%, representing a 12.5% upgrade to last year's average real yield forecast.*

Gold Coast

In 2004 Gold Coast hotels performed ahead of expectation with room yields increasing 11.3% compared to forecast 4.7%. This was driven by strong demand growth of 6.2% versus forecast 5.0%. These factors were assisted by supply remaining relatively flat. Full year occupancies increased to 69.5% to record the highest level since 1995. Whilst benefiting from an increase in international visitors the Gold Coast market has also benefited from the introduction of air services by Jetstar. The Gold Coast has proved one of the most popular destinations with domestic leisure visitors. There are however concerns that the reduction in business class seats is adversely affecting the booking of events at the newly opened convention centre. The increase in higher yielding domestic visitors (versus discounted international groups) resulted in a strong 5.5% increase in the average rate. In the six months to June 2005 Gold Coast hotel yields have increased 5.8% versus our *Hotel Futures 2004* forecast of 7.0% for the full year as demand growth has declined in part due to the normalization of discount airfare prices and the strength of the Australian dollar versus the Yen. We have reduced 2005 growth expectations to 4.1% from the higher 2004 base. *The long term nominal yield forecast is for growth to average 3.4%.*

Hobart

In 2004 Hobart hotels performed ahead of expectation with room yields increasing 7.0% compared to forecast 4.3%. Demand growth remained strong and in line with our forecast at 5.0% following an exceptional 2003. The market was able to fully absorb supply increases of 2.9% and occupancies increased to record 67.7%, the highest level since 1988. Strong occupancy enabled average rates to increase 4.9%, above our 3.0% forecast. Trading conditions are expected to be favourable in the short term, with continuing stable demand and supply stimulating further opportunity for rate growth. In the six months to June 2005 Hobart hotel yields have increased 7.9% versus our *Hotel Futures 2004* forecast of 4.2% for the full year and we have upgraded 2005 growth expectations to 6.8%. This is rate driven. *The long term nominal yield forecast is for growth to average 1.8% from a high base but still representing a 5.1% upgrade to last year's average real yield forecast.*

Melbourne

In 2004 Melbourne hotels performed ahead of expectation with room yields increasing 3.3% compared to a forecast 4.3% decline. This was a consequence of another year of strong demand increasing 10.0%, well above our 3.0% forecast. The market has benefited from Jetstar hubbing operations being based at Avalon. Significant demand growth was able to absorb another year of supply increase (5.4%) higher than our 4.4% forecast. Market-wide occupancies increased to record 73.4%. Despite the apparent strength of the market, average rates continued to decline reducing by a further 1.1%. Market sources are reporting continuing strong demand growth in 2005 in the period leading up to the Commonwealth Games. This supports further rate growth opportunities and we would expect market performance to improve further. In the six months to June 2005 Melbourne hotel yields have increased by an impressive 10.7% versus our *Hotel Futures 2004* forecast of 1.9% for the full year and we have upgraded 2005 growth expectations to 7.0%. *The long term nominal yield forecast is for growth to average 3.2%, representing a 5.4% upgrade to last year's average real yield forecast.*

Perth

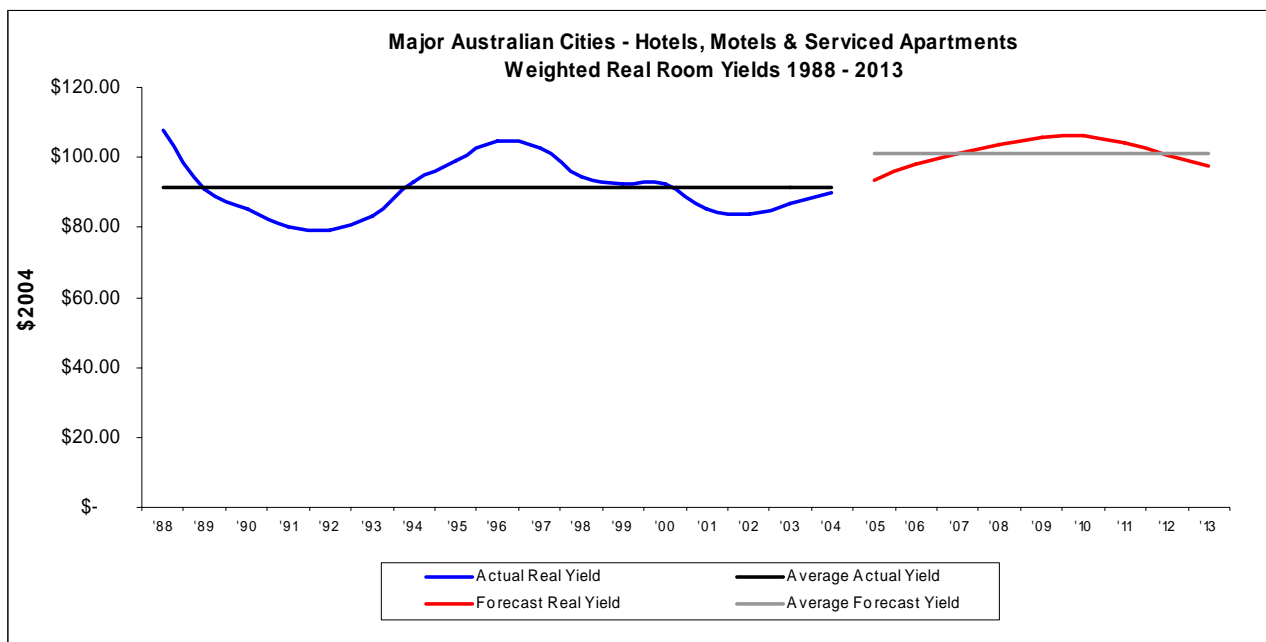
In 2004 Perth hotels performed largely in line with our forecast with room yields increasing 4.1% compared to forecast 4.2%. Supply increases of 4.5% were slightly reduced on our 5.3% forecast. Perth hotels recorded their third consecutive year of good demand growth increasing 7.1% compared to our 5.5% forecast. Occupancies are now at their highest level since 1996 reaching 72.3% in the full year. Revenue growth has been constrained by poor average rate growth of 1.6%, compared to forecast 4.0%. With modest supply increases, the rumoured commencement of services by Jetstar and the opening of the Perth Convention centre in late 2004, the market is well placed to achieve significant yield growth in the short term though some data is suggesting weakening demand. In the six months to June 2005 Perth hotel yields have increased 8.6% versus our *Hotel Futures 2004* forecast of 8.4% for the full year and we have downgraded 2005 growth expectations to 5.1%. *The long term nominal yield forecast is for growth to average 4.2%, representing a 3.0% downgrade to last year's average real yield forecast due to slightly softer demand expectations.*

Sydney

In 2004 Sydney hotels performed slightly below expectation with room yields increasing 6.3% compared to forecast 8.5%. A slight increase in supply (0.7%) was higher than our forecast decline of 0.3% but fully absorbed by moderate demand growth recording 4.6% compared to forecast 4.0%. Accordingly market-wide occupancies increased 3.0 percentage points to record 79.1% in the full year. Average rates increased only marginally by 2.2%, below our forecast 4.0% despite the high market wide occupancies. With high market-wide occupancies Sydney is well placed for considerable rate growth prior to the commencement of the next supply cycle in 2008 and with many 4 and 5 star properties having been upgraded to extract higher rates. In the six months to June 2005 Sydney hotel yields have increased 6.9% versus a *Hotel Futures 2004* forecast of 10.4% for the full year with demand and rate behind expectations. Accordingly, we have reduced 2005 growth expectations to 7.2%. *The long term nominal yield forecast is for growth to average 2.9%, holding last year's average real yield forecast.*

AUSTRALIAN HOTEL CYCLE

In previous editions of *Hotel Futures*, we have considered the likely length and volatility of hotel cycles in individual cities and the Australian hotel market. This was primarily a function of seeking to determine the impact of significant volumes of supply and the point at which individual markets might bottom or peak. That analysis identified a typical full cycle length of between eight and ten years, with an average of nine, ie fairly common in length, and confirmed that the major influence on the level of volatility in any market was supply. A graphical analysis of the past cycle, together with our view of the future is presented below.



Our analysis and findings were conducted in an environment where supply had tended to be lumpy and extreme against a small existing base of room stock. Demand had demonstrated consistent and relatively reliable growth patterns. This has not been the most recent experience.

In 2004 actual demand growth exceeded the forecasts relied on in *Hotel Futures 2004* bolstered by strong growth in international arrivals to Australia, albeit relative to a poor performing 2003. International visitor nights recorded growth of 11.3% (2003, -2.8%) to 141.2 million visitor nights and domestic visitor nights recorded growth of 0.9% to 296.9 million. More importantly domestic nights in hotels, motels, guest houses and serviced apartments grew by 4.1% to \$79M.

Most markets are now on the upward part of their cycles and with limited new supply under construction many are expected to benefit from abnormal rate growth in the short term.

The national real yield trough was \$83.69 (\$2004) in 2002. New supply is expected to commence when yield growth is demonstrable. Nationally this is expected to be around 2006 leading to a completed product from 2008/09, however some markets will be slightly more advanced than this. The next cycle is substantially longer than its predecessor with an 8 year upturn caused by demand shocks delaying commencement of supply.

Total Australian Major Cities (Weighted) - Hotels, Motels and Serviced Apartments

Year	Room Night Supply	Rooms	% Change	Room Night Demand	% Change	ARR	% Change	Yield	% Change	\$2004 Real Yield	Occ
HISTORICAL											
2000	28,017,466	76,760	5.1%	18,879,693	6.4%	\$122.78	4.2%	\$82.73	5.5%	\$92.35	67.4%
2001	28,545,143	78,206	1.9%	19,165,525	1.5%	\$117.35	-4.4%	\$78.79	-4.8%	\$85.29	67.1%
2002	28,149,952	77,123	-1.4%	19,254,705	0.5%	\$116.46	-0.8%	\$79.66	1.1%	\$83.69	68.4%
2003	28,339,597	77,643	0.7%	19,854,636	3.1%	\$120.48	3.5%	\$84.41	6.0%	\$86.94	70.1%
2004	29,001,894	79,457	2.3%	21,160,702	6.6%	\$123.32	2.4%	\$89.98	6.6%	\$89.98	73.0%
Actual Average 1989-2004			5.0%		5.3%		1.6%		2.0%	\$91.24	66.7%
FORECAST											
2005	29,755,019	81,521	2.6%	21,996,254	3.9%	\$129.39	4.9%	\$95.65	6.3%	\$93.41	73.9%
2006	30,867,826	84,569	3.7%	23,133,824	5.2%	\$137.59	6.3%	\$103.12	7.8%	\$98.24	74.9%
2007	31,899,223	87,395	3.3%	24,016,441	3.8%	\$144.05	4.7%	\$108.46	5.2%	\$101.01	75.3%
Average 2005 - 2007			3.4%		5.0%		4.0%		5.6%	\$94.78	72.8%
2008	33,628,546	92,133	5.4%	25,285,861	5.3%	\$151.12	4.9%	\$113.63	4.8%	\$103.44	75.2%
2009	35,436,419	97,086	5.4%	26,613,698	5.3%	\$157.82	4.4%	\$118.52	4.3%	\$105.48	75.1%
2010	37,244,410	102,039	5.1%	27,893,085	4.8%	\$162.82	3.2%	\$121.94	2.9%	\$106.07	74.9%
2011	38,827,150	106,376	4.2%	28,698,324	2.9%	\$165.77	1.8%	\$122.52	0.5%	\$104.19	73.9%
2012	40,131,431	109,949	3.4%	29,146,399	1.6%	\$166.97	0.7%	\$121.26	-1.0%	\$100.80	72.6%
2013	40,847,636	111,911	1.8%	29,323,394	0.6%	\$167.33	0.2%	\$120.12	-0.9%	\$97.61	71.8%
Average 2008 - 2013			4.2%		3.4%		2.5%		1.7%	\$102.93	73.9%
Total Forecast Average			3.9%		3.7%		3.5%		3.3%	\$101.14	74.2%

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

Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series

METHODOLOGY

The forecasts contained in *Hotel Futures* are based on an analysis of demand for each market and the current known and likely future supply response. Occupancy results from combining demand and supply and has a direct effect on rate movement and total revenue or room yield.

Historical supply and demand relationships have been reviewed from data collected by the Australian Bureau of Statistics (ABS) on a quarterly basis. The raw data has been analysed to identify changes in supply, demand, occupancy, average room rate and room yield to assess how these key revenue drivers have historically interacted. The annual historical data is presented for each hotel market. The published statistics require some interpretation as statistical areas in several regions need to be combined when they compete directly with each other or when major hotels are not located solely in the strictly defined inner CBDs.

Whilst historical analysis provides guidance on how markets may react in the future, there are significant events which have impacted on past performance and which may not be repeated in the future. In the last decade there have been several major changes in hotel investment fundamentals.

The early 1990s were characterised by a post Bicentennial reduction in demand and massive supply increases. This was accompanied by a recession and a high inflation environment. From about 1995 hotel investment fundamentals changed as the economy recovered and the oversupply was absorbed. Strong demand growth expectations and lower average cost of development enabled better conceived hotel projects to progress towards reality. The new style of hotel investor had considerably more equity than those of the late 1980s and was more focused on cash flow. In conjunction with this, there were new product types in the form of strata title hotels and serviced apartments.

In 1997 and 1998, market dynamics again changed with Asian currency and economic collapses. From mid 1998 demand growth returned, assisted by a combination of price discounting and improved supply availability. The September 2001 events (US terrorist attacks, the collapse of Ansett Airlines) in conjunction with the post Olympic downturn, has seen the demand profile over the short to medium term change, exacerbated by subsequent events including the bombings in Bali, war in Iraq and outbreak of SARS.

Hotel markets are therefore not expected to perform in the same manner as historically seen. Notwithstanding, historical market performance provides general guidance on key assumptions including increased supply pushing demand and real rate growth at different occupancy levels.

ABS STATISTICS – BREAK IN THE TIME SERIES

A break in the ABS time series in June 2003 continues to impact historical analysis and some short term elements of forecasts. Growth rates for supply and demand for 2004 may be under/over stated though limited to the March 2004 quarter.

The break was caused when an additional 132 establishments (5,918 rooms) were added to the Survey of Tourist Accommodation room count. Between the March and June quarters 2003 this break would tend to understate supply growth. To offset this, the base figures for one years corresponding quarters prior to June 2003 (since June 2002) were increased by a growth factor, provided by the ABS, to take into account the effect of the break in the series. The factor used varies for different cities and ranges from 1.9% to 6.2%. This averaging technique is not completely accurate.

DEMAND

Our demand forecasts are primarily based on international and domestic visitor forecasts published by Tourism Research Australia (TRA), (previously the Tourism Forecasting Council (TFC)) containing more expansive information about visitor nights and visitor nights in commercial accommodation.

Hotel Futures 2005 relies predominantly on the international and domestic visitor forecasts released by the TRA in October 2005. The TRA visitor forecasts and the relevant market mix (international content) in individual cities provide the foundation for each demand forecast. These statistics are then adjusted to reflect both historical differences between these key drivers and actual results and the impact of additional supply, which often stimulates demand growth. In particular we rely on TRA forecasts for international visitor nights to Australia combined with forecasts of domestic visitor nights to each of the states. Historically, actual performance and our forecasts for demand growth have exceeded the growth rates of the TRA.

For the purpose of determining the market mix between International and Domestic visitors staying in hotels we have utilised the 31 December 2004 year end date supplied by the BTR (now part of TRA) which reveals that:

- 71.3% of the 413 million visitor nights in Australia were domestically sourced.
- 89 million, or 21.6% of total visitor nights were spent in hotels, motels and guesthouses.
- 78.3% of the visitor nights in hotels, motels and guesthouses were domestically sourced.

Strong growth in international arrivals were recorded in the 20 years to 2000. Demand shocks after 2000 adversely impacting Australian Tourism included the collapse of Ansett, fallout of September 11, global economic slowdown, the outbreak of SARS and the war in Iraq. Recovery commenced in late 2003 with the Rugby World Cup stimulating increased visitation to Australia. This continued through 2004 with positive growth of 9.9%. The introduction of Virgin Blue and Jetstar air services has stimulated domestic leisure travel and resulted in lower flight prices and expanded services. International services to select destinations have increased and new competitors are accessing previously monopolised routes which will lead to reduced prices and increased leisure usage as services become more affordable.

International

The October 2005 International visitor forecasts represent a slight downgrade to the April 2004 forecasts used in *Hotel Futures 2004* with international arrivals expected to grow at 5.6% (previously 6.2%) in the period 2005-2014 to total 9.1 million. Growth rate forecasts for visitor nights and visitor nights in hotels, motels and guesthouses for 2005 have been amended to 2.1% and 6.3% respectively (previously 5.9% and 5.3%) with negative growth expected in 2005. Long term visitor nights forecast have been increased relative to arrivals with average growth of 5.2% expected in the period to 2014 (previously 4.7% to 2013). Long term forecasts for visitor nights in hotels, motels and guesthouses have also been upgraded with growth of 5.0% expected 2005-2014 compared to 4.3% in the period 2003-2013. Absolute numbers are less comparable as TRA have now recognised serviced apartments in this category. The upgrade of nights in commercial accommodation may be a function of the inclusion of serviced apartments.

International visitor nights increased 11.3% in 2004. Compared to such strong growth the 2005 international visitor nights are expected to increase by a reduced 2.1% with growth to average 5.2% in the period 2005 to 2014.

Australia remains predominantly a leisure destination although it is becoming increasingly popular as a business and events destination particularly for incentive travel and large scale events. These visitors are particularly attractive guests, spending on average double that of leisure visitors. The increase in the number and scale of Australian Conference and Exhibition centres is being recognised globally and offers superior facilities in fantastic leisure oriented locations.

Domestic

In October 2005 the TRA downgraded their long term domestic visitor night forecast with growth now expected to average 0.9% (previously 1.0%) to total 311 million in 2014 (previously 322.7 million in 2012). The decrease is the result of a poor 2005, when visitation is expected to decline by 3.3% (previously 0.9% growth).

The TRA cite varying economic and social factors for the downgrade including increasing fuel costs, reduced share of disposable income and growth in outbound travel. The TRA have indicated that forecasts now include serviced apartments as they are widely considered as a substitute product to hotels and motels in the accommodation market. Accordingly, caution should be applied when comparing the current and future forecast volumes with prior period forecasts that exclude serviced apartments.

During the 12 months to December 2004 the domestic sector accounted for 93.9% of visitors and 71.3% of total visitor nights spent in Australia. Over the past 10 years domestic visitor night growth has been relatively low increasing on average 1.5% per annum. Visitor nights in 2005 are forecast to decline 3.3% which will reduce the previously stated average to an even lower 1.1%. Despite this demand for capital city hotels grew by an average of 5.3% in the period 1989-2004.

Increasing domestic air capacity with low cost carriers such as Jetstar and Virgin Blue continues to assist domestic demand, particularly in tourist destinations that have direct air access. Air capacity in some airports has reportedly increased by over 80% since 2003.

SUPPLY

In calculating short-term supply, developments recently completed, currently under construction and those proposed are taken into account. Probability estimates have been used for projects where construction has not started.

In several markets many sites are mooted as possible hotel projects. Our forecasts recognise that not all project proposals will proceed. Each time a project is generally perceived as proceeding, the likelihood for other developments also proceeding reduces. Remaining proposals may be delayed as financiers and investors take into account the impact of additional supply. We also provide an allowance for additional rooms in unspecified projects to deal with changes to project room numbers and smaller scale projects that fly under the radar.

In 2004 Australian hotel supply increased by 2.3% (approximately 1,800 rooms) with all markets recording increases except Canberra. In Canberra, supply contracted for the second consecutive year by 2.5%.

With the strong performance of 2004 (yield growth of 6.6%), development activity is increasing in many markets with the exception of Adelaide and Melbourne where markets are still absorbing recent significant supply increases.

There are currently 3,000 rooms under construction forecast to come on line through 2005 to 2007 and our forecast estimates that a further 5,000 rooms will come on line during this period. Strong development and planning activity is currently taking place in Cairns, Darwin, Gold Coast, Melbourne and Sydney (largely the reopening of the refurbished Sydney Hilton).

Supply conditions have continued to improve over the last 12 months. Development projects are starting to be progressed at a planning and funding level. Our national forecast is for a long term nominal increase in supply of 3.9%, an increase of approximately 4,500 rooms on last years forecast. This is indicative of the 2004 market wide performance and strengthening short term growth conditions improving investment confidence .

ROOM RATE

Real room rate change is mostly impacted by occupancy levels, however, changes upward generally lag approximately twelve months behind movements in occupancy levels whilst hoteliers respond to new market circumstances and contract prices move. Regression analysis has been used to analyse historic real rate growth and is used as a guide to forecasting likely future growth rates based on expected occupancy levels. Room rates are presented net of GST.

ROOM YIELDS

The most reliable indicator of hotel profitability is the room yield (revenue per available room or REVPAR) which indicates the revenue available from which profit is derived. Given the change in inflation expectations over the last decade, we have calculated a 'real yield' curve in each market so that a more realistic comparison of future expectations and past performance can be made. The real yield is also a good guide as to when supply might be considered viable, and therefore likely to proceed. Supply completed in 2004, for instance, would have been based on the room yields being achieved in approximately 2001 and income growth expectations at that time. Our long term supply analysis is based on an assessment of the real yield that might result in the medium term as a consequence of supply recently introduced and short term demand forecasts. Comparing the average real yield between forecasts is the most objective means to determine if a forecast has been upgraded or downgraded as nominal growth rates depend on the starting base, for example growth rates calculated from a peak will be lower and often negative compared to growth rates calculated from a trough. For the purpose of comparing current forecast real yields with our previous forecasts, CPI data excluding the impact of the GST has been utilised.

CONCLUSION

In 2004 Australian hotel market performance was strong with real yields increasing 6.6% compared to forecast 4.1%. All markets recorded a yield growth ranging from 2.9% to 16.8%.

The strong 2004 performance was driven by demand growth of 6.6%, the highest growth recorded since 1999 and slightly above the 6.4% recorded in the 2000 Olympic year and our forecast 4.2% growth. Australia-wide occupancies increased to 73.0%, the highest level since 1995.

Demand in 2004 was stimulated by the introduction of Jetstar and increased capacity of other domestic carriers which resulted in good price competition and increased accessibility for consumers. The 2004 demand result was also coming off a low 2003 base impacted by SARS, the Iraq war and the Bali bombings.

Average rates and supply increased by 2.0% and 2.3% respectively, in line with expectations. Real rate growth is lagging behind historic levels for similar occupancies as customers can more easily access the lowest cost product via the web. This is a permanent change to market dynamics that will frustrate rate growth.

Short term growth in national real room yields to 2007 is expected to average 6.3% with good demand growth forecast in most markets fostering rate growth opportunities. This is despite the downgrade in national domestic visitation. Capital city hotels are expected to outperform these wider market characteristics. The highest yield growth is forecast in 2006 (7.8%) coinciding with the Commonwealth Games in the large Melbourne market.

Over the longer term nominal yield growth is expected to average 3.3% in the period to 2013, an upgrade of 1.3% on last year's forecast.

ADELAIDE**Background**

Adelaide's hotel market can be reviewed by analysis of the Inner City statistical area, which contains 44 hotels, motels and serviced apartments. The larger Adelaide Tourism Region incorporates Port Adelaide, Glenelg and the Inner City contains 96 hotels, motels and serviced apartments. A comparison of the performance of the two areas for the December 2004 quarter (high season) is:-

Adelaide Hotels, Motels & Serviced Apts	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
Adelaide City	44	4,485	73.0%	\$116.13	\$84.78
Adelaide Tourism Region	96	6,754	68.4%	\$110.95	\$75.89

Source: Australian Bureau of Statistics

Analysis of the Adelaide Tourism Region by standard of accommodation for the December 2004 quarter is:-

Adelaide Tourism Region – December Quarter 2004

Star Grading	Establishments	Rooms	Rooms Revenue \$000's	Occupancy	ARR	Yield
5-star	7	n.p.	n.p.	n.p.	n.p.	n.p.
4-star	35	2,972	22,857	73.6%	\$113.66	\$83.65
3-star	32	1,407	5,985	56.8%	\$81.42	\$46.25
Other	22	2,375	18,297	68.8%	\$121.74	\$83.74
Total	96	6,754	47,139	68.4%	\$110.94	\$75.88

Source: Australian Bureau of Statistics / D. A. Dransfield. n.p. - not published. Italics have been calculated

2004 in Review

In 2004 Adelaide hotels revenue performed well above our expectations achieving 3% growth, compared to a 0.5% forecast increase in room yield. Supply growth of 5.9% was higher than expected (1.7%), largely a result of a 10% increase in serviced apartments. New supply is mostly of a higher quality than existing properties resulting in a consistent improvement in achieved average room rate.

Data for 5 star properties was not provided by ABS and it appears that there were some regrading of 3-star properties to 4-star, resulting in a fall in yield of 7.5%. The market benefited from strong demand growth of 8.1% that was both supply induced and bolstered by improved direct air access to Adelaide for both domestic and international visitors. With demand outstripping the supply increases, hoteliers failed to take full advantage with average room rates increasing by only 0.9%, below our expectation of 1.5% growth.

For the six months to June 2005, Adelaide has been performing as expected, with yields increasing by 3.7% compared our *Hotel Futures 2004* forecast of 3.3% growth. Strong demand growth of 6.8% has outstripped supply which declined by 0.7%, however rates have still fallen by 2.9%. This atypical response to strong demand conditions is becoming an enduring feature of the Adelaide market.

Supply

In 2004 Adelaide's annual room supply increased by approximately 250 rooms or 5.9% compared to our forecast of 1.7%. The majority of new room stock in Adelaide is serviced apartments which are of a higher quality (minimum 4 star) than historical room supply, however they have failed to significantly increase achieved average rates. No substantial projects are forecast to commence construction or are proposed for Adelaide in the short term and it appears that the current supply cycle has come to an end.

The next supply cycle is not expected to commence planning until 2007/08 with new supply coming on line from 2009, the trigger point being real room yields of approximately \$85 in 2007. Average forecast supply increases are 3.2%, an upgrade of approximately 200 rooms on last years forecast as a result of the supply increases in 2004 that were not previously anticipated.

Demand

In 2004 Adelaide hotels had a high domestic content of approximately 84% (up from 81% in 2002). Demand growth since 2000 has averaged 5.5%, higher than the market average 3.4%. Demand growth has been fuelled

by supply increases over the same period averaging a high of 5.6% and improved air access with the introduction of direct flights by Jetstar and increased flights from Virgin and Qantas.

The TRA forecast growth in domestic visitor nights in South Australia of 0.6% in the period to 2014, a downgrade across all sectors from the previous forecast growth of 1%.

Combining TRA forecasts for international visitor nights to Australia and domestic visitor nights in South Australia the weighted average growth in visitor nights in Adelaide hotels is expected to average 1.4% (previously 1.5%) over the forecast period, lower than the national average of 1.9%. We expect higher long term growth in demand for Adelaide city hotel rooms averaging 2.9% in the period to 2013.

In the period to 2007 demand growth is forecast to average 3.3% and is coming off a relatively high base with demand growing by approximately 22% in the period 2002 – 2004 (average growth of 6.7%). Demand growth will continue to be supported by improved air access to Adelaide, with the completion of a \$260 million expansion of Adelaide airport and the recently launched domestic marketing campaign, “*Must See, Must Do in South Australia*”.

Conclusion

In the period since 1999 average rate growth in Adelaide hotels remained relatively static increasing only 0.4% with a considerable 34% increase in supply, approximately 1,100 rooms. With the current supply cycle almost complete we expect rate growth will return to the Adelaide market with rates forecast to increase on average 3.8% in the period to 2007.

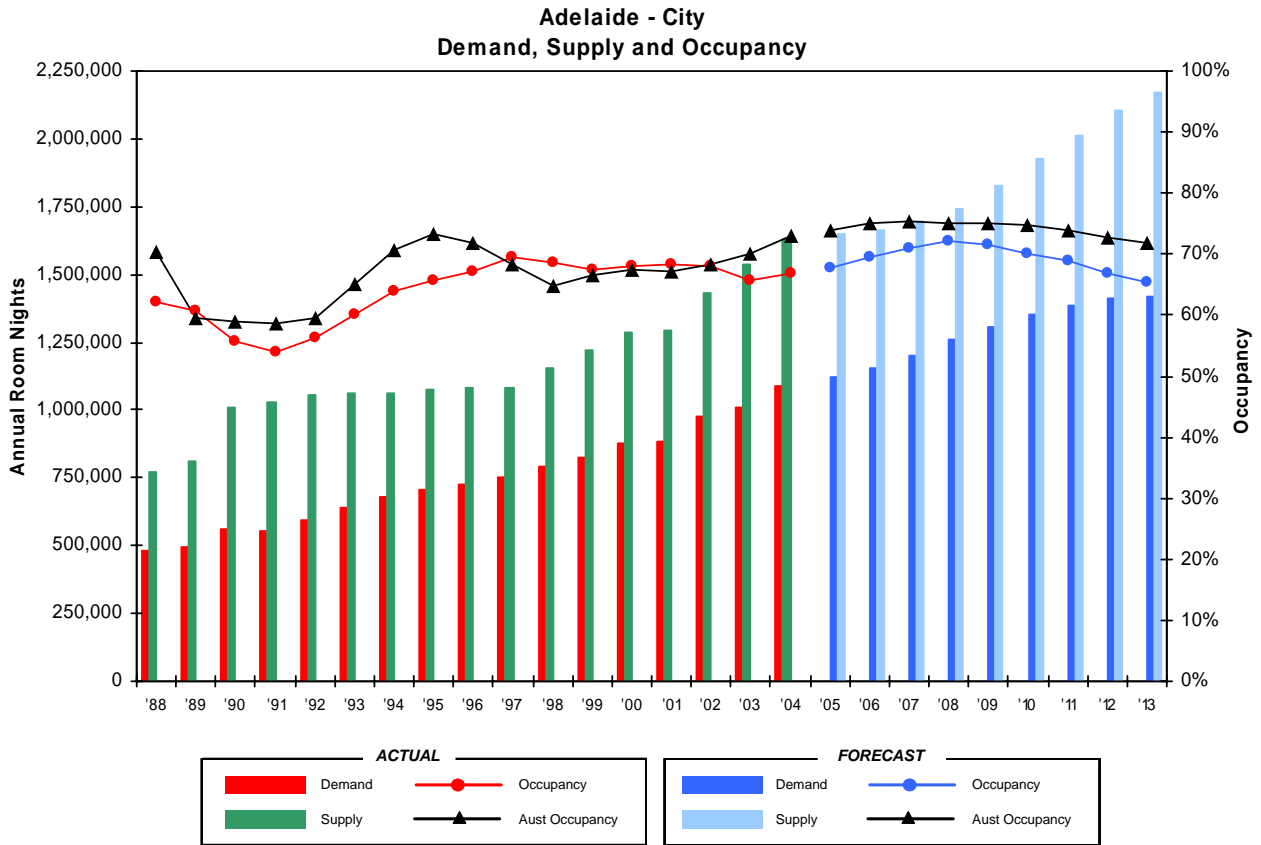
Adelaide hotels reached their cyclic trough in 2003 and are now in a yield growth phase given good demand indicators and limited new supply until 2009. Calendar year to 30 June 2005 yield growth of 3.7% has been fuelled by strong demand growth of 6.1%. Hoteliers have not to date taken full advantage of the demand conditions with rates declining 2.9%. Rate induced demand needs to be limited to ensure real yield growth with the market being well placed with good demand conditions and limited new supply. Long term nominal yield growth is expected to average 2.7% representing a slight 1.4% upgrade in average real yields compared to our 2004 forecast.

Adelaide – City Hotels, Motels, and Serviced Apartments

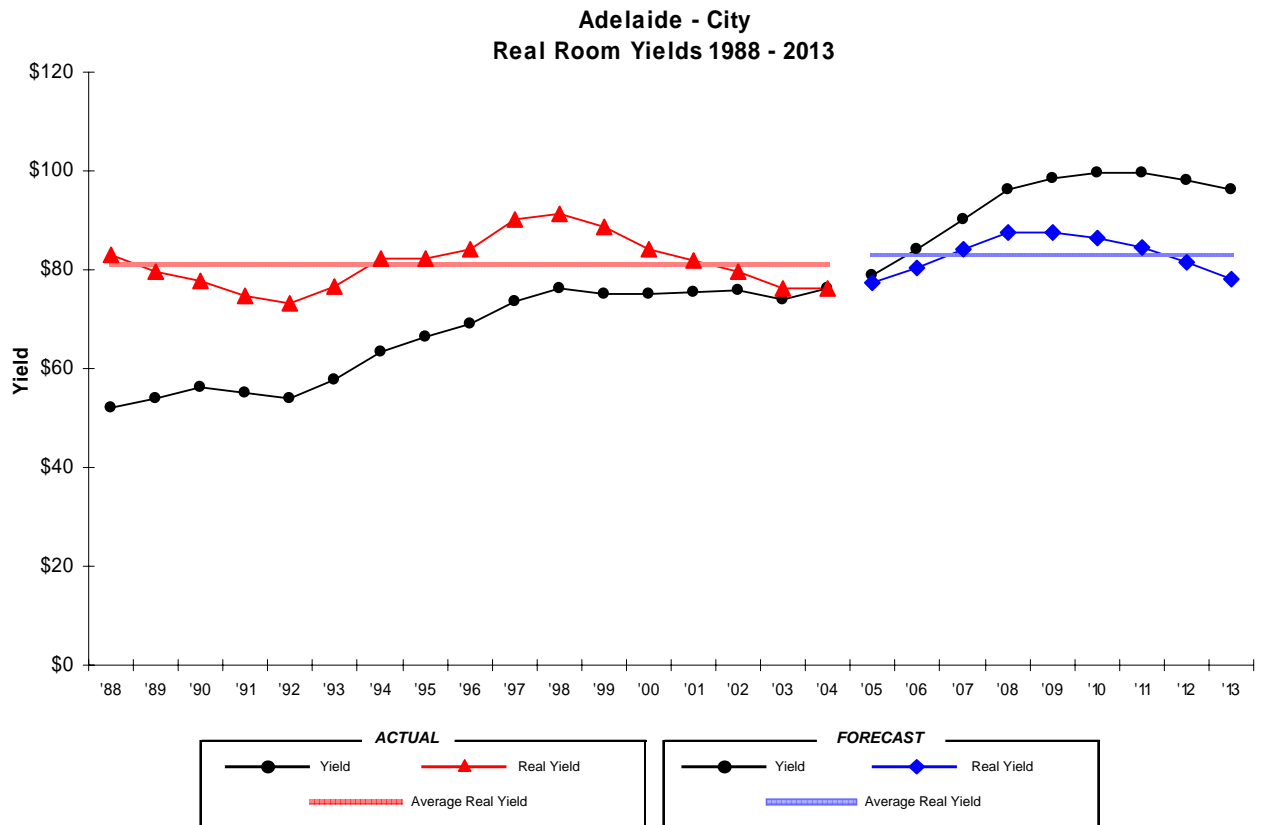
Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
1997	1,081,586	2,963	-0.3%	750,188	3.1%	\$106.25	3.3%	\$73.69	6.8%	\$90.01	69.4%
1998	1,154,148	3,162	6.7%	791,178	5.5%	\$111.00	4.5%	\$76.09	3.3%	\$91.48	68.6%
1999	1,219,832	3,342	5.7%	823,147	4.0%	\$111.10	0.1%	\$74.97	-1.5%	\$88.54	67.5%
2000	1,285,998	3,523	5.4%	876,354	6.5%	\$110.42	-0.6%	\$75.25	0.4%	\$83.99	68.1%
2001	1,295,105	3,548	0.7%	884,143	0.9%	\$110.75	0.3%	\$75.61	0.5%	\$81.84	68.3%
2002	1,434,647	3,931	10.8%	977,641	10.6%	\$111.35	0.5%	\$75.88	0.4%	\$79.72	68.1%
2003	1,539,229	4,217	5.4%	1,009,790	1.5%	\$112.62	0.7%	\$73.88	-3.0%	\$76.10	65.6%
2004	1,630,413	4,467	5.9%	1,091,351	8.1%	\$113.66	0.9%	\$76.08	3.0%	\$76.08	66.9%
Actual Average 1988-2004			4.8%		5.2%		2.0%		2.4%	\$81.27	64.0%
FORECAST											
2005	1,648,663	4,517	1.1%	1,118,635	2.5%	\$116.50	2.5%	\$79.05	3.9%	\$77.19	67.9%
2006	1,665,150	4,562	1.0%	1,157,787	3.5%	\$121.16	4.0%	\$84.24	6.6%	\$80.26	69.5%
2007	1,698,453	4,653	2.0%	1,204,098	4.0%	\$127.22	5.0%	\$90.19	7.1%	\$83.99	70.9%
Average 2005 - 2007			1.4%		3.3%		3.8%		5.8%	\$80.48	69.4%
2008	1,740,914	4,770	2.5%	1,258,283	4.5%	\$132.94	4.5%	\$96.09	6.5%	\$87.48	72.3%
2009	1,827,960	5,008	5.0%	1,308,614	4.0%	\$137.59	3.5%	\$98.50	2.5%	\$87.66	71.6%
2010	1,928,497	5,284	5.5%	1,354,416	3.5%	\$141.72	3.0%	\$99.53	1.0%	\$86.59	70.2%
2011	2,015,280	5,521	4.5%	1,388,276	2.5%	\$144.56	2.0%	\$99.58	0.0%	\$84.68	68.9%
2012	2,105,967	5,770	4.5%	1,409,100	1.5%	\$146.72	1.5%	\$98.17	-1.4%	\$81.60	66.9%
2013	2,169,146	5,943	3.0%	1,416,146	0.5%	\$147.46	0.5%	\$96.27	-1.9%	\$78.22	65.3%
Average 2008 - 2013			4.2%		2.8%		2.5%		1.1%	\$84.37	69.2%
Total Forecast Average			3.2%		2.9%		2.9%		2.7%	\$83.08	69.3%

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

Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series



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



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

BRISBANE**Background**

A summary of the hotel areas in the Brisbane Tourism Region and their performance for the December 2004 quarter is:-

Brisbane City Hotels Location	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
City - Inner & Remainder	25	3,852	80.4%	\$130.90	\$105.17
North Brisbane (Spring Hill)	13	1,181	82.3%	\$93.87	\$77.25
Other	32	1,806	77.5%	\$101.22	\$78.45
Brisbane City Core	70	6,839	80.1%	\$116.70	\$93.47
Brisbane Tourism Region (includes City)	160	9,911	75.8%	\$107.63	\$81.59

Source: Australian Bureau of Statistics

Analysis of the Brisbane Tourism Region by standard of accommodation for the December 2004 quarter is:-

Brisbane Tourism Region – December Quarter 2004

Star Grading	Establishments	Rooms	Room Revenue \$000's	Occupancy	ARR	Yield
5-star	8	1,906	21,541	80.9%	\$151.91	\$122.90
4-star	57	4,339	34,460	78.6%	\$109.89	\$86.37
3-star	80	3,178	16,489	70.0%	\$80.55	\$56.39
Other	15	488	1,938	69.9%	\$61.73	\$43.17
Total	160	9,911	74,428	75.8%	\$107.63	\$81.59
Servcd Apts (inc above)	44	2,540	18,958	76.4%	\$106.27	\$81.19

Source: Australian Bureau of Statistics / D. A. Dransfield. Italics have been calculated

2004 in Review

In 2004 room yields recorded growth of 8.8%, slightly above our 6.6% forecast. Yield growth was bolstered by continuing good demand conditions (5.6% increase) together with relatively static supply which allowed average rates to grow 4.5%. The 4 star market recorded the highest yield growth at 15.8% as the impact of demand and average rate growth was boosted by a 5.5% reduction in supply. Yield growth was strongest in the September quarter with room yields increasing 16.9% compared to the corresponding 2003 SARS affected quarter.

In 2004, demand growth of 5.6% was bolstered by an 11% increase in visitor arrivals in Brisbane, which included a 19% increase in international visitors. Air access to Brisbane continues to increase with all major domestic carriers increasing their capacity in 2004. The strong demand conditions and relatively static supply over the last two years resulted in record occupancies in 2004 of 79.2%. With no major supply spikes forecast in the short to medium term, market wide occupancies are expected to increase to approximately 81% by 2007.

For the six months to June 2005 Brisbane has seen exceptional yield growth of 16.5%, primarily as a result of a 13.8% increase in average rates reflecting the tension between increased demand, high occupancies and limited new supply.

Supply

In 2004 Brisbane room stock increased by approximately 87 rooms or 1.4% compared to our forecast of 0.5% the difference primarily relating to timing issues. There remain approximately 400 rooms under construction and an estimate of another 200 rooms likely to come on line through 2005 and 2006 due to the strong trading conditions. This represents an uplift of approximately 170 rooms on our 2004 forecast.

New room proposals remain limited despite the strong trading conditions expected to continue in the short to medium term. With the Brisbane conference and convention market experiencing significant growth from both international and domestic sources, major hotel refurbishments have continued to be the preferred approach to securing this growing market. The next supply cycle appears to have been delayed until 2006/07 with the trigger point being real room yield of \$90, above historical market trends of \$85.

Over the forecast period average supply increases of 4.2% are expected, an upgrade of approximately 460 rooms on last year's expectations.

Demand

Brisbane hotels have a moderate domestic content of approximately 63% (decreased from 78% in 2002) reflective of Brisbane's growing attractiveness for international visitors and improved access for international flights.

The TRA forecast growth in domestic visitor nights in Queensland of 0.5% in the period to 2014 (previously 1.0 growth forecast) with all sectors expected to reduce by 3.3% in 2005 (previously 0.9% growth). Combining TRA forecasts for international visitor nights to Australia and domestic visitor nights in Queensland, the weighted average growth in visitor nights in Brisbane hotels is expected to average 2.4% over the forecast period, above the national average of 1.9%.

We expect higher long term growth averaging 3.4% in the period to 2013. Short term demand growth is expected to remain strong, averaging 5.7% stimulated by continuing growth in direct domestic and international flights to Brisbane, a 64% increase in Brisbane Tourism's marketing budget and development of a \$300M cruise ship terminal, which will include 400 mixed use apartments. Brisbane is expected to continue as a leading convention destination with major conventions contributing more than \$100M to the local economy.

Conclusion

In the short term, the buoyant trading conditions in the Brisbane market are expected to continue with strong yield growth averaging 7.2% to 2007. The medium term outlook to 2010 also remains positive with yield growth expected to average 4.3%, albeit at a much slower rate in the later years as supply increases. With increasing visitation numbers and limited new supply driving occupancy levels above 80%, rate growth opportunities will test the market stability in the short term. In the longer term continued demand growth with limited net increase in supply should keep yields and occupancies high. Year to date performance has been exceptional despite being impacted by a number of adverse international events and soaring petrol prices.

Brisbane hotels are at the most advanced stage of the upward cycle of all Australian cities resulting from recent under supply. While indicators show the Brisbane market is ripe for new supply, limited new projects are currently proposed. The Brisbane market is therefore expected to reach its cyclic peak in 2008, approximately two years ahead of the total Australian market.

Our expectation of yield growth for 2005 is 10.5%, an increase on the 6.4% forecast in *Hotel Futures 2004* due to stronger room demand and achieved rate growth. Long term nominal yield growth is expected to average 2.3%, representing a 3.7% upgrade in average real yields compared to our 2004 forecast, mostly in the short term.

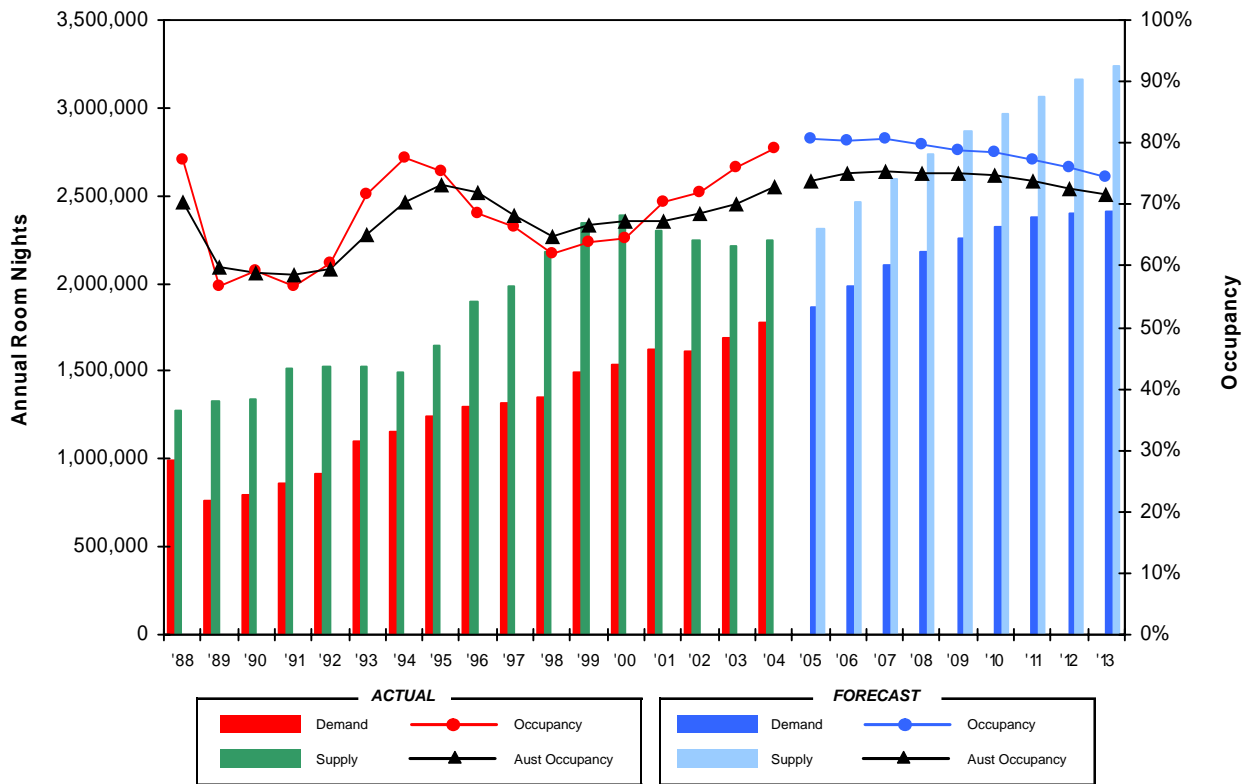
Brisbane – City Core

Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
1997	1,989,048	5,449	4.9%	1,321,404	1.5%	\$107.81	-0.9%	\$71.62	-4.2%	\$87.47	66.4%
1998	2,182,102	5,978	9.7%	1,355,319	2.6%	\$105.17	-2.4%	\$65.32	-8.8%	\$78.54	62.1%
1999	2,339,975	6,411	7.2%	1,494,658	10.3%	\$101.76	-3.2%	\$65.00	-0.5%	\$76.76	63.9%
2000	2,392,483	6,555	2.2%	1,541,871	3.2%	\$98.95	-2.8%	\$63.77	-1.9%	\$71.18	64.4%
2001	2,303,751	6,312	-3.7%	1,621,505	5.2%	\$101.99	3.1%	\$71.79	12.6%	\$77.70	70.4%
2002	2,241,007	6,140	-2.7%	1,612,857	-0.5%	\$103.80	1.8%	\$74.71	4.1%	\$78.49	72.0%
2003	2,213,271	6,064	-1.2%	1,685,470	4.5%	\$110.34	6.3%	\$84.03	12.5%	\$86.55	76.2%
2004	2,245,072	6,151	1.4%	1,779,189	5.6%	\$115.32	4.5%	\$91.39	8.8%	\$91.39	79.2%
Actual Average 1988-2004			3.7%		4.1%		1.1%		2.0%	\$83.38	68.2%
FORECAST											
2005	2,315,672	6,344	3.1%	1,868,148	5.0%	\$125.12	8.5%	\$100.94	10.5%	\$98.57	80.7%
2006	2,461,303	6,743	6.3%	1,980,237	6.0%	\$132.63	6.0%	\$106.70	5.7%	\$101.66	80.5%
2007	2,596,674	7,114	5.5%	2,099,052	6.0%	\$139.26	5.0%	\$112.57	5.5%	\$104.84	80.8%
Average 2005 - 2007			5.0%		5.7%		6.5%		7.2%	\$101.69	80.7%
2008	2,739,491	7,505	5.5%	2,183,014	4.0%	\$144.13	3.5%	\$114.85	2.0%	\$104.56	79.7%
2009	2,862,769	7,843	4.5%	2,259,419	3.5%	\$147.01	2.0%	\$116.03	1.0%	\$103.26	78.9%
2010	2,962,965	8,118	3.5%	2,327,202	3.0%	\$149.22	1.5%	\$117.20	1.0%	\$101.95	78.5%
2011	3,066,669	8,402	3.5%	2,373,746	2.0%	\$150.71	1.0%	\$116.66	-0.5%	\$99.20	77.4%
2012	3,158,669	8,654	3.0%	2,397,483	1.0%	\$149.96	-0.5%	\$113.82	-2.4%	\$94.61	75.9%
2013	3,237,636	8,870	2.5%	2,409,471	0.5%	\$149.96	0.0%	\$111.60	-2.0%	\$90.68	74.4%
Average 2008 - 2013			3.8%		2.3%		1.3%		-0.1%	\$99.04	77.5%
Total Forecast Average			4.2%		3.4%		3.0%		2.3%	\$99.93	78.5%

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

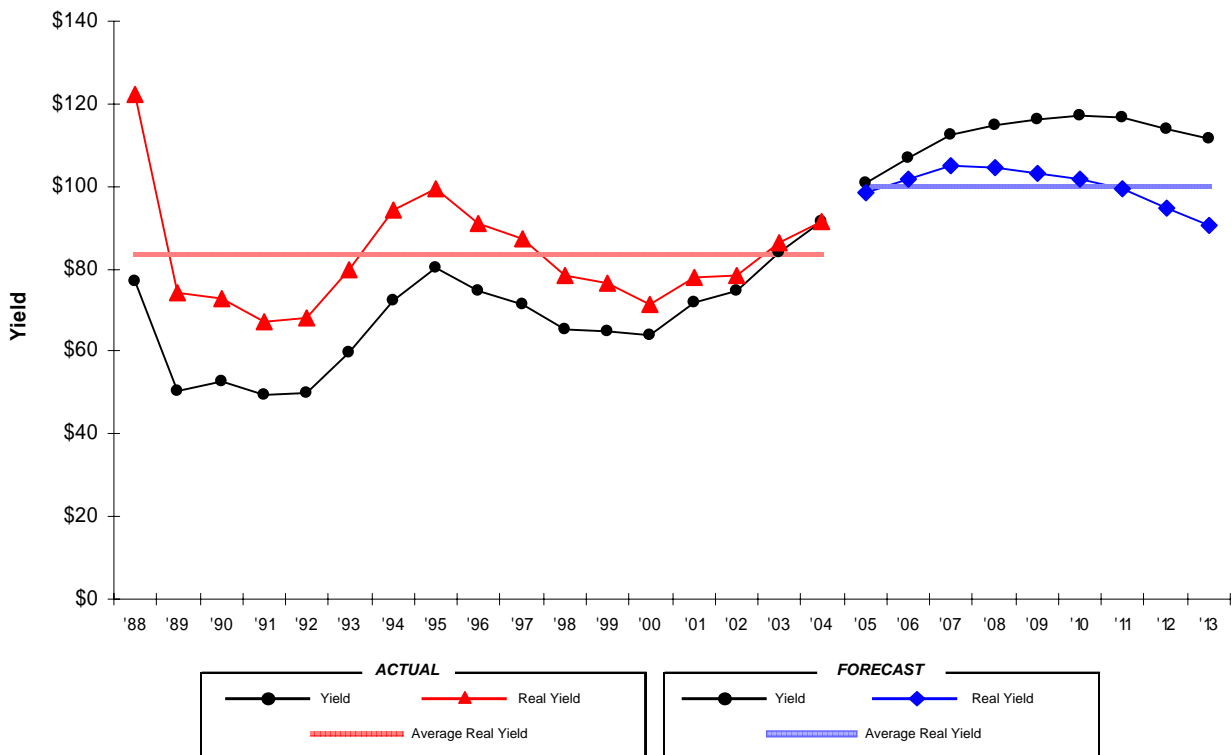
Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series

Brisbane - City Core Demand, Supply and Occupancy



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

Brisbane - City Core Real Room Yields 1988 - 2013



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

CAIRNS**Background**

A summary of the Cairns (includes Palm Cove) and Tropical North Queensland (TNQ) hotel, motel and serviced apartment markets for the December 2004 quarter is:-

Cairns/TNQ Hotels	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
Cairns – City	59	4,805	73.6%	\$101.59	\$74.77
Cairns – City & Suburbs	100	7,888	69.4%	\$107.55	\$74.64
TNQ Tourism Region					
Hotels	40	4,744	62.4%	\$144.19	\$89.97
Motels	65	3,796	66.9%	\$94.50	\$63.22
Serviced Apartments	71	3,194	56.9%	\$117.59	\$66.91
Total TNQ Tourism Region	176	11,734	62.4%	\$120.32	\$75.08

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

2004 in Review

In 2004 Cairns hotels performed above expectations with room yields increasing 10.2% versus a forecast 5.3%. Demand growth of 8.3% versus forecast 6.0% allowed strong average rate growth of 5.8% versus 2.5% forecast. Demand growth easily outstripped a modest increase in supply of 3.9% with the majority of new supply only coming on line in the final quarter.

In the six months to June 2005, yields have increased 4.3%, slightly behind the *Hotel Futures 2004* forecast of 5.2%. Despite demand and supply remaining static, average rates have increased 5.2% thereby softening the impact of a relative poor second quarter. There has been no demand growth year to date which is consistent with recent market indicators that suggest Japanese arrivals could decrease by 10% compared to 2004, which decreased by 17.7% on 2003. Japanese tourism have reportedly declined due to Australia's improving exchange rate against the Japanese yen. Given the poor demand result year to date and higher than expected 2004 base, our 2005 forecast has been slightly downgraded from 5.2% growth to 3.5%.

Supply

In 2004, annual room supply in Cairns increased 3.9%, slightly above our forecast of 3.1%. The difference included an increase in the number of rooms in the letting pools of several serviced apartment projects compared to expectations. Actual room openings in 2004 were approximately 370 rooms with the closure of 100 rooms early in the year being offset by significant additions of 445 rooms in the last two quarters.

There are approximately 600 rooms currently under construction which are forecast to come on line through 2005 to 2007. The net increase to annual room supply to 2007 is expected to average 4.9% compared to previous forecast 2.2% as a result of four new projects commencing. Over 40% of the projects recently opened and under construction are located in Cairns city with the remainder located in the proximate beachside regions including Palm Cove. There are approximately a further 400 rooms proposed which include the closure and redevelopment of the Oasis hotel. We have allowed a 75% probability that these projects will proceed.

The current development proposals are coming earlier than would be expected from the historical hotel cycle which had a trigger point of approximately \$80-\$85 real yield, not expected until 2007 with new supply then expected to be complete from 2009. The advancement of many new projects appears to have been encouraged by the strong yield growth experienced in 2004 (10.2%). With the soft demand conditions year to date expected to continue into early 2006, the market will come under pressure to absorb the new supply. If demand growth doesn't equate, operators are likely to discount rooms which may delay the next supply cycle.

Average supply increases are forecast to be 3.5% are expected over the forecast period, an increase of approximately 500 rooms over last years forecast.

Demand

Cairns hotels have a high domestic content of approximately 74%, previously 46% in 2002 which is reflective of the recent adverse international events including improving Australian dollar and increased affordable direct domestic air service to Cairns. The TRA forecast growth in domestic visitor nights in Queensland of 0.5% in the period to 2014 (previously 1% growth forecast) with all sectors forecast to decline by 3.3% in 2005 (previously 0.9% growth).

Combining TRA forecasts for international visitor nights to Australia and domestic visitor nights in Queensland the weighted average growth in visitor nights in Queensland hotels is expected to average 1.5% (previously 1.7%) over the forecast period, lower than the national average of 1.9%.

We expect higher growth in hotel room nights in Cairns averaging 3.9% over the forecast period, slightly below the 4.8% forecast last year. Despite the concerns regarding international visitation to Cairns, domestic growth is expected to occur from the introduction of Jetstar's direct services from Sydney, Melbourne and Brisbane and Australian Airline's decision to base approximately 400 staff in Cairns as a hub for its operations. International growth is expected to return in the medium term, however this is dependent on a number of external economic factors including the strength of the Australian currency and international travellers safety concerns.

Conclusion

In 2004 Cairns hotels recorded significant double-digit yield growth (10.2%) for the first time since 1994 as a result of good demand conditions that provided rate growth opportunity. Over the next three years the market is forecast to record moderate yield growth averaging 4.8% as rate opportunities continue with limited supply and stable demand growth, increasing to a 7.7% average in the period 2008 to 2010 as international demand returns to the market and the short burst of new supply is absorbed. Domestic growth should offset any reduction in international visitors as air access to Cairns is now direct and affordable.

Cairns hotels are expected to reach their cyclic peak in 2011, two years later than the total Australian market in 2009 and at a slightly higher level than previously forecast. This is mostly due to the better than expected 2004 result. Yield growth forecast for 2005 is 3.5%, a slight downgrade from the 5.2% forecast last year. This is the result of the higher 2004 base, together with softer international demand conditions.

Long term nominal yield growth is expected to average 4.7%, representing a small 1.1% downgrade in average real yields compared to our 2004 forecast.

Cairns – Statistical Division

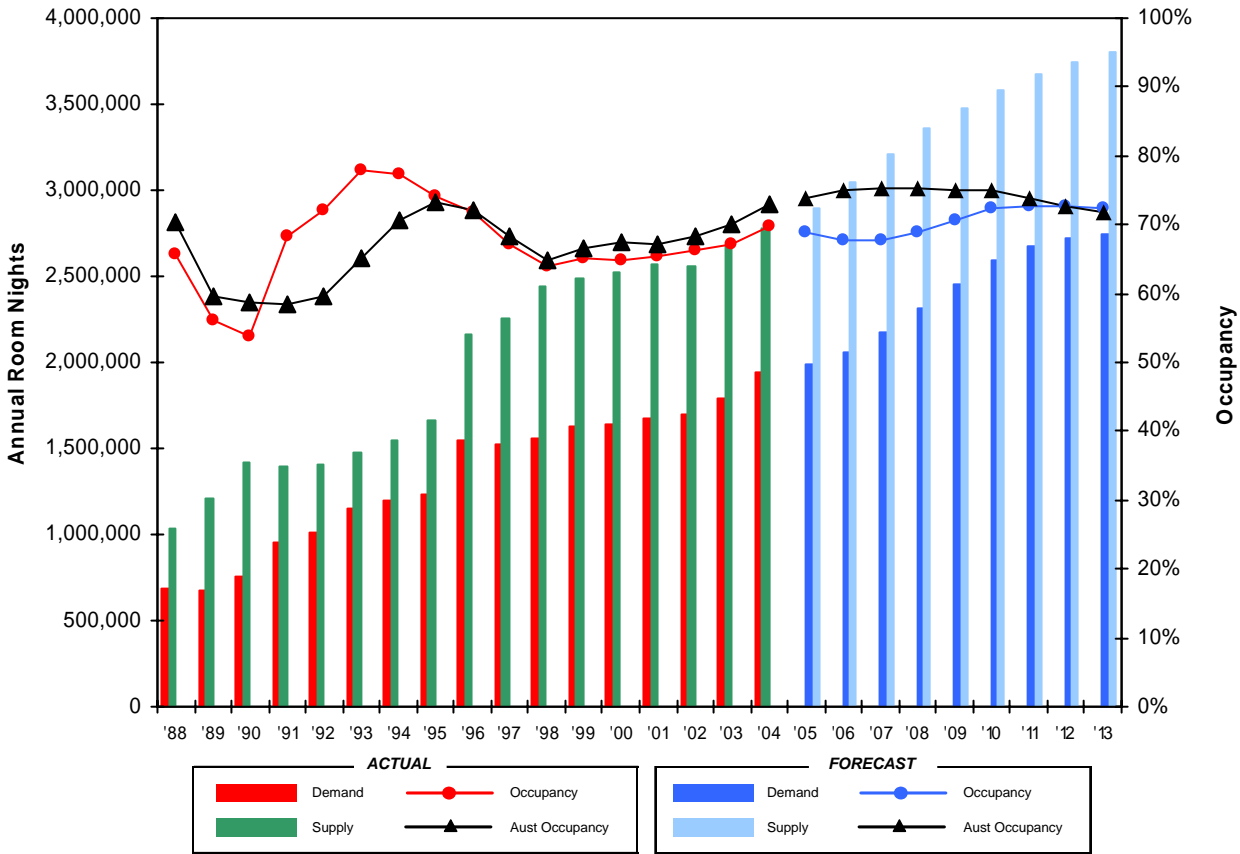
Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
1997	2,259,106	6,189	4.7%	1,519,471	-2.1%	\$107.13	2.1%	\$72.06	-4.5%	\$88.00	67.3%
1998	2,436,310	6,675	7.8%	1,559,224	2.6%	\$100.72	-6.0%	\$64.46	-10.5%	\$77.50	64.0%
1999	2,493,410	6,831	2.3%	1,624,606	4.2%	\$99.36	-1.4%	\$64.74	0.4%	\$76.45	65.2%
2000	2,524,451	6,916	1.2%	1,636,542	0.7%	\$98.11	-1.3%	\$63.60	-1.8%	\$70.99	64.8%
2001	2,572,552	7,048	1.9%	1,678,929	2.6%	\$98.11	0.0%	\$64.03	0.7%	\$69.31	65.3%
2002	2,559,120	7,011	-0.5%	1,695,148	1.0%	\$100.01	1.9%	\$66.25	3.5%	\$69.60	66.2%
2003	2,678,032	7,337	0.0%	1,795,861	1.0%	\$99.51	0.1%	\$66.73	1.2%	\$68.73	67.1%
2004	2,782,531	7,623	3.9%	1,944,179	8.3%	\$105.26	5.8%	\$73.54	10.2%	\$73.54	69.9%
Actual Average 1988-2004			5.7%		7.0%		3.2%		4.7%	\$76.01	67.5%
FORECAST											
2005	2,892,949	7,926	4.0%	1,992,783	2.5%	\$110.52	5.0%	\$76.13	3.5%	\$74.35	68.9%
2006	3,042,396	8,335	5.2%	2,062,531	3.5%	\$117.15	6.0%	\$79.42	4.3%	\$75.67	67.8%
2007	3,212,377	8,801	5.6%	2,175,970	5.5%	\$124.76	6.5%	\$84.51	6.4%	\$78.71	67.7%
Average 2005 - 2007			4.9%		3.8%		5.8%		4.8%	\$76.24	68.1%
2008	3,362,835	9,213	4.7%	2,317,408	6.5%	\$133.50	7.0%	\$92.00	8.9%	\$83.75	68.9%
2009	3,474,965	9,520	3.3%	2,456,453	6.0%	\$140.17	5.0%	\$99.09	7.7%	\$88.18	70.7%
2010	3,579,214	9,806	3.0%	2,591,558	5.5%	\$145.78	4.0%	\$105.55	6.5%	\$91.82	72.4%
2011	3,668,694	10,051	2.5%	2,669,304	3.0%	\$150.15	3.0%	\$109.25	3.5%	\$92.90	72.8%
2012	3,742,068	10,252	2.0%	2,722,690	2.0%	\$152.41	1.5%	\$110.89	1.5%	\$92.17	72.8%
2013	3,798,199	10,406	1.5%	2,749,917	1.0%	\$153.17	0.5%	\$110.89	0.0%	\$90.11	72.4%
Average 2008 - 2013			2.8%		4.0%		3.5%		4.7%	\$89.82	71.7%
Total Forecast Average			3.5%		3.9%		4.3%		4.7%	\$85.30	70.5%

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

Note: 1988 to 1995 Cairns City, 1996 to 1998 & Forecasts Cairns Statistical Division

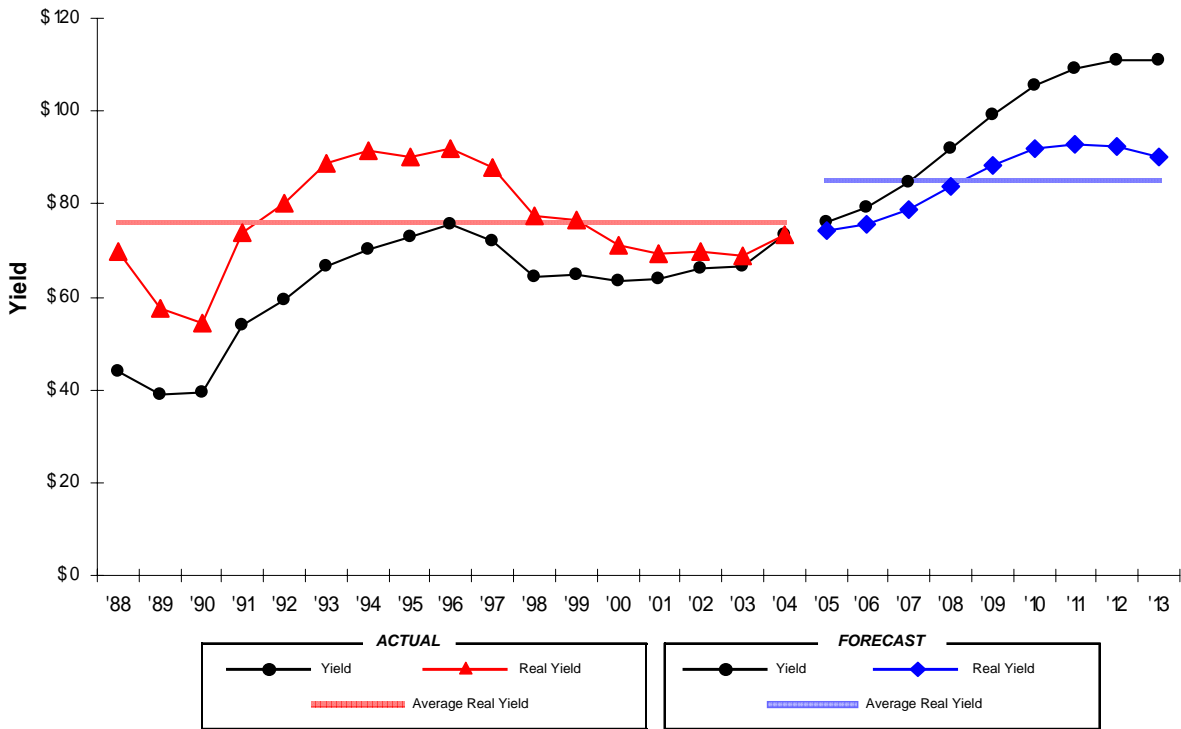
Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series

**Cairns – Statistical Division
Demand, Supply and Occupancy**



Source: Australian Bureau of Statistics / D. A. Dransfield & Co
 Note: 1988 to 1995 Cairns City, 1996 & Forecast Cairns Statistical Division

**Cairns - Statistical Division
Real Room Yields 1988 - 2013**



Source: Australian Bureau of Statistics / D. A. Dransfield & Co
 Note: 1988 to 1995 Cairns City, 1996 & Forecast Cairns Statistical Division

CANBERRA**Background**

A summary of room stock in the Canberra Statistical Division, including its high proportion of motel stock, for the December 2004 quarter is:-

Canberra Hotels/Motels	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
Hotels	15	1,929	71.1%	\$117.03	\$83.21
Motels	26	1,703	58.7%	\$75.99	\$44.61
Serviced Apartments	17	1,247	69.9%	\$120.30	\$84.09
Total	58	4,879	66.4%	\$105.22	\$69.86

Source: Australian Bureau of Statistics

Analysis of the Canberra Statistical Division by standard of accommodation for the December 2004 quarter is:-

Canberra – ACT Statistical Division – December Quarter 2004

Star Grading	Establishments	Rooms	Room Revenue \$000's	Occupancy	ARR	Yield
5-star	1	n.p.	n.p.	n.p.	n.p.	n.p.
4-star	29	2,898	\$21,530	71.2%	\$113.44	\$80.77
3-star	16	1,465	\$5,591	56.7%	\$73.18	\$41.49
Other	12	516	\$4,140	65.3%	\$133.55	\$87.21
Total	58	4,879	\$31,261	66.4%	\$105.18	\$69.84

Source: Australian Bureau of Statistics / D. A. Dransfield. n.p. - not published. Italics have been calculated

2004 in Review

In 2004 Canberra hotels performed slightly below our full year expectation with room yield growth of 2.9%, below our 3.9% forecast. Supply decreased 2.5% as expected, however demand declined 1.3% against a forecast increase of 1.5% most likely contributed to by the reduced room availability. The Canberra market recorded yield growth in the first three quarters partially offset by a poor December quarter. The December quarter was adversely impacted by the Federal election in October 2004 which halted regular government business and the comparable strength of the December 2003 quarter.

For the six months to June 2005 Canberra hotels recorded room yield growth of 6.8% from demand growth of 2.5% and rate growth of 3.8%. Moderate yield growth is expected to continue in the short term with minimal supply increases and stable demand conditions expected.

Supply

In 2004 annual room supply decreased by 2.5% in line with our forecast. There are no substantial new rooms under construction. There are no substantial new rooms currently proposed for development. We have however allowed for approximately 50 room openings in 2005.

Reports suggest that a further 100 rooms may close for residential conversion in 2007. We have allowed a 90% probability that this will occur based on historical evidence. The next supply cycle is not expected to commence planning until 2006 with new supply coming on line from 2008, the trigger point being real room yields of approximately \$70-\$75 in 2005/06. Average supply increases of 2.3% are expected, consistent with last years forecast.

Demand

Canberra hotels have high a domestic content of approximately 90%. Demand growth since 2000 has averaged 2.9%, below the national average demand growth of 3.6%. In 2005 demand growth is expected to return to more recent growth rates of 2.5% increasing to 4% by 2007. The latest visitation data shows domestic overnight visitor numbers have increased 6.3% from last year, mainly due to more business visitors and the relatively low 2004 base.

The TRA forecast growth in domestic visitor nights in ACT of 0.5% in the period to 2014 (previously 1.0%) with all sectors expected to decline in 2005 by approximately 3.3% (previously 1.0% growth).

Combining TRA forecasts for international visitor nights to Australia and domestic visitor nights in ACT the weighted average growth in visitor nights in Canberra hotels is expected to average 1.0% (previously 1.3%) over the forecast period, lower than the national average of 1.9%. We expect slightly higher growth averaging 2.6% over the forecast period, in line with the 2.5% forecast last year.

Conclusion

After a relatively stable 2004 which saw real room yields remain constant, the market remains well placed for rate growth in the medium term with no new substantial supply forecast to come on line until 2008. The long term forecast is for rate growth of 2.1%. The prevailing short term market conditions should see occupancies break the 70% barrier for the first time, in 2007. Yield growth forecast for 2005 of 3.5% is slightly increased on the 3.0% forecast last year and indicative of the reduced supply expectation leading to higher occupancy rates.

Long term nominal yield growth is expected to average 2.4%, representing an upgrade of 3.0% in average real yields compared to our 2004 forecast, the result of a lower 2004 base.

A summary of historical supply and demand relationships and our forecast is:-

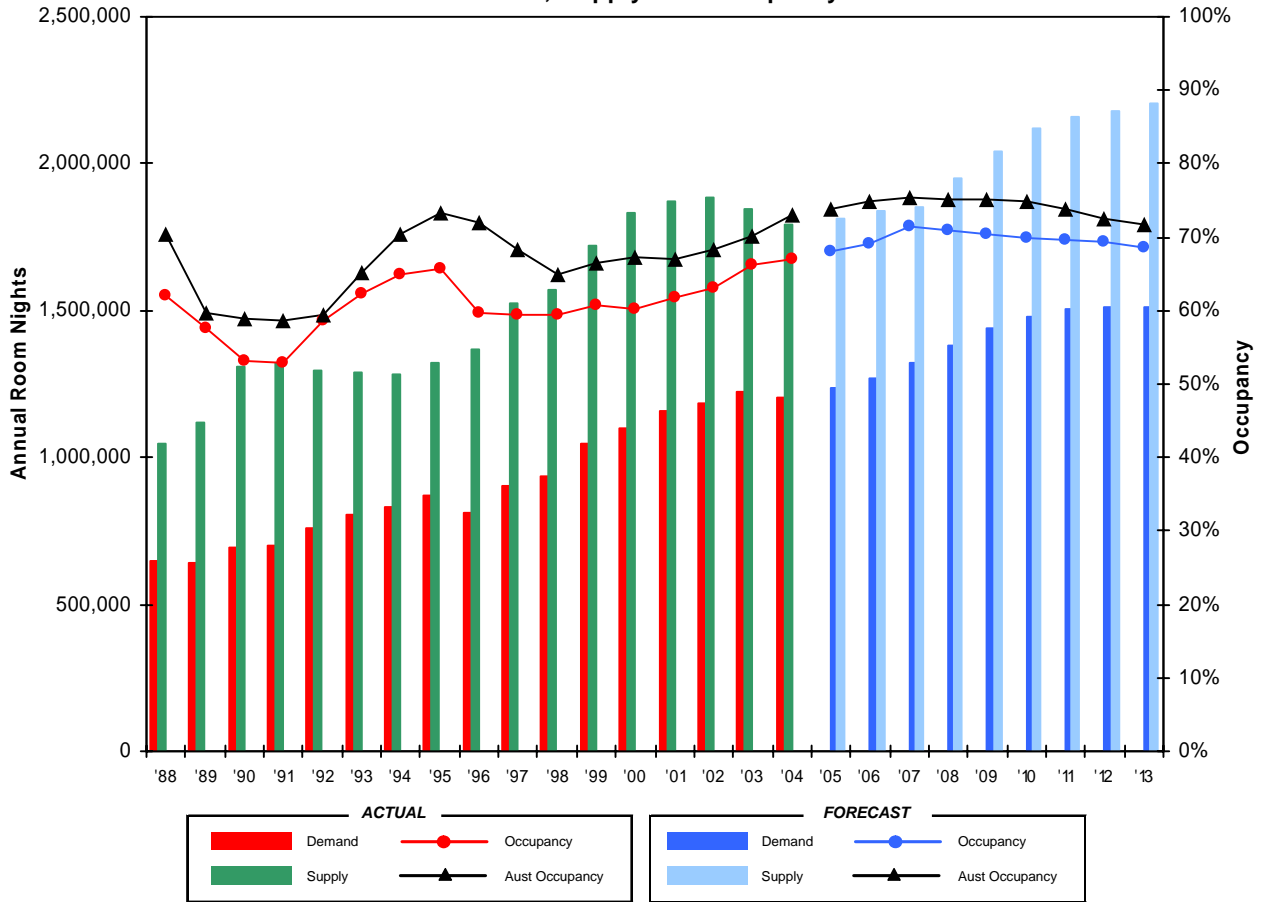
Canberra – Statistical Division

Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
1997	1,522,960	4,172	11.5%	903,300	10.9%	\$97.55	3.3%	\$57.86	2.8%	\$70.66	59.3%
1998	1,568,048	4,296	3.0%	933,000	3.3%	\$100.24	2.8%	\$59.64	3.1%	\$71.71	59.5%
1999	1,721,666	4,717	9.8%	1,045,800	12.1%	\$98.63	-1.6%	\$59.91	0.4%	\$70.75	60.7%
2000	1,833,195	5,022	6.5%	1,102,000	5.4%	\$99.69	1.1%	\$59.93	0.0%	\$66.89	60.1%
2001	1,870,515	5,125	2.0%	1,157,700	5.1%	\$100.78	1.1%	\$62.37	4.1%	\$67.52	61.9%
2002	1,884,132	5,162	0.7%	1,186,800	2.5%	\$100.06	-0.7%	\$63.03	1.0%	\$66.22	63.0%
2003	1,842,837	5,049	-2.2%	1,221,428	2.9%	\$104.44	4.4%	\$69.22	9.8%	\$71.30	66.3%
2004	1,796,148	4,921	-2.5%	1,205,630	-1.3%	\$106.08	1.6%	\$71.20	2.9%	\$71.20	67.1%
Actual Average 1988-2004			3.3%		4.4%		2.0%		3.1%	\$68.30	61.4%
FORECAST											
2005	1,814,109	4,970	1.0%	1,235,771	2.5%	\$108.20	2.0%	\$73.70	3.5%	\$71.98	68.1%
2006	1,841,321	5,045	1.5%	1,272,844	3.0%	\$110.90	2.5%	\$76.66	4.0%	\$73.04	69.1%
2007	1,854,455	5,081	0.7%	1,323,758	4.0%	\$114.23	3.0%	\$81.54	6.4%	\$75.94	71.4%
Average 2005 - 2007			1.1%		3.2%		2.5%		4.6%	\$73.65	69.5%
2008	1,947,178	5,335	5.0%	1,383,327	4.5%	\$118.80	4.0%	\$84.40	3.5%	\$76.83	71.0%
2009	2,044,537	5,601	5.0%	1,438,660	4.0%	\$122.96	3.5%	\$86.52	2.5%	\$76.99	70.4%
2010	2,118,140	5,803	3.6%	1,481,820	3.0%	\$125.41	2.0%	\$87.74	1.4%	\$76.32	70.0%
2011	2,160,503	5,919	2.0%	1,504,047	1.5%	\$127.30	1.5%	\$88.62	1.0%	\$75.36	69.6%
2012	2,182,108	5,978	1.0%	1,511,567	0.5%	\$127.93	0.5%	\$88.62	0.0%	\$73.66	69.3%
2013	2,203,929	6,038	1.0%	1,511,567	0.0%	\$127.93	0.0%	\$87.74	-1.0%	\$71.29	68.6%
Average 2008 - 2013			2.9%		2.3%		1.9%		1.2%	\$75.08	69.8%
Total Forecast Average			2.3%		2.6%		2.1%		2.4%	\$74.60	69.7%

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

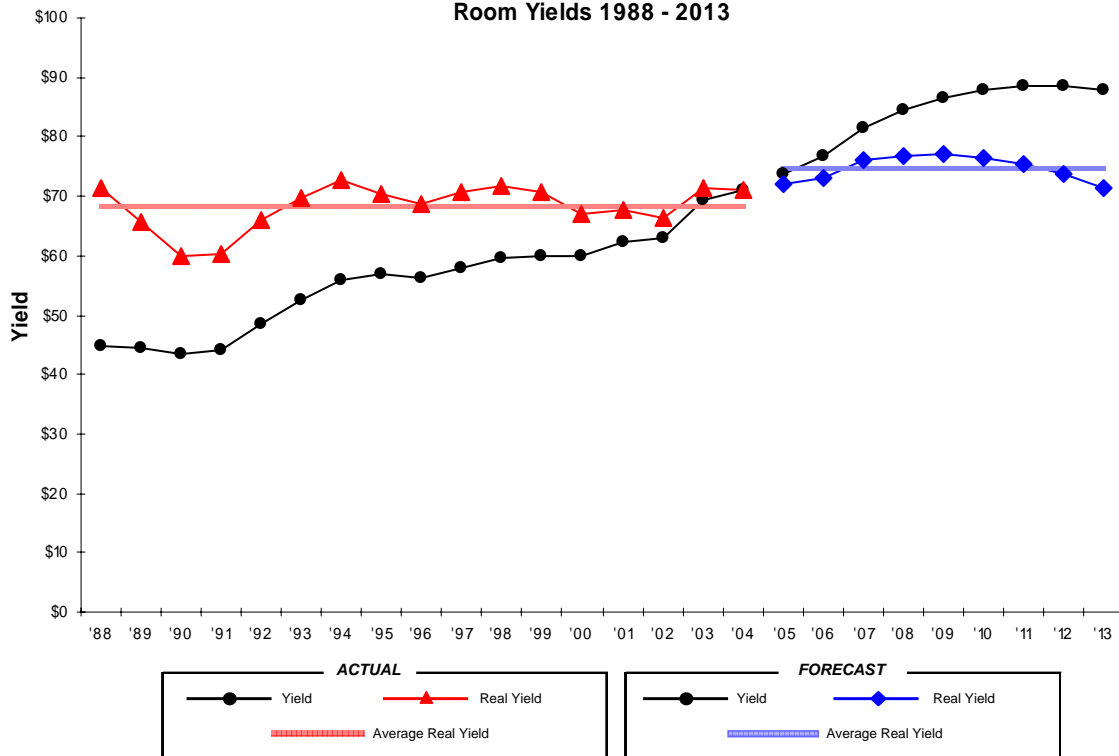
Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series

**Canberra – Statistical Division
Demand, Supply and Occupancy**



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

**Canberra - Statistical Division
Room Yields 1988 - 2013**



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

Note: 1988 to 1995 Cairns City, 1996 & Forecast Cairns Statistical Division

DARWIN**Background**

The Darwin hotel and motel market is relatively small compared to other major cities. A summary of the key performance indicators for the quarter ended December 2004 is:-

Hotels, Motels & Serviced Apartments	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
Darwin	36	2,754	59.3%	\$104.10	\$61.73

Source: Australian Bureau of Statistics

The Darwin accommodation market has strong seasonality with highs in the June and September quarters.

Analysis of the Darwin Statistical Division by standard of accommodation for the December 2004 quarter is:-

Darwin Statistical Division – December Quarter 2004

Star Grading	Establishments	Rooms	Room Revenue \$000's	Occupancy	ARR	Yield
5-star	2	n.p.	n.p.	n.p.	n.p.	n.p.
4-star	12	1,495	\$9,211	65.7%	\$101.89	\$66.94
3-star	10	483	\$1,418	40.5%	\$78.79	\$31.91
Other	12	776	\$3,595	58.8%	\$85.58	\$50.35
Total	36	2,754	\$14,224	59.3%	\$94.57	\$56.08

Source: Australian Bureau of Statistics / D. A. Dransfield. n.p. - not published. Italics have been calculated

2004 in Review

In 2004, Darwin hotels performed well above expectation recording yield growth of 16.8% compared to a strong forecast increase of 11.1%. This was largely the result of a 17.7% increase in demand compared to our 10% forecast. Full year occupancy increased 8.1 points to a five year high of 67.2%, a level not seen since 2000 when the market received a substantial uplift from the defence force staying in Darwin during the East Timor conflict. The 2004 result was coming off a low 2003 base impacted by the Bali bombings, SARS and the Iraq war. Supply increased 3.3% versus a forecast of 1.0% as a result of a number of small projects coming on line that were not allowed for in *Hotel Futures 2004*. Rate increased 2.6%, slightly above our 2004 forecast of 2.0%.

In the six months to June 2005 room yield recorded growth of 13.5% following strong demand growth of 8.5% and strong rate increases of 9.3%.

Supply

In 2004 Darwin room stock recorded a 3.3% increase compared to our forecast of 1.0%. There are approximately 290 new rooms currently under construction and due for completion from 2005 to 2008, increasing net supply by 11%.

Currently there are proposals for 590 additional rooms. We have allowed a relatively low 20% probability that these projects will come on line in 2007/08 given that a number of the projects have already been delayed at the approval stage. The quality of product entering the Darwin market is of a significantly higher standard than existing stock and rate growth in excess of 5% per annum is expected.

The next supply cycle is expected to complete from 2007/2008 with the trigger point being real room yields of approximately \$75 in 2004/05.

The long term supply forecast is for growth of 3.4%, an increase of approximately 300 rooms on last year's expectations with a number of small to medium scale additional projects entering the construction and planning phase.

Demand

Darwin hotels have a moderate domestic content of approximately 72% (an increase from 67% in 2002). The significant 17.7% increase in demand in 2004 (off a low base created by declining demand over the previous 4 years) represents the first positive demand growth since 1999 and it appears that the market has recovered from a

number of demand shocks during this period. Strong demand growth is forecast to continue in 2005 and 2006 as direct air access continues to improve and funding for marketing of the region increases.

The TRA forecast annual growth in domestic visitor nights in the Northern Territory averaging 0.5% for the period to 2014 (previously 100%) with all sectors forecast to decline by 3.3% in 2005 versus 0.9% previously forecast.

Combining TRA forecasts for international visitor nights to Australia and domestic visitor nights in the Northern Territory the weighted average growth in visitor nights in Darwin hotels is expected to be 1.9% to 2013 (previously 2.0%), in line with the national average of 1.9%.

We expect higher demand growth averaging 3.6% to 2013, with continued strong performance in the short to medium term. This is attributed to demand remaining at normalised levels after 4 years of decline (2000 to 2004) combined with the introduction of quality new stock and increased regional marketing.

Conclusion

Darwin hotels are expected to reach their cyclic peak in 2009 in line with the total Australian market. Following two years of moderate rate growth the forecast expects growth to average 3.5%, an upgrade from the 3.3% forecast in *Hotel Futures 2004*. This reflects the rate opportunities arising from the strong current demand environment which should continue with improved direct air access from major carriers and government funding for marketing campaigns.

Forecast yield growth for 2005 has been upgraded to 7.7% compared to the prior year estimate of 1.6% and due to demand and rate growth expectations. Yield growth is expected to peak in 2006 at 9.4%, reducing over the balance of the forecast period as new supply enters the market creating pressure on average rates and with softening demand growth expectations from 2008.

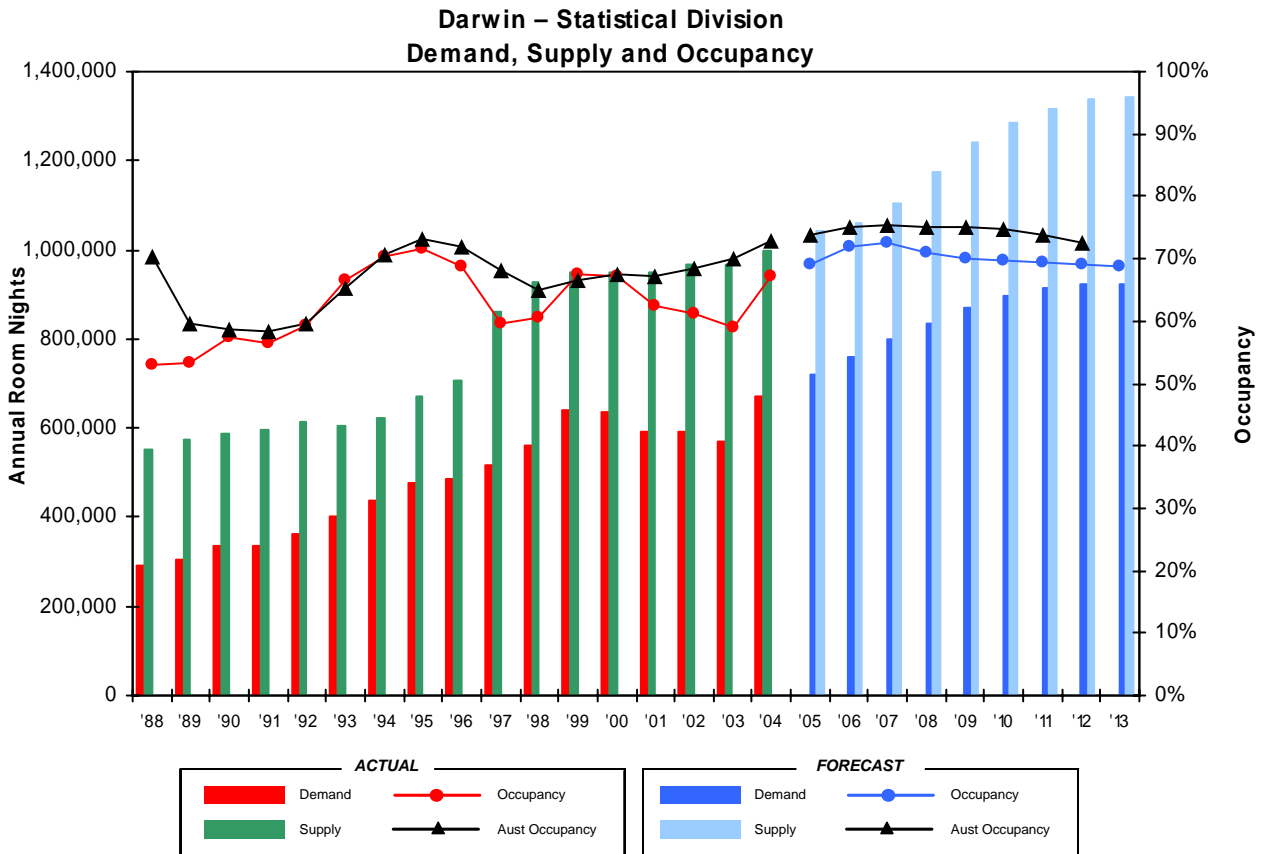
Long term nominal yield growth is expected to average 3.8%, representing a 12.5% upgrade in average real yields compared to our 2004 forecast.

Darwin – Tourism Region

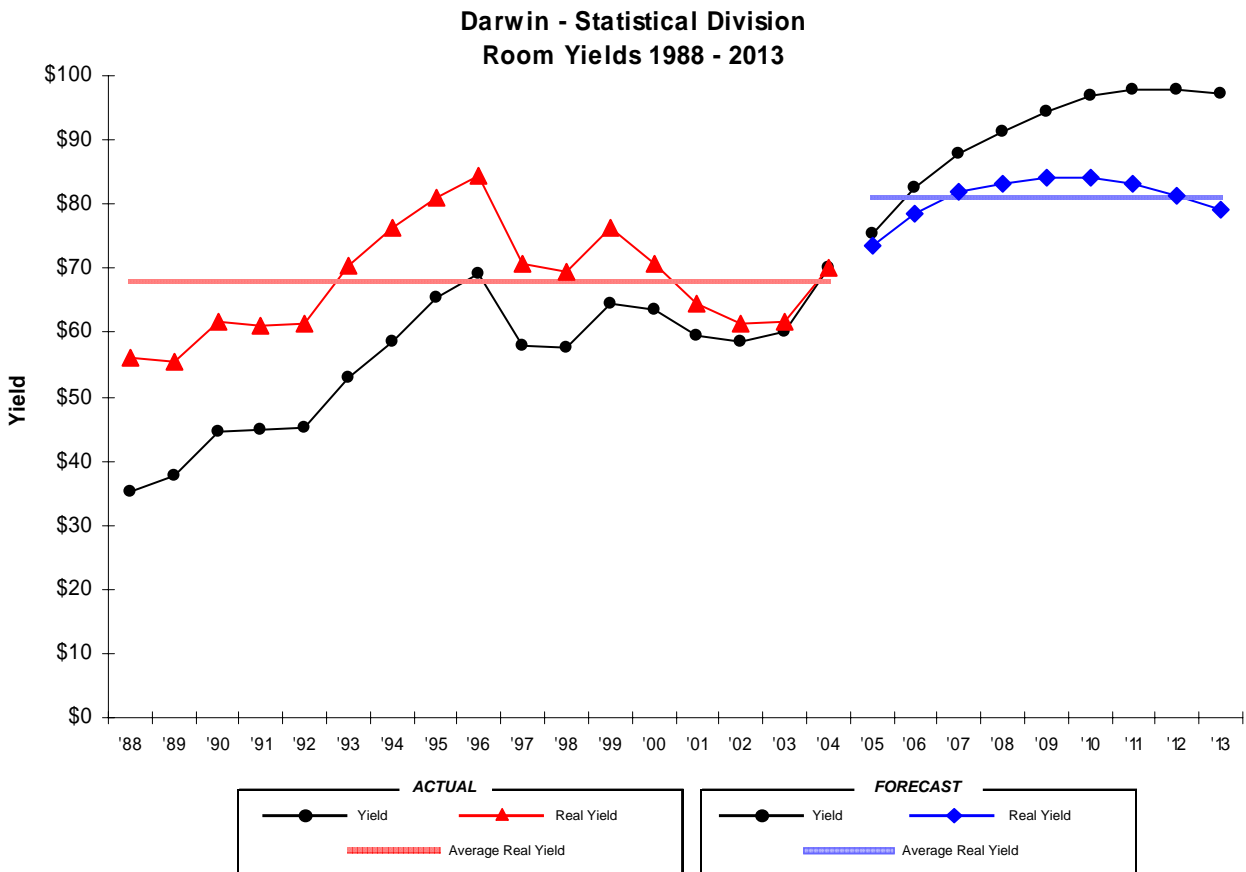
Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
1997	861,998	2,362	21.8%	514,512	5.6%	\$97.14	-3.4%	\$57.98	-16.2%	\$70.81	59.7%
1998	928,197	2,543	7.7%	561,698	9.2%	\$95.40	-1.8%	\$57.73	-0.4%	\$69.41	60.5%
1999	950,634	2,604	2.4%	640,643	14.1%	\$95.72	0.3%	\$64.51	11.7%	\$76.18	67.4%
2000	948,653	2,599	-0.2%	637,700	-0.5%	\$94.40	-1.4%	\$63.46	-1.6%	\$70.83	67.2%
2001	947,934	2,597	-0.1%	593,108	-7.0%	\$95.27	0.9%	\$59.61	-6.1%	\$64.52	62.6%
2002	965,997	2,647	1.9%	590,150	-0.5%	\$95.84	0.6%	\$58.55	-1.8%	\$61.52	61.1%
2003	966,284	2,647	0.0%	570,739	-3.3%	\$101.55	6.0%	\$59.98	2.4%	\$61.78	59.1%
2004	998,651	2,736	3.3%	671,538	17.7%	\$104.15	2.6%	\$70.03	16.8%	\$70.03	67.2%
Actual Average 1988-2004			4.1%		5.8%		3.2%		5.1%	\$67.82	63.5%
FORECAST											
2005	1,042,025	2,855	4.3%	718,546	7.0%	\$109.35	5.0%	\$75.41	7.7%	\$73.64	69.0%
2006	1,059,788	2,904	1.7%	761,658	6.0%	\$114.82	5.0%	\$82.52	9.4%	\$78.62	71.9%
2007	1,102,329	3,020	4.0%	799,741	5.0%	\$121.14	5.5%	\$87.88	6.5%	\$81.85	72.6%
Average 2005 - 2007			3.4%		6.0%		5.2%		7.9%	\$78.04	71.1%
2008	1,176,613	3,224	6.7%	835,730	4.5%	\$128.40	6.0%	\$91.20	3.8%	\$83.03	71.0%
2009	1,241,327	3,401	5.5%	869,159	4.0%	\$134.82	5.0%	\$94.40	3.5%	\$84.01	70.0%
2010	1,284,773	3,520	3.5%	895,234	3.0%	\$138.87	3.0%	\$96.76	2.5%	\$84.18	69.7%
2011	1,316,893	3,608	2.5%	913,138	2.0%	\$140.95	1.5%	\$97.74	1.0%	\$83.11	69.3%
2012	1,336,646	3,662	1.5%	922,270	1.0%	\$141.66	0.5%	\$97.74	0.0%	\$81.25	69.0%
2013	1,343,329	3,680	0.5%	922,270	0.0%	\$141.66	0.0%	\$97.26	-0.5%	\$79.02	68.7%
Average 2008 - 2013			3.4%		2.4%		2.7%		1.7%	\$82.43	69.6%
Total Forecast Average			3.4%		3.6%		3.5%		3.8%	\$80.97	70.1%

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

Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series



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



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

GOLD COAST

Background

A summary of room stock for hotels, motels and serviced apartments within the Gold Coast Tourism Region for the December 2004 quarter is:-

Gold Coast Tourism Region	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
Hotels	27	6,142	74.2%	\$136.23	\$101.08
Motels	34	1,671	68.8%	\$86.68	\$59.63
Serviced Apartments	91	5,264	74.7%	\$104.76	\$78.26
Total Tourism Region	152	13,077	73.7%	\$117.49	\$86.59

Source: Australian Bureau of Statistics

2004 in Review

In 2004 Gold Coast hotels performed significantly better than expected recording yield growth of 11.3%, compared to our 4.7% forecast. Relatively static supply growing only 0.7% was lower than forecast growth of 1.8%. Strong demand growth of 6.2% was above the 5.0% forecast and fuelled by the introduction of direct flights to the Gold Coast from major cities by Jetstar. Airline seat capacity into the Gold Coast has increased by approximately 80% since 2003 resulting in a 40% increase in passenger numbers over the same period and international passengers reached record levels in 2004. The supply and demand conditions allowed occupancy to increase to 69.5%, the sixth consecutive year of growth. Average rate increases of 5.5% were significantly higher than the forecast 1.5%, coming off a low base in 2003 with average rates declining 3.3% following SARS.

For the six months to 30 June 2005 yield growth of 5.8% is slightly below our *Hotel Futures 2004* forecast of 7% as a direct result of the higher than expected 2004 base. Rate growth of 6.2% is an encouraging sign, particularly at a time when demand has declined 2.1%.

Supply

In 2004 Gold Coast's annual room supply recorded an increase of 0.7%, below our forecast 1.8%. This was the result of our provision for additional but not specific supply not materialising to the level forecast.

There are approximately 500 new rooms currently under construction which are forecast to come on line through 2005 to 2007. Net supply to 2007 is forecast to increase 9.4% which relates mostly to projects that are large scale mixed use apartments.

The next supply cycle is not expected to commence planning until 2006 with substantial new supply coming on line from 2008, the trigger point being real room yields of approximately \$80. Average supply increases of 3.3% are expected over the forecast period, an increase of approximately 900 rooms on last years forecast and indicative of the markets 2004 performance and short term outlook that will see occupancies remain close to 70% over the forecast period.

Demand

Gold Coast hotels have a high domestic content of approximately 80% (increased on 73% in 2002). Demand growth in 2004 (6.2%) recovered significantly after 5 years of steady decline, albeit off a lower 2003 base which was adversely impacted by SARS. Direct affordable air capacity into the region has been significantly improved with the introduction of Jetstar and better road access from Brisbane following major road upgrades which contributed to the strong 2004 result. In the six months to June 2005, demand has declined 2.1% suggesting the market is struggling to overcome the high 2004 base.

The TRA forecast growth in domestic visitor nights in Queensland of 0.5% in the period to 2014 (previously 1.0% growth forecast) with all sectors forecast to decline 3.3% in 2005 (previously growth of 1.2%).

Combining TRA forecasts for international visitor nights to Australia and domestic visitor nights in Queensland the weighted average growth in visitor nights in Gold Coast hotels is expected to average 1.1% (previously 1.6% forecast) over the forecast period, lower than the national average of 1.9%.

We expect higher long-term growth in Gold Coast hotels averaging 3.3% over the forecast period. Increased short to medium term demand growth is expected with the opening of the convention centre and extension of the airport runway in 2007 to allow long haul international flights direct access to Gold Coast airport.

Conclusion

The Gold Coast market has recorded yield growth in the past five years, with 11.3% yield growth in 2004 the best single year growth in the past decade. Rates have still not yet recovered to pre-Asian economic crisis levels, however with two years of rate growth exceeding 5% and limited short term supply increases, the Gold Coast market is well placed to continue rate growth in the short to medium term.

Yield growth of 7% forecast for 2005 in *Hotel Futures 2004* has been downgraded to 4.1% as a result of declining demand year to date, which has been partially offset by a strong 6.2% increase in rates. The strong performance of 2004 does not appear to have continued into 2005 and with the majority of forecast supply expected to open at the back end of the year, the Gold Coast is unlikely to reach the prior years forecast for 2005.

Long term nominal yield growth is expected to average 3.4%, consistent with our 2004 forecast with the higher 2004 base being offset by the advancing of the next supply cycle.

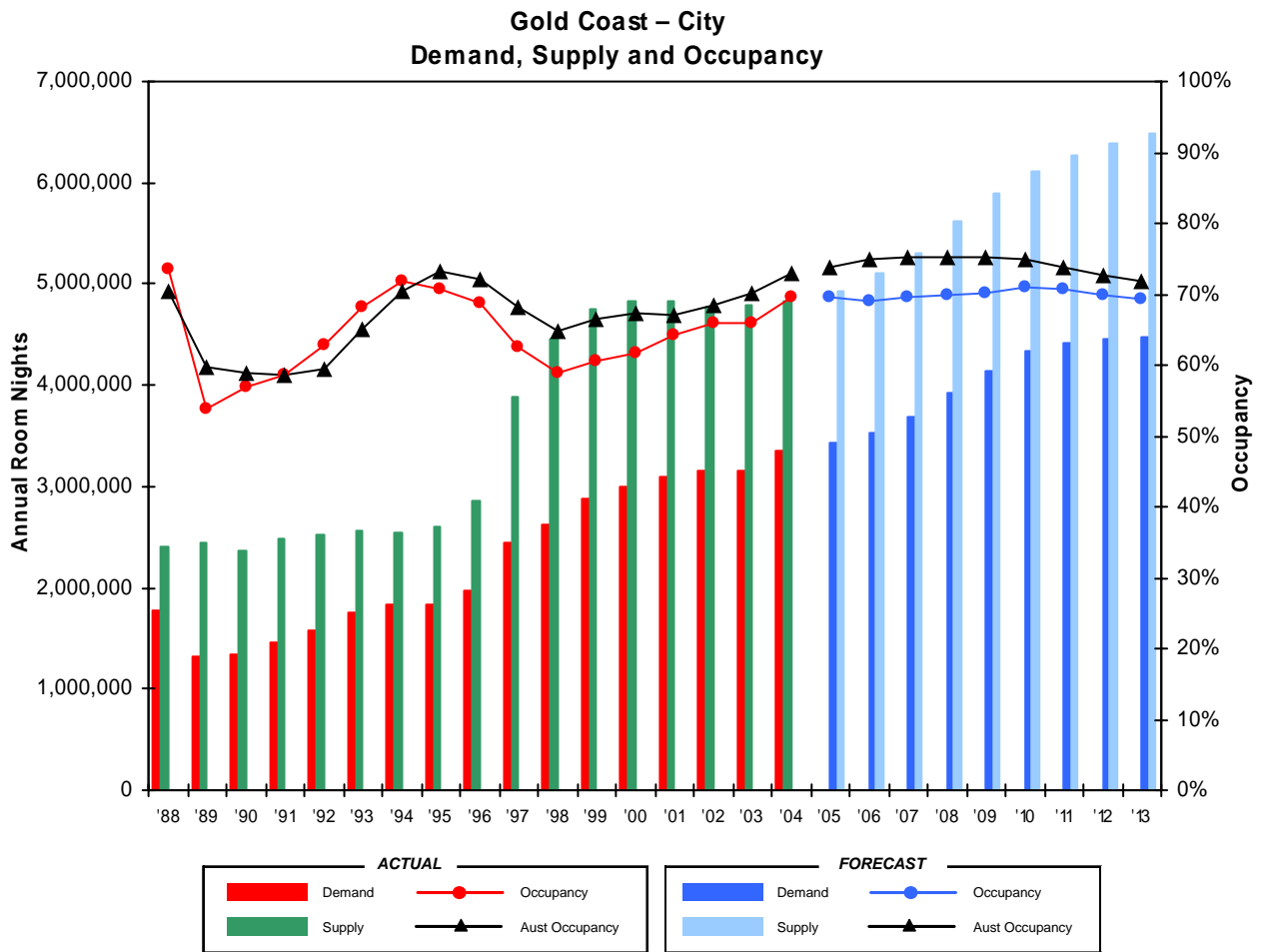
A summary of historical supply and demand relationships and our forecast is: -

Gold Coast – Tourism Region

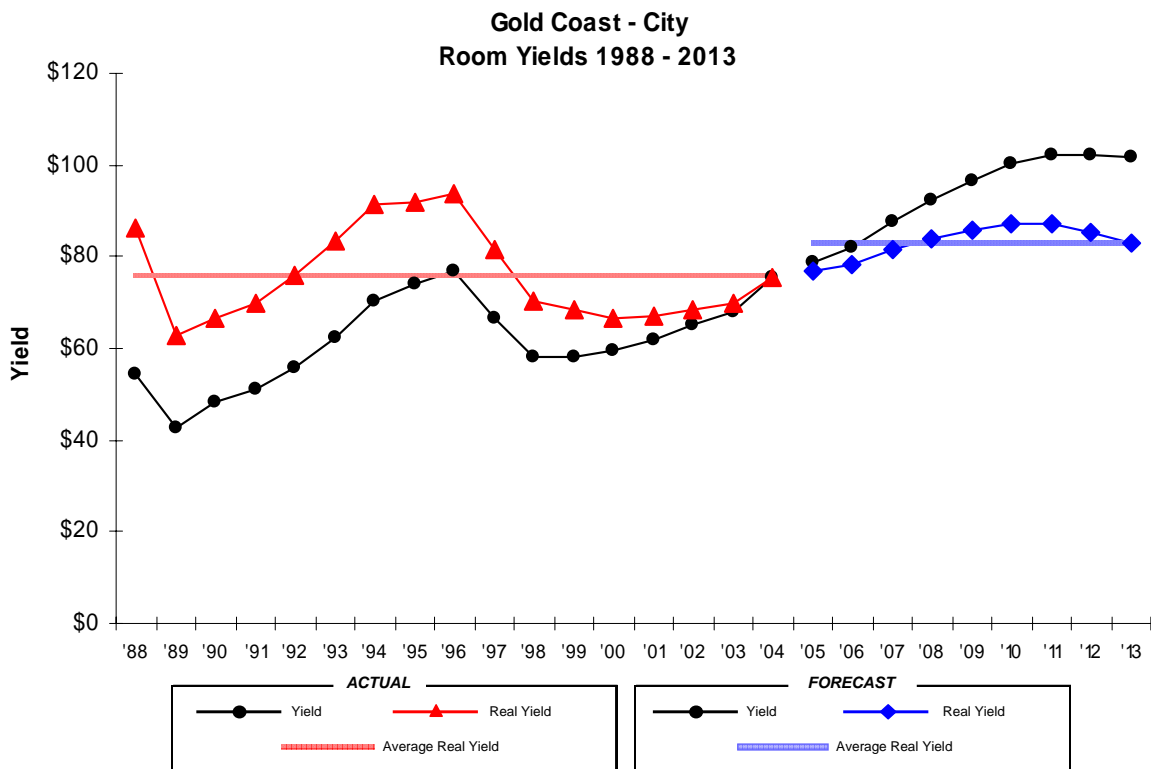
Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
1997	3,894,132	10,669	35.8%	2,438,100	23.9%	\$106.44	-4.9%	\$66.64	-13.2%	\$81.39	62.6%
1998	4,453,035	12,200	14.4%	2,622,986	7.6%	\$99.04	-7.0%	\$58.34	-12.5%	\$70.14	58.9%
1999	4,750,388	13,015	6.7%	2,875,086	9.6%	\$95.84	-3.2%	\$58.01	-0.6%	\$68.50	60.5%
2000	4,836,060	13,249	1.8%	2,988,350	3.9%	\$96.28	0.5%	\$59.49	2.6%	\$66.41	61.8%
2001	4,835,890	13,249	0.0%	3,101,397	3.8%	\$96.59	0.3%	\$61.95	4.1%	\$67.05	64.1%
2002	4,779,863	13,096	-1.2%	3,151,130	1.6%	\$98.58	2.1%	\$64.99	4.9%	\$68.28	65.9%
2003	4,799,223	13,149	-3.4%	3,163,946	-3.3%	\$103.02	5.0%	\$67.92	5.1%	\$69.95	65.9%
2004	4,832,758	13,240	0.7%	3,360,921	6.2%	\$108.70	5.5%	\$75.60	11.3%	\$75.60	69.5%
Actual Average 1988-2004			4.6%		4.4%		2.6%		2.6%	\$75.83	64.4%
FORECAST											
2005	4,926,710	13,498	1.9%	3,428,139	2.0%	\$113.05	4.0%	\$78.66	4.1%	\$76.82	69.6%
2006	5,112,617	14,007	3.8%	3,530,984	3.0%	\$118.70	5.0%	\$81.98	4.2%	\$78.11	69.1%
2007	5,302,810	14,528	3.7%	3,689,878	4.5%	\$125.83	6.0%	\$87.55	6.8%	\$81.54	69.6%
Average 2005 - 2007			3.1%		3.2%		5.0%		5.0%	\$78.82	69.4%
2008	5,620,978	15,400	6.0%	3,929,720	6.5%	\$132.12	5.0%	\$92.37	5.5%	\$84.09	69.9%
2009	5,902,027	16,170	5.0%	4,145,855	5.5%	\$137.40	4.0%	\$96.52	4.5%	\$85.89	70.2%
2010	6,108,598	16,736	3.5%	4,332,418	4.5%	\$141.52	3.0%	\$100.37	4.0%	\$87.32	70.9%
2011	6,261,313	17,154	2.5%	4,419,066	2.0%	\$145.06	2.5%	\$102.38	2.0%	\$87.06	70.6%
2012	6,386,539	17,497	2.0%	4,463,257	1.0%	\$146.51	1.0%	\$102.39	0.0%	\$85.11	69.9%
2013	6,482,337	17,760	1.5%	4,485,573	0.5%	\$147.25	0.5%	\$101.89	-0.5%	\$82.79	69.2%
Average 2008 - 2013			3.4%		3.3%		2.7%		2.6%	\$85.38	70.1%
Total Forecast Average			3.3%		3.3%		3.4%		3.4%	\$83.19	69.9%

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

Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series



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



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

HOBART**Background**

The Hobart hotel, motel and serviced apartment market is relatively small, with approximately 80% of rooms located in and around the City Centre. The market is distinctly seasonal, reaching peak occupancies in the warmer December and March quarters. A summary of the Greater Hobart Tourism Regional hotel, motel and serviced apartment stock for the December 2004 quarter is:

Greater Hobart Tourism Region	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
Hotels	12	1,062	72.1%	\$122.15	\$88.07
Motels	23	779	70.0%	\$87.66	\$61.36
Serviced Apartments	11	571	78.8%	\$125.87	\$99.18
Total	46	2,412	73.0%	\$112.44	\$82.08

Source: Australian Bureau of Statistics

Analysis of the Hobart Tourism Region by standard of accommodation for the December 2004 quarter is:

Hobart Tourism Region – December Quarter 2004

Star Grading	Establishments	Rooms	Room Revenue \$000's	Occupancy	ARR	Yield
4-star	21	1,505	\$13,248	77.9%	\$122.90	\$95.74
Other	25	907	\$4,966	65.0%	\$91.63	\$59.52
Total	46	2,412	\$18,215	73.0%	\$112.44	\$82.08

Source: Australian Bureau of Statistics / D. A. Dransfield. Italics have been calculated

Note: Data has not been published by the ABS relating to the one establishment in Hobart which is 5-star and the 22 establishments which are 3-star.

2004 in Review

In 2004, Hobart hotels performed above expectations recording yield growth of 7.0% compared to our forecast increase of 4.3%. Supply increases of 2.9% were inline with forecast and fully absorbed by a 5.0% increase in demand which was slightly above expectations. This assisted rate growth of 4.9%, above our 3.0% forecast and was the major contributor to the yield growth. Hobart recorded yield growth in all four quarters in 2004 in all accommodation sources. With the boost in Jetstar and Virgin Blue flights in 2004, Hobart continues to attract increased leisure visitors.

In the six months to June 2005 Hobart recorded strong yield growth of 7.9%, compared to the *Hotel Futures 2004* forecast for 2005 of 4.3% growth. Occupancy rates continue to reach record levels and should approach 70% for the first time in 2005/06.

Supply

In 2004 Hobart room stock increased by 68 rooms, a net 2.9%. Currently there are 31 rooms under construction due for completion in 2005, representing a net increase of 1.3%, a slight downgrade on last year's forecast with the allowance for low profile new project rooms not materialising. The trend in Hobart for new developments appears to be small boutique high end accommodation products which should see average rates trend upwards over time.

Currently there are proposals for approximately 200 rooms to come on line in 2006/07. We have allowed a 50% probability that these projects will go ahead.

The next supply cycle has already commenced planning with new supply expected to come on line from 2007. The trigger point appears to be real room yields of approximately \$75. Average supply increases of 2.2% (50 rooms per year) are expected over the forecast period, a slight decrease on the 2.3% estimated last year with reduced supply expectations in 2005/06.

Demand

Hobart hotels have a high domestic content of approximately 85% (decreased from 91% in 2002). The Hobart market has performed strongly year to date with room yields increasing by 7.9% following the significant growth experienced over the last two years. Growth rates should return to typical market levels as the base has lifted. Hobart is expected to stabilise at the higher base as there are no new major growth triggers such as recent events

including Spirit of Tasmania, an introduction of direct flights from Jetstar and Virgin Blue. The proposed air link between Hobart and Casey Station, Antarctica is expected to assist demand growth in the short term, but not to the levels experienced in 2003 and 2004.

The TRA forecast growth in domestic visitor nights in Tasmania of 0.5% in the period to 2014 (previously 1.2% growth) with all sectors expected to decline 3.3% in 2005 (previously 1.2% growth forecast). The TRA also predict domestic travel over the long term will remain relatively flat, constrained by competition from outbound travel and other areas of personal expenditure.

Combining TRA forecasts for international visitor nights to Australia and domestic visitor nights in Tasmania the weighted average growth in visitor nights in Tasmania is expected to average 0.9% (previously 1.3%) over the forecast period, lower than the national average of 1.9%.

We expect higher growth in Hobart hotels averaging 2.1% over the forecast period and in line with last year's forecast.

Conclusion

Hobart is now in a period of moderate growth after exceptional growth in both 2003 and 2004. Short term growth to 2007 is forecast to average 4.8%, slowing from 2008 when new supply enters the market and demand growth begins to soften from a high base after six years of increases. The Hobart market is forecast to reach its cyclical peak in 2007/2008, slightly ahead of the Australian market in 2009 and indicative of the above market performance seen in recent years.

Yield growth forecast for 2005 of 6.8% has been upgraded from our *Hotel Futures 2004* forecast of 4.2% as the market continues to show signs of strong rate growth with minimal new supply impact.

Long term nominal yield growth is expected to average 1.8%, representing a 5.1% upgrade in average real yields compared to *Hotel Futures 2004* reflecting the higher than expected 2003 and 2004 bases.

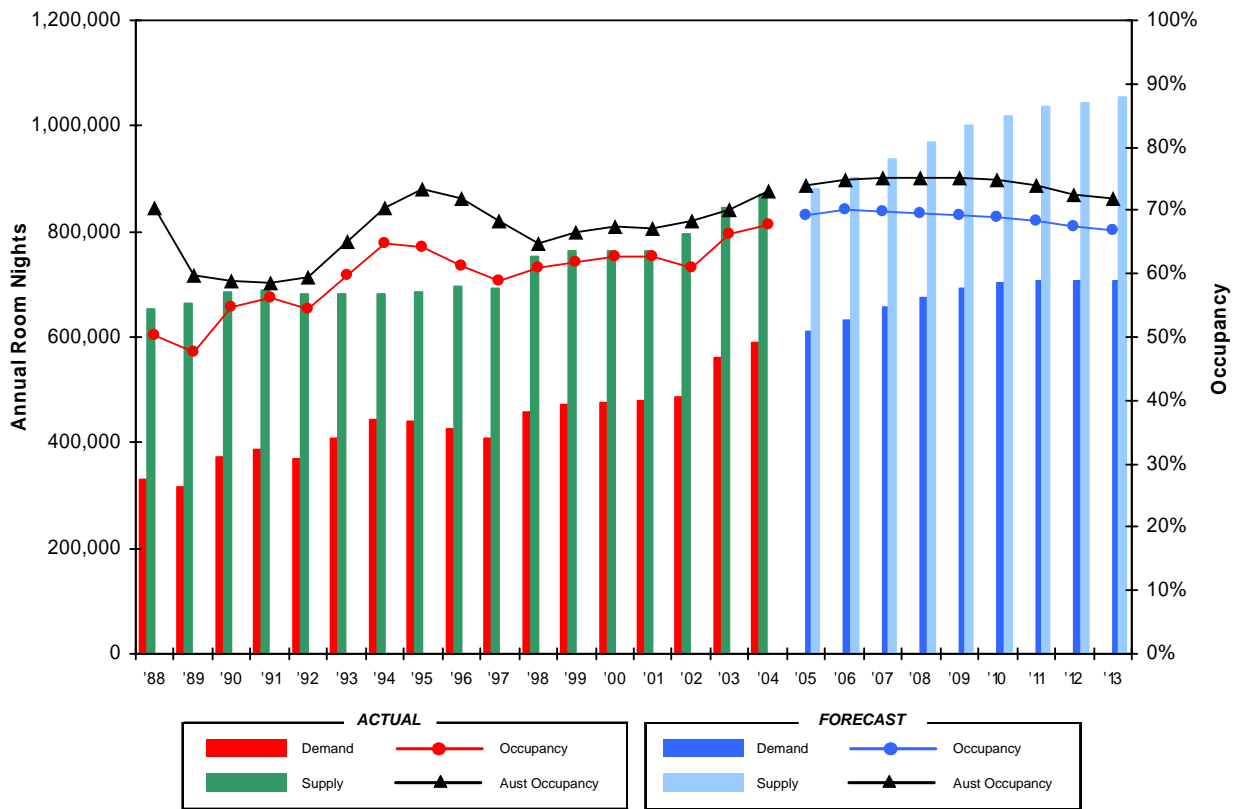
Hobart – Tourism Region

Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
1997	691,472	1,894	-0.7%	407,972	-4.3%	\$89.18	8.5%	\$52.62	4.7%	\$64.26	59.0%
1998	753,797	2,065	9.0%	458,473	12.4%	\$91.51	2.6%	\$55.66	5.8%	\$66.92	60.8%
1999	763,757	2,092	1.3%	471,385	2.8%	\$89.45	-2.3%	\$55.21	-0.8%	\$65.20	61.7%
2000	762,898	2,090	-0.1%	477,497	1.3%	\$93.60	4.6%	\$58.58	6.1%	\$65.39	62.6%
2001	763,270	2,091	0.0%	478,500	0.2%	\$94.43	0.9%	\$59.20	1.1%	\$64.08	62.7%
2002	795,459	2,179	4.2%	485,491	1.5%	\$93.28	-1.2%	\$56.93	-3.8%	\$59.81	61.0%
2003	845,567	2,317	6.3%	560,940	15.5%	\$102.20	9.6%	\$67.80	19.1%	\$69.83	66.3%
2004	870,399	2,385	2.9%	589,008	5.0%	\$107.20	4.9%	\$72.54	7.0%	\$72.54	67.7%
Actual Average 1988-2004			1.8%		3.9%		3.2%		5.3%	\$62.22	59.7%
FORECAST											
2005	881,714	2,416	1.3%	609,623	3.5%	\$112.02	4.5%	\$77.45	6.8%	\$75.64	69.1%
2006	900,521	2,467	2.1%	630,960	3.5%	\$115.95	3.5%	\$81.24	4.9%	\$77.40	70.1%
2007	937,924	2,570	4.2%	656,198	4.0%	\$119.42	3.0%	\$83.55	2.8%	\$77.81	70.0%
Average 2005 - 2007			2.5%		3.7%		3.7%		4.8%	\$76.95	69.7%
2008	970,752	2,660	3.5%	675,884	3.0%	\$122.41	2.5%	\$85.23	2.0%	\$77.59	69.6%
2009	999,874	2,739	3.0%	692,782	2.5%	\$124.86	2.0%	\$86.51	1.5%	\$76.99	69.3%
2010	1,019,872	2,794	2.0%	703,173	1.5%	\$126.11	1.0%	\$86.95	0.5%	\$75.64	68.9%
2011	1,035,170	2,836	1.5%	706,689	0.5%	\$126.74	0.5%	\$86.52	-0.5%	\$73.57	68.3%
2012	1,045,522	2,864	1.0%	706,689	0.0%	\$126.74	0.0%	\$85.66	-1.0%	\$71.21	67.6%
2013	1,055,977	2,893	1.0%	706,689	0.0%	\$126.74	0.0%	\$84.82	-1.0%	\$68.92	66.9%
Average 2008 - 2013			2.0%		1.3%		1.0%		0.3%	\$73.98	68.4%
Total Forecast Average			2.2%		2.1%		1.9%		1.8%	\$74.97	68.9%

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

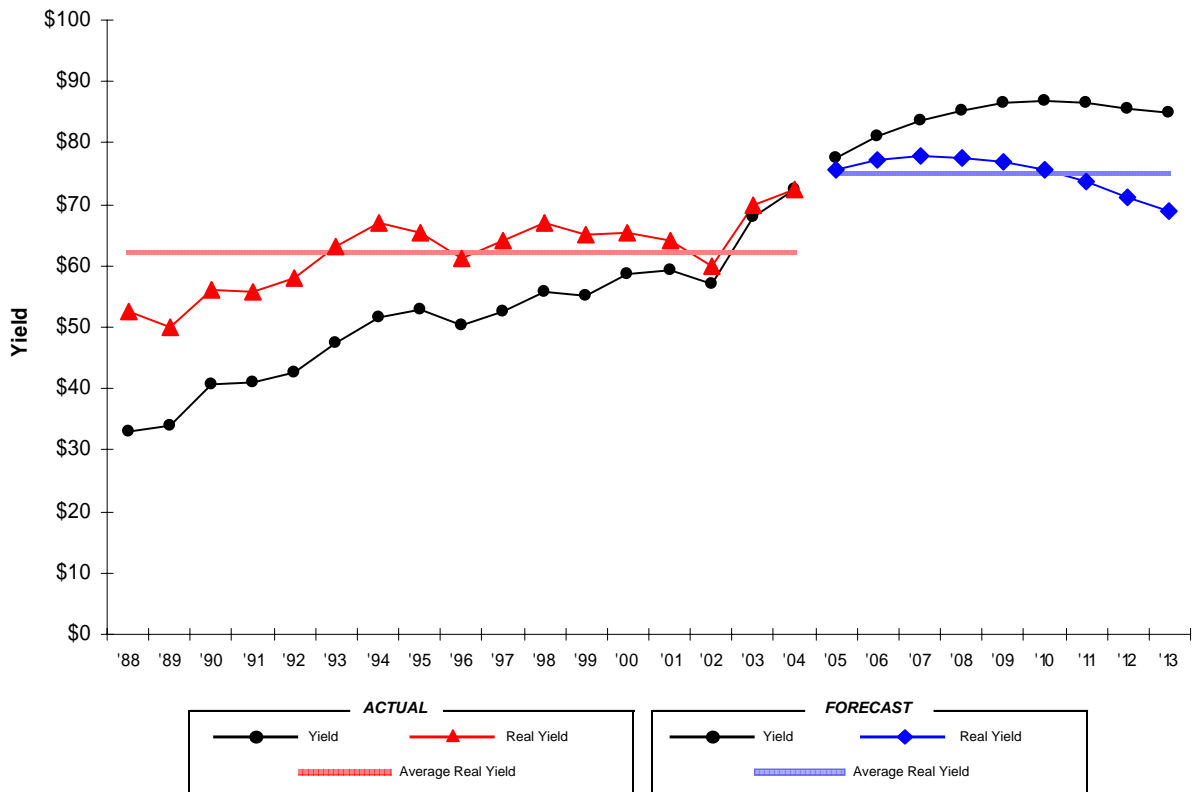
Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series

Hobart - Tourism Region Demand, Supply and Occupancy



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

Hobart - Tourism Region Room Yields 1988 - 2013



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

MELBOURNE**Background**

The Melbourne City hotel market includes the Inner, Remainder and Southbank Docklands (IRS) areas. The larger Melbourne Tourism Region includes surrounding suburbs.

An overview of room stock and key performance indicators for the December 2004 quarter is:-

Melbourne City Hotels Location	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
Inner City	58	8,359	76.6%	129.58	\$99.26
Remainder	36	2,756	73.8%	121.51	\$89.68
Southbank – Docklands	11	2,560	78.3%	170.90	\$133.81
Inner, Remainder and Southbank Total	105	13675	76.3%	135.95	\$103.73
Melbourne Tourism Region (includes City)	268	21,661	71.2%	\$130.00	\$92.56

Source: Australian Bureau of Statistics

Analysis of the Melbourne Tourism Region by standard of accommodation for the December 2004 quarter is:-

Melbourne Tourism Region – December Quarter 2004

Star Grading	Establishments	Rooms	Room Revenue \$000's	Occupancy	ARR	Yield
5-star	18	4,342	\$57,802	79.7%	\$181.60	\$144.73
4-star	141	11,557	\$95,086	71.7%	\$124.67	\$89.39
3-star	91	4,950	\$25,640	64.8%	\$86.86	\$56.28
Other	18	812	\$3,275	58.0%	\$75.65	\$43.85
Total	268	21,661	\$181,804	71.2%	\$128.08	\$91.19

Source: Australian Bureau of Statistics / D. A. Dransfield. Italics have been calculated

2004 in Review

In 2004, Melbourne Hotels performed better than expected with yields increasing 3.3% compared to a forecast decline of 4.3%. Strong demand growth of 10% exceeded forecast growth of 3.0% and easily outstripped supply increases of 5.4%, resulting in occupancies of 73.4%. Rates declined by 1.1%, the seventh successive year of poor rate performance. There remains rate opportunity heading into the Commonwealth Games in 2006 with the market well below historic rate levels when the current supply cycle commenced in 1998. The market yield growth is mostly attributable to the 4 and 5 star market performing strongly with growth of 4.3%. Serviced apartments recorded lower growth of 3.7% as supply finally slowed after 6 years of substantial increases.

For the six months to June 2005 room yields recorded growth of 10.7%, driven by a 8.9% increase in demand which, with static supply, allowed occupancies to increase to 76.6%. Despite the continuing good demand conditions in Melbourne, hoteliers have remained cautious with average rates only increasing 2.8%.

Supply

In 2004 Melbourne's annual room supply recorded an increase of 5.4%, in line with our forecast of 4.4%. Actual hotel openings added approximately 630 rooms.

There are approximately 560 rooms currently under construction forecast to come on line from 2005 to 2007. Net supply over this period is forecast to increase 7.2%. Occupancies are forecast to reach record levels of 80% in 2006 as a consequence of the Commonwealth Games and with limited new supply. The current supply cycle appears to have ceased with no further substantial new projects expected to commence until approximately 2010, the trigger point being real room yields of approximately \$110. Despite strong occupancy, rate movement is required. This is a one year delay from the previous years forecast.

Demand

Melbourne hotels have a high international content of 31% (consistent with 2002). Melbourne's improvement as a major convention market appears to have reversed in 2004 with an 18.8% decline in this sector. Melbourne's attractiveness as a tourism destination increased 19.2% as a result of improved affordable access with the introduction of Jetstar and increased domestic and international activity recorded by other major airlines.

TRA forecast growth in domestic visitor nights in Victoria of 0.5% in the period to 2014 (previously 1.0%) with all sectors expected to decline 3.3% in 2005 (previously 1.2% growth forecast).

Combining TRA forecasts for international visitor nights to Australia and domestic visitor nights in Victoria the weighted average growth in visitor nights in Melbourne hotels is expected to average 2.0% (previously 2.3%) over the forecast period, in line with the national average of 1.9%. We expect higher long term growth in Melbourne city hotels averaging 4.6% in the period to 2013 which takes regards of current demand trends and the likely impact of the Commonwealth Games, together with the increased direct flights to Melbourne in the short term.

Growth expectations in 2005 have been upgraded to 6.0% from last years 3.0% forecast given year to date performance and the increasing leisure attractiveness of Melbourne.

Conclusion

2004 represented only the second year of yield growth since 1998 as a consequence of the market being over supplied. Volume has been built on discounted rate. Average rates are approximately \$15 behind where they should be given the stage in the occupancy cycle, which positions the market well to benefit from the Commonwealth Games with early indicators reporting hoteliers will increase rates by 100% to 200% during the Games. There remains risk that after the Games hoteliers will resort to discounting despite current positive indicators. Long term rate increases are expected to average 3% over the forecast period with a substantial 8% increase in rates during 2006 offset by a post Games decline of 1% in the following year.

The forecast yield growth of 7.0% for 2005 represents an upgrade from the 1.9% forecast last year, indicative of the markets strong demand growth, limited new supply and rate growth opportunities following seven years where average rate declined by 0.9%.

Long term nominal yield growth is expected to average 3.2%, representing a 5.4% upgrade in average real yield on last years forecast. The short to medium term forecast has been substantially upgraded from last years forecast following better than expected demand conditions and continuing rate opportunities. The tail end of the forecast has been downgraded with substantial new supply now forecast to come on line one year earlier.

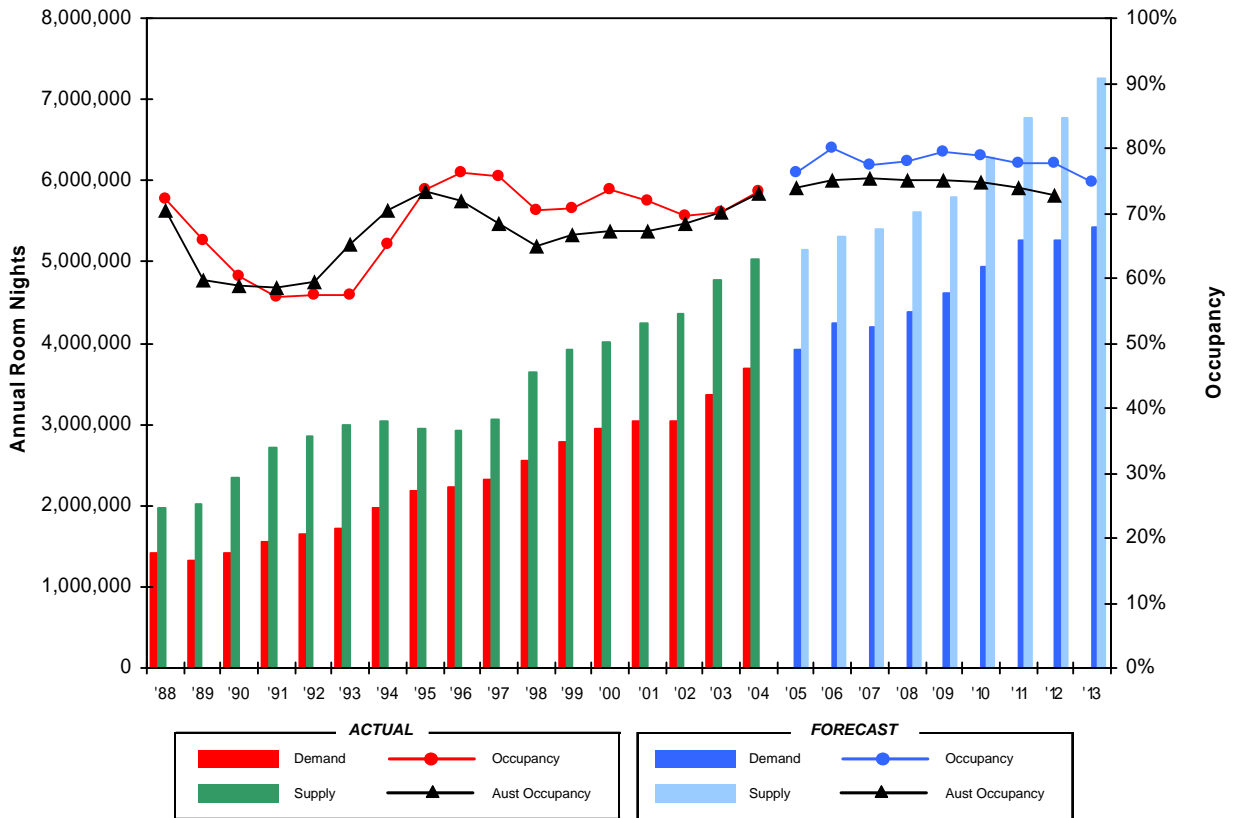
Melbourne – Inner and Remainder

Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
1997	3,061,012	8,386	5.1%	2,312,835	4.1%	\$143.06	8.5%	\$108.09	7.4%	\$132.02	75.6%
1998	3,635,620	9,961	18.8%	2,557,635	10.6%	\$143.59	0.4%	\$101.02	-6.5%	\$121.45	70.3%
1999	3,921,304	10,743	7.9%	2,773,233	8.4%	\$142.33	-0.9%	\$100.66	-0.4%	\$118.88	70.7%
2000	4,002,725	10,966	2.1%	2,947,731	6.3%	\$141.77	-0.4%	\$104.40	3.7%	\$116.54	73.6%
2001	4,231,945	11,594	5.7%	3,047,070	3.4%	\$142.14	0.3%	\$102.34	-2.0%	\$110.78	72.0%
2002	4,362,218	11,951	3.1%	3,035,681	-0.4%	\$138.04	-2.9%	\$96.06	-6.1%	\$100.92	69.6%
2003	4,783,563	13,106	5.4%	3,360,842	5.9%	\$135.97	-0.9%	\$95.53	-0.4%	\$98.40	70.3%
2004	5,039,690	13,807	5.4%	3,697,962	10.0%	\$134.43	-1.1%	\$98.64	3.3%	\$98.64	73.4%
Actual Average 1988-2004			5.9%		6.0%		2.2%		2.5%	\$104.93	68.3%
FORECAST											
2005	5,141,768	14,087	2.0%	3,919,840	6.0%	\$138.46	3.0%	\$105.56	7.0%	\$103.08	76.2%
2006	5,321,230	14,579	3.5%	4,253,026	8.5%	\$149.54	8.0%	\$119.52	13.2%	\$113.87	79.9%
2007	5,411,308	14,826	1.7%	4,189,231	-1.5%	\$148.04	-1.0%	\$114.61	-4.1%	\$106.74	77.4%
Average 2005 - 2007			2.4%		4.3%		3.3%		5.4%	\$107.90	77.9%
2008	5,612,062	15,376	3.7%	4,377,746	4.5%	\$151.00	2.0%	\$117.79	2.8%	\$107.24	78.0%
2009	5,808,620	15,914	3.5%	4,618,522	5.5%	\$159.31	5.5%	\$126.67	7.5%	\$112.72	79.5%
2010	6,273,310	17,187	8.0%	4,941,819	7.0%	\$168.87	6.0%	\$133.03	5.0%	\$115.72	78.8%
2011	6,775,175	18,562	8.0%	5,263,037	6.5%	\$172.24	2.0%	\$133.80	0.6%	\$113.78	77.7%
2012	7,249,437	19,861	7.0%	5,420,928	3.0%	\$173.97	1.0%	\$130.09	-2.8%	\$108.13	74.8%
2013	7,466,920	20,457	3.0%	5,529,347	2.0%	\$174.84	0.5%	\$129.47	-0.5%	\$105.20	74.1%
Average 2008 - 2013			5.5%		4.8%		2.8%		2.1%	\$110.47	77.1%
Total Forecast Average			4.5%		4.6%		3.0%		3.2%	\$109.61	77.4%

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

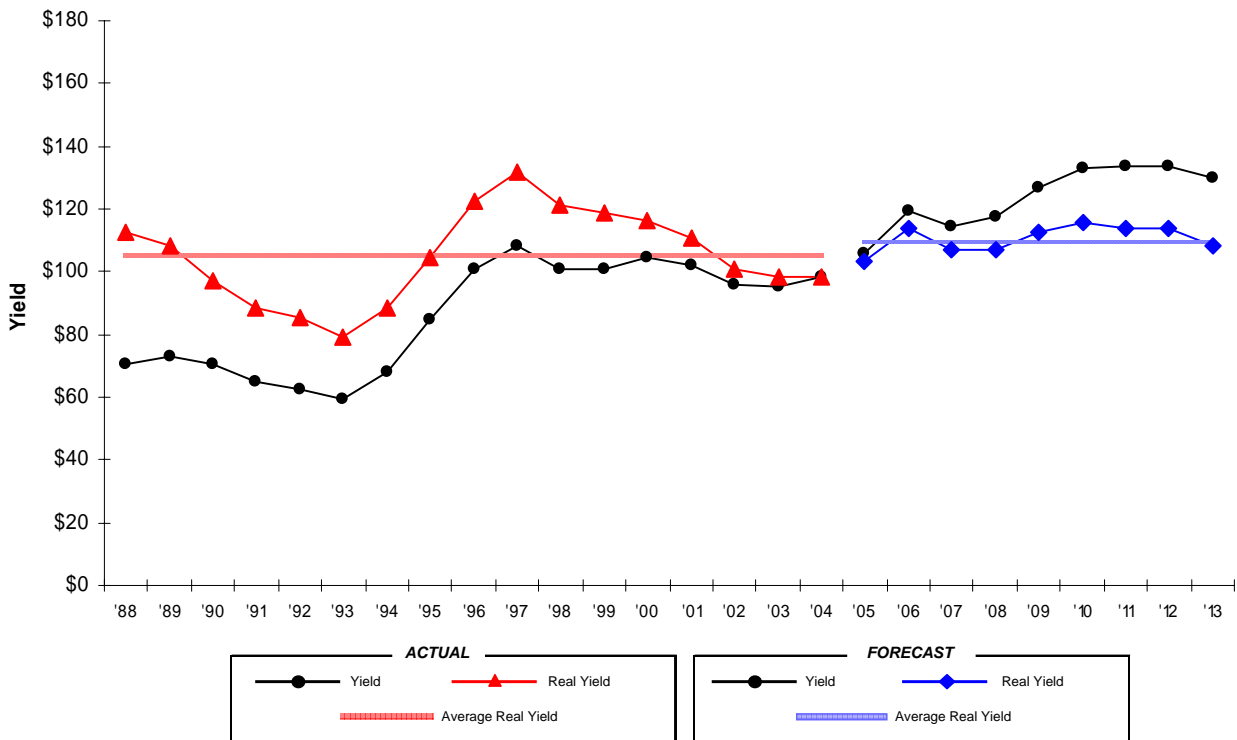
Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series

Melbourne – Inner & Remainder Demand, Supply and Occupancy



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

Melbourne - Inner and Remainder Real Room Yields 1988 - 2013



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

PERTH**Background**

The Perth City hotel, motel and serviced apartment market includes the Inner City and Remainder areas. The hotels located in the Remainder are generally of a higher standard than the hotels in the Inner City area. An overview of room stock and key performance indicators for the December 2004 quarter is:-

Perth City Hotels Location	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
Inner City	20	2,571	80.9%	\$94.81	\$76.70
Remainder	27	3,251	76.4%	\$114.28	\$87.31
Other	73	4,916	60.0%	\$115.09	\$69.07
Perth Tourism Region (includes City)	120	10,738	70.1%	\$109.21	\$76.55

Source: Australian Bureau of Statistics

Analysis of the Perth Tourism Region by standard of accommodation for the December 2004 quarter is:-

Perth Tourism Region – December Quarter 2004

Star Grading	Establishments	Rooms	Room Revenue \$000's	Occupancy	ARR	Yield
5-star	8	n.p.	n.p.	n.p.	n.p.	n.p.
4-star	48	5,151	\$38,670	74.6%	\$109.45	\$81.65
3-star	47	3,094	\$13,630	59.6%	\$80.41	\$47.93
Other	17	2,493	\$23,194	73.5%	\$137.65	<i>\$101.13</i>
Perth Tourism Region	120	10,738	\$75,494	70.1%	\$109.21	\$76.55

Source: Australian Bureau of Statistics / D. A. Dransfield. n.p. - not published. Italics have been calculated

2004 in Review

Perth Hotels performed well in 2004 with yields increasing by 4.1%, in line with our full year forecast. The market benefited from strong demand growth of 7.1% against our forecast of 5.5% and was particularly strong in the first half of the year with demand increasing 9.6%. Supply growth of 4.5% was below our forecast of 5.3% due to delays from expected openings. Despite the favourable market conditions, hoteliers failed to take full advantage with average room rates increasing only 1.6%, well below our expectation of 4% growth.

For the six months to June 2005 Perth hotels are performing as expected with yields increasing by 8.6% against our *Hotel Futures 2004* forecast of 8.4%. Static demand and declining supply of 3.4% assisted average rate growth of 5.1%. The strength of these results must be treated with caution as supply over the full year is expected to grow by 2.9%, mostly at the back end of 2005. As supply comes online, yield growth is expected to reduce back towards forecast levels of 5.1%.

Supply

In 2004, Perth's room stock increased by 4.5%, adding approximately 250 rooms. This was below our forecast of 5.3% as a result of delays in expected openings which should materialise in 2005.

There are a total of 123 new rooms currently under construction and forecast to come on line through late 2005 and 2006. We have allowed for a further 100 rooms to come on line during this period, creating a 6.2% increase to net room supply by 2006. There are proposals for an additional 408 rooms. We have allowed only a 20% probability that these projects go ahead as many have been postponed or remained inactive for some time. We believe this is primarily a result of a long period with occupancy rates below 70% only recently overcome. Real yields remain well below historic peaks and although the recovery has commenced, it is not expected to drive planning for the next supply cycle until 2007 with substantial new supply not expected to be complete until 2009. The trigger point for new supply, being real room yields of approximately \$85 in 2007. Average forecast supply increases are 3.2%, an increase of 200 rooms on *Hotel Futures 2004*.

Demand

Perth hotels have a moderate domestic content of approximately 64% (increased from 62% in 2002). Demand growth has averaged 4.5% since 2000, higher than the Australian market average of 3.4%.

The TRA forecast growth in domestic visitor nights in Western Australia of 0.5% in the period to 2014 (previously 1.2% growth forecast) with all sectors expected to decline by 3.3% in 2005 (previously 1.2% growth forecast).

Combining TRA forecasts for international visitor nights to Australia and domestic visitor nights in Western Australia the weighted average growth in visitor nights in Perth hotels is expected to average 1.9% (previously 1.8%) over the forecast period, in line with the national average of 1.9%.

We expect higher short-term growth in Perth City hotels averaging 4.5% in the period to 2007, driven by the planned commencement of direct flights to Perth by Jetstar in late 2005 and increased domestic and international capacity into the region by other carriers. Perth's tourism profile is expected to receive a boost through a marketing initiative aimed at improving Perth's global profile and the establishment of the Western Force Rugby Union team which is expected to create greater awareness of Perth in the Eastern seaboard states.

Conclusion

Since 1997 rates have declined by an average of 1.5% per annum, with only 2003 recording meaningful growth of 5.6%. With demand growing consistently over the last three years and new supply increases not substantial, our forecast anticipates strong rate growth averaging 6% to the commencement of the next supply cycle in 2009. Yield growth for 2005 of 5.1% is downgraded from last years forecast of 8.4% with softer than expected demand year to date. Perth hotels are expected to reach their cyclic peak in 2009/10 in line with the total Australian market. Long term nominal yield growth is expected to average 4.2%, representing a 3% downgrade in average real yields from *Hotel Futures 2004*.

Perth – Inner and Remainder

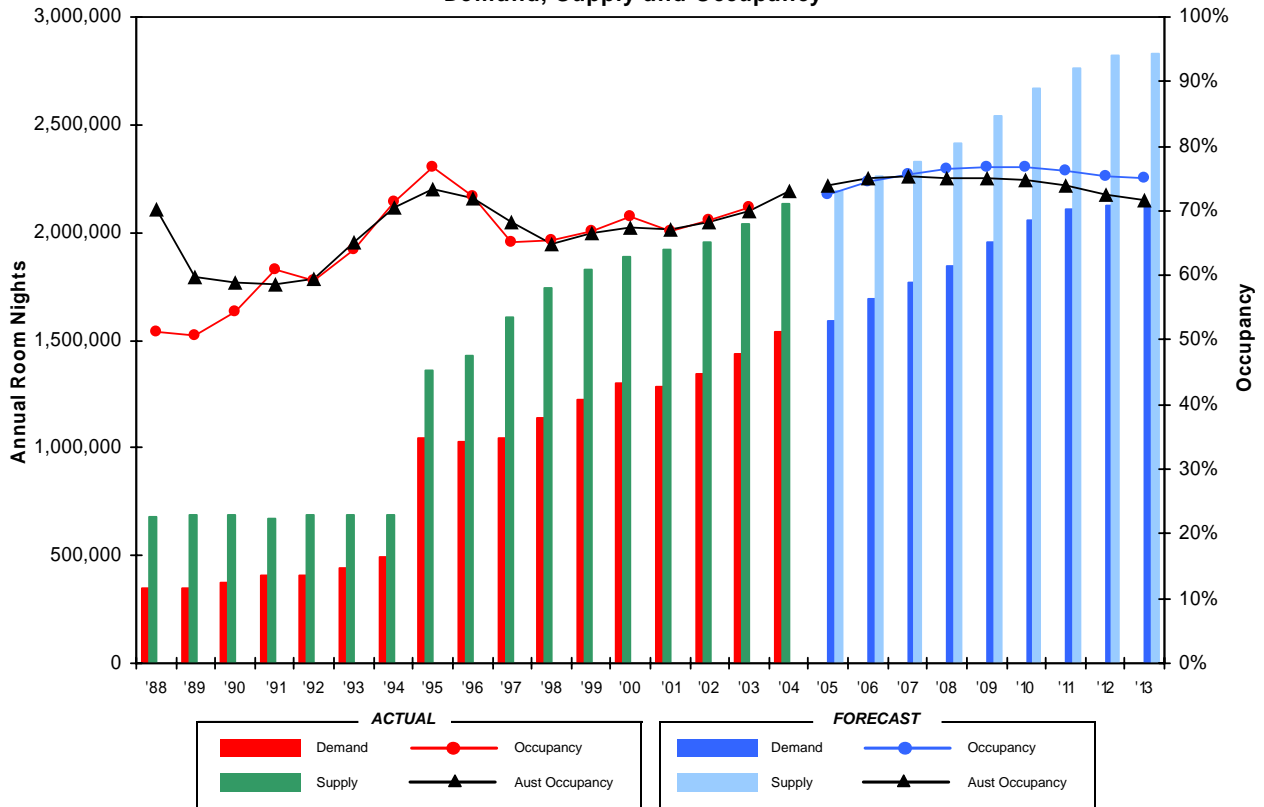
Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
1997	1,605,709	4,399	12.5%	1,045,985	1.5%	\$112.86	0.1%	\$73.52	-9.6%	\$89.79	65.1%
1998	1,738,089	4,762	8.2%	1,135,730	8.6%	\$107.81	-4.5%	\$70.45	-4.2%	\$84.70	65.3%
1999	1,831,280	5,017	5.4%	1,225,199	7.9%	\$102.66	-4.8%	\$68.69	-2.5%	\$81.12	62.9%
2000	1,886,804	5,169	3.0%	1,303,903	6.4%	\$99.55	-3.0%	\$68.80	0.2%	\$76.79	69.1%
2001	1,921,185	5,264	1.8%	1,286,129	-1.4%	\$98.85	-0.7%	\$66.17	-3.8%	\$71.63	66.9%
2002	1,958,483	5,366	1.9%	1,342,269	4.4%	\$94.10	-4.8%	\$64.49	-2.5%	\$67.75	68.5%
2003	2,038,323	5,584	2.7%	1,438,378	5.8%	\$99.10	5.6%	\$69.93	8.7%	\$72.03	70.6%
2004	2,129,256	5,834	4.5%	1,539,787	7.1%	\$100.66	1.6%	\$72.79	4.1%	\$72.79	72.3%
Actual Average 1988-2004			3.1%		5.0%		1.9%		3.9%	\$71.96	64.8%
FORECAST											
2005	2,190,984	6,003	2.9%	1,585,981	3.0%	\$105.69	5.0%	\$76.51	5.1%	\$74.71	72.4%
2006	2,263,550	6,202	3.3%	1,689,069	6.5%	\$112.03	6.0%	\$83.60	9.3%	\$79.65	74.6%
2007	2,330,945	6,386	3.0%	1,765,077	4.5%	\$119.87	7.0%	\$90.77	8.6%	\$84.54	75.7%
Average 2005 - 2007			3.1%		4.7%		6.0%		7.7%	\$79.63	74.2%
2008	2,409,619	6,602	3.4%	1,844,506	4.5%	\$128.26	7.0%	\$98.18	8.2%	\$89.38	76.5%
2009	2,542,148	6,965	5.5%	1,955,176	6.0%	\$134.68	5.0%	\$103.58	5.5%	\$92.18	76.9%
2010	2,669,255	7,313	5.0%	2,052,935	5.0%	\$138.72	3.0%	\$106.69	3.0%	\$92.81	76.9%
2011	2,762,679	7,569	3.5%	2,104,259	2.5%	\$140.11	1.0%	\$106.71	0.0%	\$90.74	76.2%
2012	2,817,933	7,720	2.0%	2,125,301	1.0%	\$140.11	0.0%	\$105.67	-1.0%	\$87.83	75.4%
2013	2,832,022	7,759	0.5%	2,125,301	0.0%	\$140.11	0.0%	\$105.14	-0.5%	\$85.43	75.0%
Average 2008 - 2013			3.3%		3.2%		2.7%		2.5%	\$89.73	76.2%
Total Forecast Average			3.2%		3.7%		3.8%		4.2%	\$86.36	75.5%

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

Note: 1988 to 1994 Perth Inner, 1995 onwards Perth Inner & Remainder

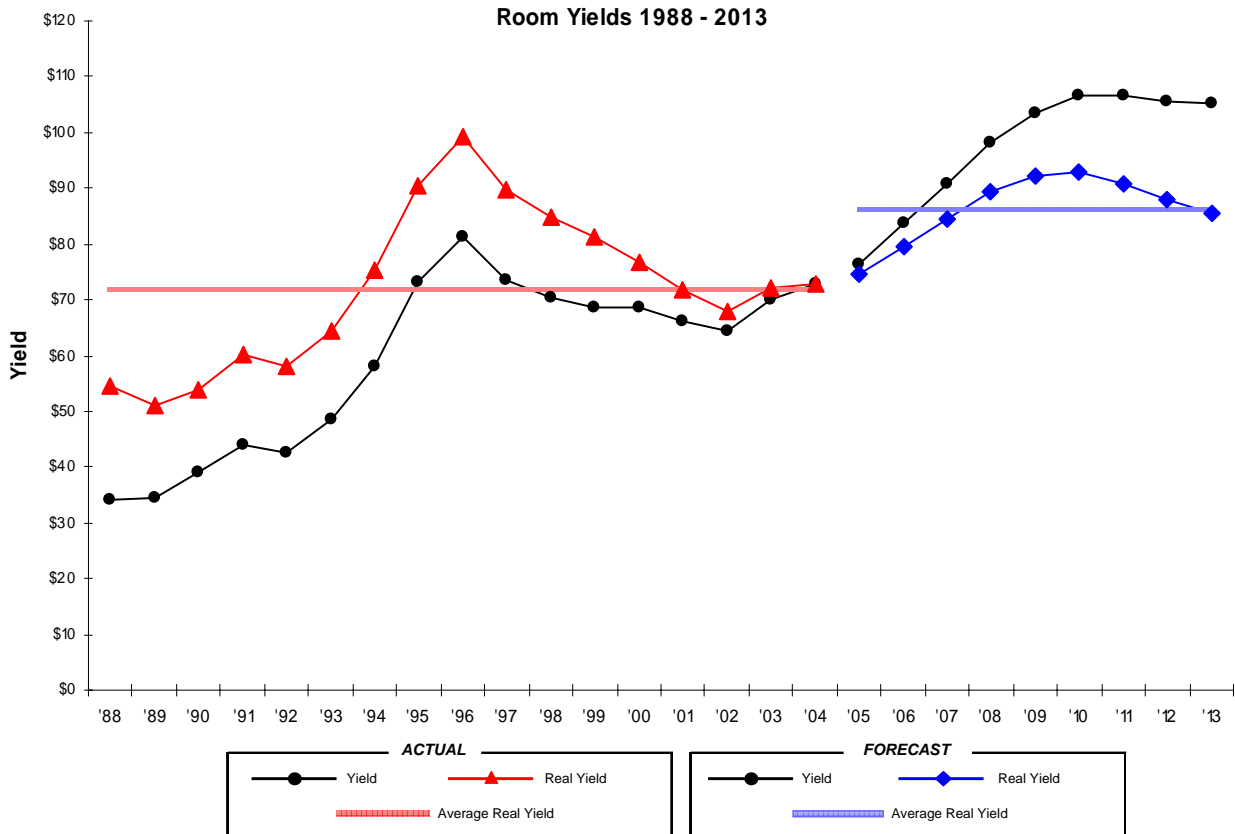
Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series

**Perth – Inner & Remainder
Demand, Supply and Occupancy**



Source: Australian Bureau of Statistics / D. A. Dransfield & Co
 Note: 1988 to 1995 Perth Inner, 1995 onwards Perth Inner & Remainder

**Perth - Inner & Remainder
Room Yields 1988 - 2013**



Source: Australian Bureau of Statistics / D. A. Dransfield & Co
 Note: 1988 to 1995 Perth Inner, 1996 & Forecast Perth Inner & Remainder

SYDNEY**Background**

The Sydney hotel market includes the City Region and the larger Sydney Tourism Region. The ABS also divides the City Region into three sub-regions: the Inner, Remainder and South (IRS). An overview of room stock and key performance indicators for the December 2004 quarter is:-

Sydney City Hotels Location	Establishments	Rooms	December Quarter 2004		
			Occupancy	ARR	Yield
Inner City	45	9,141	81.0%	\$192.49	\$155.91
Remainder	69	9,159	83.9%	\$125.28	\$105.11
South Sydney	5	203	83.6%	\$133.31	\$111.45
Sydney City Region	114	18,300	82.5%	\$158.27	\$130.57
Sydney Tourism Region (includes City)	293	30,858	77.2%	\$143.42	\$110.72

Source: Australian Bureau of Statistics

Analysis of the Sydney Tourism Region by standard of accommodation for the December 2004 quarter is: -

Sydney Tourism Region – December Quarter 2004

Star Grading	Establishments	Rooms	Room Revenue \$000's	Occupancy	ARR	Yield
5-star	24	6,619	\$104,305	79.8%	\$214.53	\$171.20
4 star	115	14,980	\$154,558	81.8%	\$137.18	\$112.21
3-star	111	7,444	\$45,898	69.7%	\$96.16	\$67.03
Other	43	1,815	\$9,396	60.1%	\$93.68	\$56.27
Total	293	30,858	\$314,157	77.2%	\$143.42	\$110.72

Source: Australian Bureau of Statistics / D. A. Dransfield. Italics have been calculated

2004 in Review

In 2004, Sydney hotels recorded yield growth of 6.3% (forecast of 8.5%). Static supply and demand growth of 4.6% resulted in market wide occupancies increasing 3 points to 79.1% as expected, however hoteliers remained cautious with only modest growth in average rates of 2.2% (forecast 4%). The first three quarters of 2004 recorded yield growth of 12.1%, however the December quarter recorded a yield decline of 6.6% as a result of comparison with the high corresponding 2003 quarter which included the staging of the Rugby World Cup.

Most market sectors recorded moderate yield growth except serviced apartments which recorded growth of only 0.8%, significantly down on the 8.9% average from 2002 to 2003. The total Sydney market is well placed for growth, however the serviced apartment sector may be struggling to absorb the disproportionate level of new supply that continues to enter the market. In the six months to June 2005, the market experienced yield growth of 6.9%, behind our 10.4% *Hotel Futures 2004* forecast for 2005.

Supply

In 2004 Sydney room stock increased by 120 rooms, a net increase of 0.7% compared to our forecast small decline of 0.3%. The 2002/03 trend of residential conversions has now ended as a result of a cooling off in that market and the Sydney hotel market moving into a growth phase. Supply increases in the short term are forecast to average 3.7% to 2007, increasing thereafter as the new supply cycle commences.

There are currently only 700 rooms under construction forecast to come on line through 2005 and 2006 including 577 rooms from the re-opening of the Sydney Hilton in July 2005. This is offset by the forecast closure of a 150 room hotel. We have allowed for an additional 700 room openings through 2005/2006. The net annual increase to room supply in 2005/2006 will be 7.7%. Despite limited proposals for new developments, Sydney continues to be the most desired investment market, constrained by limited site availability. The most likely new developments will take place along fringe CBD regions such as the East Darling Harbour foreshore when the Stevedoring lease expires in 2006.

The next supply cycle has commenced planning with new supply forecast to be coming on line from 2007/08, the trigger point being the real room yields of approximately \$125 which are currently being experienced. With limited projects currently proposed, the next supply cycle may however be deferred until late 2008. There has been no change to our long term supply forecast from 2004.

Demand

Sydney hotels have a high international content of approximately 42% (decreased from 48% in 2002). The reduced international content is largely the result of the adverse events of 2003 and the Australian dollar's improving exchange rate. In 2004 demand growth returned to Sydney for the first time since the 2000 Olympic year, increasing by 4.6% on the back of a low 2003 base. Due to the high international content, Sydney is susceptible to international events and 2004 proved to be a more stable year with international traveller confidence returning. Sydney will host the 2007 Asia Pacific Economic Cooperation Meeting which is expected to bring over 6,000 delegates.

Moderate growth is forecast over the short and medium term as the market continues its growth phase. The Sydney Hilton is reported to be a major drawcard to the city in 2005/06, with estimates of over \$10M worth of mostly conference related bookings reported for 2005 and the high room cost will offset the reduced capacity that was experienced in the prior two years. Conversely, Federal government spending cuts have reportedly led to a reduction in bids for future conventions in Sydney, which acts as a negative influence on future forecasts.

The TRA forecast growth in domestic visitor nights in New South Wales of 0.5% in the period to 2014 (previously 1.0%) with all sectors expected to decline by 3.3% in 2005 (previously growth of 1.2% forecast). Considering the combined TRA forecasts for international visitor nights to Australia and domestic visitor nights in New South Wales the weighted average growth in visitor nights in Sydney hotels is expected to average 2.6% over the forecast period (previously 2.5%), higher than the national average of 1.9%. We expect higher long-term growth in Sydney city hotels averaging 3.9% in the period to 2013.

Conclusion

Sydney is well placed for high short-term rate growth forecast to average 6.7% to 2007 as the market remains under-supplied with occupancies forecast to exceed 80% in 2005, the first time since 1988. With limited projects currently proposed, site availability restrictions and increased construction costs following the recent residential property boom, the next supply phase is likely to be deferred until early 2008. With stable demand growth forecast, rate growth opportunities will prevail until new supply comes on line. The Sydney market is forecast to peak in 2008, slightly advanced on the Australian average of 2009.

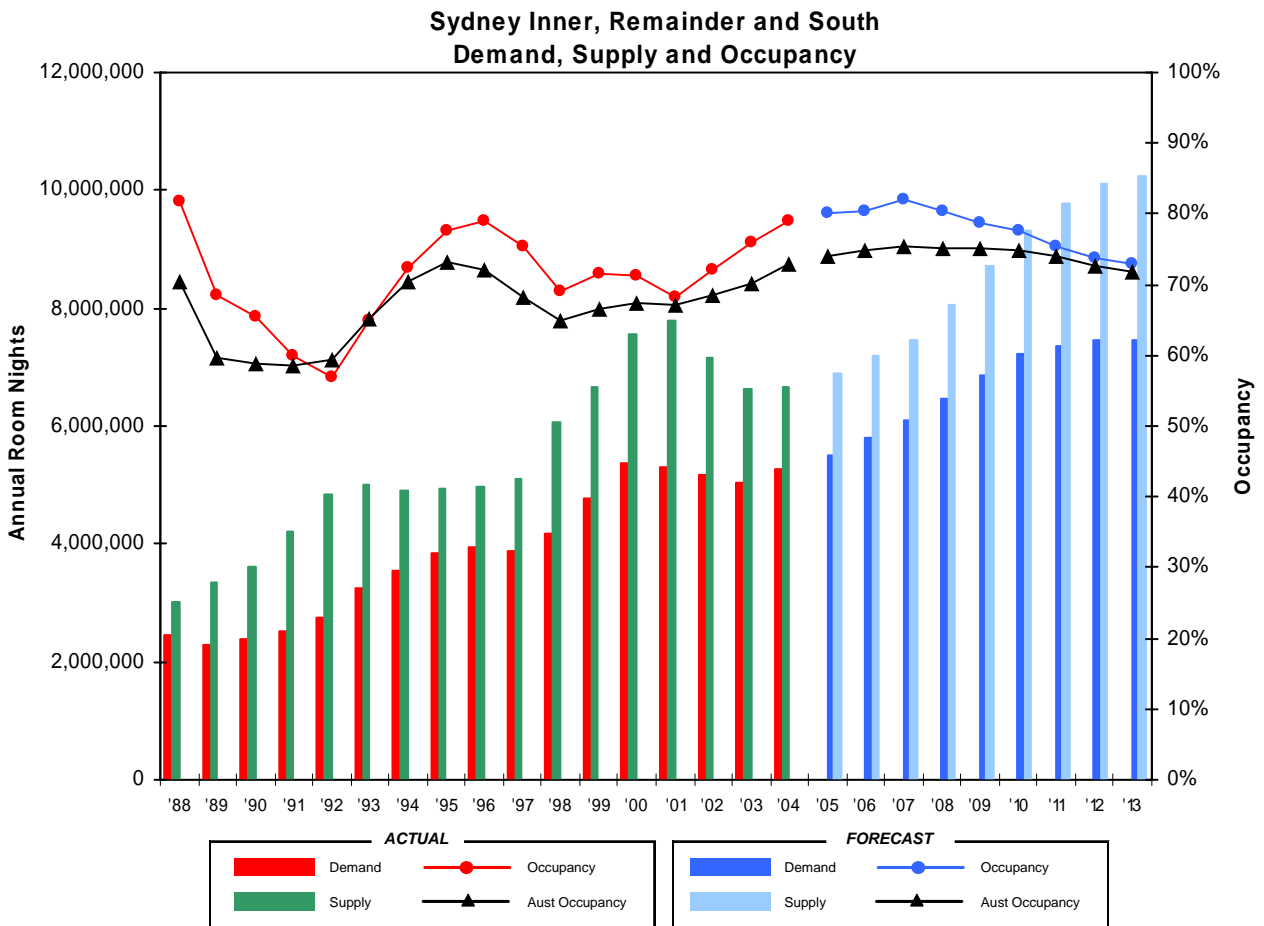
Yield growth rates for 2005 have been downgraded to 7.2%, from the 10.4% previously expected, given the downgrade short term demand forecast. Long term nominal yield growth is expected to average 2.9%, representing no change in real yields compared to our 2004 forecast albeit a downgrade in the short term, recovering over the medium to long term as supply is slightly delayed.

Sydney – Inner, Remainder and South

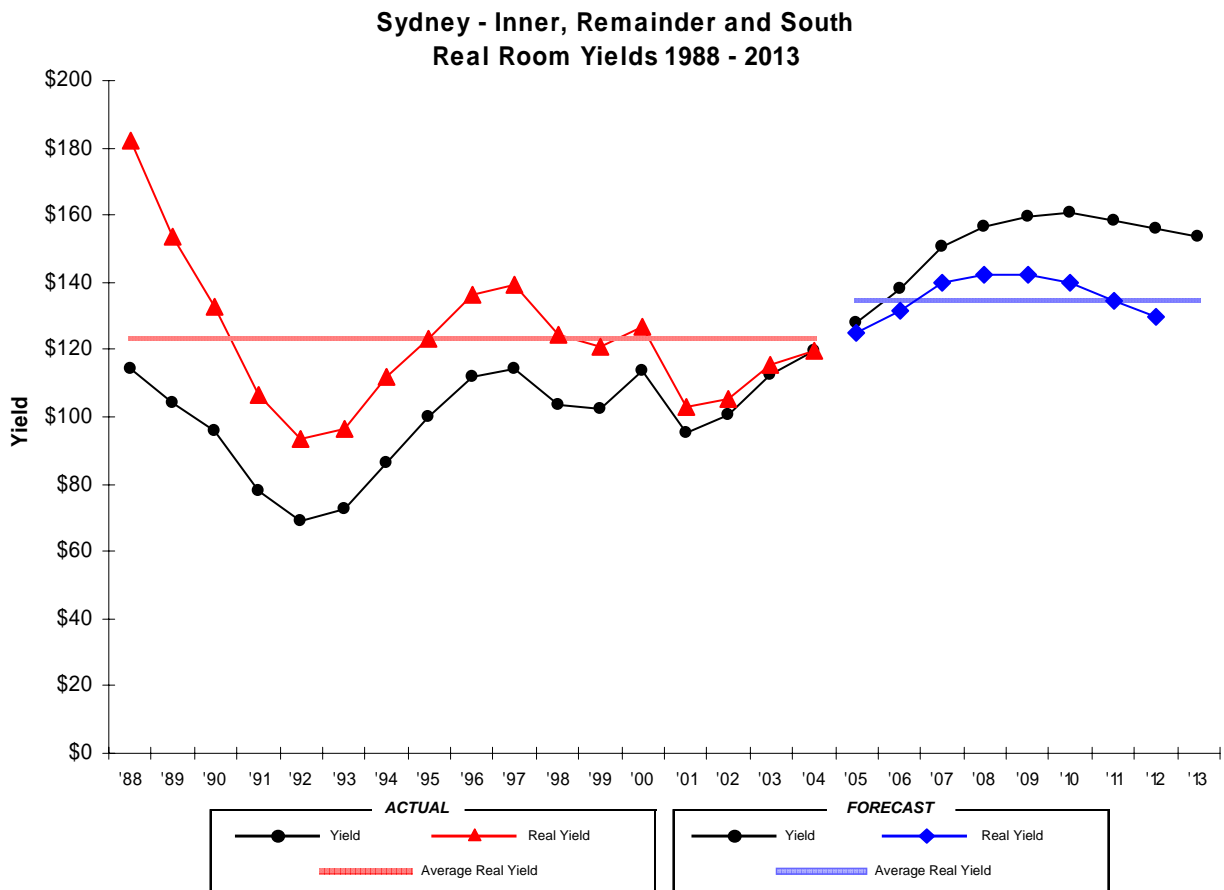
Year	Room Night Supply	Rooms	% Chng	Room Night Demand	% Chng	ARR	% Chng	Yield	% Chng	\$2004 Real Yield	Occ
The 1998 change in ABS data increased the supply base and had the effect of lowering sample yields											
1998	6,064,835	16,616	18.5%	4,187,573	8.4%	\$150.01	-0.7%	\$103.58	-9.2%	\$124.53	69.0%
1999	6,657,570	18,240	9.8%	4,764,028	13.8%	\$143.03	-4.7%	\$102.35	-1.2%	\$120.87	70.1%
2000	7,544,199	20,669	13.3%	5,367,745	12.7%	\$159.83	11.7%	\$113.72	11.1%	\$126.94	71.2%
2001	7,802,997	21,378	3.4%	5,317,044	-0.9%	\$139.73	-12.6%	\$95.21	-16.3%	\$103.06	68.1%
2002	7,169,027	19,641	-8.1%	5,177,538	-2.6%	\$139.05	-0.5%	\$100.42	5.5%	\$105.50	72.2%
2003	6,633,268	18,173	-8.7%	5,047,242	-3.8%	\$147.69	2.0%	\$112.38	7.4%	\$115.75	76.1%
2004	6,676,978	18,293	0.7%	5,281,137	4.6%	\$150.98	2.2%	\$119.42	6.3%	\$119.42	79.1%
Actual Average 1988-2004			5.3%		5.0%		0.5%		0.7%	\$123.03	71.1%
FORECAST											
2005	6,900,424	18,905	3.3%	5,518,788	4.5%	\$160.04	6.0%	\$128.00	7.2%	\$125.00	80.0%
2006	7,199,950	19,726	4.3%	5,794,728	5.0%	\$171.24	7.0%	\$137.82	7.7%	\$131.31	80.5%
2007	7,451,948	20,416	3.5%	6,113,438	5.5%	\$183.23	7.0%	\$150.32	9.1%	\$140.00	82.0%
Average 2005 - 2007			3.7%		5.0%		6.7%		8.0%	\$132.10	80.8%
2008	8,048,104	22,050	8.0%	6,480,244	6.0%	\$194.22	6.0%	\$156.39	4.0%	\$142.37	80.5%
2009	8,732,193	23,924	8.5%	6,869,058	6.0%	\$202.96	4.5%	\$159.66	2.1%	\$142.08	78.7%
2010	9,299,785	25,479	6.5%	7,212,511	5.0%	\$207.02	2.0%	\$160.56	0.6%	\$139.67	77.6%
2011	9,764,774	26,753	5.0%	7,356,762	2.0%	\$210.13	1.5%	\$158.31	-1.4%	\$134.62	75.3%
2012	10,106,541	27,689	3.5%	7,467,113	1.5%	\$211.18	0.5%	\$156.03	-1.4%	\$129.70	73.9%
2013	10,258,140	28,104	1.5%	7,467,113	0.0%	\$211.18	0.0%	\$153.72	-1.5%	\$124.91	72.8%
Average 2008 - 2013			5.5%		3.4%		2.4%		0.4%	\$135.56	76.5%
Total Forecast Average			4.9%		3.9%		3.8%		2.9%	\$134.41	77.9%

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

Note: Growth rates for 2003 have been adjusted as advised by the ABS following the break in the time series



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



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

GLOSSARY AND MAJOR TERMS

Australian Bureau of Statistics (ABS)	The ABS is Australia's national statistical authority and provides quarterly statistics of hotels, motels and serviced apartments.
Average Room Rate (ARR)	The Average Room Rate is the average daily revenue per occupied room. Calculated as Total Room Revenue divided by occupied room nights. This rate is calculated net of GST. Also known as Average Daily Rate (ADR).
Hotels	Hotels with facilities, licensed to operate a public bar. References to the hotel market generally includes motels and serviced apartments.
Motels	Motels licensed which predominantly provide short-term accommodation available to the general public, provide a bath (or shower) and toilet in most guest rooms and have breakfast available for guests.
Serviced Apartments	Self contained units with full cooking facilities, daily service and provision of linen and laundry.
Occupancy	The Occupancy is the number of rooms occupied divided by the number of rooms available.
Yield	The Room Yield is the revenue per available room night calculated as occupancy multiplied by Average Room Rate. Also known as RevPar.
Real Yield	The Room Yield calculated in 2003 dollars to remove the effect of inflation.
TABLE REFERENCES	
Room Night Supply	The sum of the number of rooms available for each night of the year. This is not always the same as a calculation of the number of rooms times the number of days in the year as rooms are not always available for the whole year when new Supply is introduced, or old Supply withdrawn part way through the calendar year.
Rooms	This figure is based on the equivalent rooms available for the full year calculated by dividing Room Night Supply by the number of days in the year.
Room Night Demand	The sum of the number of rooms occupied for each night of the year. This information is not directly supplied by the ABS and is calculated by dividing Room Night Supply by the reported Occupancy.
Star Grading	The grading of hotels and motels with facilities based on the classification used by members of the Australian Automobile Association (AAA).