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FOR IMMEDIATE RELEASE — 23 May 2008

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Resource boom adds extra dimension for Adelaide

Adelaide, SA (23 May 2008)

Adelaide's high hotel occupancies around 80% are expected to fuel room rate and revenue growth significantly above inflation, according to the new Vantage Point report from CBRE Hotels.

The report highlights the impact of the resources boom, which has boosted demand for commercial accommodation in Adelaide and fuelled strong associated growth in the city's hotel market.

The state's strong economic fundamentals are forecast to continue to underpin a prospering city hotel market in the coming 12 months.

CBRE Hotels Business & Marketing Analyst, Nathan Wiltshire, said Adelaide's strong underlying fundamentals included a growing state resources industry along with the fact that little new stock was entering the market.

"New hotel development has been hindered by - amongst other things - low Adelaide City room rates which weaken the value of hotel investments," Mr Wiltshire said.

However, growth in rates is expected following a buoyant 2007 during which available room nights decreased by 7.9%. Demand has continued to increase by 3% since 2005.

"Under these market conditions it is no surprise that occupancies have jumped from 66.9% in 2004 to an extremely healthy 78% in 2007," Mr Wiltshire added.

CBRE is forecasting that demand moving forward will be predominantly underpinned by robust corporate business and international visitor numbers amidst a faltering domestic leisure travel market.

23 May 2008

"With the first signs of the global economic slowdown impacting the Australian economy, it is possible that we could see this soften corporate travel demand as companies tighten their belts and rein in budgets," Mr Wiltshire said.

Nevertheless, with most major cities suffering from an undersupply of hotel rooms combined with an element of unmet demand present, CBRE hotels foresees most Australian capital markets will remain strong throughout 2008.

Scott Callow, CBRE Director of Hotels and Leisure, said growth in room supply in Adelaide over the past five years had mirrored that of other major cities in that strata titling has been the key to developers of new hotels rooms.

"Hotel operators continue to resist offering suitable guaranteed returns therefore making traditional hotel developments 'risk averse'," Mr Callow said.

"The cost of construction of hotels continues to rise therefore those existing owners who have the ability to refurbish to satisfy demand and increase rates are set to benefit greatly."

On the investment front, the next test of the market will be the sale of the Country Comfort Hotel at Gepps Cross, 20 minutes north west of Adelaide's CBD.

CB Richard Ellis Hotels has been appointed to sell the hotel, which offers 46 rooms with restaurant and conference facilities and has frontage to two main roads.

"Given the amount of rejuvenation of a heavy industrial area to that of high tech industrial and big box retail, opportunities such as this are ideal for those seeking to enter the market," Mr Callow said.

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