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High profile sales demonstrate continued strength in the hotel investment market

Sydney, NSW (11 August 2008)

A supply/demand imbalance is supporting the continued strength of the Australian hotel investment sector, despite the weakness in the broader market.

Speaking at last week's Market Outlook breakfast in Sydney, CBRE Hotels Regional Director Rob Cross said the sector's resistance to overall market conditions had been evidenced in recent months through the sales of the Novotel Rockford at Darling Harbour in Sydney, the Holiday Inn at Townsville in far north Queensland, and the Royal Pines Resort on the Gold Coast - all on passing yields of less than 7%.

"There is one asset class in Australia that appears to be operating contrary to current trends, and that is the corporate, four and five star hotel sector," Mr Cross told attendees at today's breakfast.

"The perception is that the hotel is that the hotel sector, like all others, has softened. The reality is that values have changed little, if at all, in this sector.

Mr Cross said an imbalance between supply and demand was underpinning the hotel investment markets in Sydney, Brisbane, Perth, Adelaide, Canberra, Townsville and, to a lesser degree, Melbourne.

"With the exception of Melbourne, there is little to no new supply coming into these markets whilst demand continues to grow," Mr Cross said.

"Most of these cities are enjoying occupancies above 80% - an anomaly in the hotel world. As a result, any minor outward movement of yields has been more than compensated for through increased operational performances."

However, while values had remained resilient, Mr Cross said there had been a clear shift in the profile of buyers, with increased activity from offshore, special interest groups and private money purchasers.

Recent examples included the sale of the Seahaven Resort at Noosa to a UK-based trust, the purchase of the Rockford Novotel by a Thai construction company and the sale of Royal Pines to Victorian motoring body the RACV.

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Investment activity aside, there are future issues for the hotel sector - key among them the lack of new supply.

While the "Full House" scenario was positive news for existing operators and investors, Mr Cross warned that new supply was needed to drive future growth in the Australian hotel industry.

This was a particular issue in Sydney, where a lack of suitable land, high construction costs and the greater returns afforded by commercial development were creating barriers for developers and investors looking to enter the hotel sector.

Mr Cross suggested one option for developers would be to diversify and include a hotel as part of a larger commercial/retail development.

"For the purists, this spreads the risk and there are hotel operators now prepared to take a lease in key markets," Mr Cross said.

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