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New hotel supply fails to keep pace with demand

Sydney, NSW (22 April 2008)

A lack of new hotel development across the country will continue to drive up hotel room rates in the short to medium term according to a new report from CB Richard Ellis Hotels.

CBRE Hotels Business and Marketing Analyst Nathan Wiltshire said the supply of new hotel rooms had failed to keep pace with demand in most of the capital city markets – leading to occupancy and room rate growth and a generally buoyant Australian hotel sector in 2007.

“The relative lack of suitable land with often unfavourable zoning conditions, high construction costs, high interest rates and associated credit issues all create high barriers for prospective developers and investors looking to enter the sector,” Mr Wiltshire said.

“Meanwhile, other forms of development compete for the attention of potential developers and investors as the commercial, office and residential real estate sectors have provided greater return on investment and faster returns. ”

However, changes are afoot in some markets as developers look at new strategies to provide additional hotel stock.

Mr Wiltshire said one recent trend in many recently completed and proposed hotel developments had been to create mixed-use developments in major urban centres.

“The market has seen plans for sites that may contain residential, commercial/retail along with a hotel component,” Mr Wiltshire said.

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"Recent examples of this include the Raptis/Hilton Surfers Paradise development, the Swiss Grand redevelopment at Sydney's Bondi Beach, and the recently unveiled plans for the Melbourne Docklands Bourke Junction development. This strategy enables investors' risk to be spread across a number of business sectors by providing synergies across the land uses and alternate revenue streams."

Mr Wiltshire said increases in hotel occupancies and room rate growth has provided additional encouragement for the development of new hotels.

"It is possible that as hotel markets across the country warm up it will become increasingly enticing for developers and more new stock will enter the market, however with long lead-in times from hotel proposal to completion as well as growing credit availability issues, it is unlikely to happen for at least the next 18 months," he said.

Much of the proposed new hotel supply in Australia's major cities is centred on Melbourne. Strong market fundamentals in that city have provided sufficient encouragement for prospective developers and investors to propose a range of new hotel projects, which will increase the inner city's room stock by 17% by 2010 (as seen in the graph below), with further market expansion planned for the Docklands area.

"Similarly for Brisbane, 2010 is set to see a huge 11.9% increase in total room stock coming online. That said, 2008 will see minimal room supply growth and as result, room rates will rise as hoteliers enjoy occupancies close to 80%," Mr Wiltshire said.

While unmet demand would account for a large proportion of this new stock in both Melbourne and Brisbane, there would be challenges ahead for hoteliers to maintain above inflation room rate growth.

Meanwhile, little new supply is proposed for both the Sydney and Perth markets.

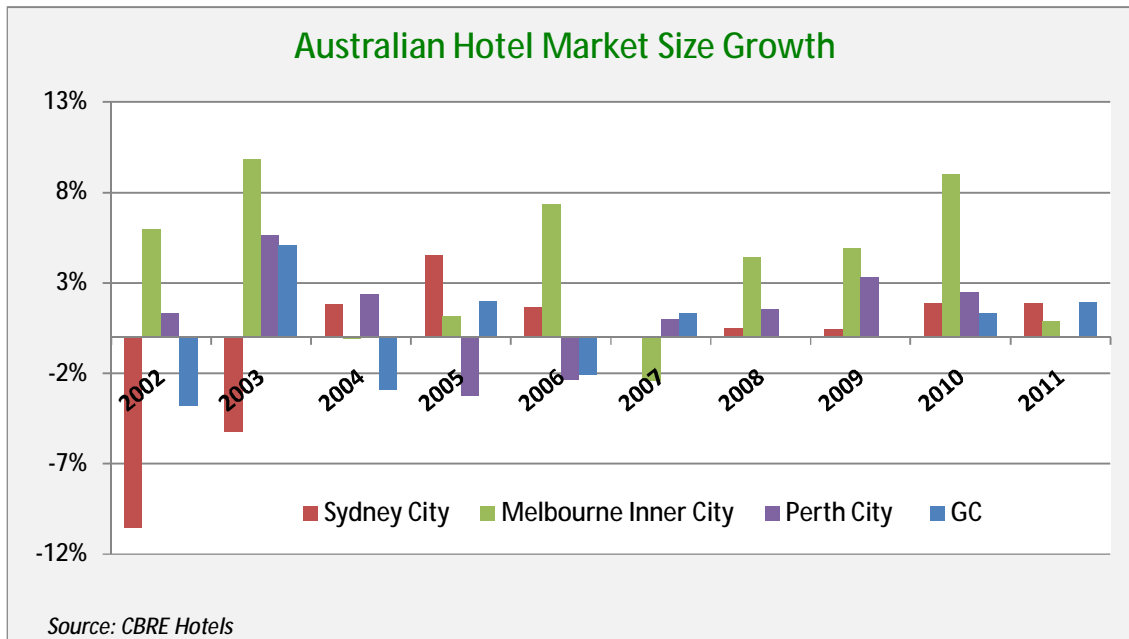
Mr Wiltshire said the Sydney market had seen only small incremental supply increases since the Olympic Games.

A considerable amount of hotel stock had been withdrawn from the market through residential conversions that had led to a significant reduction in total hotel stock.

"A lack of suitable development land in the inner city - along with competition from higher yielding office development - has hindered supply growth, and this is not likely to ease in the medium term with only a 4.5% room supply increase by 2011," Mr Wiltshire said.

"Likewise, the Perth market can expect few new additions to room stock over the next few years, which will see room rates rise well above the rate of inflation as hoteliers take advantage of high occupancy levels around 80 percent. "

Only 424 new rooms – a 7.1% increase in total stock to 2011- are proposed and Mr Wiltshire said this would not keep pace with demand based on Australian Bureau of Statistics December accommodation data, which shows that demand in Perth grew by 4.4% last year alone.



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