



# CBRE Hotels Limelight

Hotel Market Trends Insight

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**CBRE** | Hotels  
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## **NEW HOTEL SUPPLY NEEDED TO DRIVE FUTURE DEMAND GROWTH IN AUSTRALIA'S MAJOR CITIES**

Hotel markets in many of Australia's major cities have performed strongly in the first quarter of 2008. Data released recently by Australian Bureau of Statistics - Tourist Accommodation Small Area Data March 2008 - shows that many major markets continue to grow despite apparent constricting global and local market forces.

Over the last 12 months there has been much made of the turmoil facing Australian tourism. Local tourism industries are said to be facing a substantial challenge in the face of a high Australian Dollar that is pushing Australians overseas for their holidays, while helping dissuade foreigners from making the opposite journey. Added to this high inflation including record fuel prices, increasing interest rates, and negativity surrounding the global 'liquidity crisis' and you could be easily forgiven for thinking the floor is about to fall out from under Australia's major hotel markets. Any such doomsday predictions are yet to be proved correct as major city hotel markets have proven to be resilient to such forces.

Data shows that the Brisbane and Perth city markets both continue to defy general market conditions registering demand growth as measured by room nights occupied at approximately 7.1% and 6.3% respectively in the first quarter of 2008 compared to the equivalent period last year.

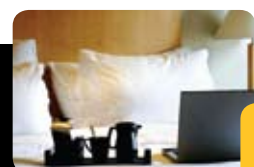
These performances are juxtaposed by Australia's two biggest hotel markets, Sydney and Melbourne. The Sydney market has remained solid with a 0.7% increase in demand. Although on the face of it this performance appears far from ideal, this slight growth comes with occupancy at just over 85% for the first quarter of 2008. Meanwhile, Melbourne saw demand fall approximately 1.4% over the same period, while occupancy at approximately 83%.

The range of performances recorded by these cities is not entirely based on those demand side factors a few of which this article has briefly discussed. CBRE Hotels believes that due to their dynamic and varied demand sources, these major city hotel markets are relatively insulated from the general market turmoil and instead are currently more heavily influenced by supply side factors.

### **NEW ROOMS SUPPLY KEY TO HEALTHY, GROWING MARKETS**

During 1Q08 supply growth in both Brisbane and Perth enabled demand in those markets to grow, while a lack of new supply saw hotel demand in Sydney remain virtually static while Melbourne fell marginally.

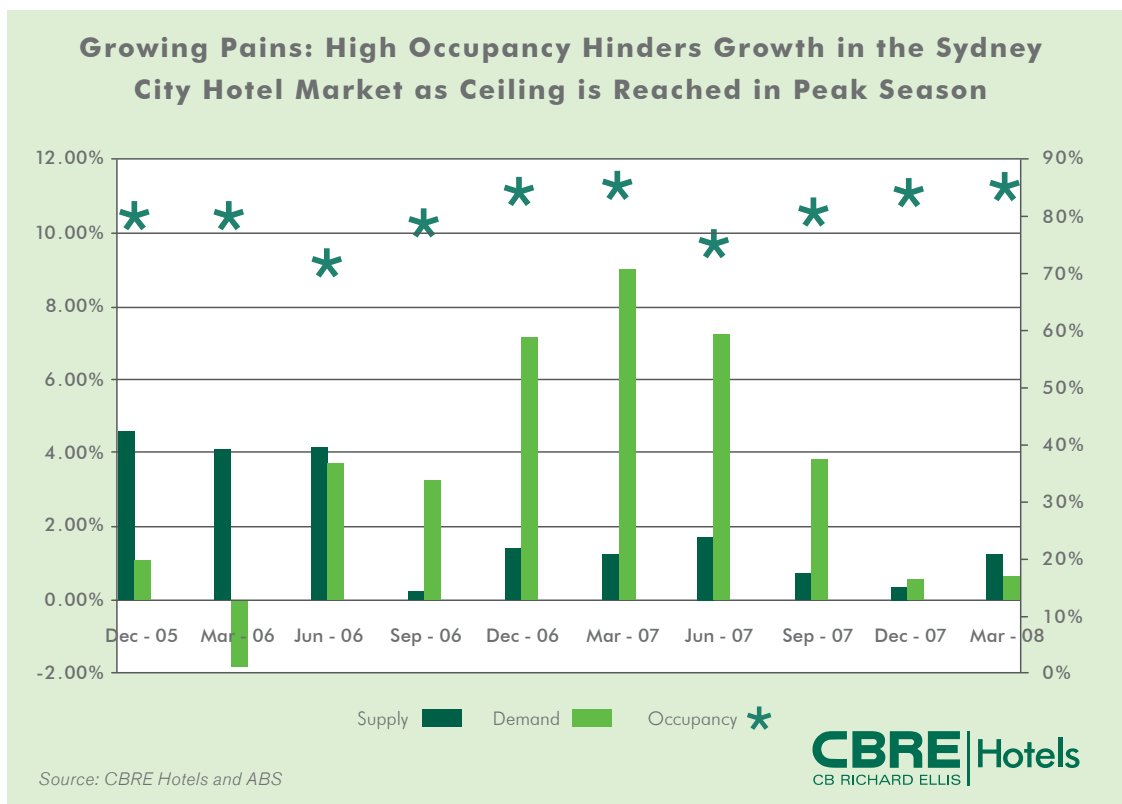
For Sydney and Melbourne this does not suggest that the market is softening, far from it. This indicates that these markets, having performed strongly and consistently over the last few years (see previous Vantage Point issue), have now reached their occupancy ceiling with new rooms stock to be introduced in order to grow the size of the market.



Melbourne, over the coming 18 months, will see approximately 1620\* rooms added across the metro area representing 11% of current total supply. It is forecasted that this new stock will provide the sustenance needed to feed market growth and fulfill unmet demand without significantly denting currently high room rates and occupancy levels.

Meanwhile, the Sydney market is set to see the addition of approximately 810\* new rooms during the next 18 months, representing just 4% of the current total. Furthermore, the Inner City area which represents 76% of the total rooms supply, is set to see a tiny 1% increase in supply over this period. Primarily because of this, and not due to demand pressures, it is forecasted that growth in demand will soften until new stock enters the market.

The graph below shows the growth in supply and demand along with the corresponding occupancy level since December 2005 in the Sydney City hotel market. It depicts how high occupancies around 85% during the peak December 2007 and March 2008 quarters along with minimal new supply meant growth was stifled. The graph shows how the market between December 2006 and June 2007 was able to grow over 6% despite a lack of new supply, thanks largely to a lower base occupancy and new supply additions in 2005.



## **ROOM RATE GROWTH UNDERLINES THE STRENGTH OF THE MARKET**

Underlining the healthy state of these major Australian markets are the robust and in some cases bullish gains in room rates and revenue. The Sydney market saw average daily room rates (ADR) and RevPAR (revenue per available room) rise in 1Q08 to approximately 6.4% and 5.8% over the corresponding period last year. Likewise for Perth and Brisbane, far from having to cut room rates to accommodate the new supply, absorbed even stronger increases. Brisbane saw ADR and RevPAR jump approximately 10% and 7% respectively, while Perth, coming off a much lower base, enjoyed bullish ADR and RevPAR increases, up approximately 16% and 14.6% respectively.

It might be easy to attribute such strong performances in Australia's 'boom' state capitals, Brisbane and Perth, down to the strength of the resources sector. While this plays a role, equally strong results in the Melbourne market, having seen a drop in hotel room demand, with ADR up approximately 9.1% and RevPAR up 8% in the first Quarter of 2008 along with Sydney's already mentioned performance shows the overall healthy state of the hotel sector.

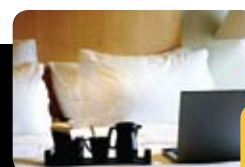
## **OCCUPANCY CEILING HOLDS IMPLICATIONS FOR THE WIDER TOURISM INDUSTRY**

This occupancy ceiling caused by an imbalance between supply and demand in some of Australia's major hotel markets comes at a time of concern for Australia's tourism bodies. This lack of new supply in the nation's biggest tourist destination, Sydney, is assisting in stifling both domestic and international visitor number and visitor night growth. Additionally, this has implications for business by hindering the city's ability to service the substantial corporate travel sector.

Many of Australia's leading tourism lobby groups have long been calling for environmental planning laws to be reformed in order to help encourage much needed hotel development in Sydney. For example, reform in zoning by designating suitable inner city space for tourism development would help hotels compete with office and other commercial forms of development. It remains to be seen if the Sydney City Council's current review of the Central Sydney development controls will yield promising outcomes for future tourism development.

Once investment by government in tourism facilitating infrastructure is matched by their high level of tourism visitation ambition it is reasonable to believe that strong hotel market performance in Australia's biggest cities will begin to translate into those much vaunted increases in visitor numbers.

\*Probability adjusted new rooms. Source: CBRE Hotels



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CBRE Hotels is dedicated to being the hospitality industry's premier full-service, international service provider of sales advisory, finance, market research and valuation services, focused exclusively on the hospitality sector, to meet the capital needs of investors and individual owners of hotel properties.

We provide global insight and tailor-made solutions from experienced consultants who are passionate about the hotel business. CBRE Hotels, with its dedicated teams in the Asia Pacific, Americas and EMEA, responds quickly and seamlessly to cross-border, cross-regional and global assignments.



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