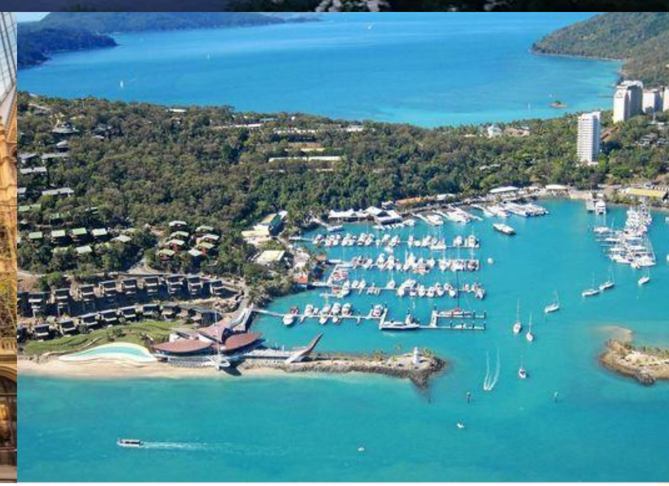
HOTEL FUTURES 2018



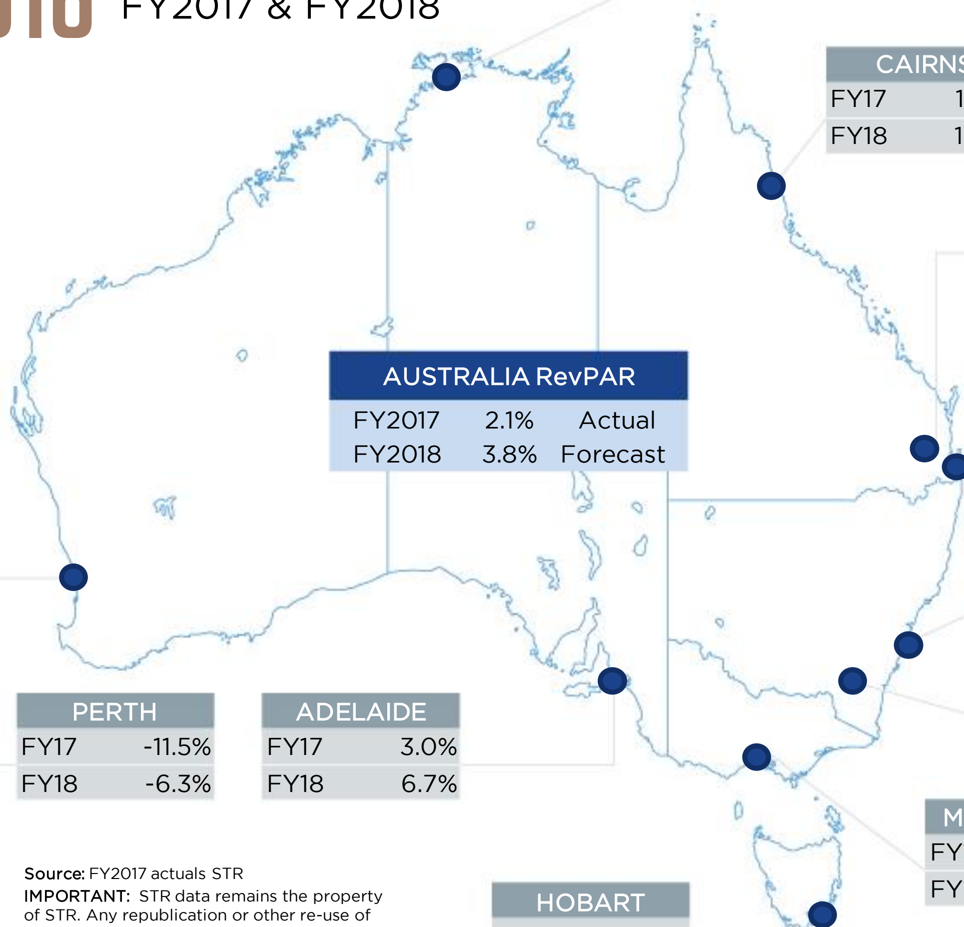
A REVIEW OF THE REVENUE PERFORMANCE OF MAJOR AUSTRALIAN HOTEL MARKETS WITH FORECASTS TO 2026

www.dransfield.com.au

DRANSFIELD HOTELS & RESORTS

HOTEL FUTURES 2018

RevPAR Growth FY2017 & FY2018



AUSTRALIA RevPAR		
FY2017	2.1%	Actual
FY2018	3.8%	Forecast

DARWIN	
FY17	-3.2%
FY18	6.6%

CAIRNS	
FY17	13.4%
FY18	10.2%

BRISBANE	
FY17	-7.0%
FY18	3.0%

GOLD COAST	
FY17	1.7%
FY18	10.0%

SYDNEY	
FY17	7.8%
FY18	5.7%

CANBERRA	
FY17	9.6%
FY18	3.6%

MELBOURNE	
FY17	0.1%
FY18	-0.6%

HOBART	
FY17	3.1%
FY18	-5.7%

ADELAIDE	
FY17	3.0%
FY18	6.7%

PERTH	
FY17	-11.5%
FY18	-6.3%

Source: FY2017 actuals STR

IMPORTANT: STR data remains the property of STR. Any republication or other re-use of any data within this document without the express written permission of STR is strictly prohibited

CONTENTS

DRANSFIELD HOTELS & RESORTS

ABOUT DRANSFIELD

DRANSFIELD is a specialist professional services organisation advising the tourism, finance and property industries.

Our experience includes a wide range of property and business related projects involving over 75,000 hotel rooms and numerous food and beverage outlets in more than 700 hospitality enterprises throughout Australia and Asia.

For further information on the range of services we provide, and the ways in which we can assist you, please visit our website www.dransfield.com.au or contact us.

DEAN DRANSFIELD

Director & Owner

T +61 2 8234 6644

E dean.dransfield@dransfield.com.au

DRANSFIELD

Our core offering is the ability to integrate our service lines and skill sets into a cohesive solution for development, operations and overarching advice. Service streams include:

TRANSACTIONS

- Agency
- Operator Selection
- Due Diligence
- Vendor Representation
- Bid Advisory
- Transaction Management
- Leasing

DEVELOPMENT

- Development Management
- Commercialisation of Design
- Integration of Development & Operations
- Feasibility Assessment
- Planning
- Design

SHARED OWNERSHIP

- Scheme Concept
- Responsible Entity
- Marketing & Sales
- Feasibility
- Advisory

STRATA/COMMUNITY TITLE

- Scheme Concepts
- PDS & Prospectus (AFS Licensed)
- Offer Structure
- Project Design and Commercialisation
- Operator Selection
- Project Marketing

EXPERT'S REPORTS

- Independent Expert Reports
  - Prospectus
  - PDS
- Expert Witness
  - Independent Court Reports
  - Litigation Support & Management

ASSET MANAGEMENT

- Total Asset Management
- Strategy Development & Implementation
- Operations Implementation
- Financial & Operational Reporting
- Stakeholder Management
- Refurbishment

ADVISORY AND FINANCE

- Operations
- Feasibility & Best Use Studies
- Strategic Consulting
- Restructuring Services
- Investment Risk Analysis
- Portfolio Assessment
- Debt & Equity Sourcing
- Refinancing
- Valuation Management
- Joint Venture/Equity Participation
- Independent Advisory
- Debt Restructuring

Hotel Futures 2018 was compiled by Dean Dransfield, Raq Pustetto, Scot McLaughlin, Grace Lam, and Hayden Longmuir © April 2018

HF2018 SNAPSHOT

Medium term RevPAR growth averaging 3.1% p.a with a stronger outlook over the longer term. A positive supply and demand equation is expected, enabling sustained high occupancy and opportunity for rate growth

FY2017

In FY2017 the Australian Major Cities Hotel markets recorded 2.1% revenue growth (RevPAR) which was slightly below our 2.6% expectations. Occupancy levels increased despite material supply additions, providing a basis for moderate rate growth

RevPAR

The long term revenue forecast for Australian Major City hotels is for healthy **RevPAR growth averaging 4.0% p.a,** underpinned by high occupancy levels, and a positive supply and demand equation

- The forecast remains strong, however, represents a slight downgrade to prior expectations of 4.4% p.a. with increased supply outweighing increased demand, with slightly less upward pressure on rate
- Long term growth is expected for all cities, although market cycles differ city to city

Supply

Hotel Futures 2018 sees an increase in absolute supply of 3.7% to FY2025 (or a 0.4% increase p.a.) above our previous forecast. We anticipate the market will deliver 5,000 additional rooms above previous expectations, largely offset by increased demand expectations. **Average supply growth of 3.9% p.a.** to FY2026 is expected to be fully absorbed

- Supply uplift is largely in Sydney and Melbourne, and amounts to almost 60% of the total increase. Demand expectations have also increased in these key markets
- Construction activity increased by 45% from last year, with 13,500 rooms now either recently completed or currently being built. Similarly, gross proposal activity has increased by 29%

Demand

Hotel Futures 2018 long term demand forecast is for strong **average annual growth of 4.1% to FY2026.** This is above prior expectations, enabled by improved tourism visitor night forecasts and additional enabling supply

- Tourism Research Australia's (TRA) long term visitor night forecast to FY2026 has been slightly upgraded. Average annual growth of 4.1% p.a. is expected compared to 3.9% at the time of the prior forecast
- TRA growth is driven by international nights, with a slight decline in domestic expectations

Average Room Rate (ARR)

Long term rate growth expectations averaging 3.7% p.a are expected, buoyed by very strong occupancy levels for the entirety of the forecast

- Our rate growth expectations have reduced slightly following increased supply expectations which will affect occupancy pressure, as well as discounting behaviour as an increased number of properties look to establish market share
- Upside opportunity remains in many cities, particularly if the large Market Response allowances in supply underpinning the forecasts do not eventuate as quickly as expected.

TOTAL AUSTRALIAN MAJOR CITIES (WEIGHTED)

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL - ABS								Source: ABS
FY2014	87,795	0.4%	0.1%	$170.71	0.8%	$130.75	0.4%	76.6%
FY2015	98,745	12.5%	12.9%	$174.20	2.0%	$133.99	2.5%	76.9%
FY2016	99,613	0.9%	2.3%	$178.10	2.2%	$138.96	3.7%	78.0%
Avg FY14-16		**4.6%**	**5.1%**		**1.7%**		**2.2%**	**77.2%**

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL – STR								Source: STR
FY2016			$190.06		$151.50			79.7%
FY2017	119,427	75%	$193.47	1.8%	$154.71	2.1%	$154.71	80.0%

Year	Rooms*	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST - DRANSFIELD									
FY2018	105,710	3.8%	5.0%	$198.56	2.6%	$160.63	3.8%	$156.71	80.9%
FY2019	110,555	4.6%	3.9%	$205.48	3.5%	$165.20	2.8%	$156.78	80.4%
FY2020	116,280	5.2%	4.6%	$212.09	3.2%	$169.64	2.7%	$156.61	80.0%
Avg FY 18-20		**4.5%**	**4.5%**		**3.1%**		**3.1%**	**$156.70**	**80.4%**
FY2021	123,533	6.2%	5.4%	$218.59	3.1%	$173.43	2.2%	$155.74	79.3%
FY2022	129,416	4.8%	4.3%	$226.39	3.6%	$178.86	3.1%	$156.25	79.0%
FY2023	134,447	3.9%	4.0%	$235.10	3.8%	$185.90	3.9%	$157.98	79.1%
FY2024	137,193	2.0%	3.4%	$244.77	4.1%	$196.19	5.5%	$162.18	80.2%
FY2025	139,802	1.9%	3.3%	$255.48	4.4%	$207.67	5.9%	$166.99	81.3%
FY2026	143,032	2.3%	3.3%	$267.16	4.6%	$219.34	5.6%	$171.58	82.1%
Avg FY21-26		**3.5%**	**4.0%**		**3.9%**		**4.4%**	**$161.79**	**80.2%**
Total Forecast Avg FY 2018-2026		**3.9%**	**4.1%**		**3.7%**		**4.0%**	**$160.09**	**80.2%**

ABS Dataset change affected

DRANSFIELD HOTELS & RESORTS

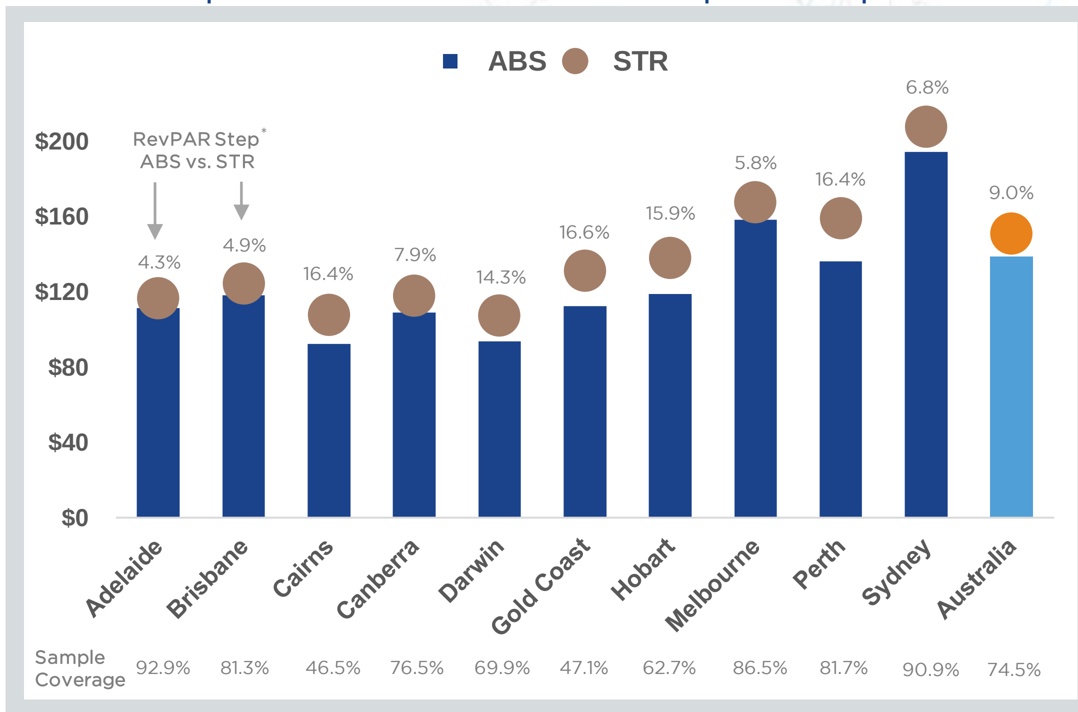
ABS VS STR

The Australian Bureau of Statistics has discontinued its annual census of hotel performance, finishing with FY2016. With funding from Austrade, STR will be undertaking an enlarged sampling, with FY2017 to be published later in the year. To enable more timely information we have been provided with existing STR data for FY2017 to enable forecasts for Hotel Futures 2018

Background

- Information on hotel occupancy, room rates and supply has historically been provided by the Australian Bureau of Statistics (ABS) through the annual survey of accommodation facilities over 15 rooms
- This information formed the historical base from which Hotel Futures long term forecasts were launched, and provided a benchmark for determining how actual performance might have varied to expectations
- The survey was in the nature of a census and was supported by a legal obligation on accommodation providers to provide information. As a consequence of budgetary cuts, the ABS has over the last few years reduced the service, initially from quarterly publications to annual, and more recently ceasing publication entirely, with the information for FY2016 being the last collected
  - Austrade has stepped in, initially providing funding for the ABS to continue, and now facilitating and funding the alternative Australian Accommodation Monitor
  - STR as a service provider will undertake this work, which unfortunately will not have the benefit of a legal obligation on accommodation providers to provide information
  - This is essentially an extension of STR's existing data collection, which is on a fee-for-service basis and has secured good take-up amongst larger hotels and those managed by third-party professional management companies
- The FY2017 data will be available in approximately July 2018 and from October 2018 the FY2018 information will be available
- On average, RevPAR for the STR sample was 9% higher than the ABS census in FY2017

RevPAR Comparison – ABS Census vs STR Sample: Overlap Year FY2016



* RevPAR step - % denotes the percentage by which STR RevPAR exceeds ABS RevPAR

Source: ABS; STR

DRANSFIELD HOTELS & RESORTS

ABS VS STR

The Australian Bureau of Statistics has discontinued its annual census of hotel performance, finishing with FY2016. With funding from Austrade, STR will be undertaking an enlarged sampling, with FY2017 to be published later in the year. To enable more timely information we have been provided with existing STR data for FY2017 to enable forecasts for Hotel Futures 2018

Approach to Utilising STR Data

- To provide more timely information for hotel market performance we have worked with STR to come up with an interim solution that could be relied on for Hotel Futures 2018
  - This is essentially a custom set of data covering a similar geographic market previously covered by the ABS and relying on the participants in the STR program as a proxy for the census group
  - Our Geographic areas are defined in more depth in the Data Geography section of this report
- STR is private sector, voluntary, fee-for-service data gatherer. Participation rates are mostly quite high and expected to be generally representative of what the previous census might be
  - We have included some overlap in the analysis so that readers can get a sense of this
  - Across the 10 cities covered in Hotel Futures the STR Sample has approximately 75% coverage of their calculation of total available rooms. In some cases, these are not consistent with the ABS census and appear to indicate a higher amount of apartment products, and properties less than 15 rooms, which were not covered in the ABS census. Our supply forecasts remain based on the ABS census of total rooms available (FY2016 with actual known openings for FY2017 resolved through internal research), pending resolution of the higher base difference. This methodology will be reviewed on release of the Australian Accommodation Monitor
  - In some markets where the sample coverage is lower there is a less direct relationship between ABS and STR data sets and results, and a step therefore arises when joining the data in a series
- Where necessary we have adjusted for the step in calculating the percentage change in key variables
- In most cases the STR sample has a higher room rate than the census as it represents the larger, more professional establishments in the relevant geography. In many cases these also have higher occupancy
- From the perspective of the majority of readers of Hotel Futures, we think this STR data is more relevant because it is more representative of the investment class hotel assets that our readership is interested in.

Historical ABS - Total Australian Major Cities (Weighted)

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL - ABS								
FY2014	87,795	0.4%	0.1%	$170.71	0.8%	$130.75	0.4%	76.6%
FY2015	98,745	12.5%	12.9%	$174.20	2.0%	$133.99	2.5%	76.9%
FY2016	99,613	0.9%	2.3%	$178.10	2.2%	$138.96	3.7%	78.0%
Avg FY14-16		**4.6%**	**5.1%**		**1.7%**		**2.2%**	**77.2%**

Source: ABS

Historical STR - Total Australian Major Cities (Weighted)

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL - STR								
FY2016			$190.06		$151.50			79.7%
FY2017	119,427	75%	$193.47	1.8%	$154.71	2.1%	$154.71	80.0%

Source: STR

DRANSFIELD HOTELS & RESORTS

AUSTRALIA AT A GLANCE FY2017

This is the 21st edition of Hotel Futures. We report on major Australian hotel markets during FY2017 with long term forecasts to FY2026

- The Australian Major City Hotel market captured by STR, recorded **2.1% revenue growth (RevPAR) in FY2017**, slightly below our 2.6% expectations based on the ABS census
- Australian City supply increased by 2.3%*, as the pipeline cycle edges closer to maturity for many markets. This was slightly above expectations for 1.6% growth as several hotels transitioned from residential use to short term accommodation proximate to completion. Occupancy levels for Major Cities improved 0.3 points to a very healthy 80%
- Tourism Research Australia's visitor night data for FY2017 displayed strong growth, although this is only an indirect guide to short term accommodation demand
  - International visitor nights increased 7.0% to 265M, which was slightly above expectations
  - Domestic visitor nights grew 3.8% to 338M, inline with expectations
  - Despite these key indicators, demand in major city hotels grew by a lower 2.6%, frustrated by limited supply
- Rate growth of 1.8% was as expected
- Seven of the ten major cities covered in Hotel Futures experienced year on year growth:
  - Once again Cairns & Port Douglas led the nation in growth, recording a 13.4% increase in RevPAR
  - Sydney benefited from strong rate performance, growing 7.8%
  - Retreating markets of Perth and Brisbane continued to correct, both declining quite substantially, and additionally impacted by material supply arrival. Darwin also continued to reset as high yielding resource contracts were replaced by lower rate leisure guests
  - Leisure markets continue to display growth
  - Melbourne rate and RevPAR growth has stalled, with the market unable to generate rate growth for a second year despite occupancy levels above 85%

***Source:** DHR internal research

AUSTRALIAN MAJOR CITY HOTEL (STR) FY2017 PERFORMANCE

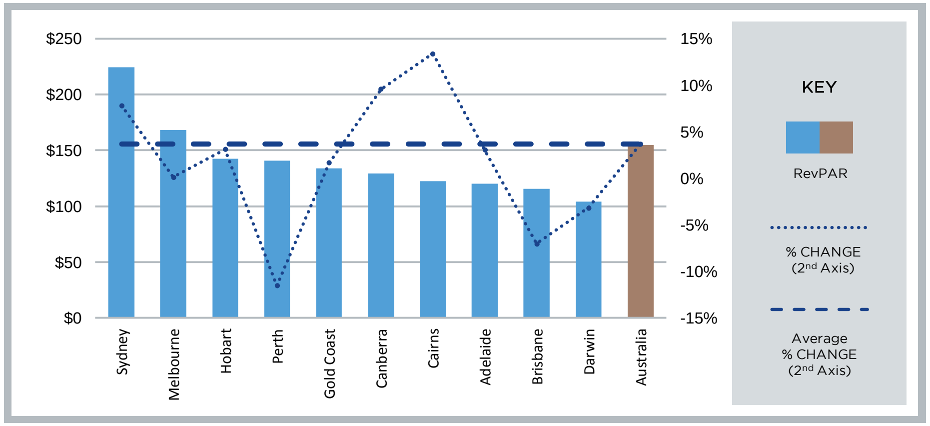
FY2017 Performance			
Location	Rate Growth	Occupancy	RevPAR Growth
Adelaide	1.0%	79.1%	3.0%
Brisbane	-6.6%	73.2%	-7.0%
Cairns & P.D	10.1%	78.3%	13.4%
Canberra	4.2%	76.2%	9.6%
Darwin	-8.6%	69.9%	-3.2%
Gold Coast	4.0%	71.5%	1.7%
Hobart	2.5%	82.8%	3.1%
Melbourne	0.5%	85.3%	0.1%
Perth	-6.9%	78.1%	-11.5%
Sydney	6.7%	88.8%	7.8%
Total Market	**1.8%**	**80.0%**	**2.1%**

Source: STR

AUSTRALIA AT A GLANCE FY2017

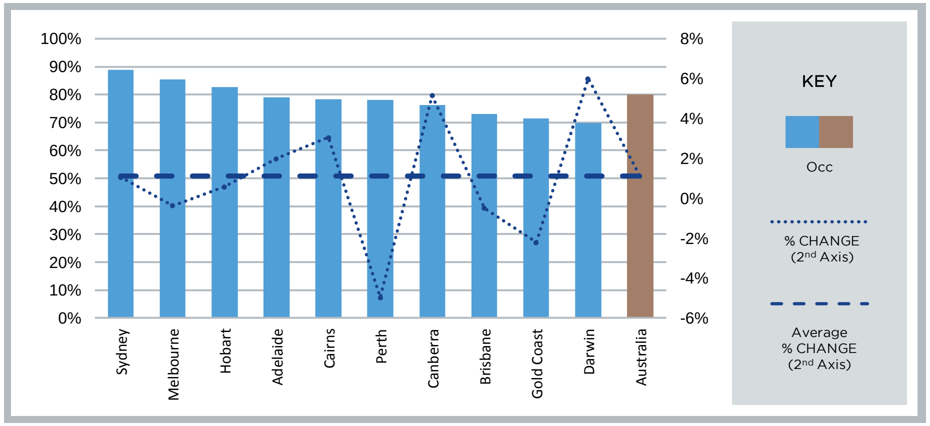
Major City RevPAR growth averaged 2.1% in FY2017, with substantial variance in individual city performance. Sydney and Melbourne maintain their position as the only cities above the national RevPAR average, while Cairns and Canberra are the star performers in terms of growth. Perth, Brisbane and Darwin all continued their reset from abnormal resource project pricing.

REVPAR – ACTUAL & % CHANGE FY2017



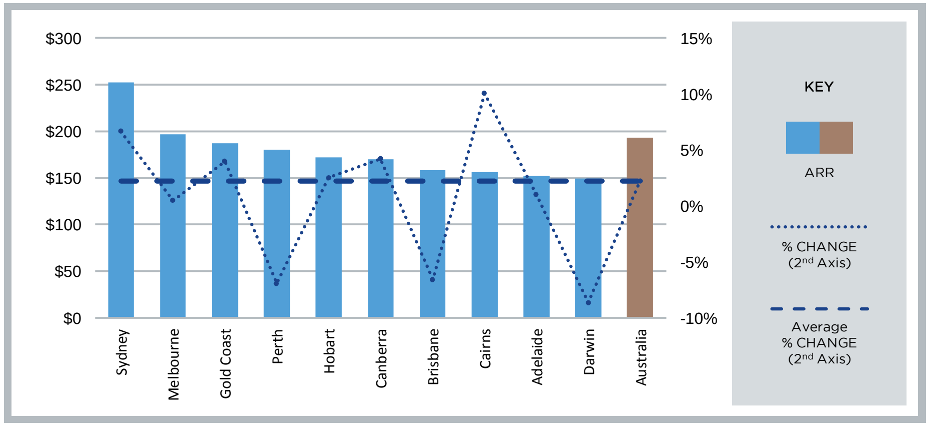
Source: STR

OCCUPANCY – ACTUAL & % CHANGE FY2017



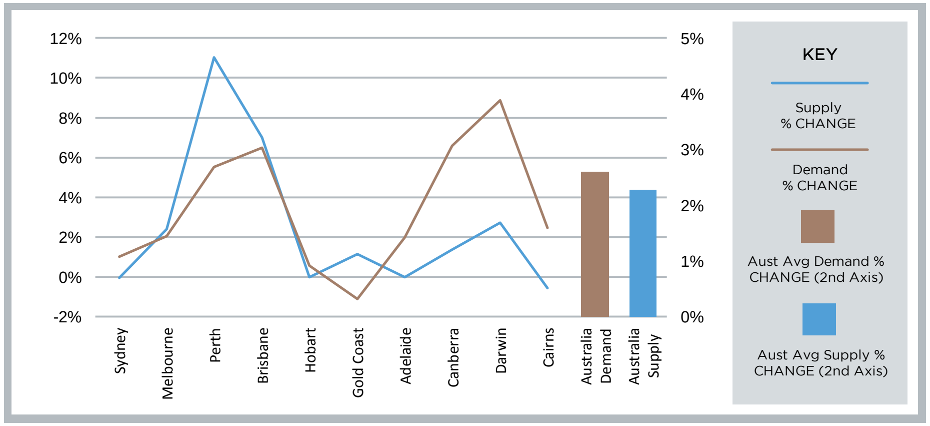
Source: STR

ARR – ACTUAL & % CHANGE FY2017



Source: STR

SUPPLY AND DEMAND % CHANGE FY2017



Source: STR

DRANSFIELD HOTELS & RESORTS

AUSTRALIA AT A GLANCE

SHORT & MEDIUM TERM OUTLOOK

FY2018 National Outlook

- RevPAR for FY2018 is anticipated to record robust growth of 3.8%, resulting from a slight improvement to occupancy levels and compounded by larger but moderate rate growth
- The expected growth represents a small 1.4 point downgrade to Hotel Futures 2017 RevPAR expectations, with rate growth underperformance likely in several markets despite a highly positive supply and demand equation
- Supply growth forecasts of 3.8% are slightly increased as several residential projects have switched to short term accommodation on or close to completion, and the timing of some projects improved
- Strong demand growth is expected to fully absorb additional supply, pushing occupancy levels upwards. FY2018 includes several rare events which induced outperformance including the Commonwealth Games in April and the eagerly anticipated Ashes Test Series across 5 cities

Medium Term Outlook to FY2020

- RevPAR growth averaging 3.1% p.a. is expected over the medium term, underpinned by a consistently high occupancy environment despite moderate increases in supply
- RevPAR growth is slightly below the 3.8% p.a. previously expected, as our rate outlook has softened with the emergence of additional supply, and following tentative recent market behavior in some cities. Rate will also be impacted by how operators approach occupancy building and maintenance, with the potential for discounting behavior when new hotels open. Shadow stock availability, although increasing in many cities, is unlikely to have the same effect as it has in Melbourne over the last two years where it limited and unwound hoteliers opportunity to take compression night premiums
- Expected new supply has been slightly delayed and is now expected to average 4.5% growth compared to 4.7% previously
- Demand growth expectations averaging 4.5% over the medium term are expected to fully absorb supply additions. The medium term demand forecast represents a small improvement to prior forecasts, informed by improved TRA demand expectations over this period
- Occupancy is expected to maintain at current levels through the medium term, with more upside opportunity than downside risk anticipated
- Rate growth expectations are for 3.1% growth p.a and have been downgraded from 4.1% previously. Rate volatility is present in many markets, especially as the wave of new supply comes online. The rate behavior of individual hotels in individual cities is difficult to forecast as new hotels arrive, and can be based on timing, location or if there was an event on at the time of new arrival. Individual hotel behavior can lead market outperformance or underperformance in the short term, however the high occupancy environment will provide a solid basis for growth over the medium and longer term.

AUSTRALIAN MAJOR CITY HOTEL MARKET REVENUE FORECASTS

	Forecast Average RevPAR Growth		
Location	Short FY2018	Medium FY18-20	Long FY18-26
Adelaide	6.7%	4.5%	3.4%
Brisbane	3.0%	1.4%	4.8%
Cairns	10.2%	4.3%	3.4%
Canberra	3.6%	4.0%	3.4%
Darwin	6.6%	5.9%	4.3%
Gold Coast	10.0%	3.6%	3.8%
Hobart	-5.7%	-1.8%	1.5%
Melbourne	-0.6%	1.0%	3.1%
Perth	-6.3%	-4.1%	2.7%
Sydney	5.7%	5.8%	4.4%
Total Market	**3.8%**	**3.1%**	**4.0%**

LONG TERM OUTLOOK TO FY2026

Long Term Outlook to FY2026

- Australian major city RevPAR is forecast to grow at a healthy average of 4.0% p.a over the long term
  - The forecast represents a downgrade to prior expectations impacted by a slightly contracted supply and demand equation, placing less upward pressure on rates
  - Growth is still well above recent history, which averaged 2.2% p.a. over the last 3 years
- Supply expectations are for 3.9% growth p.a. representing an increase to Hotel Futures 2017 expectations of 3.4% p.a. although offset by increases to demand expectations
- Live projects (recently completed, under construction, proposals) have increased from 166 to 266 as the supply cycle moves towards the peak
- Our forecast assumes 41,000 additional rooms to enter the market over the next 9 years
- Despite the upgrade, we expect supply to be fully absorbed over the long term
- Demand growth has been upgraded, with 4.1% p.a. growth now expected compared to 3.9% last year. Improved TRA visitor forecasts, greater international access, improvement and diversity in demand drivers across many cities, and enabling supply additions have all contributed to the upgrade
- Occupancy levels are likely to be abnormally high averaging over 80% and rarely below that level
- Rate growth averaging 3.7% p.a is expected over the long term, slightly below previous expectations. Upside opportunity exists across many of the major cities should substantial Market Response supply allowances not eventuate or be delayed.

TOTAL AUSTRALIAN MAJOR CITIES (WEIGHTED)

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	105,710	3.8%	5.0%	$198.56	2.6%	$160.63	3.8%	$156.71	80.9%
FY2019	110,555	4.6%	3.9%	$205.48	3.5%	$165.20	2.8%	$156.78	80.4%
FY2020	116,280	5.2%	4.6%	$212.09	3.2%	$169.64	2.7%	$156.61	80.0%
Avg FY 18-20		**4.5%**	**4.5%**		**3.1%**		**3.1%**	**$156.70**	**80.4%**
FY2021	123,533	6.2%	5.4%	$218.59	3.1%	$173.43	2.2%	$155.74	79.3%
FY2022	129,416	4.8%	4.3%	$226.39	3.6%	$178.86	3.1%	$156.25	79.0%
FY2023	134,447	3.9%	4.0%	$235.10	3.8%	$185.90	3.9%	$157.98	79.1%
FY2024	137,193	2.0%	3.4%	$244.77	4.1%	$196.19	5.5%	$162.18	80.2%
FY2025	139,802	1.9%	3.3%	$255.48	4.4%	$207.67	5.9%	$166.99	81.3%
FY2026	143,032	2.3%	3.3%	$267.16	4.6%	$219.34	5.6%	$171.58	82.1%
Avg FY21-26		**3.5%**	**4.0%**		**3.9%**		**4.4%**	**$161.79**	**80.2%**
Total Forecast Avg FY2018-2026		**3.9%**	**4.1%**		**3.7%**		**4.0%**	**$160.09**	**80.2%**

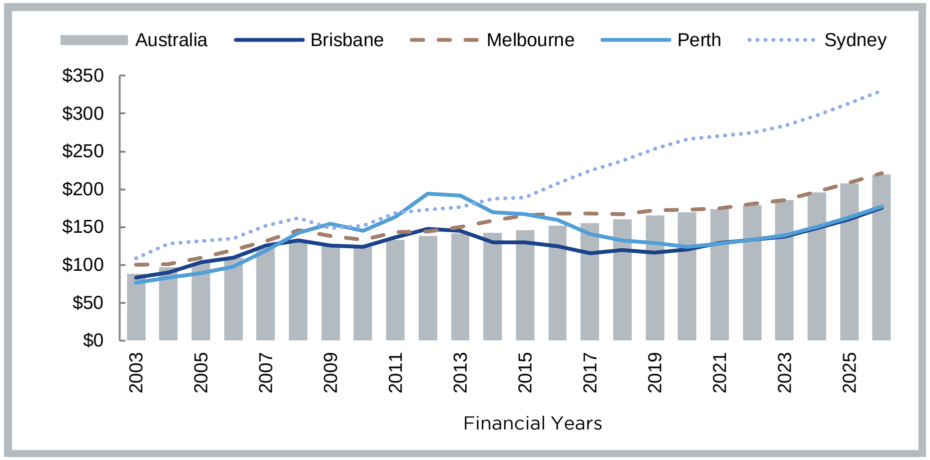
DRANSFIELD HOTELS & RESORTS

CITY SUMMARIES

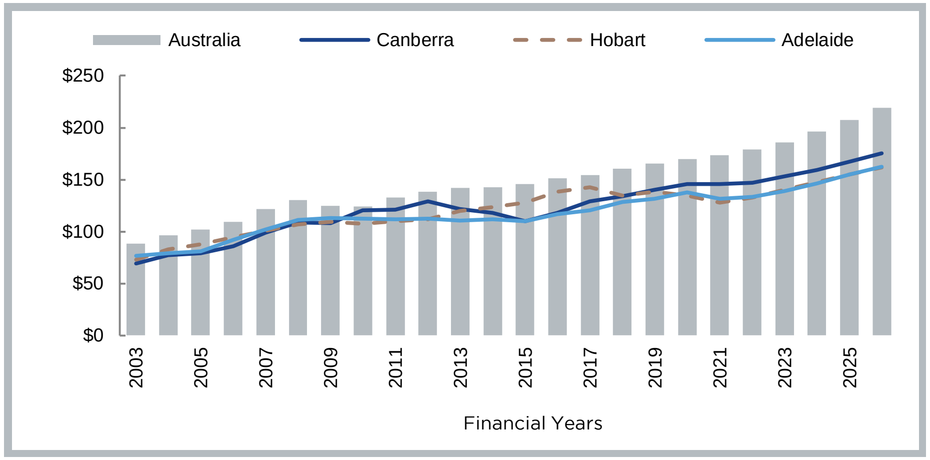
City	Long Term RevPAR Outlook (avg. p.a)	Comment
Adelaide	3.4%	FY2017 saw good RevPAR growth of 3.0% slightly below our strong expectations. An influx of supply well above historic levels is arriving through the medium term and is expected to be absorbed over the life of the forecast seeing occupancy remain strong. The long term RevPAR forecast of 3.5% annual growth is in line with prior expectations
Brisbane	4.8%	A 5th consecutive year of RevPAR decline in FY2017, although positive signs are starting to come through. A further influx of supply is expected over the next couple of years, which is expected to be fully absorbed as demand expectations also improve. Occupancy is forecast to tip 80% at the back end of the forecast. Long term RevPAR expectations are for 4.8% growth p.a, with backend outperformance. This is consistent with prior expectations
Cairns & Port Douglas	3.4%	Cairns and Port Douglas continue to go from strength to strength recording 13.4% RevPAR growth in FY2017 (averaging 9.5% over the past 5 years). Material development activity is planned, although focussed on Cairns. It is expected to be absorbed despite a minor downgrade in the demand growth outlook. Long term RevPAR expectations are for 3.4% growth p.a., an upgrade on prior expectations driven by short term outperformance
Canberra	3.4%	In FY2017, Canberra RevPAR exceeded strong expectations, compounding robust growth in the prior year. Demand growth expectations are above long term supply expectations which sees occupancy maintained in the mid 70's. Long term RevPAR expectations are for 3.4% growth p.a, with moderate rate growth expected throughout. Expectations have improved relative to the prior forecast following FY2017 outperformance
Darwin	4.3%	In FY2017, Darwin hotels continued to decline, albeit slower than recent years. Occupancy levels actually improved through returning, though lower yielding, leisure guests. Very limited supply growth should see the market stabilise, despite a slight moderation in long term demand forecasts. Long term RevPAR growth averaging 4.3% is expected, which is a slight downgrade from the higher FY2017 base
Gold Coast	3.8%	In FY2017, Gold Coast Hotels recorded moderate growth, slightly less than expected. Strong Commonwealth Games related growth in FY2018 is expected to unwind in FY2019. Long term demand forecasts have been slightly increased and are above supply expectations, which remain volatile and characterised by fluid transition between residential and short term letting. Long term RevPAR expectations are for 3.8% p.a. growth and are marginally below prior expectations
Hobart	1.5%	Hobart's stellar run of RevPAR growth continued in FY2017 in line with expectations. This is expected to mark the end of the up cycle as significant supply arrives over the next few years. Demand expectations have improved but not enough to fully absorb the proposed supply which is well above market needs. Long term RevPAR expectations are for 1.5% growth p.a. and are in line with prior expectations and impacted by supply induced under performance through the medium term
Melbourne	3.1%	Continued lack of rate growth saw the Melbourne market RevPAR unchanged in FY2017. The next wave of supply, both traditional hotels and shadow supply, is expected to arrive through the medium term and put some pressure on occupancy levels, but see them remaining above 80%. Demand growth over the life of the forecast is in line with expected supply growth. Lack of rate growth recently and over the forecast short term has seen our long term RevPAR forecast downgraded from 5% growth to 3% p.a.
Perth	2.7%	In FY2017, the Perth hotel market contracted substantially, marking the 5th consecutive year of decline. This is expected to continue over the next couple of years. Whilst the mining demand rate reset is largely complete, the market meets the next hurdle as significant supply arrives. The backend of the forecast sees the market recover, returning to 80% occupancy levels. The forecast for 2.7% p.a. RevPAR growth is a downgrade on prior expectations
Sydney	4.4%	In FY2017, Sydney Hotels capitalised on ultra-high occupancy, increasing rates considerably. This dynamic is likely to maintain over the medium term with demand continuing to be constrained by supply availability despite visitation forecasts being again upgraded. Material supply through the medium term is expected to be fully absorbed with capacity for additional supply. Long term RevPAR forecasts are for 4.4% growth and are in line with prior expectations
Australia	4.0%	In FY2017 the Australian Capital City Hotel markets recorded 2.1% RevPAR growth p.a which was slightly below our 2.6% expectations. The long term revenue forecast for Australian Capital City hotels is for healthy RevPAR growth averaging 4.0% p.a, underpinned by high occupancy levels, and a positive supply and demand equation

CITY SUMMARIES

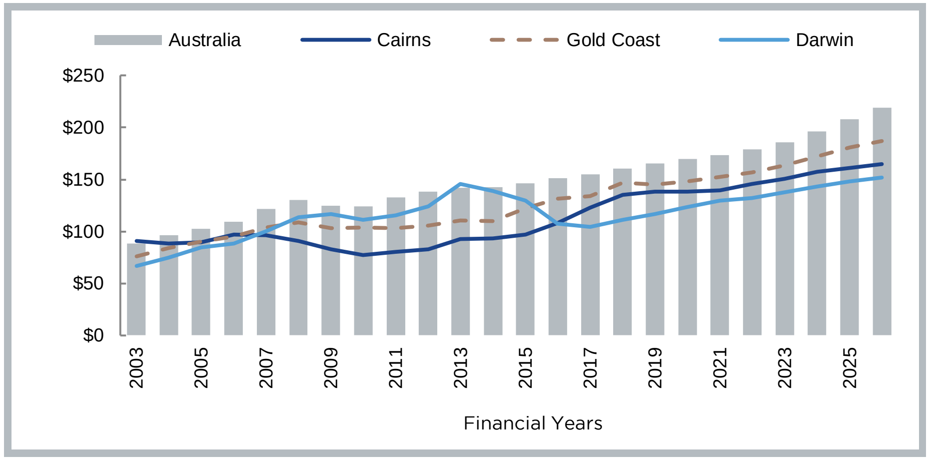
MAJOR CAPITAL CITY REVPAR COMPARISON



SECONDARY CAPITAL CITY REVPAR



LEISURE BASED CITY REVPAR



Relative RevPAR

- Average RevPAR growth of 4.0% p.a across Australia to FY2026 with Sydney leading the way
- Sydney will extend its position as the nation leader, with rate growth opportunities present in the ultra high occupancy environment, carrying the national average upwards
- Melbourne which traditionally sat well above the national average has come back towards the national line with consistent supply additions, including shadow stock, softening the rate outlook. Melbourne, still sits well above every other market and is not at risk of losing second position
- Brisbane and Perth likely to track parallel to each other over the long term as they both look to absorb considerable medium term supply which was conceptualised through the mining boom. Outlook for both cities is good in the long run
- Canberra and Adelaide are expected to travel along similar curves as both cities expand their leisure and events demand drivers, and start to welcome additional supply which has been low historically
- Darwin begins to gain on Cairns as the reset of corporate contracts ends and supply development remains low, whilst Cairns recent outperformance starts to normalize
- RevPAR for the Gold Coast is strong and above both Perth and Brisbane for the life of the forecast. This is partly associated with the cycle each city is in, with the Gold Coast yet to experience the next wave of material new supply

TRANSACTION TRENDS

Sales volumes reducing due to high turnover in the preceding periods. This reduction in the sale of "second hand" hotels is supported by the increased desirability of the asset class, with sitting investors and new developers wanting to retain hotels as a preferred asset class

Sales Activity

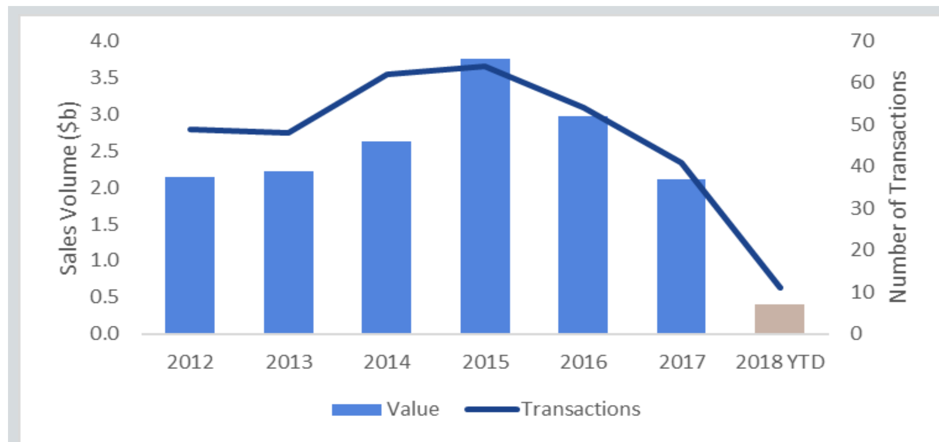
- Diminished stock availability and a high level of turnover in the last five years has led to lower current transaction volumes, despite considerable domestic and international appetite to acquire
  - Transaction volumes fell circa 30%, from $3.0b in 2016 to $2.1b in 2017, compounding a similar reduction in the prior year, and marking the lowest transaction total of the last 6 years
  - Reduced stock availability, especially at the trophy end, and reducing total price points, with the highest value sales topping out at $230M compared to the prior 3 years which all had multiple sales above $300M and several between $400-$700M
- YTD sales in the first third of 2018 have been limited to the $20-60M range, with no individual asset changing hands above $100M
- Interest remains focused on Sydney, then Melbourne, with opportunists eyeing the mining economy affected markets in Perth and Brisbane. Their current lower short term yields are perceived as offset by capital upside and the low current return of alternative investments
- Chinese investment across all commercial real estate asset classes including hotels has slowed as Chinese capital controls, and indigestion from recent high activity, take hold
- Transaction volumes may spike as Chinese groups are forced to reduce Australian real estate exposure, with several big ticket assets and development projects likely to be marketed
- Capital allocation has been transferring from existing assets to new build
- The abundance of capital chasing relatively scarce investment grade products (particularly CBD assets) has continued to drive pricing in highly contested markets, resulting in lower yields and high prices per room
  - Yield compression appears to be continuing
  - Mining and the affected markets are seeing newer investors taking a long term view

- Notable transactions in 2017 included:
  - The sale of the W Melbourne off the plan as part of the Collins Arch mixed use project for $233M (over $790k per room) and the Hilton South Wharf circa $600k per room indicating a continuation of the upward re-setting of prime CBD Melbourne prices
  - Four Points by Sheraton Central Park Sydney off the plan for $525k per room
  - Intercontinental Double Bay for $1M per room on a very low yield
  - Other notable transactions for the 12 months to April 2018 are included overpage

Build to Own

- There is a clear rise in build to own by investors/developers, with over 200 hotels in the pipeline. This is especially the case in mixed use developments where developers are holding the hotel and reinvesting the profit from other uses
- This is seeing significant new investment that is placed in the supply pipeline rather than transaction volumes for "second hand" hotels.

HOTEL TRANSACTION HISTORY 2012 – Q1 2018



* Based on published sales prices for reported sales and Dransfield estimates

TRANSACTIONS

MAJOR TRANSACTIONS BY VALUE: April 2017 – April 2018

Property	Rooms	Purchaser	Origin	Approx. Price	Approx. Price Per Key
Four Points Sheraton, Central Park (Under Construction)	297	Schwartz Family Company	Australia	$156m	$525k
Intercontinental Hotel, Double Bay	140	Shanghai United Real Estate and Zobon Real Estate Group	China	$140m	$1,000k
Sheraton Melbourne	174	Qatar Airways	Qatar	$135m	$776k
Watermark Hotel Brisbane and Watermark Hotel & Spa Gold Coast	482	SB&G Group	Australia	$110m	$228k
Mercure & Ibis Brisbane	412	Commerz Real	Germany	$77m	$187k
Mercure Sydney International Airport	271	Folkstone Sydney Airport Hotel Fund	Australia	$75m	$275k
Mercure Melbourne Treasury	164	Cbus Property	Australia	$70m	$427k
Holiday Inn Perth	186	Singaporean Investors	Singapore	$65m	$349k
Royce Hotel, St Kilda Road	100	Mazen Tabet	Australia	$55m	$550k
Adina at 88 Flinders St, Melbourne	65	Yong Quek of Prime Value investment manager	Australia	$54m	$823k
18 O'Riordan St, Green Square (Fund Through)	144	Folkstone Green Square Hotel Fund	Australia	$44m	$302k
Mercure & Ibis Styles Grosvenor Hotel, Adelaide	245	Chip Eng Seng	Singapore	$43m	$176k
Quest East Perth	130	Savills Investment Management	Australia	$42m	$323k
Emporium Hotel, Fortitude Valley	102	Ovolo	HK	$41m	$402k
ARIA Hotel, Canberra	128	Aligned FM	Aust	$35m	$273k
Quality Hotel CKS Sydney Airport	121	Ao Bo Assets Management	China	$32m	$264k

SUPPLY FORECAST

Supply expectations have been upgraded, facilitated by upgrades in demand forecasts which are expected to largely absorb the increase, with high occupancy expectations continuing

FY2017 Supply Base change in Calculation

The ABS decision to cease Census data collection has affected our historical supply base calculation methodology. We have undertaken research to identify new rooms within the various city area boundaries and added these to the FY2016 census base. While we are confident that we have captured the majority of new rooms, there is scope for error in the short term. This is unlikely to have a material effect on long term forecasts. The next edition of Hotel Futures in 2019 will likely have the benefit of confirmed STR supply base census

National Supply - Actual and Outlook

- In FY2017, we estimate that Major City supply stock increased by a moderate 2.3%, which is equivalent to 2,300 new rooms. This marked one of the largest year on year growth rates over the last decade which has averaged close to 1% p.a. over the last 10 years
- Construction and proposal activity has also increased from the prior year, increasing pipeline completion certainty
- The Hotel Futures 2018 forecast represents an upgrade in absolute supply levels to prior expectations. Improved overarching sentiment and upgraded demand outlook has driven the uplift, with demand expected to largely absorb the additional new supply over the long term
  - In FY2018 supply is forecast to grow 3.8%, which is above prior expectations. This arises as some projects arrived quicker than prior timetables, and as some development slated for residential use converted to STA on completion. This was evident in Melbourne and the Gold Coast
  - Supply growth is expected to average 4.5% p.a. over the medium term to FY2020 which is expected to be fully absorbed. Early arrivals in FY2018 are expected to offset over the next 2 years as delays emerge
  - Our national long term forecast is for supply to increase by 3.9% p.a.

Supply Cycle Comparison – HF2017 vs HF2018

- Australian Major City long term supply forecasts have increased 5,000 rooms over 9 years, which is relative to a base of 100,000+. The increase represents a relatively small supply uplift of 0.4% p.a over the forecast life and is expected to be fully absorbed
- The identified live pipeline (construction and proposals) has infilled, increasing to 25,500 rooms compared with 19,400 in the previous forecast
- The new forecast represents an increase in identified project numbers to 226 from 166 previously
- Certainty has improved with the transition of Proposals to Construction, and Market Response allowances being taken up by specific Proposals
  - Construction activity has moderately increased to 13,500 rooms compared with 9,300 previously
  - Gross Proposed rooms (assuming 100% probability of all proposals) have increased to 26,500 to which we have applied a 45% prospect of completion, delivering 12,000 net rooms. Over the same period last year, our forecast anticipated 10,100 rooms at 49%. The probability percentage reduction reflects current projects being earlier in the planning process with higher completion risk
- Market Response for the forecast period to FY2025 allows for an additional 12,700 rooms above identified currently live projects
  - This is a 1,100 room decrease to prior expectations, responding to the uplift and transfer to Construction and Proposal activity over the last year
- Market Response to FY2025 now accounts for 34% of all new supply compared with 41% in the previous forecast

Supply Cycle Comparison FY2018 to FY2025 : HF2017 vs HF2018

	Hotel Futures 2017	Hotel Futures 2018	Var.
Construction & Recently Completed	**9,300**	**13,500**	**4,200**
Net Proposals (% probability applied)	10,100	12,000	1,900
Market Response	13,800	12,700	-1,100
Supply Pipeline	33,200	38,200	5,000
Forecast Supply FY2025*	135,100	139,800	3.7%
Average Annual Uplift (9 years)			0.4%

*Boundaries for Hotel Futures 2018 have changed. We have amended Hotel Futures 2017 data in this table to reflect a like for like region

Supply by Type – Short, Medium and Long Term: Comparative Forecast to FY2025

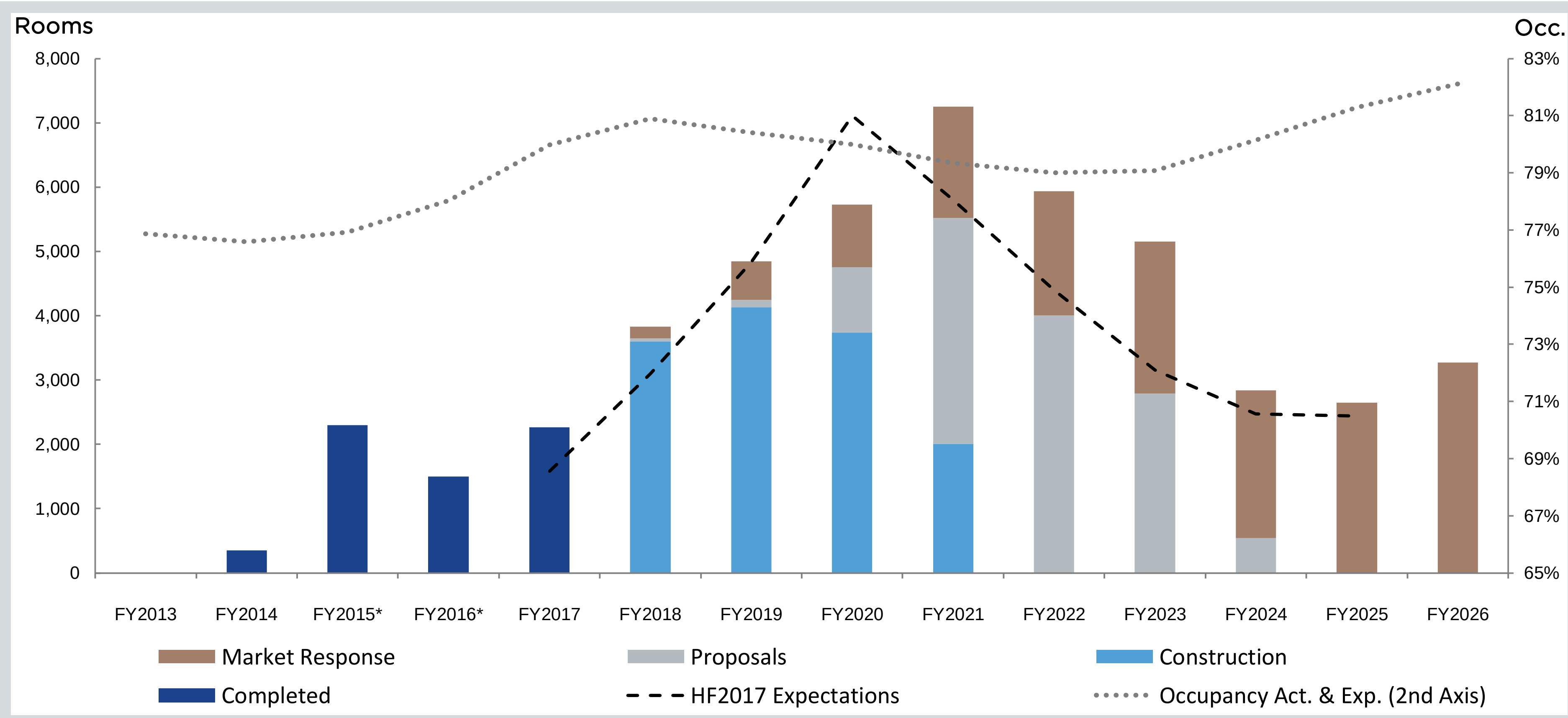
	FY18 1 Yr	FY18-FY20 3 Yrs	FY18-FY23 6 Yrs	FY18-FY25 8 Yrs
Construction	94%	80%	41%	35%
Proposals	1%	8%	35%	31%
Market Response	5%	12%	24%	34%

DRANSFIELD HOTELS & RESORTS

SUPPLY NATIONAL

Supply expectations have increased in Hotel Futures 2018, with some earlier than expected and new arrivals in FY2017 and FY2018. Slight delays have eventuated through the medium term, which may slide further pending the progression of proposals

MAJOR CITY SUPPLY GROWTH PERFORMANCE AND FORECASTS TO FY2026 – ROOMS



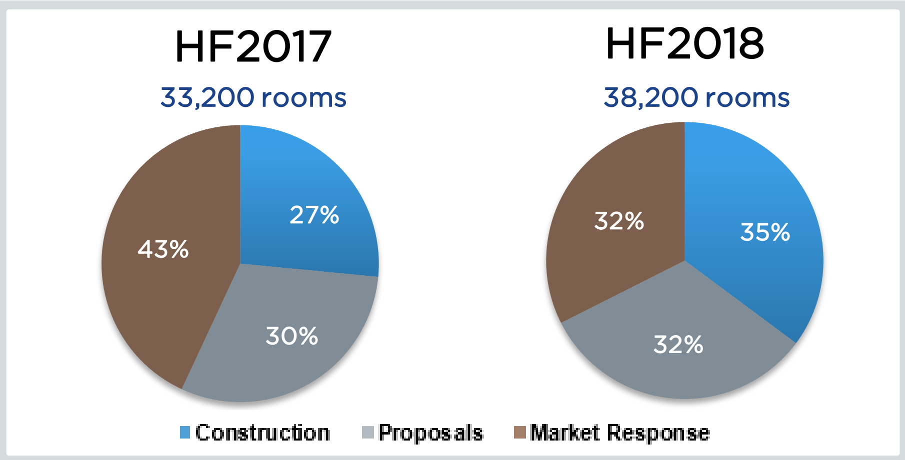
* In FY2015 and FY2016 we have normalised data following ABS data set changes to reflect estimated actual new supply net of base calculation errors

DRANSFIELD HOTELS & RESORTS

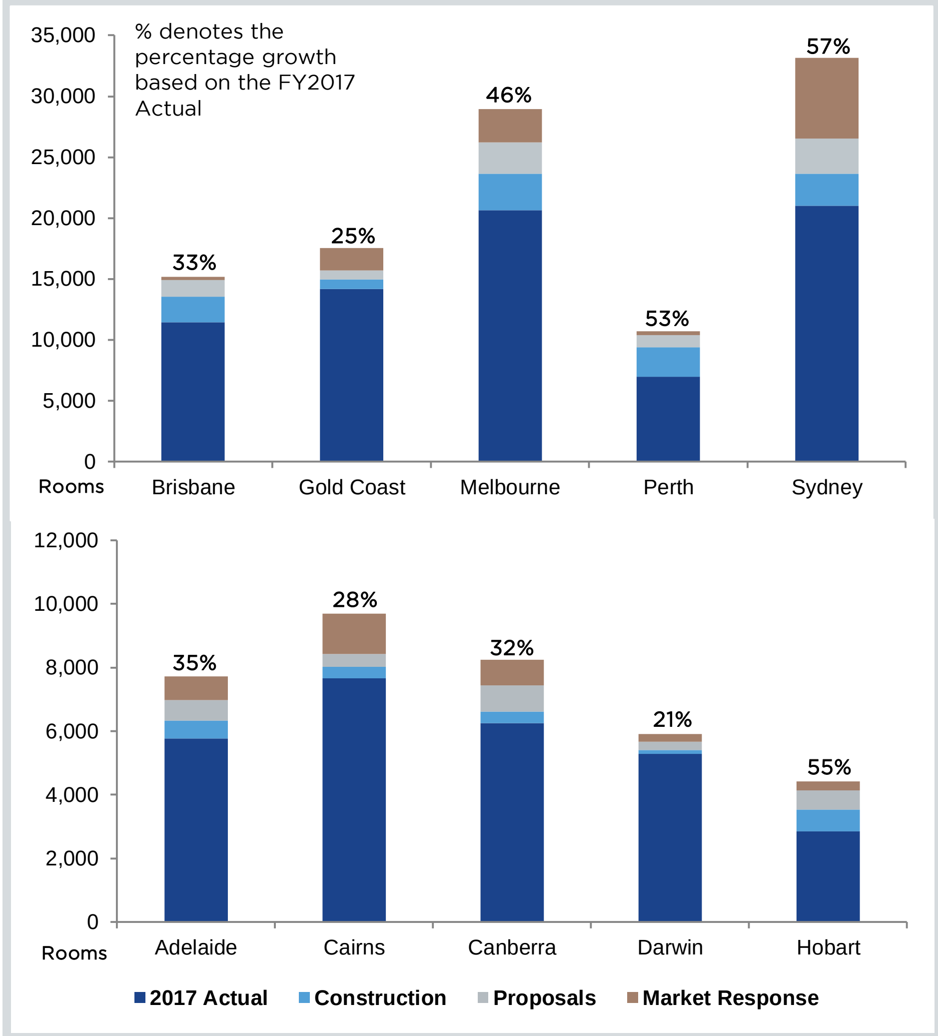
SUPPLY FORECAST

- Pipeline certainty has improved as the collective pipeline moves towards the construction peak. Proposals are being replaced at a faster rate than delivery, absorbing Market Response Allowances. Despite a maturing development cycle, most markets have significant scope for additional development activity. In many cases, idea conception to opening will take 5 years to arrive, allowing for the iterative process, including approval, financing, and construction hurdles
- Across the country, markets are in various stages of the supply cycle:
  - The Brisbane and Perth cycles are the most advanced, with multiple hotels either opening over the last 12 months or with significant construction activity underway. These markets are characterised by extremely low levels of expected additional Market Response as the pipe has effectively been saturated
  - Heavyweights of Sydney and Melbourne are the largest pipelines by room numbers
    - Melbourne has experienced strong supply growth over the last decade, and continues to display moderate construction and proposal activity. Unlike any other city, Melbourne has a high amount of near city residential apartments in the development pipeline, creating additional shadow stock pressure, some of which has switched to STA late
    - Sydney, which has been dormant for sometime has finally come alive, although with more than 50% of the forecast pipeline made up of Market Response, it still has considerable scope for additional activity. The risk with the Sydney provision for Market Response is the availability of sites, which are often not the highest use for developers
  - Canberra and Adelaide are part way through their respective cycles with fair levels of construction and proposal activity. Both still have moderate additional scope for Market Response
  - Similarly, Hobart is quite advanced in its cycle, however many of the projects are in the proposal stages rather than construction. Activity appears to be well above market needs and may dissipate with continued market volatility

SUPPLY BY TYPE COMPARISON - HF2017 vs HF2018: FY2018 to FY2025



MAJOR CITY FORECAST SUPPLY GROWTH BY TYPE FY2018-2026



DEMAND TRA FORECASTS

Tourism Research Australia's long term visitor forecast to FY2025 has been slightly upgraded. **Average annual growth of 4.1% p.a** is expected compared to 3.9% in the prior forecast. The smaller International visitor night contingent, which made up approximately 44% of total visitor nights in FY2017 has been upgraded, whilst Domestic visitor nights have been slightly downgraded. International visitor nights are expected to eclipse Domestic nights by FY2024.

TRA Domestic Forecasts

Domestic visitor night forecasts to FY2025 have been downgraded with annual growth expectations of 2.3% p.a compared to 2.8% previously

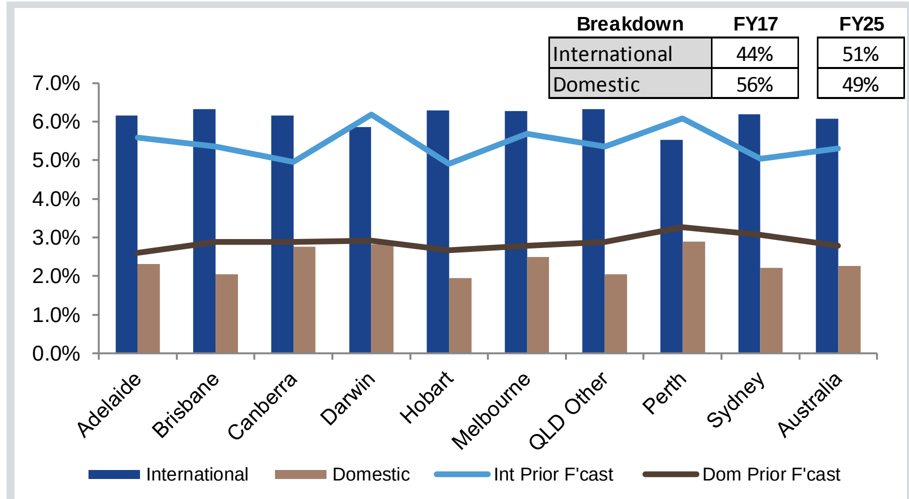
- In FY2017 domestic visitor nights grew 3.8%, in line with expectations. NSW, Victoria, Queensland and Tasmania all recorded 5% + growth, with Western Australia and the Northern Territory the worst performing, each contracting by more than 7%
- Nights for the purpose of Business are expected to grow at the fastest pace over the long term to FY2025 (3.9% p.a to 89M), with the larger VFR (1.9% p.a to 121M) and Holiday (1.6% p.a to 166M) markets both growing slower
- Over the long term, domestic visitor nights are now expected to reach 404M by FY2025 compared to 423M previously

TRA International Forecasts

Long term International visitor night forecasts to FY2025 have been upgraded with annual growth expectations of 6.1% p.a, compared to 5.3% previously

- In FY2017 international visitor nights increased by 7.0%, slightly above strong 6.1% expectations. All States except the ACT (-8.4%) recorded growth, with Victoria (16.9%) and South Australia (11.1%) recording the most pronounced yoy increase
- Chinese visitors, who are already the largest contributor of nights for any single country, increased an astounding 23.8% in the year ending September 2017. As a sign of the continuing trend towards free and independent travel from China, the number of visitors on group and package tours declined by 5.8%
- The Federal Government has also recently (March 2018) unveiled plans to establish Australia's first ever Federal Government funded business events fund to target overseas event bids. This should assist capture of high yielding guests who often stay in the country for an extended period, and often travel with companions
- Total international visitor nights are now expected to reach 424M by FY2025 compared to 399M previously

TRA FORECAST VISITOR NIGHT MOVEMENT – Long Term to FY2025



Source: TRA State and Territories Forecast 2017 - 2 August 2017, TRA State (Regional) Tourism Forecast - 11 August 2016, State of the Industry 2018, Tourism Research Australia, Canberra. International Visitor Survey, September 2017.

Outbound Travel Forecasts

Long term resident departure expectations represent a slight upgrade to those previously forecast. The 10 year forecast to FY2027 is for 3.9% growth p.a compared to 3.6% previously

- In FY2017 resident departures increased 4.1%, slightly below the previous 3 year average
- Outbound travel is forecast to grow more slowly than international arrivals, and it is expected that the number of international visitors to Australia will overtake outbound departures in 2026–27

DRANSFIELD HOTELS & RESORTS

DEMAND DRANSFIELD OUTLOOK

Dransfield's demand forecast for major city hotel rooms has been upgraded taking regard of moderate upgrades to both supply expectations and TRA visitor night forecasts. Our forecast is for long term average annual growth of 4.1% compared to 3.9% previously

National Demand FY2017 – Major Cities

Overarching visitor night statistics reported robust growth in visitor nights in FY2017. Nights spent in hotels grew faster than total nights

- Tourism Research Australia recorded a 6.7% increase in total visitor nights across Australian Major Cities in FY2017. Visitor nights in Hotels/Resort/Motel or Motor Inns (HRMMI's) increased further, recording 7.7% growth
  - International visitor nights in Major Cities grew 7.7% to 218.8M, while nights in HRMMI's grew 8.9% to 25.2M
  - Domestic visitor nights in Major Cities grew 4.9% to 125.7M, while nights in HRMMI's grew 7.1% to 44.4M
- Demand growth has been constrained by supply availability in many markets, particularly Sydney
- STR Occupancy growth indicated growth with a 0.3 point improvement in the context of a small increase in supply

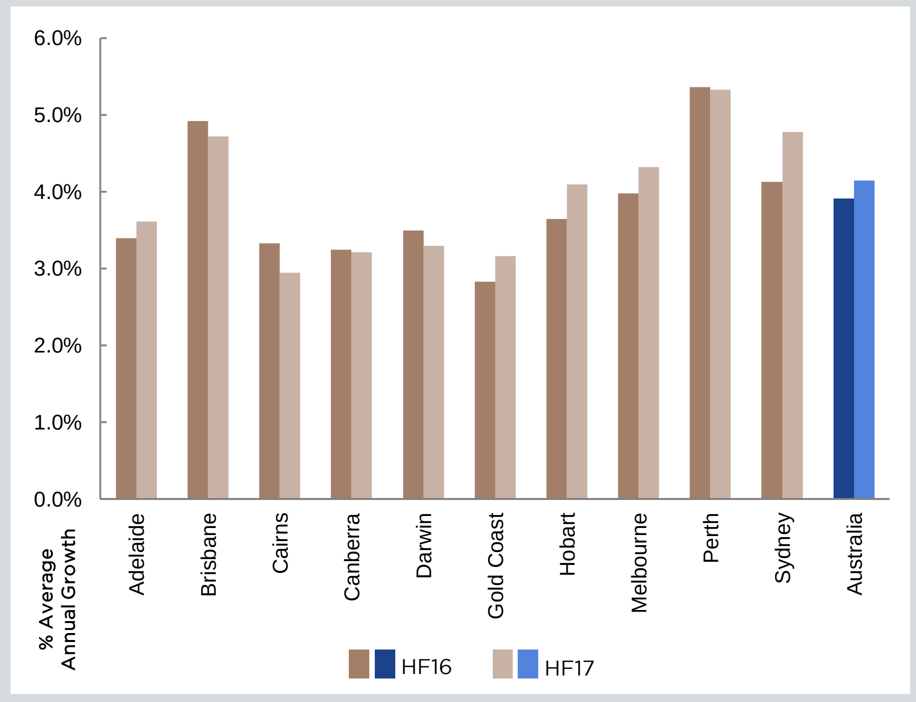
Dransfield National Demand Forecast

Hotel Futures 2018's long term demand forecast is for average growth of 4.1% p.a, which is a moderate upgrade to the previous forecast. Uplift is derived through improved TRA expectations and enabling supply in some key cities

- We expect demand to increase by 5.0% in FY2018 which is above previous forecasts for 3.9% growth. Event induced demand outperforms expectations in several cities, and some enabling supply arrived quicker than expected
- Medium term demand growth is expected to average 4.5% p.a, which is in line with prior forecasts. Demand growth for this period is inline with supply growth expectations. Supply constraints in several cities have limited further growth
- Our long term growth forecast is considered to have more upside opportunity than downside risk with supply constraints remaining in some key gateway cities

Source: TRA special request

DRANSFIELD LONG TERM DEMAND FORECAST



DRANSFIELD HOTELS & RESORTS

ARRIVALS AND DEPARTURES

In FY2017, international arrivals continue to grow at a faster rate than resident departures (9.0% vs 6.2%), albeit from a lower base. China continues to show the most significant growth path

Visitor Arrivals

- International arrivals increased 9.0% in FY2017 to 8.6M with growth displayed in all but one month. Six months recorded significant double digit growth
- Average arrivals growth for the last 3 years now sits at a very strong 8.4% p.a.
- 4 out of the top 5 previous international markets by visitor nights recorded growth in FY2017, led by China once again. New Zealand recorded significant decline

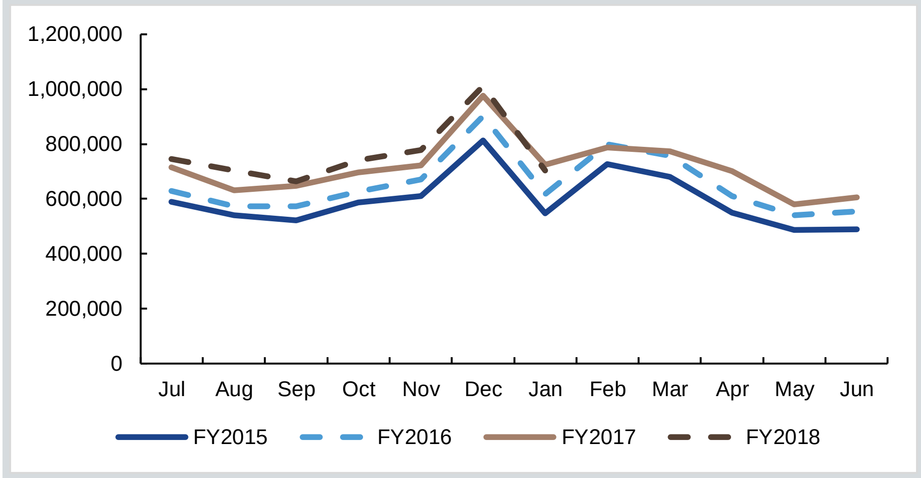
China 23.8% UK 0.6% New Zealand -10.0% U.S.A 2.3% India 8.3%

- Visitor Nights from Taiwan displayed the most significant increase of those outside the top 5, recording 17.3% growth
- Robust Japanese growth saw it move into the top 5, recording an 8.4% increase
- In FY2018 (YTD January, 2018), growth has continued, with a 4.5% increase on the prior corresponding period

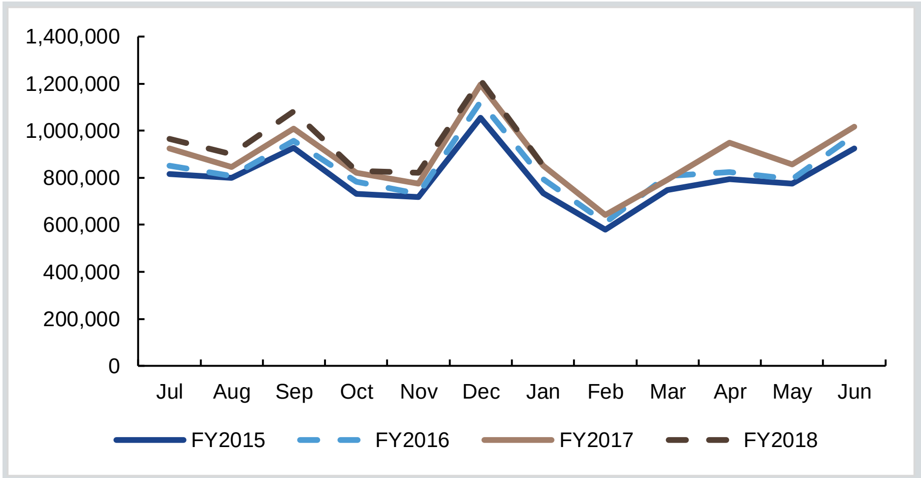
Resident Departures

- In FY2017, domestic departures increased 4.1% to 10M
- All but one month recorded period on period growth, led by the Easter month of April, which recorded significant 15.4% growth following a prior year which held a March Easter date. Similarly, March FY2017 recorded the only decline
- Through the first four months of FY2018 Resident departure growth has continued, recording growth of 3.8% for FY2018

INTERNATIONAL VISITOR ARRIVALS TO AUSTRALIA



RESIDENT DEPARTURES – SHORT TERM LESS THAN 1 YEAR



Source: *ABS Overseas Arrivals and Departures Cat. 3401; TRA State of the Industry 2016*

In FY2017, Adelaide RevPAR performed moderately, albeit below higher expectations. Going forward, the demand outlook is positive and should fully absorb long term supply additions, generating upward pressure on rate. We expect moderate RevPAR growth averaging 3.4% p.a. over the life of the forecast

FY2017 SNAPSHOT

	STR
Establishments	53
Rooms	5,681
STR Sample Coverage	93%
Occupancy	79.1%
Rate	$152.18
RevPAR	$120.37

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	0.0%	0.0%	0.0%	–
Occupancy*	2.3	1.5	-0.7	▼
ARR	2.0%	1.0%	-1.0%	▼
RevPAR	5.1%	3.0%	-2.0%	▼

* Percentage Point Change

Source: STR

FY2017 Year In Review

- In FY2017 Adelaide Hotels performed moderately, recording 3.0% RevPAR growth despite slightly underperforming to 5.1% expectations
  - Occupancy levels increased 1.6 points to 79.1%. overtaking Perth as the 4th highest Major City occupancy market
  - Rates strengthened slightly, improving by 1.0%
- Preliminary STR data for YTD FY2018 (Feb 2018) indicates that growth has accelerated through the first half of the year, albeit affected by a 40+% RevPAR increase for the month of December while the Ashes day/night Test Match was played. This outperformance will unwind in FY2019

Demand Driver Analysis

TRA Demand forecasts have been slightly upgraded, focused on the short term which has carried the overall position, although tempered towards the back end

- Event induced outperformance in FY2018 could be a sign of things to come with upgraded infrastructure, event facilities (Convention Centre) and leisure demand drivers (Adelaide Oval) proving the catalyst for increased event tender success
- City data for FY2017 for Adelaide reveals:-
  - International visitor nights increased by 10.1% to 8.8M nights
  - Domestic visitor nights decreased 1.8% to 8.3M nights
  - Total visitor nights increased by 4.0% to 17.1M nights of which 24% is captured in Hotels and Motels
- In FY2017 Adelaide hotel's domestic visitor nights share in hotels decreased slightly to 74.9% from 75.5%
- The TRA forecasts for Adelaide for the period to FY2025 has been slightly upgraded to average growth of 4.4% p.a compared to 4.2% previously:-
  - Annual domestic visitor night growth expectations were downgraded from 2.6% to 2.3%
  - Annual international visitor night growth expectations were upgraded to 6.1% vs. 5.6% previously

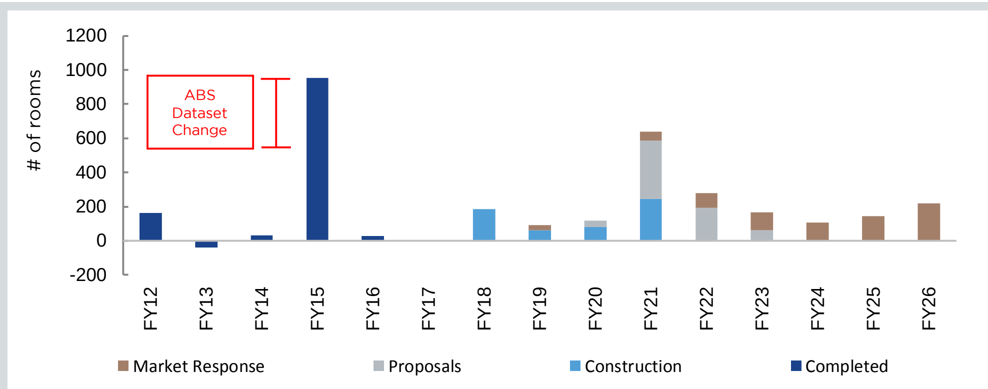
Dransfield Demand Forecast for Adelaide City Hotels

Annual demand growth of 3.6% is expected for Adelaide City hotels over the long term, which is a small upgrade to the prior forecast

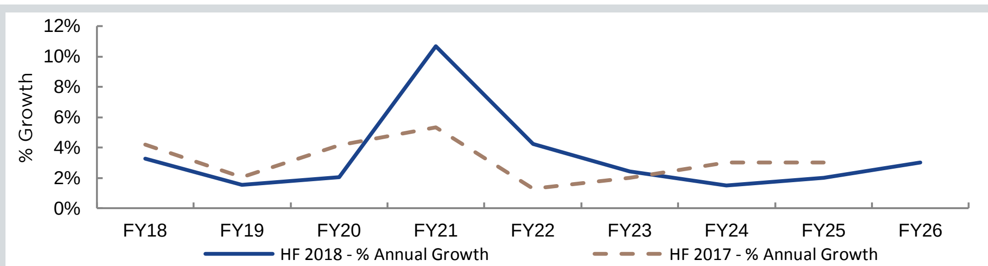
- We expect demand to increase 5% in FY2018, partly event induced
- Medium term demand growth to FY2020 is expected to average 3.5% p.a, which is an upgrade on previous expectations and influenced by upgrades to medium term TRA forecasts
- Long term growth expectations represent a minor upgrade to prior forecasts as Adelaide leisure markets benefit from improved demand drivers and increased supply. The minor downgrade to TRA forecasts over the back end of their forecasts is not expected to have a material effect on demand for hotels. We have maintained our back end demand position.

Prior low supply expectations have increased and are concentrated through the middle of the forecast. Moderate risk is associated with live proposals based on individual project details. A broadening demand base on top of already strong occupancy levels should entice additional development activity over the longer term

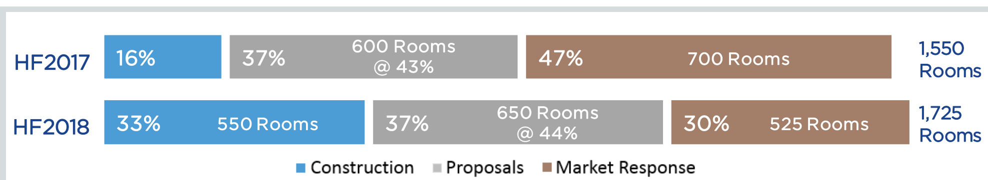
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF18 VS HF17 – PIPELINE BY TYPE TO FY2025



Supply Actual

- In FY2017 there were no new hotel openings in Adelaide CBD
- Through the first half of FY2018 there has been 1 opening with the 245 room Holiday Inn Express Adelaide City Centre opening its doors
- Construction activity is low with only 1 other project underway

Supply Forecasts

- Dransfield's supply forecast is for 1,950 new rooms to enter the market over the next 9 years to FY2026 (35% of current stock) at an average annual growth rate of 3.4%
  - Our forecast supply pipeline represents a small increase of 175 rooms relative to the prior forecast with the market experiencing a rise in proposal activity recently
  - Live projects (recently completed, under construction, proposal) have increased from 8 to 9 relative to last year
  - Demand growth expectations for the forecast have also increased and are expected to fully absorb increased supply expectations
  - Supply growth has been slightly delayed through the medium term although spikes in FY2021. For relativity, the 10% increase in FY2021 amounts to less than 650 rooms
  - Supply growth in the medium term to FY2020 is expected to average a moderate 2.3% p.a. (400 rooms), which is a slight decrease on the 600 rooms expected in the prior forecast, and has been caused by delay in delivery
  - Current proposal activity on a hotel size basis (230 rooms) is larger than the existing hotel average (110 rooms) in this small market. This appears to suggest that developers and investors are becoming more comfortable in the long term prospects of the Adelaide demand base, although moderate completion risk is associated with many of these plans
  - Market Response remains moderate, accounting for 38% of the whole pipeline to FY2026. This can be filled by just three or four new projects
- The pipeline is skewed towards upscale hotels in this cycle, with mainstream operators bringing in brands including Sofitel and Crowne Plaza, while Park Hotels debuts in Australia and Sky City Casino luxury progresses. Outside our forecast region, Langham have also proposed a new build hotel in Glenelg, showing additional belief in the Adelaide market.

Long term RevPAR expectations are for 3.4% growth p.a., in line with prior expectations, with compression through the medium term as supply arrives. Moderate demand expectations, above those of supply, should provide a basis for rate strengthening in the typically low rate market

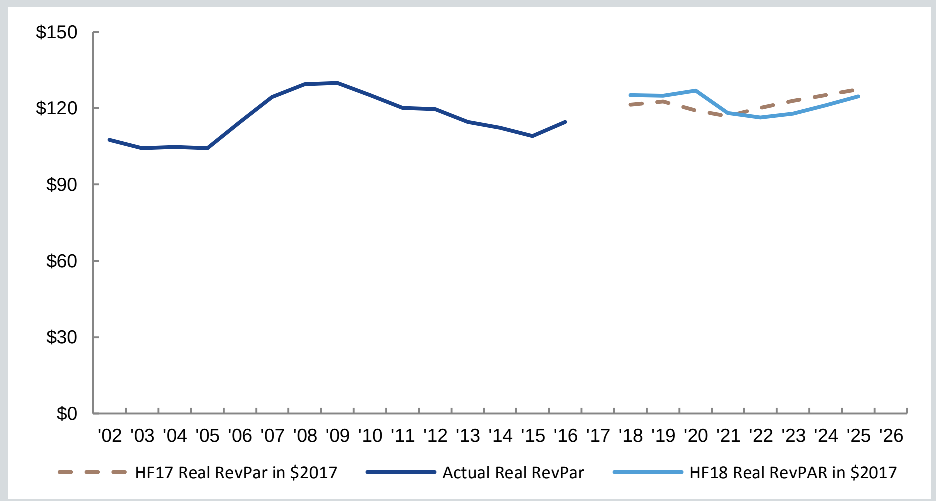
Conclusion

A moderate long term market outlook underpinned by a high occupancy environment. Upside opportunity and downside risk appear limited at present, however, if demand growth persists as anticipated, this may activate change which may manifest in either stronger rate claiming or increased development activity

The Adelaide forecast is in line with prior expectations, with upgrades to supply offset by upgrades to demand expectations

- Over the period of the forecast, average occupancy of 79.7% is expected. Material supply additions, relative to market size, through the middle of the forecast will temper occupancy rates through this period, before strengthening for the back end as development eases
  - In FY2018, occupancy levels are expected to increased by approximately 1.3 points, easily exceeding prior expectations for slight occupancy decline as event induced demand drives outperformance
  - Over the medium term to FY2020, occupancy levels are expected to firm as supply additions remain low. Limited projects are under construction and proposed projects are unlikely to arrive through this period, but coming in shortly thereafter
- Rate growth expectations are stable, and above inflation over the long term. Adelaide hotels perform well in terms of ARR during event nights, however, compared to other Australian cities have typically recorded a more significant relative gap during non-compression nights (<80% occupancy). Improving leisure infrastructure, conference product and calendar of events over the longer term should enable rate growth opportunities. The stable high occupancy environment may encourage further rate claiming than forecast, however historical rate performance has tempered our base case. We consider upside opportunity in rate more likely than downside risk
  - Similar to occupancy, event induced demand will spur rate growth in FY2018. We expect 5.0% growth
  - In the medium term, an element of rate unwind through FY2019 will be likely giving back outperformance from FY2018. We expect average growth of 3.3% p.a.
  - We expect rate growth to outperform the long term average over the back end of the forecast as supply and demand economics improve. Long term expectations are moderate, averaging 3.2% p.a.
- Our forecast for average long-term real RevPAR is consistent with our prior forecast
- RevPAR growth rates for the comparable period to FY2025 are similarly in line with prior forecasts. Inflection points through the forecast have moved, largely linked to supply timing, however, there is no material alteration to the long term view
  - In FY2018, RevPAR will outperform prior expectations, driven by event induced demand. We expect growth in excess of 6.5%
  - In the medium term to FY2020, average RevPAR growth will be bolstered by a strong FY2018, although some unwind is likely in FY2019. Rate growth should persist throughout the period as occupancy pressures remain. Average growth of 4.5% p.a. expected
  - Long term expectations are positive with outperformance anticipated over the back end. Supply and demand economics remain favourable and the opportunity for increased event tender success may compound already high occupancy levels and generate opportunity for further rate claiming, which we know exists during these times
  - Full forecast expectations to FY2026 are for 3.4% growth p.a.

ADELAIDE CITY REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

ADELAIDE

Long term RevPAR expectations are for 3.4% growth p.a., in line with prior expectations, with compression through the medium term as supply arrives. Moderate demand expectations, above those of supply, should provide a basis for rate strengthening in the typically low rate market

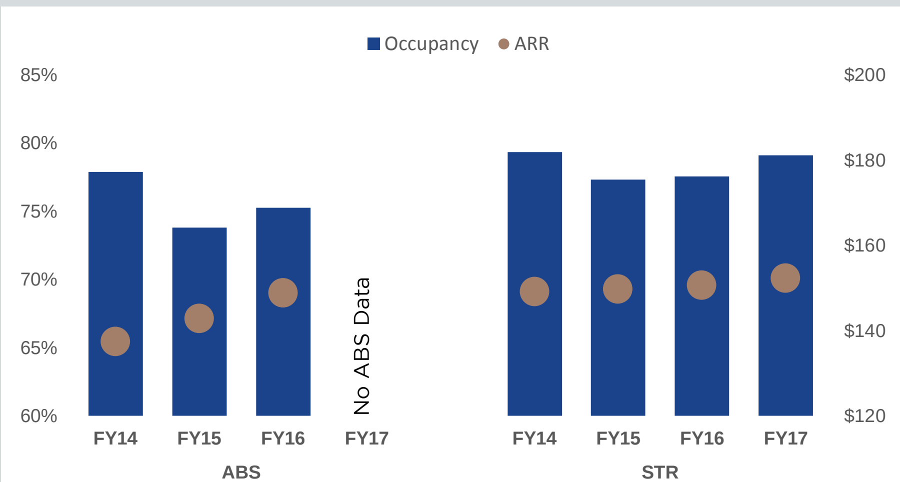
ADELAIDE – HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	4,597	0.7%	4.7%	$137.34	-2.9%	$106.97	0.9%	77.9%
FY2015	5,550	20.7%	14.4%	$142.82	4.0%	$105.42	-1.5%	73.8%
FY2016	5,579	0.5%	2.5%	$148.74	4.1%	$111.96	6.2%	75.3%
Avg FY14-16		7.3%	7.2%		1.7%		1.9%	75.7%

ABS Dataset change affected

ABS & STR DATA COMPARISON



Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$150.65		$116.82			77.5%
FY2017	5,681	93%	$152.18	1.0%	$120.37	3.0%	$120.37	79.1%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	5,763	3.3%	5.0%	$159.79	5.0%	$128.47	6.7%	$125.34	80.4%
FY2019	5,853	1.6%	2.5%	$162.19	1.5%	$131.60	2.4%	$124.89	81.1%
FY2020	5,973	2.0%	3.0%	$167.87	3.5%	$137.49	4.5%	$126.93	81.9%
Avg FY 18-20		2.3%	3.5%		3.3%		4.5%	$125.72	81.1%
FY2021	6,611	10.7%	5.0%	$169.54	1.0%	$131.72	-4.2%	$118.29	77.7%
FY2022	6,891	4.2%	4.0%	$172.09	1.5%	$133.40	1.3%	$116.54	77.5%
FY2023	7,058	2.4%	3.4%	$177.25	3.0%	$138.72	4.0%	$117.88	78.3%
FY2024	7,163	1.5%	3.2%	$184.34	4.0%	$146.69	5.7%	$121.26	79.6%
FY2025	7,307	2.0%	3.2%	$192.64	4.5%	$155.09	5.7%	$124.71	80.5%
FY2026	7,526	3.0%	3.2%	$201.30	4.5%	$162.38	4.7%	$127.02	80.7%
Avg FY21-26		4.0%	3.7%		3.1%		2.9%	$120.95	79.0%
Total Forecast Avg FY 2018-2026		3.4%	3.6%		3.2%		3.4%	$122.54	79.7%

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. In Adelaide, FY2017 Supply was estimated to have remained unchanged

In FY2017, Brisbane RevPAR continued to decline, marking the 5th straight year. Despite this, the long term outlook is positive as the city undergoes structural changes to both supply and demand. Demand expectations have improved, and should fully absorb supply over the long term, with expectations for back ended growth averaging more than 4% p.a

FY2017 SNAPSHOT

	STR
Establishments	122
Rooms	12,956
STR Sample Coverage	81%
Occupancy	73.2%
Rate	$158.17
RevPAR	$115.71

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	6.3%	7.0%	0.7%	▲
Occupancy*	-0.4	-0.4	0.0	–
ARR	-5.0%	-6.6%	-1.6%	▼
RevPAR	-5.5%	-7.0%	-1.6%	▼

* Percentage Point Change

Source: STR

FY2017 Year in Review

- In FY2017 Brisbane Hotels continued to struggle, underperforming to poor expectations, recording 7.0% RevPAR decline. The decline was rate led as hoteliers took an occupancy first strategy in a declining market
  - Occupancy levels were largely maintained, recording a marginal 0.3 point decline which was in line with forecasts
  - Rates continued to decline, displaying a sharp drop of 6.6% as the first wave of new supply entered the market
- Preliminary STR data for the YTD FY2018 (Feb 2018) indicates that a return to growth is on the cards with yoy increases in both occupancy and Rate levels. Year to date performance, whilst encouraging, was bolstered by event induced outperformance for the month of November with a 20+% RevPAR increase recorded during the Ashes Test Match which will unwind in the next year

Demand Driver Analysis

Upgraded Visitor Nights Forecasts off a higher base

- A re-energised leisure, entertainment, restaurant and activity scene, together with diversity and sophistication in accommodation and continued destination marketing, lay a strong all round foundation for visitor attraction
- City data for FY2017 for Brisbane reveals:-
  - International visitor nights increased by 8.9% to 26.2M nights
  - Domestic visitor nights increased by 10.2% to 19M nights
  - Total visitor nights increased by 9.5% to 45.1M nights of which a low 15% is captured in Hotels and Motels
- In FY2017 Brisbane hotel's domestic visitor nights share in hotels increased slightly to 70.7% from 69.2% previously
- The TRA forecasts for QLD Capital cities (Brisbane & Gold Coast) for the period to FY2025 have been slightly increased to average growth of 4.4% p.a compared to 4.2% previously, from a higher base:-
  - Annual domestic visitor night growth expectations of 2.1% vs. 2.9% previously
  - Annual international visitor night growth expectations of 6.3% vs. 5.4% previously

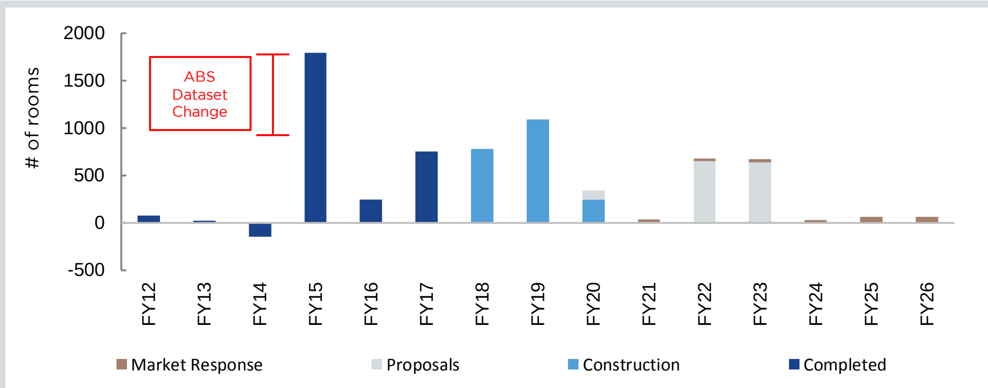
Dransfield Demand Forecast

Demand growth expectations represent a slight upgrade to the prior forecast, and are well above expected supply growth

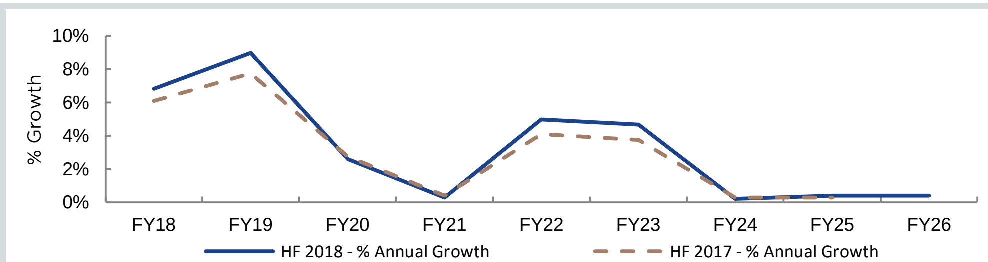
- We expect a significant increase in demand in FY2018 with 9.0% growth expectations. This has been impacted by the Ashes Test Match, a soft July in the prior year which went through an unwind following the G20 summit in FY2015, and a level of associated travel from Commonwealth Games guests primarily visiting the Gold Coast
- Medium term demand growth to FY2020 is piggybacked by FY2018, although still strong and expected to average 6.3% p.a. This is slightly above prior expectations. Demand growth is largely in line with supply expectations over the same period and is not expected to deliver significant increases to occupancy during this period
- Long term growth expectations to FY2025 are for 4.7% p.a
- Leisure driver development led by the Queens Wharf casino precinct as the feather in the cap for this cycle, and one of the keys to capturing Asian visitors and domestic leisure.

We are part way through the first wave of supply, with 2 more years of high growth expected before a slight pause. Forecasts are largely consistent with prior expectations in both volume and timing, with the majority of the pipeline in construction. We expect low levels of additional proposal activity to materialize over the life of the forecast. Supply is expected to be fully absorbed over the long term

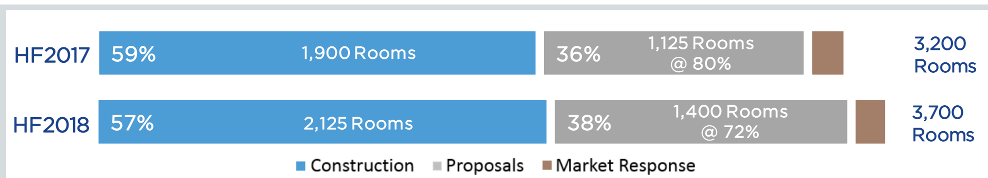
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF18 VS HF17 – PIPELINE BY TYPE TO FY2025



Supply Actual

- FY2017 marked the start of a large and consistent supply influx, recording 7.0% growth
- Nine hotels either came online during the FY2017 year or had carryover from late FY2016 openings, delivering approximately 750 rooms during this period
- Construction activity remains high with 8 additional developments underway and expected to open over the next 3 years

Supply Forecasts

- Dransfield's supply forecast is for 3,750 new rooms to enter the market over the next 9 years to FY2026 (33% of current stock) at an average annual growth rate of 3.3% p.a.
  - Our forecast supply pipeline represents a moderate absolute increase of 500 rooms over the prior forecast, which was largely impacted by the increase to the Queens Wharf precinct
  - There are 18 live projects (recently completed, under construction, proposal), which is largely consistent with the prior year
  - Timing is consistent with the prior forecast, especially over the medium term as more than two-thirds of supply is already under construction, and therefore quite certain. There is some timing delivery risk involved in the 1,600 room Queens Wharf development given the sheer size, associated development activity, and Government involvement
  - Supply growth in the medium term to FY2020 is expected to average a high 6.1% p.a. which is slightly above expectations in the prior forecast
  - Several recent openings outside of the CBD will also place additional pressure on the Brisbane market, particularly those at the Airport (Pullman – 130 rooms and Ibis 243 rooms)
  - Over the longer term, we expect the market to fully absorb the supply additions, with strong demand expected to push occupancy levels towards 80% at the backend of the forecast
  - Market Response levels are very low as development feasibilities are likely to be challenged in the current low RevPAR environment
- Internationally trendy brands and lifestyle centric options are making their way to the riverside city with top end luxury high on the agenda. Diverse new options are also available across the service spectrum from the airport, through Hamilton, to the Valley and into the CBD.

BRISBANE

Long term RevPAR expectations are for 4.8% growth p.a, with backend outperformance. Supply shocks have started to be felt, and will continue to impact the market over the medium term. Rate growth should improve after the initial spate of supply arrives. An uplift in demand is expected through the next, Queens Wharf led, supply bubble

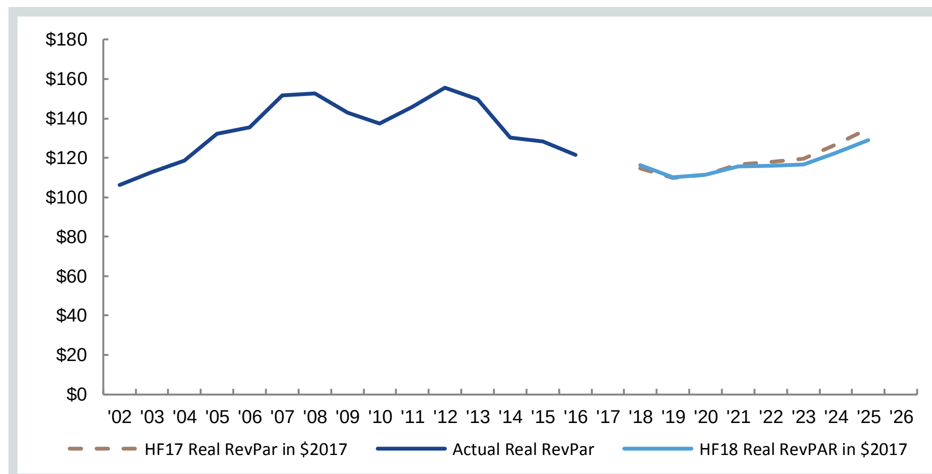
Conclusion

Long term growth marred by medium term, supply induced, volatility as the structural demand environment experiences fundamental growth with diversity. A positive long term supply and demand equation is expected to foster moderate rate growth opportunities which should be taken up with organic growth assisted from a higher quality supply base. Expectations over the next 6 years are for moderate RevPAR growth averaging 2.9% p.a, with strong back end outperformance

The Brisbane forecast represents a minor downgrade to prior expectations driven by a small increase in the supply pipeline which slightly exceeds our anticipated growth in demand

- Over the period of the forecast, average occupancy of 76.7% is expected with outperformance over the back end following absorption of material medium term supply. Occupancy pressures may arise towards the back end of the forecast which may signal the start of a new development cycle as rates improve
  - In FY2018, occupancy levels are expected record the first period of growth following four consecutive years of decline. YTD (8 months to February) occupancy growth should maintain over the back half of the year on the back of associated travel to Queensland from international Commonwealth Games visitors on the Gold Coast
  - Over the medium term to FY2020, occupancy expectations are volatile and have moderate downside risk. The incorporation of significant supply into an already retreating market could present issues if demand expectations underperform through this period
- Rate growth expectations have been maintained at 3.2% p.a for the forecast period, with significant back end outperformance
  - Through the first half of FY2018, rates have grown slightly and are expected to hold positive to close out the year
  - Similar to occupancy, there is volatility in the rate forecast through the medium term, which is largely linked to supply. The consistent rate of new hotel openings through this period will mean there is always an opening discount somewhere in the market. This may be offset by the higher quality product which would demand a higher rate. We expect low ARR growth averaging 1.2% p.a over this period as hoteliers jostle for customers
  - We expect reasonable rate growth through the next supply wave in FY2022 and FY2023 which is dominated by the significant Queens Wharf development. The demand this is likely to draw should enable rates to remain in the black through this period, and strengthen as we move towards the end of the forecast and supply pressures re-emerge. Some rate risk will be present during this time
- Our forecast is for a slight reduction in average long term Real RevPAR (1.4%) compared to our previous forecast. The position is impacted by a lower base following FY2017 underperformance and a slight adjustment to the supply and demand equation
- RevPAR growth for the comparable period to FY2025 is relatively consistent with prior expectations with average growth of 4.2% expected vs 4.6% previously. There is a moderate level of downside risk in the medium term, linked to supply, and more upside opportunity in the long term due to the high position of occupancy levels
  - In FY2018 RevPAR is expected to grow 3.0%, which is above previous expectations for neutral performance
  - In the medium term to FY2020, RevPAR performance is expected to seesaw, dependent on how the market reacts to new supply. We expect low average growth of 1.2% p.a
  - Long-term sentiment is positive with robust growth expected, enabled by a high occupancy base. Strong demand throughout the forecast, impacted by a strengthening corporate sector and developing leisure demand drivers should absorb the high levels of new supply. Risk of additional supply is low until developers feel comfortable on the RevPAR position, not only the occupancy position, which should improve towards the back end of the forecast
  - Full forecast expectations to FY2026 are for back ended growth of 4.8% p.a.

BRISBANE CITY REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

Long term RevPAR expectations are for 4.8% growth p.a, with backend outperformance. Supply shocks have started to be felt, and will continue to impact the market over the medium term. Rate growth should improve after the initial spate of supply arrives. An uplift in demand is expected through the next, Queens Wharf led, supply bubble

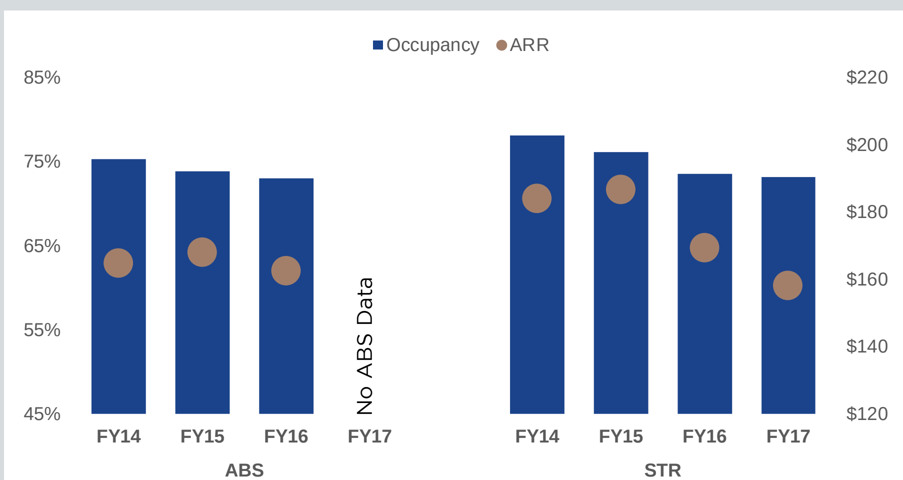
BRISBANE CITY CORE – HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	8,636	-1.7%	-5.3%	$164.71	-7.0%	$123.96	-10.5%	75.3%
FY2015	10,429	20.8%	18.4%	$167.94	2.0%	$123.96	0.0%	73.8%
FY2016	10,671	2.3%	1.2%	$162.44	-3.3%	$118.61	-4.3%	73.0%
Avg FY14-16		**7.1%**	**4.8%**		**-2.8%**		**-4.9%**	**74.0%**

ABS Dataset change affected

ABS & STR DATA COMPARISON



Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$169.31		$124.46			73.5%
FY2017	12,956	81%	$158.17	-6.6%	$115.71	-7.0%	$115.71	73.2%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	12,200	6.8%	9.0%	$159.75	1.0%	$119.24	3.0%	$116.33	74.6%
FY2019	13,294	9.0%	6.0%	$159.75	0.0%	$115.99	-2.7%	$110.08	72.6%
FY2020	13,637	2.6%	4.0%	$163.75	2.5%	$120.54	3.9%	$111.28	73.6%
Avg FY 18-20		**6.1%**	**6.3%**		**1.2%**		**1.4%**	**$112.56**	**73.6%**
FY2021	13,674	0.3%	3.5%	$169.48	3.5%	$128.77	6.8%	$115.65	76.0%
FY2022	14,353	5.0%	4.5%	$175.41	3.5%	$132.69	3.0%	$115.92	75.6%
FY2023	15,023	4.7%	4.5%	$181.55	3.5%	$137.12	3.3%	$116.52	75.5%
FY2024	15,053	0.2%	4.0%	$188.81	4.0%	$148.01	7.9%	$122.35	78.4%
FY2025	15,113	0.4%	3.5%	$198.25	5.0%	$160.21	8.2%	$128.83	80.8%
FY2026	15,173	0.4%	3.5%	$210.15	6.0%	$175.07	9.3%	$136.94	83.3%
Avg FY21-26		**1.8%**	**3.9%**		**4.3%**		**6.4%**	**$122.70**	**78.3%**
Total Forecast Avg FY 2018-2026		**3.3%**	**4.7%**		**3.2%**		**4.8%**	**$119.32**	**76.7%**

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. In Brisbane, FY2017 Supply was estimated to have increased by 7.0%

DRANSFIELD HOTELS & RESORTS

CAIRNS & PORT DOUGLAS

In FY2017, Cairns & Port Douglas RevPAR consolidated on strong recent form, growing 13.4%, with strong rate improvement. Looking forward we expect above inflation growth over the long term. Demand expectations have been slightly reduced, although remain above supply expectations

FY2017 SNAPSHOT

	STR
Establishments	157
Rooms	9,975
STR Sample Coverage	46%
Occupancy	78.3%
Rate	$156.65
RevPAR	$122.60

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	-0.6%	-0.6%	0.0%	–
Occupancy*	2.4	2.3	-0.1	▼
ARR	5.0%	10.1%	5.1%	▲
RevPAR	8.8%	13.4%	4.6%	▲

* Percentage Point Change

Source: STR

FY2017 Year in Review

- Changing to the STR dataset has affected our forecast launch point and the quality of the dataset has lifted. The growth rates however still represent a forecast for the entire market, however there is a disconnect between the Occupancy and rate position of the STR sample and new base, and the whole market
- The STR Sample properties have RevPAR 16% above the census which is mostly based on significantly higher occupancy (76% in 2016 vs 68%)
- In FY2017, the Cairns and Port Douglas STR sample hotels recorded very strong RevPAR improvement of 13.4%, leading the country in yoy growth and outperforming our already robust 8.8% prior expectations
  - Performance continued the robust recent performance, which averaged over 10% growth in the previous 2 years
  - Occupancy levels increased by 2.3 points to 78.3%, although slightly impacted some minor room closures.
  - Rates improved substantially, driving the outperformance, recording over 10% growth
- Preliminary STR data for YTD FY2018 (Feb 2018) indicates that robust rate driven growth has continued, on the back of improving occupancy levels.

Demand Driver Analysis

Visitor Night Forecasts slightly downgraded with a increase in international offset by a decrease in domestic

- City data for FY2017 for Cairns reveals :-
  - International visitor nights decreased by 1.2% to 5M nights
  - Domestic visitor nights decreased by 12.5% to 4.8M nights
  - Total visitor nights decreased by 7.1% to 9.8M nights, of which a high 55% is captured in Hotels and Motels
- In FY2017 Cairns and Port Douglas hotel's domestic visitor nights share in hotels decreased to 55% from 59.1% as the region continues to attract significant growth from the major markets of China and the USA
- The TRA forecasts for the total visitor nights for Queensland (excluding Brisbane and the Gold Coast) to FY2025 have been slightly downgraded to average annual growth of 3.9% p.a compared to a previous 4.0%
  - Annual domestic visitor night growth expectations of 2.4% vs. 3.2% previously
  - Annual international visitor night growth expectations of 6.1% vs. 5.1% previously

Dransfield Demand Forecast

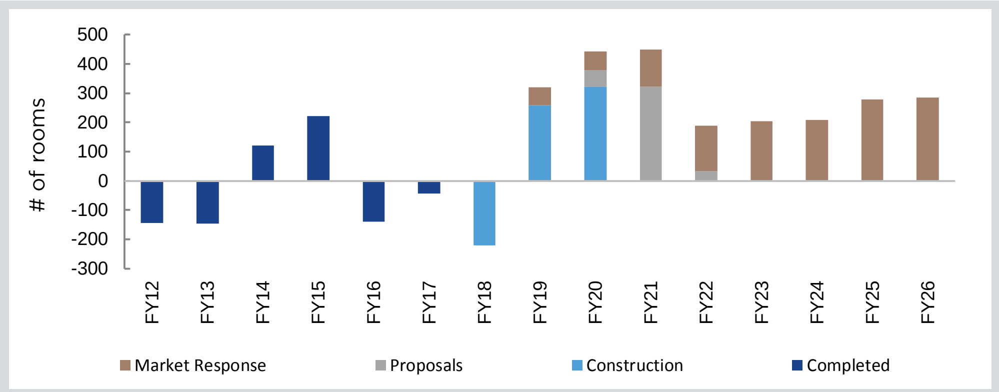
Annual demand growth of 2.9% is expected for Cairns and Port Douglas hotels over the long term which is a slight downgrade to prior forecasts, taking regard of the revised TRA forecasts. Demand expectations remain slightly above supply growth expectations.

- In FY2018, we expect demand for high quality hotels to be somewhat capacity constrained as occupancy levels through the high season average above 85%. We anticipate only 1.0% growth. TRA visitor forecasts are much stronger, and we would expect higher demand growth to eventuate across these non-STR members of the census
- Medium term demand growth to FY2020 is expected to average 3.0% p.a, which represents a small downgrade from previous expectations, once again impacted by capacity constraints in the high season. Whole market demand is likely to grow slightly higher
- Long term growth expectations represent a small downgrade to prior forecasts, impacted by downgraded visitor night forecasts. Downward revision increases as we move through the forecast. Despite the reduction, long term demand expectations remain moderate and marginally above long term supply expectations.

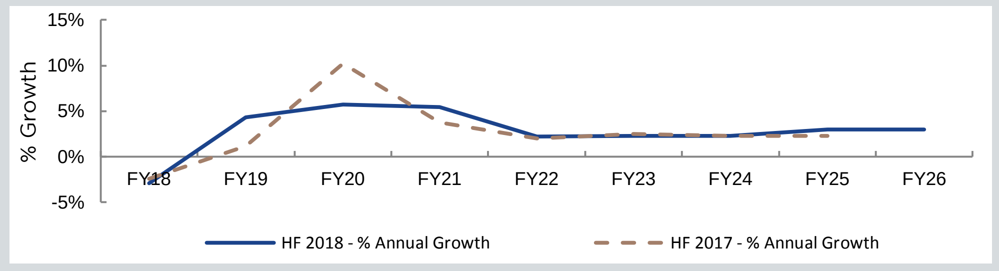
CAIRNS & PORT DOUGLAS

Following a decade of no new supply, the first material additions are on the horizon. The market is well positioned to absorb this with high occupancy levels for larger and branded stock, and a growing international demand outlook. The majority of our pipeline forecast remains as back ended Market Response, which will only eventuate if market conditions over the next 2-3 years remain conducive

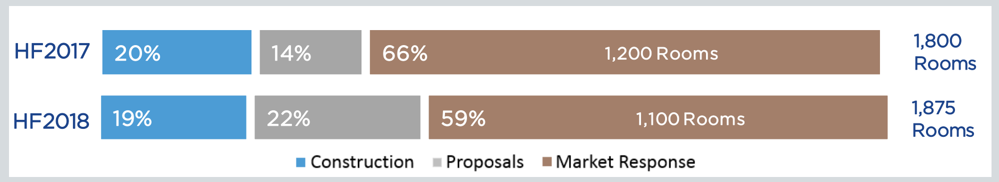
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF18 VS HF17 – PIPELINE BY TYPE TO FY2025



Supply Actual

- In FY2017, Cairns and Port Douglas supply decreased marginally as the Rydges Tradewinds (264 rooms) closed for redevelopment over the last couple of months of the year. Part of the room closures have been attributed to reduced annualised supply in FY2017, however the majority will carry through in FY2018
- Construction activity remains low, with 2 projects under construction and expected to open over the next 3 years, consistent with the prior year's forecast

Supply Forecasts

- Dransfield's supply forecast is for 2,150 new rooms to enter the market over the next 9 years to FY2026 (28% of current stock), at an average annual growth rate of 2.7%
  - Our forecast supply pipeline is consistent with the prior forecast in volume and project count, however timing has smoothed over the medium term as specific project timetables both firm up and reflect delay
  - Proposal activity has increased marginally relative to the prior forecast, however the status of several mooted projects is unknown as they are very early in the planning process. These will likely firm over the next few months, and have been allowed for in our Market Response
  - Live proposals have firmed in probability as development planning hurdles are reached (51% vs 35% previously)
  - We expect the trading environment for large and branded stock will continue to improve as demand grows and occupancy levels remain high. We anticipate this will attract a moderate level of additional proposals over the longer term. Our Market Response allowance makes up more than 50% of our anticipated pipeline. We expect 3-4 additional large scale projects to materialise over the long term
- Geographically, the vast majority of development activity is located in Cairns CBD. The only material project in Port Douglas is the Reef Marina redevelopment, however timing for this is likely to push out while the developer focuses on several Cairns developments.

CAIRNS & PORT DOUGLAS

Long term RevPAR expectations are for 3.4% growth p.a., with short term outperformance expected to lead into a period of supply absorption, which will limit growth through the medium term. Rates should be able to maintain growth above inflation growth, particularly in larger and branded hotels as occupancy levels largely maintain outperforming smaller independent stock

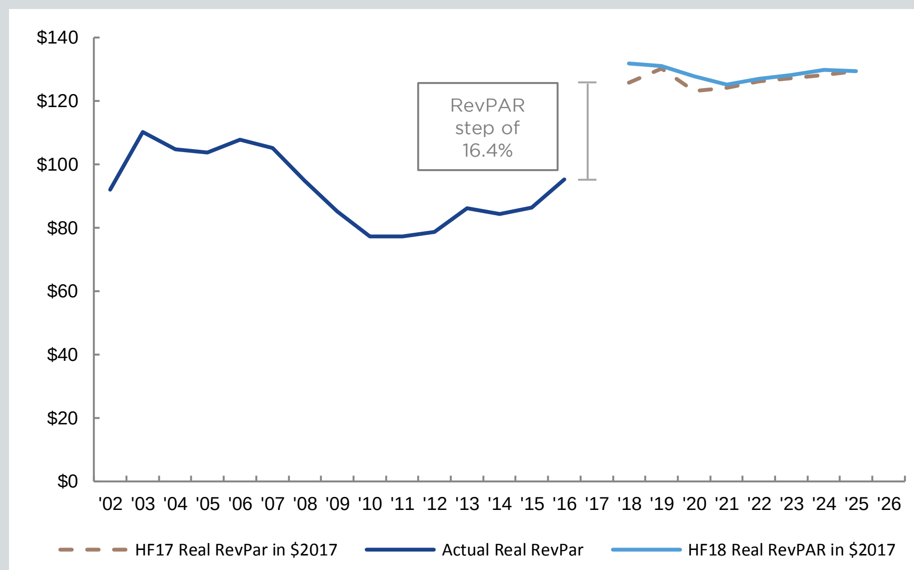
Conclusion

Some moderate growth expectations, underpinned by stable leisure growth which has enticed development activity, particularly in Cairns. Port Douglas RevPAR growth likely to exceed Cairns, as development activity remains very low, and recent refurbishment activity improves the quality of assets.

The Cairns and Port Douglas forecast represents a small upgrade to prior expectations, carried by outperformance in FY2017 and despite a slight reduction in average RevPAR growth levels. There is a large gap in performance metrics between large branded hotels and smaller independent stock in this market, with key indicators trading at considerably higher levels for branded stock who are members of the STR sample. This is likely to manifest in stronger rate growth as occupancy levels are constrained in high season, however will be offset by higher occupancy growth in the independents as price elasticity comes into effect

- Over the period of the forecast, average occupancy expectations are forecast to largely hold around current levels with only minor volatility surrounding supply introduction
  - Occupancy levels in large and branded Hotels are expected to average 80% for the life of the forecast, and would typically instigate additional development activity.
  - The availability of a high number of smaller, often privately run hotels, and serviced apartments however, significantly increases the availability of alternate accommodation and drags the whole market occupancy rate down circa 10 percentage points
- Annual average rate growth of 3.2% is expected over the life of the forecast, underpinned by stable occupancy levels in an environment of low supply development.
  - Visitors to Cairns and Port Douglas are leisure based and price sensitive, and are generally not visiting on a need to come basis. They have alternative destinations. This will compress long term rate growth potential
- Our forecast is for a 1.6% increase in average long-term real RevPAR compared to our previous forecast. The upgrade is a result of prior year outperformance which provides a higher starting base. The increase, slowly gives back over the course of the forecast as demand indicators have slightly reduced, however still remains above the prior forecast
- RevPAR percentage growth for the comparable period to FY2025 is a slight downgrade, albeit from the higher base, caused by a small downgrade to back ended demand expectations
  - In FY2018 we expect double digit RevPAR growth of 10.2% as rates continue to prosper
  - In the medium term to FY2020 average RevPAR growth of a very healthy 4.3% is expected, which is heavily front ended, with new supply absorption dampening prior rate growth
  - Long-term expectations are for a moderate growth trends to emerge over the longer term as the supply development cycle restarts following a low, but above recent history, increase in activity
  - Full forecast expectations to FY2026 are for 3.4% growth p.a.

CAIRNS & PORT DOUGLAS REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

DRANSFIELD HOTELS & RESORTS

CAIRNS & PORT DOUGLAS

Long term RevPAR expectations are for 3.4% growth p.a., with short term outperformance expected to lead into a period of supply absorption, which will limit growth through the medium term. Rates should be able to maintain growth above inflation growth, particularly in larger and branded hotels as occupancy levels largely maintain outperforming smaller independent stock

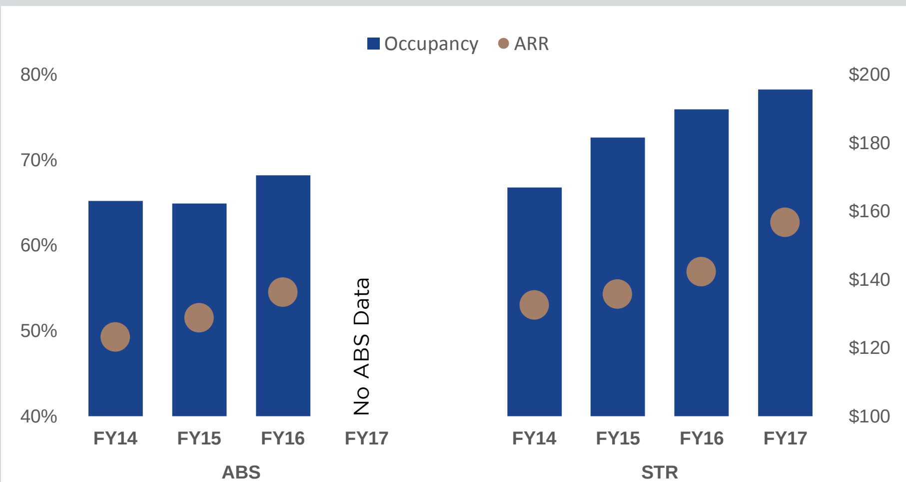
CAIRNS & PORT DOUGLAS – HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	7,622	1.6%	2.8%	$123.16	-0.2%	$80.35	0.9%	65.2%
FY2015	7,843	2.9%	2.4%	$128.71	4.5%	$83.55	4.0%	64.9%
FY2016	7,703	-1.8%	3.2%	$136.24	5.8%	$92.88	11.2%	68.2%
Avg FY14-16		0.9%	2.8%		3.4%		5.3%	66.1%

ABS Dataset change affected

ABS & STR DATA COMPARISON



Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$142.33		$108.11			76.0%
FY2017	9,975	47%	$156.65	10.1%	$122.60	13.4%	$122.60	78.3%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	7,439	-2.9%	1.0%	$166.05	6.0%	$135.14	10.2%	$131.84	81.4%
FY2019	7,760	4.3%	4.0%	$170.20	2.5%	$138.11	2.2%	$131.07	81.1%
FY2020	8,204	5.7%	4.0%	$173.60	2.0%	$138.58	0.3%	$127.93	79.8%
Avg FY 18-20		2.4%	3.0%		3.5%		4.3%	$130.28	80.8%
FY2021	8,652	5.5%	4.0%	$177.08	2.0%	$139.38	0.6%	$125.17	78.7%
FY2022	8,841	2.2%	3.0%	$183.27	3.5%	$145.41	4.3%	$127.03	79.3%
FY2023	9,045	2.3%	3.0%	$188.77	3.0%	$150.80	3.7%	$128.15	79.9%
FY2024	9,253	2.3%	2.5%	$196.32	4.0%	$157.14	4.2%	$129.90	80.0%
FY2025	9,530	3.0%	2.5%	$202.21	3.0%	$161.06	2.5%	$129.52	79.7%
FY2026	9,816	3.0%	2.5%	$208.28	3.0%	$165.09	2.5%	$129.14	79.3%
Avg FY21-26		3.0%	2.9%		3.1%		3.0%	$128.15	79.5%
Total Forecast Avg FY 2018-2026		2.8%	2.9%		3.2%		3.4%	$128.86	79.9%

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. In Cairns & Port Douglas, FY2017 Supply was estimated to have decreased by 0.6%

DRANSFIELD HOTELS & RESORTS

In FY2017, Canberra RevPAR exceeded strong expectations, compounding robust growth in the prior year. Moderate growth is expected through the medium term as consistently high occupancy levels provide a foundation for rate growth. Some supply induced softness is expected through the middle of the forecast which has impacted long term average growth which is still strong at 3.4% p.a

FY2017 SNAPSHOT

	STR
Establishments	61
Rooms	6,506
STR Sample Coverage	77%
Occupancy	76.2%
Rate	$169.81
RevPAR	$129.35

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	1.8%	1.4%	-0.4%	▼
Occupancy*	2.2	3.7	1.5	▲
ARR	3.5%	4.2%	0.7%	▲
RevPAR	6.7%	9.6%	2.8%	▲

* Percentage Point Change

Source: STR

FY2017 Year in Review

- In FY2017 Canberra Hotels outperformed strong forecasts, recording 9.6% RevPAR growth
  - Occupancy levels improved by 3.7 points, reaching 76.2% as strong business demand growth outgrew limited new supply
  - Rates reacted accordingly growing slightly above our expectations, up a solid 4.2%
  - Preliminary STR data for the YTD FY2018 (Feb 2018) indicates occupancy growth has started to plateau, albeit still recoding slight improvement, whilst rates continue to grow at above inflation levels

Demand Driver Analysis

Visitor night forecasts upgraded off a lower base

- Revitalised precincts, nature and food experiences are attracting weekend getaway guests, while an increase to international access also drives an upswing in leisure focused travel
- City data for FY2017 for Canberra reveals :-
  - International visitor nights decreased by 8.4% to 4.5M nights
  - Domestic visitor nights increased by 0.1% to 6.4M nights
  - Total visitor nights decreased by 3.6% to 11M nights of which 29% is captured in hotels and motels. There is a measurable disconnect between visitor nights and those visitor nights spent in hotels, with nights in hotels recording growth of 6%
- In FY2017 Canberra's hotel's domestic visitor nights content increased slightly to a high 91.2% from 89% previously
- The TRA visitor night forecasts for the period to FY2025 have been upgraded to average annual growth of 4.3% p.a compared with 3.9% previously, albeit from a slightly lower base:-
  - Annual domestic visitor night growth expectations of 2.8% vs. 2.9% previously
  - Annual international visitor night growth expectations of 6.1% vs. 5.0% previously

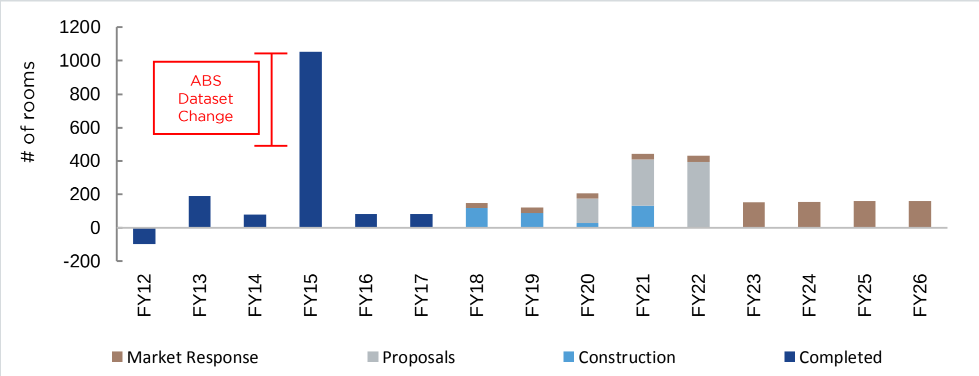
Dransfield Demand Forecast

Demand growth expectations for Canberra hotels represent a slight upgrade to the prior forecast and slightly above expected supply growth.

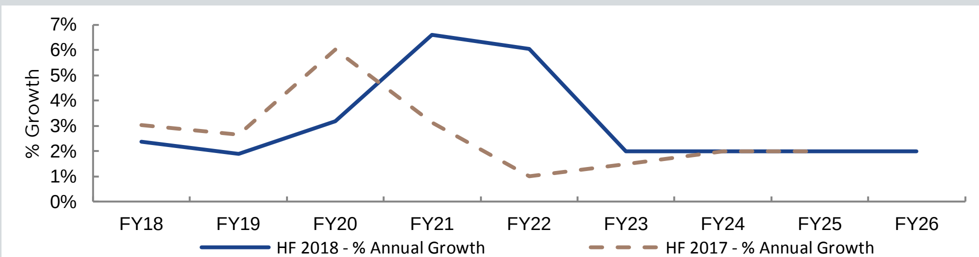
- We expect demand to increase by 3.0% in FY2018 as domestic travel continues to prosper. This is above supply growth expectations and below expected visitor growth
- Medium term demand growth to FY2020 is expected to average 3.0% growth as weekend trade is expected to continue to grow as leisure drivers improve. This represents a slight downgrade from previous expectations as supply delays constrain demand growth particularly through high occupancy Tuesday's and Wednesday's
- Long term demand growth expectations to FY2026 are for 3.2% p.a., sitting sightly behind the visitor night growth forecast. Canberra will continue to live by Parliamentary swings to demand, however, growing leisure, both domestic and international is beginning to take a larger slice of the pie
- Demand volatility risk is high in this higher occupancy environment with sensitivity to changes in the political environment affecting corporate demand volume. In the long term there is capacity for outperformance.

Recent outperformance is stimulating a moderate increase in development activity, which is also flowing through to our allowance for Market Response. Demand growth expectations are still above supply growth expectations. Our forecast assumes a high level of Market Response which will only eventuate with appropriate market performance

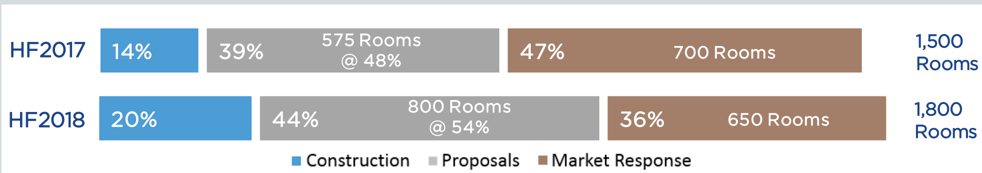
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF18 VS HF17 – PIPELINE BY TYPE TO FY2025



Supply Actual

- In FY2017 supply growth was relatively neutral with no new openings recorded. The slight increase recorded in our data resulted from trailing openings from mid FY2016
- Through the first half of FY2018 two new properties have opened, being the 176 room Mantra Macarthur and the 79 room Knightsbridge Canberra
- Construction activity remains moderate with several developments underway and due for completion over the next 2-3 years, in several cases as part as of a mixed used precinct

Supply Forecasts

- Dransfield's supply forecast is for 2,000 new rooms to enter the market over the next 9 years to FY2026 (32% of current stock) at an average annual growth rate of 3.1%
  - Our forecast supply pipeline represents a small increase of 300 rooms over the prior forecast, with demand growth expectations exceeding supply growth expectations
  - Live projects (recently completed, under construction, proposals) have increased from 13 to 17 relative to the prior year, as proposals continue to increase over the last 3 years
  - Supply growth has been delayed through the first three years as projects do not progress to construction in line with telegraphed timelines. We now expect the bulk of new supply to arrive through FY2021 and FY2022
  - Supply growth in the medium term to FY2020 is expected to average a low 2.5% p.a (just 500 new rooms)
  - A significant proportion of the supply forecast supply for the period to FY2026 is made up of Market Response (40%) which will only eventuate with appropriate market conditions. Fundamentals are above the historic development trigger levels, which bodes well for additional projects proceeding
  - All of the expected additional supply is likely to be absorbed over the long term with occupancies holding above 75%
  - Looking over the next 6 years, live construction and proposals represent 79% of the forecast supply pipeline which is below demand growth expectations for the corresponding period (3.2% vs 3.7%). The forecast Market Response in this period totals 300 rooms or 5% of current supply, equating to 2-4 additional projects
- Following material upgrades to upper upperscale hotels in the prior cycle, through both new development and refurbishment, the next cycle appears to have a strong serviced apartment component. Outside of the uncertain Casino hotel redevelopment plans, the vast majority of mooted projects fit within the 3.5 – 4 star frame
- Development activity is highly concentrated to local developers/owners/operators, who already have a strong footing in Canberra.

Long term RevPAR expectations are for 3.4% growth p.a, with moderate rate growth expected throughout. Expectations have improved relative to the prior forecast following FY2017 outperformance. A volatility risk period is evident through the middle of the forecast in line with increased supply, although this is expected to be fully absorbed over the full forecast term

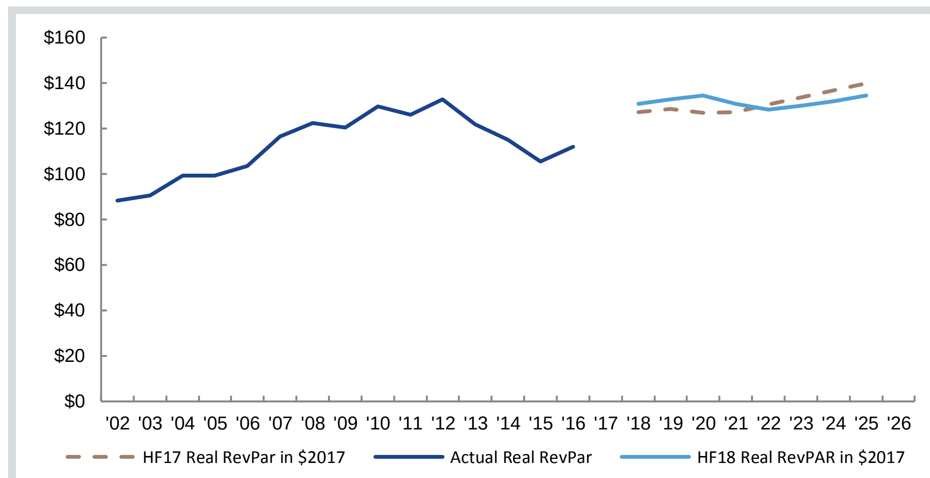
Conclusion

Our forecast anticipates moderate long term RevPAR growth of 3.4% p.a for Canberra hotels underpinned by stable occupancy levels above long term historical trends. This provides a foundation for hoteliers to be bullish on rate growth opportunities as leisure demand increasingly supplements parliamentary and corporate activity

- Our long term average forecast represents a slight upgrade from our previous forecast from a higher base following outperformance in the prior year, however, RevPAR growth levels have been slightly downgraded from the higher base

- Over the period of the forecast, average occupancy of 76.2% is expected with outperformance in the short and medium term before the bulk of supply arrives. This should be fully absorbed over the longer term
  - In FY2018 Occupancy levels are expected to consolidate towards 77% as strong weekend demand growth continues
  - Over the medium term to FY2020, occupancy levels are expected to maintain around the 77% level before significant supply comes online through FY2021-FY2022 which may generate some occupancy contraction
- Rate growth expectations of 3.3% p.a for the forecast period have been slightly reduced, as supply has increased creating less upward rate pressure
  - Through the first half of FY2018, rate growth of over 3% has been recorded which we expect will maintain for the remainder of the year
  - Slight outperformance is expected over the medium term to FY2020, although this is likely to temper over the longer term, coinciding with new development. We expect the recent refurbishment trend in Canberra will continue for older properties in order to maintain market position, however rate growth will inevitably be at risk as supply comes online and hoteliers react to both increased competition and opening discounts
- Over the long term we expect a stable market forecast as recently upgraded demand growth expectations keep pace with a more certain supply pipeline. The moderate Occupancy environment, which should be less weekday focused, will provide opportunities for rate growth. This will also be influenced by a higher and better quality base level of stock following refurbishments and new supply
- Our forecast is for a 0.4% increase in absolute average long term real RevPAR compared to our previous forecast, driven by outperformance in FY2017.
- RevPAR growth for the comparable period to FY2025 represents a slight downgrade to prior forecasts, but remains strong, with average growth of 3.4% now expected vs. 4.1% previously, as a result of the stronger medium term development activity
  - In FY2018, RevPAR is expected to increase 3.6%, which is above previous expectations for 3.5%
  - In the medium term to FY2020, RevPAR is expected to grow by an average of 4.0% p.a as supply additions are fully absorbed generating upward pressure on rate
  - Long term expectations are likely to be impacted through the middle of the forecast by supply arrivals which will affect both occupancy and rate dynamics. We expect a year or two of RevPAR decline in this period, before the market is able to absorb the supply and hoteliers again feel confident to move on rate opportunities
  - Full forecast expectations to FY2026 are for 3.4% growth p.a.

CANBERRA CITY REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

DRANSFIELD HOTELS & RESORTS

Long term RevPAR expectations are for 3.4% growth p.a, with moderate rate growth expected throughout. Expectations have improved relative to the prior forecast following FY2017 outperformance. A volatility risk period is evident through the middle of the forecast in line with increased supply, although this is expected to be fully absorbed over the full forecast term

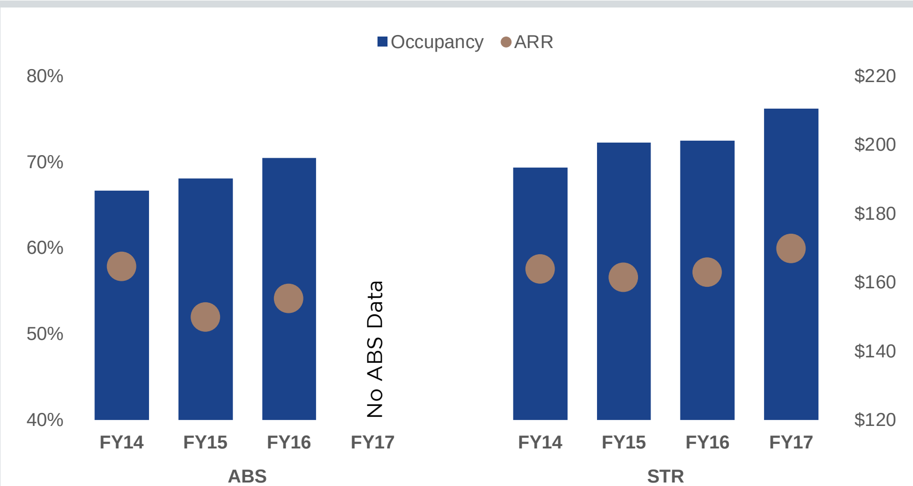
CANBERRA – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	5,032	1.6%	-1.9%	$164.50	0.7%	$109.65	-2.7%	66.7%
FY2015	6,085	20.9%	23.5%	$149.84	-8.9%	$101.98	-7.0%	68.1%
FY2016	6,167	1.3%	4.9%	$155.22	3.6%	$109.36	7.2%	70.5%
Avg FY14-16		**7.9%**	**8.8%**		**-1.5%**		**-0.8%**	**68.4%**

ABS Dataset change affected

ABS & STR DATA COMPARISON



Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$162.95		$118.05			72.4%
FY2017	6,506	77%	$169.81	4.2%	$129.35	9.6%	$129.35	76.2%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	6,401	2.4%	3.0%	$174.91	3.0%	$134.03	3.6%	$130.76	76.6%
FY2019	6,522	1.9%	2.8%	$181.03	3.5%	$139.96	4.4%	$132.83	77.3%
FY2020	6,729	3.2%	3.2%	$188.27	4.0%	$145.59	4.0%	$134.40	77.3%
Avg FY 18-20		**2.5%**	**3.0%**		**3.5%**		**4.0%**	**$132.66**	**77.1%**
FY2021	7,173	6.6%	4.5%	$192.04	2.0%	$145.58	0.0%	$130.73	75.8%
FY2022	7,606	6.0%	4.5%	$196.84	2.5%	$147.06	1.0%	$128.47	74.7%
FY2023	7,758	2.0%	2.6%	$203.73	3.5%	$153.10	4.1%	$130.10	75.2%
FY2024	7,913	2.0%	2.7%	$210.86	3.5%	$159.55	4.2%	$131.89	75.7%
FY2025	8,072	2.0%	2.8%	$219.29	4.0%	$167.23	4.8%	$134.47	76.3%
FY2026	8,233	2.0%	2.8%	$228.06	4.0%	$175.28	4.8%	$137.11	76.9%
Avg FY21-26		**3.4%**	**3.3%**		**3.3%**		**3.2%**	**$132.13**	**75.7%**
Total Forecast Avg FY 2018-2026		**3.1%**	**3.2%**		**3.3%**		**3.4%**	**$132.31**	**76.2%**

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. In Canberra, FY2017 Supply was estimated to have increased by 1.4%

DRANSFIELD HOTELS & RESORTS

In FY2017, Darwin hotels RevPAR continued to decline, albeit slower than recent years. Occupancy levels actually improved through returning leisure guests, however, at a much lower average room rate than the rate achieved through large corporate contracts that have dominated the market until recently. Our Hotel demand expectations are moderate and inline with prior expectations and drive an above inflation long term RevPAR growth outlook

FY2017 SNAPSHOT

	STR
Establishments	46
Rooms	5,478
STR Sample Coverage	70%
Occupancy	69.9%
Rate	$149.21
RevPAR	$104.25

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	3.9%	2.7%	-1.2%	▼
Occupancy*	0.1	4.0	3.9	▲
ARR	-7.0%	-8.6%	-1.6%	▼
RevPAR	-6.9%	-3.2%	3.7%	▲

* Percentage Point Change

Source: STR

FY2017 Year in Review

- Changing to the STR dataset has affected our forecast launch point and the quality of the dataset has lifted. The growth rates however still represent a forecast for the entire market, however there is a disconnect between the Occupancy and rate position of the STR sample and new base, and the whole market
- The STR sample significantly outperformed the ABS census market with RevPAR 14% higher in FY2016 made up of both rate and occupancy. RevPAR changes are at a similar level between the two data sets over the comparative period
- In FY2017 Darwin hotels recorded rate driven RevPAR decline of 3.2%, despite strong growth in demand and improvement in occupancy levels. This was an improvement over the 6.9% decline expectation for the census
  - Occupancy levels improved by 4 points, approaching 70%, as displaced leisure replenishes the contract business vacuum
  - Rates have continued to decrease significantly as over market corporate contracts wind up, falling 8.6%
- Preliminary STR data for FY2018 (YTD Feb 2018) indicates that the market reset is largely complete and most contracts have ended. Strong RevPAR growth has started to emerge as occupancy levels strengthen and rate decline plateaus

Demand Driver Analysis

Slightly Downgraded Visitor Night Forecasts although little impact on our hotel demand expectations

- The Northern Territory Government's recent commitment to tourism is evident through announcement of the $103M Tourism stimulus package. This includes funding for destination marketing, tourism infrastructure, and to improve the festivals and events calendar. The Government recognises the need to diversify leisure drivers if the structural demand environment is to become less reliant on mining activity
- City data for FY2017 for Darwin reveals:-
  - International visitor nights increased by 1.9% to 2.3M nights
  - Domestic visitor nights increased by 6.8% to 4.1M nights
  - Total visitor nights increased by 5.0% to 6.5M nights, of which around 30% is captured in Hotels and Motels
- In FY2017 Darwin hotel's domestic visitor nights share in hotels decreased to 83.2% from 75.3% despite contrary total visitor night movements as many of the domestic travellers are likely FIFO workers who stay in camps
- The TRA forecasts for Darwin for the period FY2017 to FY2025 have been downgraded to average growth of 4.0% p.a compared to 4.2% previously, off a lower base in FY2016:-
  - Annual domestic visitor night growth expectations remained materially unchanged at 2.8%
  - Annual international visitor night growth expectations of 5.9% fell from 6.2% previously

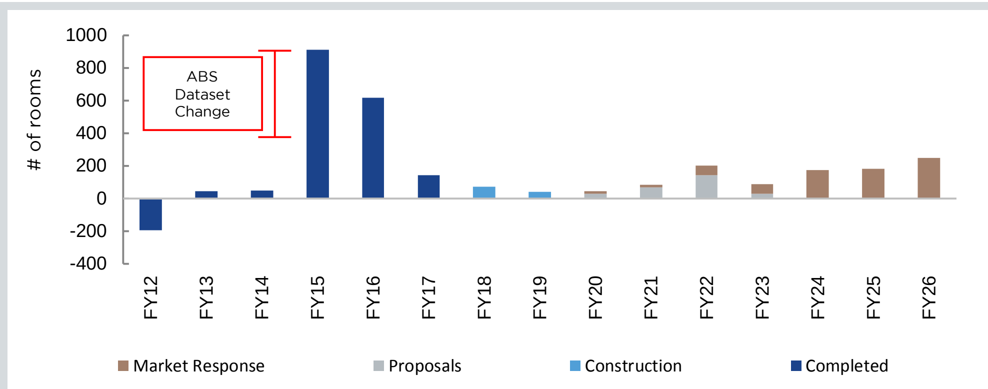
Dransfield Demand Forecast for Darwin City Hotels

Annual demand growth of 3.3% is expected for Darwin City hotels over the long term which is inline with the prior forecast, well above supply growth expectations and slightly below the TRA visitor night forecasts

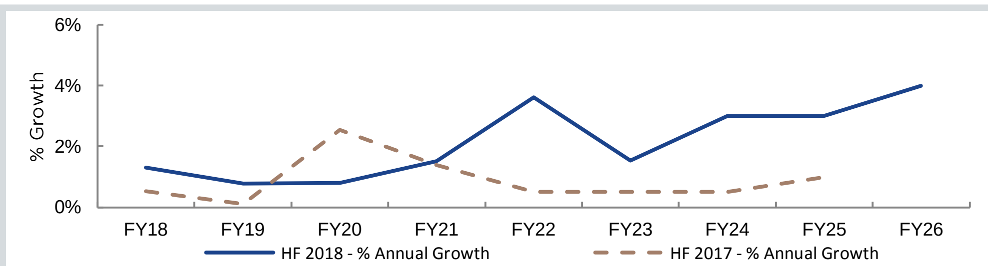
- We expect demand to increase substantially in FY2018 as displaced leisure guests re-enter the market. We anticipate demand growth of 8.0% for the whole market, well above TRA forecasts, which includes the decline in workers camps
- Medium term demand growth to FY2020 is expected to average 4.5% growth, which is above previous expectations, although driven by the short term upgrade. Strong international growth is expected over this period as tourism 2020 targets, including the *China Ready* programs appear on track. Demand growth should easily outstrip low supply growth over this period
- Long term growth expectations to FY2026 of 3.3% p.a. are moderate, although may be somewhat capacity constrained in both room availability and aviation capacity through the high season (June through September), where occupancy levels average in the mid to high 80's. Continued engagement with domestic and international airlines is expected to advance capacity. The first direct Darwin to China flight is due for May 2018, and it will be interesting to see if demand can be generated as an alternate entry point to Australia.

Sub 2% p.a supply growth is expected over the next 6 years as the market looks to re-stabilise. We expect development activity may increase after this period as developers regain confidence in the market and look to capitalise on international leisure demand growth

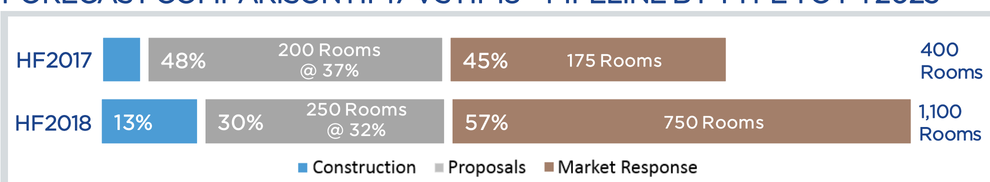
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF18 – PIPELINE BY TYPE TO FY2025



Supply Actual

- In FY2017, supply increased by a low 2.7%, or just 140 rooms
- Supply growth in FY2018 is expected to remain low, with only one hotel (83 rooms) slated to open during the year
- No other material construction activity is known to have started

Supply Forecasts

- Dransfield's supply forecast is for a low 1,100 new rooms to enter the market over the next 9 years to FY2026 (21% of current stock), at an average annual growth rate of 2.2% of which over half is future Market Response
  - We have effectively doubled our low supply expectations relative to the previous forecast, although this equates to just 700 additional rooms and is only expected to arrive over the back end of the forecast. The uplift in supply expectations, which is all Market Response allowance at this stage, has derived from our upgraded average performance outlook through the medium term which may lure developers back to Darwin
  - Our forecast is still for extremely low additional supply, which is expected to be materially exceeded by demand growth over the long term
  - Development activity will be challenged by low season trade, which often operates at a 20% occupancy discount
  - Delivery timing has delayed as development hurdles in projects are not met in time to accommodate prior timetables. Projects at the proposal level have a significant risk to complete, as feasibility and valuation support remains difficult
  - Our probability for known proposals to complete, sits at just 32% and is impacted by individual project nuances
  - We expect proposal completion will improve over the back end of the forecast as newly mooted projects are conceived in a marketplace with improved sentiment and backed by new and invigorated proponents
  - Despite the upgrade to our Market Response expectations, we still expect very few additional supply proposals, with our total pipeline able to be filled by just 5 moderately sized properties over the next 10 years.

A market returning to growth as the mining reset nears completion and leisure guests return. A favourable supply and demand equation will enable rate growth opportunities, with upside opportunities should material Market Response allowances, relative to market size, not eventuate. Long term RevPAR expectations are for growth of 4.3% p.a

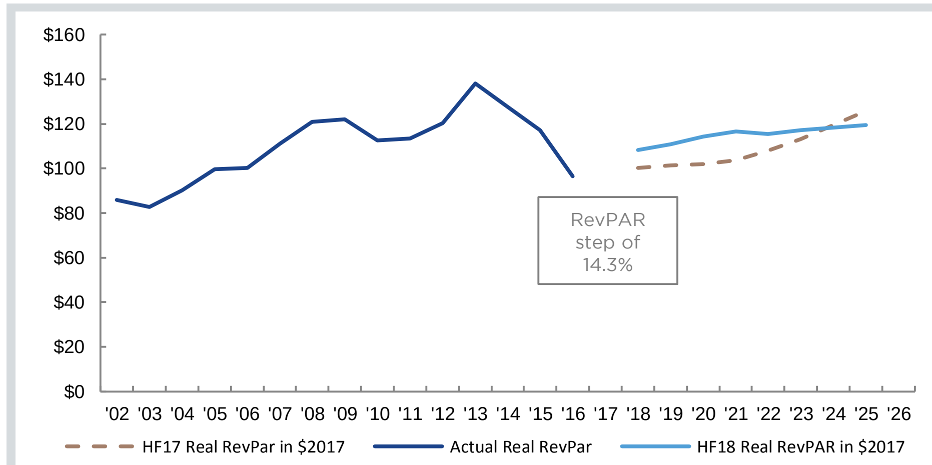
Conclusion

The mining market related deterioration appears to have bottomed, with strong medium term recovery starting. Rate growth opportunities should be taken up from a much lower base, underpinned by rising occupancy levels as the demand base broadens from recent LNG focused corporates to the return of displaced leisure visitors. Rates that leisure guests are willing to pay are capped, and wont drive the market to top out as high (inflation adjusted) as the previous cycle

The Darwin forecast represents a moderate average upgrade, despite a slight reduction in expected RevPAR growth rates as short term outperformance increases from a higher base. Robust recent growth has improved medium term sentiment, which has led to slightly upgraded supply expectations over the back end

- Over the forecast period, average occupancy expectations have slightly increased as the supply and demand equation improves. We expect larger and branded hotels in the STR data set will continue to significantly outperform the market averages in the high 70's for the majority of the forecast. We also expect the remaining smaller and independent properties will trend similarly
  - In FY2018 occupancy levels are expected to continue to compound on prior year growth with expectations of 4+ point improvement. Branded properties, which the Darwin forecast has been based are likely to sit approximately 5 points above a whole market environment, but should track similarly
  - Over the medium term, occupancy levels are forecast to grow quite rapidly as minor supply additions are fully absorbed. Risk in occupancy growth through the low season (Nov-Jan) will remain as leisure based guests are more season sensitive then corporates
- Moderate rate growth is expected, above inflation, and in line with prior expectations for 3.2% growth, as improving occupancy levels create upward pressure
  - The structural change away from above market mining contracts appears to be largely complete and we expect the last of these remaining contracts will elapse through FY2018. Expectations are for rates to plateau and record no growth in FY2018 as these wind up and are replaced by leisure guests at a much lower price point
  - Medium term rate growth expectations are positive as returning leisure guests push occupancy levels upwards and create opportunity for rate taking in high season, from a reset base. We anticipate rate growth averaging 2.3% p.a over the medium term
  - We expect rate growth to improve over the latter parts of the forecast as occupancy levels improve, especially through the high season. Outperformance opportunity is considered more likely than underperformance, particularly in quality assets as room availability reduces
- Our forecast is for a 5.8% increase in average long-term real RevPAR compared to our previous forecast. The upgrade is buoyed by outperformance in the prior year, albeit still decline, which indicate leisure guests have started to return.
- RevPAR growth for the comparable period to FY2025 has been slightly downgraded to 4.5% p.a from 5.7%, with medium term outperformance offset by longer term tempering as supply expectations have increased
  - In FY2018, RevPAR is expected to grow substantially as occupancy levels continue to improve and the contract rate reset appears to have completed
  - In the medium term to FY2020, we expect strong RevPAR growth, underpinned by rising occupancy levels and the re-emergence of rate growth. We anticipate market growth of 5.9% p.a., with outperformance likely for large branded hotels with distribution power
  - Long term expectations may be slightly tempered by increased supply following strong medium term growth, however expectations are still for very minor supply growth. Moderate demand growth should enable reasonable RevPAR growth over the life of the forecast following the significant market reset after the mining boom
  - Full forecast expectations to FY2026 are for 4.3% growth p.a.

DARWIN CITY REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

A market returning to growth as the mining reset nears completion and leisure guests return. A favourable supply and demand equation will enable rate growth opportunities, with upside opportunities should material Market Response allowances, relative to market size, not eventuate. Long term RevPAR expectations are for growth of 4.3% p.a

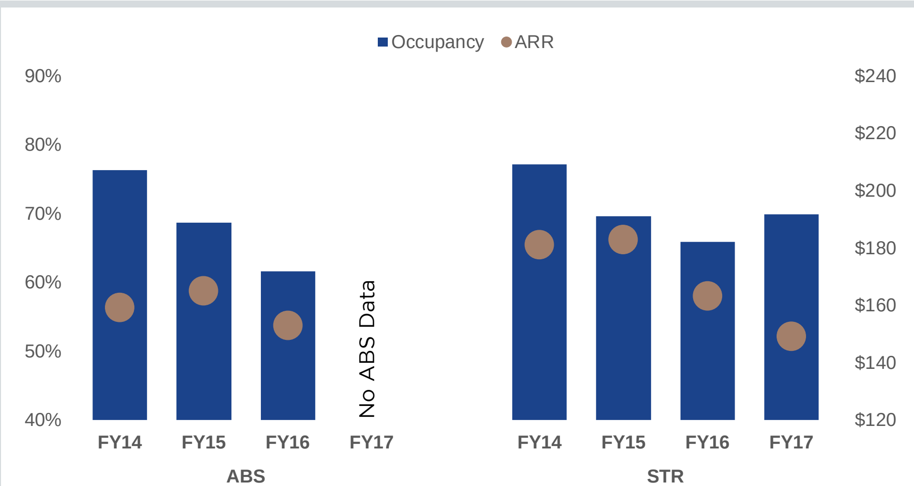
DARWIN – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	3,619	1.4%	-1.9%	$159.21	-1.7%	$121.43	-4.9%	76.3%
FY2015	4,531	25.2%	12.7%	$164.96	3.6%	$113.27	-6.7%	68.7%
FY2016	5,149	13.6%	2.0%	$152.94	-7.3%	$94.23	-16.8%	61.6%
Avg FY14-16		13.4%	4.3%		-1.8%		-9.5%	68.8%

ABS Dataset change affected

ABS & STR DATA COMPARISON



Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$163.33		$107.67			65.9%
FY2017	5,478	70%	$149.21	-8.6%	$104.25	-3.2%	$104.25	69.9%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	5,358	1.3%	8.0%	$149.21	0.0%	$111.13	6.6%	$108.42	74.5%
FY2019	5,400	0.8%	3.0%	$153.68	3.0%	$116.99	5.3%	$111.03	76.1%
FY2020	5,443	0.8%	2.5%	$159.83	4.0%	$123.73	5.8%	$114.22	77.4%
Avg FY 18-20		1.0%	4.5%		2.3%		5.9%	$111.22	76.0%
FY2021	5,525	1.5%	2.5%	$166.22	4.0%	$129.92	5.0%	$116.68	78.2%
FY2022	5,725	3.6%	2.9%	$170.38	2.5%	$132.26	1.8%	$115.54	77.6%
FY2023	5,813	1.5%	2.8%	$175.49	3.0%	$137.93	4.3%	$117.21	78.6%
FY2024	5,987	3.0%	2.8%	$182.51	4.0%	$143.17	3.8%	$118.35	78.4%
FY2025	6,166	3.0%	2.7%	$189.81	4.0%	$148.46	3.7%	$119.38	78.2%
FY2026	6,413	4.0%	2.5%	$197.40	4.0%	$152.17	2.5%	$119.03	77.1%
Avg FY21-26		2.8%	2.7%		3.6%		3.5%	$117.70	78.0%
Total Forecast Avg FY 2018-2026		2.2%	3.3%		3.2%		4.3%	$115.54	77.4%

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. In Darwin, FY2017 Supply was estimated to have increased by 2.7%

DRANSFIELD HOTELS & RESORTS

In FY2017, Gold Coast Hotels recorded moderate growth and slightly less than expected, as Occupancy levels fell for the STR sample properties. Demand expectations in the short term are very strong as the Commonwealth Games take place, although this is at risk of unwinding in the following year. Long term demand forecasts have been slightly increased, driving a positive long term outlook

FY2017 SNAPSHOT

	STR
Establishments	312
Rooms	21,084
STR Sample Coverage	47%
Occupancy	71.5%
Rate	$186.99
RevPAR	$133.77

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	0.0%	1.1%	1.1%	▲
Occupancy*	0.4	-1.6	-2.0	▼
ARR	4.0%	4.0%	0.0%	–
RevPAR	4.5%	1.7%	-2.8%	▼

* Percentage Point Change

Source: STR

FY2017 Year in Review

- In FY2017 Gold Coast hotels underperformed to moderate expectations, recording RevPAR growth of 1.7%. The underperformance followed 2 years of strong growth in which Occupancy levels peaked to historical highs
- The STR sample in this market is quite low at 47% of the census and positioned 16% above the census due to higher rate
  - Occupancy levels couldn't be maintained in FY2017, with the STR sample contracting 1.7 points to a still high 71.5%. TRA visitor night data for Gold Coast hotels however displayed growth above our estimation of new supply, indicating that occupancy for STR excluded properties may have outperformed the STR sample.
  - Rates were able to maintain recent pace, benefiting from the still high occupancy levels, increasing 4.0%
- Preliminary STR data for FY2018 (YTD Feb 2018) indicates that market growth has continued with slight improvements to both Occupancy and Rate. We expect growth will amplify over the last quarter driven by Commonwealth Games induced outperformance in April 2018 to record close to double digit RevPAR growth for the year

Demand Driver Analysis

Visitor Night Forecasts have been upgraded off a higher base

- City data for FY2017 for the Gold Coast reveals :-
  - International visitor nights decreased by 1.8% to 10M nights
  - Domestic visitor nights increased by 11.9% to 14.6M nights
  - Total visitor nights increased by 5.9% to 24.6M nights, of which 32% is captured in Hotels and Motels
- In FY2017 Gold Coast hotel's domestic visitor nights share increased to 71.4% from 70.7%
- The TRA forecasts for QLD Capital cities (Brisbane & Gold Coast) for the period to FY2025 have been slightly increased to average growth of 4.4% p.a compared to 4.2% previously, from a higher base:-
  - Annual domestic visitor night growth expectations of 2.1% vs. 2.9% previously
  - Annual international visitor night growth expectations of 6.3% vs. 5.4% previously

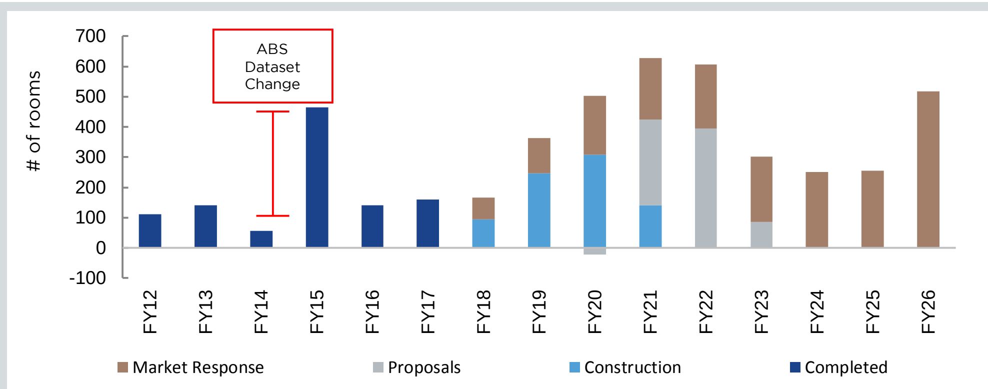
Dransfield Demand Forecast

Annual demand growth of 3.2% is expected for Gold Coast hotels over the long term to FY2026. This is a slight upgrade to the prior forecast with the uplift carried through the middle of the forecast. There are outperformance opportunities if international growth can be properly leveraged in this domestically weighted market. Demand growth expectations remain well above supply growth expectations

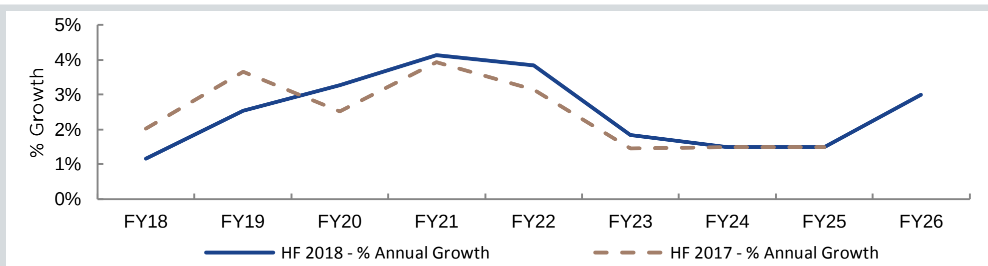
- We expect strong demand growth of 6.0% in FY2018 as the Commonwealth Games attracts both visitors during the event as well as planning and setup crews in the leadup, and post games tourism
- Medium term demand growth to FY2020 is expected to peak and trough, averaging 3.0% p.a. as Commonwealth Games induced demand unwinds in FY2019
- Long term demand growth expectations averaging 3.2% p.a are consistent with prior forecasts, representing moderate levels of growth and taking advantage of favourable proximity to a rising middle class of Asian leisure tourists who are moving towards independent leisure travel rather than tour group activities

A volatile supply forecast, typical of the Gold Coast, characterized by fluid transition between residential and short term letting, over specified high rise and emotion led Asian investment. Strong demand growth expectations likely to encourage continued proposal activity, however concerns remain over delivery given poor recovery on development cost

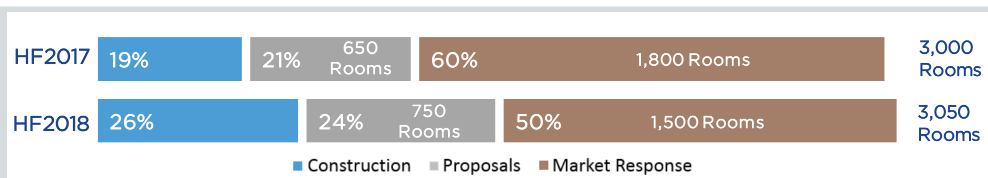
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF18 – PIPELINE BY TYPE TO FY2025



Supply Actual

- In FY2017 Gold Coast supply increased 1.1%, with the opening of Serviced Apartment products, the Meriton Suites Como Crescent Southport (208 rooms) and Rhapsody Surfers North (192 rooms)
- The nature of supply on the Gold Coast (Strata title, dual zoning, withdrawal with 3-months notice) means that supply change is often hard to predict accurately
- Through the first half of FY2018 several new properties have opened or will open in time for the Commonwealth Games uplift, being the Avani Residences Broadbeach (219 rooms), Jupiter's Casino Expansion (70 rooms) and Mantra at the Sharks (120 rooms)
- Additional construction activity is quite low with only 2 additional projects underway

Supply Forecasts

- Dransfield's supply forecast is for 3,600 new rooms over the next 9 years to FY2026 (24% of current stock), at an average annual growth rate of a low 2.5%
  - Our forecast supply pipeline is consistent with prior expectations in volume although there has been some small delays in timing. Demand growth expectations easily exceed supply growth expectations which means there is capacity for additional long term development
  - Gross proposal activity has increased (now 19 live projects compared to 11 last year), although many of these are early in the planning process or have been consistently delayed or not backed by proponents who have experience delivering assets in Australia. We have allocated a low probability to complete of 28% across the collective projects
  - The low probability also takes regard of the fundamental issue that hotel values on the Gold Coast are well below replacement cost, and therefore feasibility and valuation support for new development is often hard to achieve
  - Typical of our market approach for the Gold Coast, we have allowed for an unusually high level of medium term Market Response as the relationship between residential and hotel is often quite fluid and rooms can opt in or out of letting pools
  - Total supply growth in the medium term to FY2020 is still expected to average a low 2.3% p.a. (1,000 rooms), which is largely in line with prior expectations
  - Robust demand expectations have driven our moderate longer term Market Response allowances. High levels of demand should enable further development, likely to prove feasible beneath the luxury level following improvement over the next 4-5 years
- Development activity is also forecast at the Luxury/Upper scale end of the spectrum, and is often part of very large towers.

Long term RevPAR expectations are for 3.8% growth p.a. with outperformance in FY2018 partly unwinding in the following year. Supply volatility typical of the Gold Coast could easily see actual supply differ from current expectations both ways, although robust demand expectations underpin moderate growth

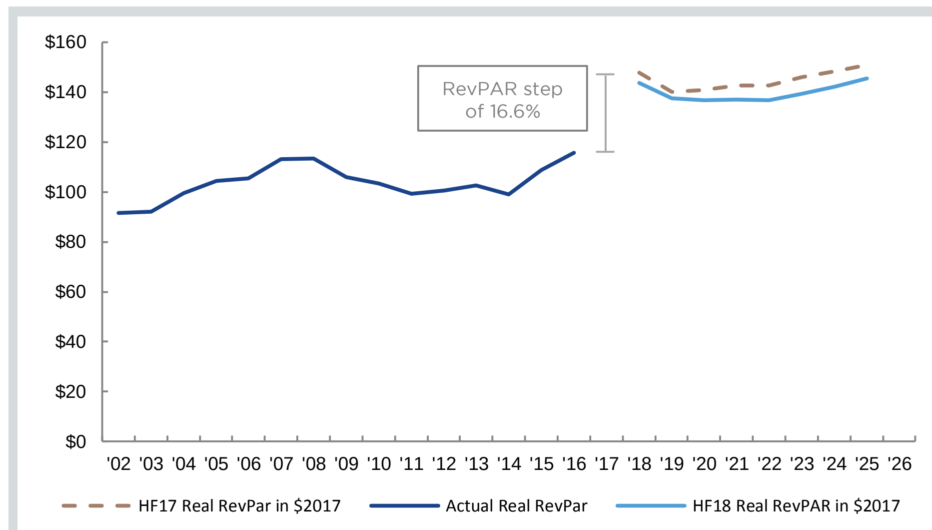
Conclusion

A robust long term forecast following a short period of event induced volatility, underpinned by strong international demand growth opportunities

The Gold Coast forecast is positive however represents a slight downgrade to prior long term expectations, impacted by underperformance in FY2017 and a slightly softer rate outlook impacted by minor delays to supply

- Over the period of the forecast, average occupancy of 73.9% is expected. This is slightly above current levels, and dictated by moderate demand growth in a low supply growth market
  - In FY2018, Occupancy levels will rise sharply as extreme event induced demand arrives through April. This will bolster already rising Occupancy levels for the year, however is likely to unwind in the following year
  - Following the unwind we expect hotel demand will restabilise to moderate growth levels, however moderate supply is also expected over this period which will have a neutralising effect on occupancy levels
  - Should the high quality supply proposed actually arrive, there could be some demand upside from visitors who typically wouldn't have been attracted to the Gold Coast
- Rate growth expectations over the long term are moderate, and above inflation. Average annual rate growth of 3.2% is expected to FY2026, which is a minor downgrade to prior expectations, impacted by slightly lesser short term growth based on YTD performance
  - We expect medium term event induced rate volatility with moderate rate growth opportunity through the back end of the forecast as supply additions are low. As a leisure destination with many comparable competitors, rate growth is capped by price sensitive visitors and alternate destinations, however, a significant improvement to luxury stock may increase the market rate as a whole
- Our forecast is for a small 3.5% downgrade in average long-term real RevPAR compared to our previous forecast, largely related to a lower starting base
- RevPAR growth for the comparable period to FY2025 is slightly lower than prior expectations with average growth of 3.9% vs 4.0% previously. Moderate growth is expected following volatility over the next two years as demand easily outpaces supply growth
  - In FY2018, RevPAR growth is expected to greatly benefit from Commonwealth Games uplift. We expect double digit growth of 10%, which is both games visitor related as well as some leadup uptick from infrastructure development workers and games officials
  - In the medium term to FY2020, average RevPAR growth is expected to peak and trough around the Commonwealth Games, averaging a front ended 3.6%
  - Long term expectations are good, with demand growth expected to outperform supply arrival, keeping occupancy levels in the mid 70's. Rate growth should track along slightly above inflation and slightly impacted by the rise in average quality of supply
  - Full forecast expectations to FY2026 are for 3.8% growth p.a.

GOLD COAST REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

DRANSFIELD HOTELS & RESORTS

Long term RevPAR expectations are for 3.8% growth p.a. with outperformance in FY2018 partly unwinding in the following year. Supply volatility typical of the Gold Coast could easily see actual supply differ from current expectations both ways, although robust demand expectations underpin moderate growth

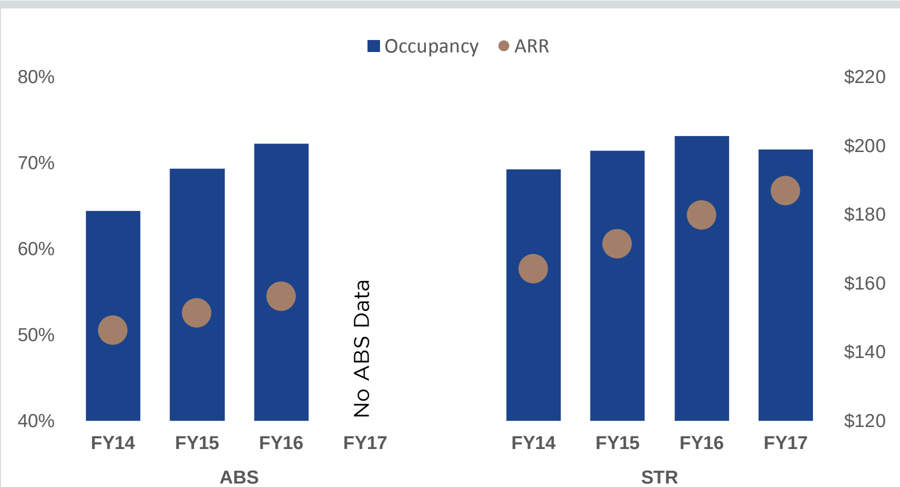
GOLD COAST – HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	13,415	0.4%	-4.9%	$146.31	5.2%	$94.31	-0.4%	64.5%
FY2015	13,880	3.5%	11.3%	$151.37	3.5%	$104.97	11.3%	69.3%
FY2016	14,021	1.0%	5.3%	$156.19	3.2%	$112.86	7.5%	72.3%
Avg FY14-16		1.6%	3.9%		3.9%		6.1%	68.7%

ABS & STR DATA COMPARISON

ABS Dataset change affected



Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$179.82		$131.55			73.2%
FY2017	21,084	47%	$186.99	4.0%	$133.77	1.7%	$137.77	71.5%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	14,347	1.2%	6.0%	$196.34	5.0%	$147.17	10.0%	$143.58	75.0%
FY2019	14,710	2.5%	0.0%	$198.30	1.0%	$144.97	-1.5%	$137.58	73.1%
FY2020	15,192	3.3%	3.0%	$203.26	2.5%	$148.20	2.2%	$136.82	72.9%
Avg FY 18-20		2.3%	3.0%		2.8%		3.6%	$139.33	73.7%
FY2021	15,819	4.1%	4.0%	$209.35	3.0%	$152.45	2.9%	$136.91	72.8%
FY2022	16,426	3.8%	3.5%	$215.63	3.0%	$156.52	2.7%	$136.74	72.6%
FY2023	16,727	1.8%	3.0%	$223.18	3.5%	$163.86	4.7%	$139.24	73.4%
FY2024	16,978	1.5%	3.0%	$230.99	3.5%	$172.10	5.0%	$142.26	74.5%
FY2025	17,232	1.5%	3.0%	$239.08	3.5%	$180.75	5.0%	$145.35	75.6%
FY2026	17,749	3.0%	3.0%	$247.45	3.5%	$187.08	3.5%	$146.34	75.6%
Avg FY21-26		2.6%	3.3%		3.3%		4.0%	$141.14	74.1%
Total Forecast Avg FY 2018-2026		2.5%	3.2%		3.2%		3.8%	$140.54	73.9%

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. On the Gold Coast, FY2017 Supply was estimated to have increased by 1.1%

DRANSFIELD HOTELS & RESORTS

In FY2017, Hobart performed well, compounding double digit growth in the prior year. Imminent supply is the focus of the next few years and is expected to materially impact the market. Demand expectations have improved and should take some of the sting out of the high level of new supply. Our forecast is for low average long term growth of 1.5%, characterised by a two speed timeframe with underperformance in the first half and outperformance over the back half

FY2017 SNAPSHOT

	STR
Establishments	63
Rooms	3,070
STR Sample Coverage	63%
Occupancy	82.8%
Rate	$172.28
RevPAR	$142.59

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	0.0%	0.0%	0.0%	–
Occupancy*	2.0	0.5	-1.5	▼
ARR	1.0%	2.5%	1.5%	▲
RevPAR	3.5%	3.1%	-0.4%	▼

* Percentage Point Change

Source: STR

FY2017 Year in Review

- The STR data set has significantly higher RevPAR than the census, predominately at the rate growth level, with RevPAR 16% higher in FY2016
- In FY2017, Hobart recorded a 3.1% RevPAR increase which was inline with expectations
  - Occupancy levels improved, albeit slightly below expectations, as peak periods essentially reached sold out status, averaging 89% for the 8 months from September to April
  - Rates strengthened above expectations, recording 2.5% growth
- Preliminary STR data for FY2018 (Feb 2018) indicates that a supply induced market reset is beginning to emerge following 7 years of moderate growth. Occupancy and rate deterioration is evident as competition has intensified and new avenues to additional demand have not yet taken hold in the winter low seasons.

Demand Driver Analysis

Visitor Night Forecasts have been increased over the long term, although downgraded in the short term

Low season demand is the crucial piece of Hobart's success in this cycle. Targeted events, attractions and communications efforts need to be undertaken in both a public and private capacity to entice visitors through this period

- City data for FY2017 for Hobart reveals :-
  - International visitor nights increased by 13.4% to 2.2M nights
  - Domestic visitor nights increased by 13.0% to 5.0M nights
  - Total visitor nights increased by 13.1% to 7.2M nights of which 30% is captured in hotels and motels. These growth levels were not reflected in demand growth in city hotels
- In FY2017 Hobart hotel's high domestic visitor nights share in hotels increased to 82.8%, from 81.4% previously
- The TRA forecasts for Hobart for the period to FY2025 have been maintained with average growth of 3.4% p.a from a slightly higher base:-
  - Annual domestic visitor night growth expectations of 2.0% are below prior year expectations
  - Annual international visitor night expectations have been upgraded to 6.3% vs. 4.9% previously

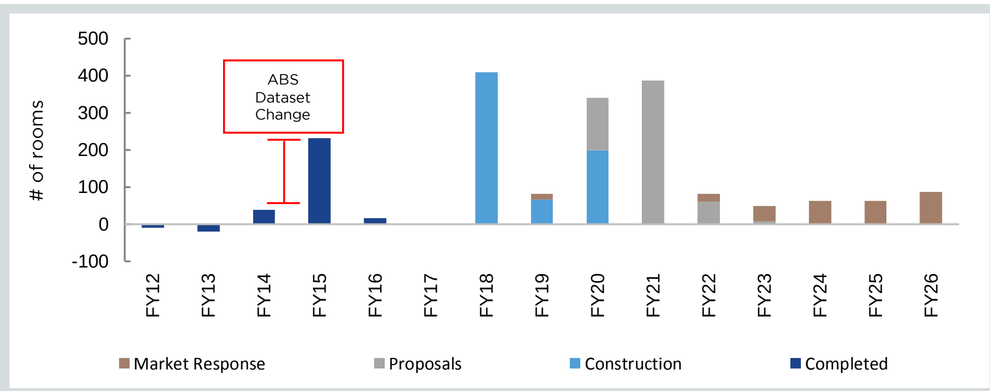
Dransfield Demand Forecast

Annual demand growth of 4.1% is expected for Hobart City hotels over the long term. This is a slight upgrade to the prior forecast driven by long term upgrades to TRA demand forecasts and enabled through early supply arrival during the high season

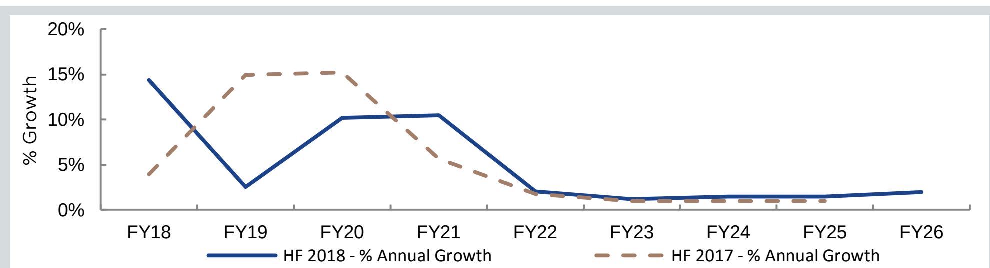
- We expect demand for hotels to increase significantly in FY2018, well above visitor night expectations by the TRA. Our demand growth upgrade is largely concerned with displaced demand blocked out through the high season, which will be enabled by additional supply
- Medium term demand growth to FY2020 is expected to average a high 6.2% p.a, which is supply enabled and represents a slight upgrade from previous expectations with uplift carrying through from FY2018
- Long term growth expectations for the comparable period represent an upgrade to prior forecasts (4.3% p.a vs 3.8% p.a). Strong international growth is expected, as tourists look for a uniquely Australian food, nature and art experience, and the city is actively promoted by Tourism Australia.

Supply beginning to arrive, more coming, but how much? Mooted proposal activity is well above market needs and is hinged to several large developments. The progression of a small number of individual projects can have vastly different effects on this inherently small market

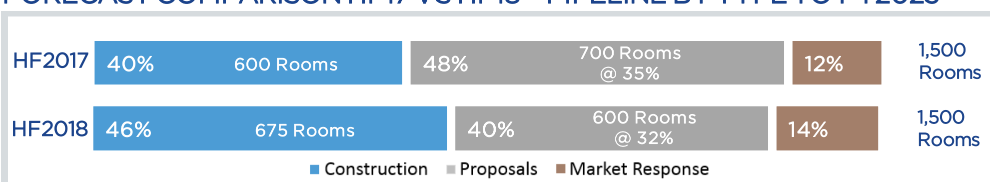
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF18 – PIPELINE BY TYPE TO FY2025



Supply Actual

- In FY2017 there was no change recorded to the Hobart supply environment
- Through the first half of FY2018 however, two new properties have opened, the 114 room MAC 01 and the 296 room Ibis Styles
- Construction activity remains low with only 1 known project already in the construction phase

Supply Forecasts

- Dransfield's supply forecast is for a market significant 1,550 new rooms to enter Hobart over the next 9 years to FY2026 (55% of current stock), at an average annual growth rate of 5.1%
  - Our forecast supply pipeline is in line with the prior forecast in terms of volume and project numbers, however the arrival of rooms in the short term has come 12 months quicker than expected. This has been partly offset by delays which have emerged 3 to 4 years out, with some projects undergoing scheme changes, in many cases due to opposition of local groups
  - Further delays are also expected to emerge over the next 12-18 months as projects inevitably slide as projects are reassessed in a declining market
  - High season overtrade is promoting development activity, however, feasibilities are coming undone during the low season months of May through August where Occupancy and ARR averages are both operating at points 20% lower than high season
  - Mooted projects have a high degree of completion risk associated with them, both in abandonment for alternate use or scheme reduction. Only 4 of our 11 proposals are rated above 50% probability for completion
  - Collectively we have assumed proposals at a low 32% probability of completion
  - There is an element of disconnect between market needs and market activity in Hobart's development pipeline. Significantly scaled proposal activity (relative to market size) is occurring at the concept stage in the small, seasonal market, which is unlikely to be able to support these through the low season
  - Some inherent concentration risk is also present with a mooted 1,200 rooms proposed by a single developer (Since last year this developer has included an additional site, but reduced the scheme size of the others)
  - We expect very few additional supply proposals to come to light over the longer term. Market Response of less than 15% of the forecast pipeline has been assumed for the full forecast period
  - Should the upper range of mooted development materialise, there is a high probability that older stock may fall out of the market
- The supply cycle is leaning towards the upper end, with several luxury and upper scale properties slated to open. This will fill a market gap, adding diversity to the supply environment.

Long term RevPAR expectations are for 1.5% growth p.a. in a two phase market. Medium term supply induced underperformance expected, including 3 years of double digit supply growth. The market is also experiencing high proposal activity, which increases volatility risk in our forecast. The status of a single project in this small market can severely impact the market as a whole. We expect many of these mooted projects will not eventuate, providing opportunity for occupancy levels to strengthen

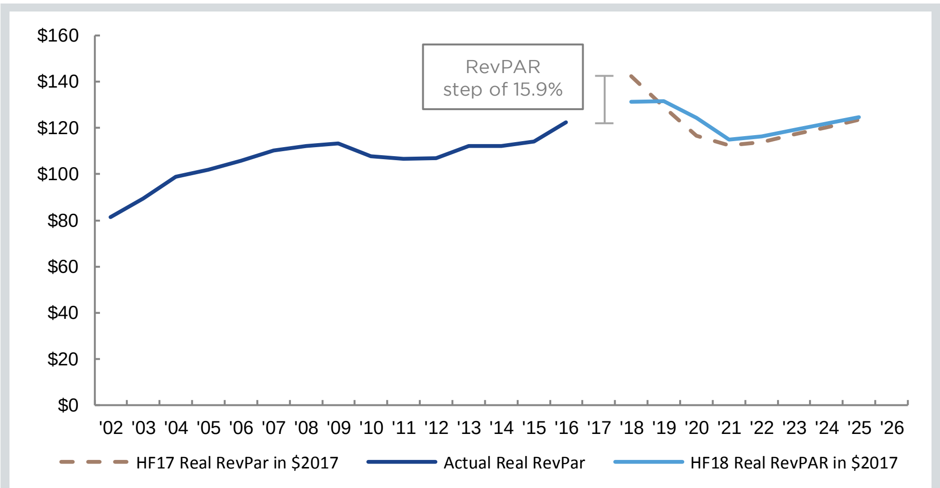
Conclusion

A low growth forecast with supply volatility risk

The Hobart forecast represents a small upgrade to prior expectations, with improved demand expectations meeting an environment which appears to be starting to recognise development activity may be over market needs. This has manifested in elongated medium term supply expectations as project timing delays, and downward revision of some larger schemes, has slightly improved the supply and demand equation

- Over the period of the forecast, average occupancy expectations are for 76%, and below FY2017 levels, with short term outperformance before material supply arrives. Inflection points in occupancy vary compared to the prior year with movement in the supply delivery timeline, however a slight improvement to the long term position is expected relative to prior forecast as demand expectations have also improved
  - In FY2017 occupancy levels are expected to fall 3.5 points as new supply is unable to be immediately absorbed, particularly in the low season
  - Over the slightly longer medium term to FY2021 occupancy levels will likely compress considerably. We expect occupancy may fall around 6 percentage points over this time. Both upside opportunity and downside risk is present, depending on individual project status
  - Whilst we predict that new rooms will be largely absorbed through the high season, we expect vacancy rates to increase substantially in the shoulder low seasons, impacting full year performance
  - Long term occupancy recovery should eventuate if supply as mooted doesn't arrive as expected, and demand growth remains stable
- A two phase long term rate growth forecast, averaging 2.3% p.a, with first half of the forecast depressed by material and consistent supply additions. Robust growth should materialise over the back half of the forecast as supply is absorbed and alternate leisure destinations become competitive for price conscious travellers following strong recent performance/ARR position
  - Expectations are for very low ARR growth over the medium term as new supply is absorbed. We consider there to be more downside risk than upside opportunity
  - Rates will have the opportunity to strengthen over the back of the forecast as supply additions slow, discounting ceases, and the quality of the market as a whole is improved
- Our forecast is for a minor 1.1% increase in average long-term real RevPAR compared to previous low expectations. The upgrade lies in improved demand expectations, although there is supply risk, should mooted development eventuate as planned
- RevPAR growth for the comparable period to FY2025 is slightly upgraded relative to prior expectations, however, improved demand expectations are largely offset by lower rate position following a downgraded FY2018. There is moderate to high risk and volatility associated with the Hobart forecast as the development environment is hinged to the outcome of a small number of large scale projects, amplified by the small size of the existing market. Performance could easily swing both ways pending the delivery or non delivery of these projects
  - In FY2018, RevPAR is expected give back all of the prior year growth, reducing 5.7%. This is a considerable downgrade to prior expectations for 2.0% growth which envisaged a slower arrival of supply
  - In the medium term to FY2020, average RevPAR decline of 1.8% p.a is expected as the market absorbs material supply. A further year of double digit supply in FY2021 will further depress the market before any growth can be realised
  - Long term expectations are for back ended market recovery with occupancy levels firming, creating opportunity for rate taking, which is likely through the high season. Leveraging winter leisure demand is vital in the environment of increased supply
  - Full forecast expectations to FY2026 are for 1.5% growth p.a.

HOBART CITY REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

Long term RevPAR expectations are for 1.5% growth p.a. in a two phase market. Medium term supply induced underperformance expected, including 3 years of double digit supply growth. The market is also experiencing high proposal activity, which increases volatility risk in our forecast. The status of a single project in this small market can severely impact the market as a whole. We expect many of these mooted projects will not eventuate, providing opportunity for occupancy levels to strengthen

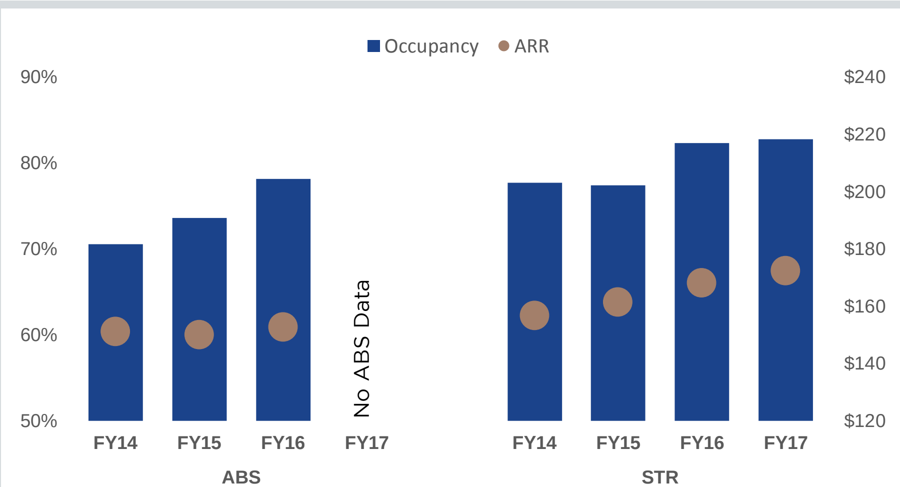
HOBART – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	2,608	1.5%	-3.1%	$151.10	7.8%	$106.62	2.9%	70.6%
FY2015	2,840	8.9%	13.6%	$149.96	-0.8%	$110.34	3.5%	73.6%
FY2016	2,857	0.6%	6.8%	$152.71	1.8%	$119.29	8.1%	78.1%
Avg FY14-16		**3.7%**	**5.8%**		**3.0%**		**4.8%**	**74.1%**

ABS Dataset change affected

ABS & STR DATA COMPARISON



Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$168.03		$138.27			82.3%
FY2017	3,070	63%	$172.28	2.5%	$142.59	3.1%	$142.59	82.8%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	3,267	14.4%	9.5%	$169.70	-1.5%	$134.49	-5.7%	$131.21	79.3%
FY2019	3,350	2.5%	3.0%	$173.94	2.5%	$138.48	3.0%	$131.42	79.6%
FY2020	3,691	10.2%	6.0%	$175.68	1.0%	$134.55	-2.8%	$124.22	76.6%
Avg FY 18-20		**9.0%**	**6.2%**		**0.7%**		**-1.8%**	**$128.95**	**78.5%**
FY2021	4,077	10.5%	5.0%	$175.68	0.0%	$127.88	-5.0%	$114.84	72.8%
FY2022	4,160	2.0%	3.0%	$180.95	3.0%	$132.98	4.0%	$116.17	73.5%
FY2023	4,210	1.2%	2.6%	$188.19	4.0%	$140.21	5.4%	$119.15	74.5%
FY2024	4,273	1.5%	2.6%	$195.71	4.0%	$147.40	5.1%	$121.84	75.3%
FY2025	4,337	1.5%	2.6%	$203.54	4.0%	$154.95	5.1%	$124.60	76.1%
FY2026	4,424	2.0%	2.6%	$211.68	4.0%	$162.10	4.6%	$126.80	76.6%
Avg FY21-26		**3.1%**	**3.1%**		**3.2%**		**3.2%**	**$120.57**	**74.8%**
Total Forecast Avg FY 2018-2026		**5.1%**	**4.1%**		**2.3%**		**1.5%**	**$123.36**	**76.0%**

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. In Hobart, FY2017 Supply was estimated to have remained unchanged

DRANSFIELD HOTELS & RESORTS

In FY2017, Melbourne RevPAR was inert, with marginal movement in occupancy and rate. Subdued rate growth continues as shadow stock clips the cream from compression nights (occupancy above 85-90%) blending out the rate growth in non-compression nights. The demand outlook has improved, which in turn has partly induced an increase to our supply expectations, which are still expected to be fully absorbed over time

FY2017 SNAPSHOT

	STR
Establishments	187
Rooms	24,036
STR Sample Coverage	87%
Occupancy	85.3%
Rate	$196.98
RevPAR	$168.06

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	1.1%	2.4%	1.3%	▲
Occupancy*	0.8	-0.3	-1.1	▼
ARR	1.0%	0.5%	-0.5%	▼
RevPAR	1.9%	0.1%	-1.8%	▼

* Percentage Point Change

Source: STR

FY2017 Year in Review

- In FY2017 Melbourne Hotels recorded marginal 0.1% RevPAR growth, underperforming to our 1.9% expectations
  - Occupancy levels decreased 0.3 points to a still very high 85.3%
  - Rates increased just 0.5%, and below already low 1% forecasts. The soft rate environment appears to be impacted by compression night ARR erosion caused by the availability of shadow stock and price sensitivity of consumers. The rate reset through these small number of high rate event days is a short term phenomena and once unwound is unlikely to affect the forecast
- Preliminary STR data for the YTD FY2018 (Feb 2018) indicates slight market regression, with reductions to both Occupancy and Rate levels over the first 7 months. We have tempered our short term expectations accordingly.

Demand Driver Analysis

Upgraded visitor night forecasts

- Melbourne visitation growth is outpacing Sydney, enabled by increasing hotel supply. A $350M expansion to the Melbourne Exhibition and Convention Centre, makes it the largest convention in the southern Hemisphere, as Melbourne looks to counter Sydney's recent convention centre redevelopment
- City data for FY2017 for Melbourne reveals :-
  - International visitor nights increased by 16.6% to 60.4M nights
  - Domestic visitor nights increased by 4.9% to 24.5M nights
  - Total visitor nights increased by 12.9% to 85M nights of which only 19% is captured in hotels and motels
- In FY2017 Melbourne hotel's domestic visitor nights content decreased slightly to 60% from 63.9% previously
- The TRA visitor night forecasts for the period to FY2025 have been upgraded to average annual growth of 5.3% p.a compared with 4.9% previously, from a slightly higher base:-
  - Annual domestic visitor night growth expectations of 2.5% vs. 2.8% previously
  - Annual international visitor night growth expectations of 6.3% vs. 57% previously

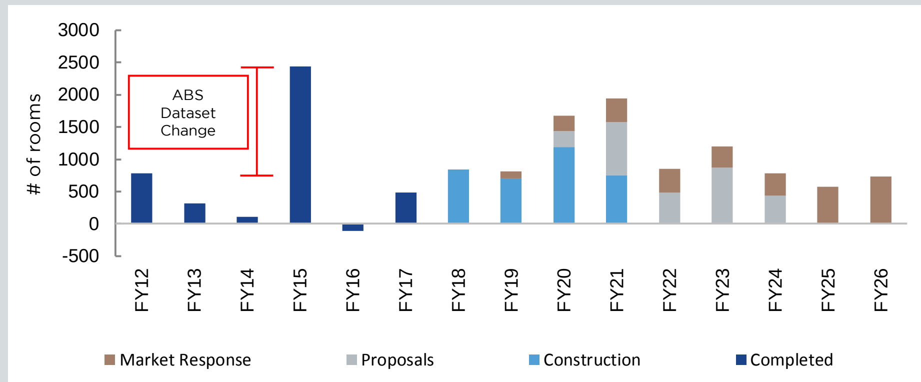
Dransfield Demand Forecast

Annual demand growth of 4.3% is expected for Melbourne City hotels over the long term. This is a slight upgrade to the prior forecast, driven by upgrades to both TRA forecasts and enabling supply through the short term

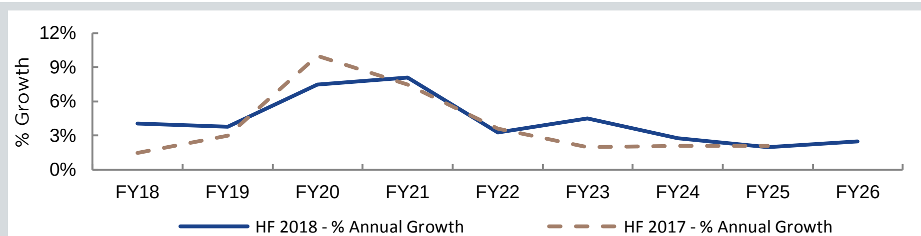
- We expect demand to increase 3.5% in FY2018, slightly above prior expectations as demand enabling hotels are added, which are likely to be quickly absorbed
- Medium term demand growth to FY2020 is expected to average 4.4% p.a, representing a minor upgrade to prior expectations. TRA forecasts over this period have increased to 5.9% vs 4.8% previously. Capacity constraints have limited our hotel demand growth expectations below TRA levels
- Long term growth expectations to FY2025 of 4.3% p.a, represents a minor upgrade to the prior forecast. Strong TRA visitor forecasts have been upgraded from a higher base, and have been met with upgraded supply expectations providing availability to increase our demand forecast.

Supply is starting to arrive in Melbourne with a slight pause before the major arrivals in FY2020 and FY2021. A 1,900 room increase in prospective supply is mostly absorbed by an improved demand outlook and the supply clock has advanced with construction activity doubling. A lack of growth in ADR and general finance tightening could see some proposals delayed

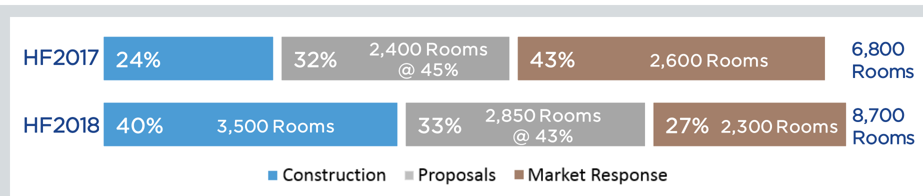
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF18 - PIPELINE BY TYPE TO FY2025



Supply Actual

- In FY2017 several new hotels opened, increasing supply by 2.4% (460 rooms)
- Branded properties included Punthill Apartments Flinders Street (132 rooms), QT Melbourne (188 rooms), Four Points by Sheraton Docklands (273), and were accompanied by independent Serviced Apartment's Imagine Marco (172 rooms) and the Jazz corner (100 rooms)
- Shadow stock continues to affect the Melbourne market, more so than any other Australian market, although statistics are showing the effect on hotel occupancy levels is relatively minor, however the rate dynamic these additional alternative options are creating is far more significant
- Through the first 9 months of FY2018 the market has welcomed the Oaks Southbank (137 rooms), the Tyrian Melbourne and the Novotel Southwharf (331 rooms)
- Construction activity is now quite high following a sizeable shift of proposed projects into the construction phase, however all rooms are expected to be fully absorbed. 3,500* rooms are now in the construction pipeline (*includes recently opened)

Supply Forecasts

- Dransfield's supply forecast is for 9,400 new rooms to enter the market over the next 9 years to FY2026 (40% of current stock) at an average annual growth rate of 4.3%
  - Our forecast supply pipeline represents a moderate increase of 1,900 rooms over the prior forecast. Increases to demand growth expectations, and continued progression of mooted projects is driving the upgrade. Demand growth rates match supply growth expectations over the long term
  - The live pipeline (recently completed, under construction and proposals) has increased from 30 to 45 projects, with construction activity almost doubling to 16 projects. By comparison, Sydney has 60 live projects on a similar base level of existing rooms
  - Supply growth has slightly increased through the medium term as projects continue to emerge late, although this has been partly offset by delays to several projects as development hurdles frustrate progress, and construction timetables have been extended
  - Supply growth in the medium term to FY2020 is expected to average a high 5.1% p.a. (3,300 rooms), which is a slight increase on the 3,050 rooms expected in the prior forecast. Projects continue to switch late from residential to Short Term Accommodation, which has impacted our medium term expectations despite several projects being delayed
  - Proposal activity across the forecast period is quite high with more than 6,500 mooted rooms. Our assessment of probability to complete expects 43% of these to arrive as anticipated. The majority of these proposed rooms will not come online for more than 5 years and will need to move into construction over the next 12-18 months to meet currently projected timelines
  - Market Response allowances have been slightly downgraded as construction and proposal activity has increased. The reduction however has also been partly offset by upgraded demand forecasts which anticipate further supply. Our forecast Market Response to FY2026 represents 28% of the pipeline compared to 43% of the previous forecast
  - We expect supply to be fully absorbed over the long term with occupancy levels remaining in the mid 80%'s at the back end of the forecast
- Despite luxury development capturing much of the media attention recently, there are more than 50 sites slated for STA which means all grades are well represented in this cycle.

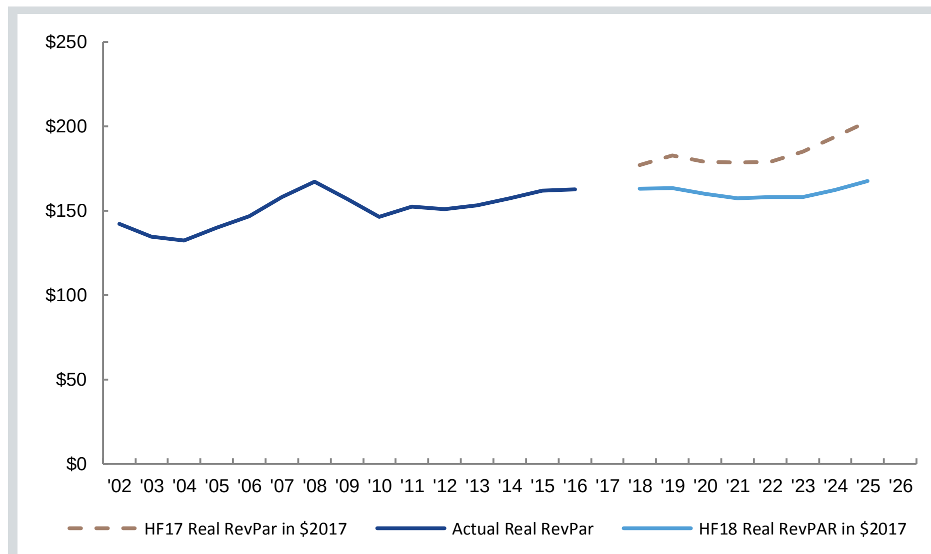
Three years without significant rate growth, despite high and increasing occupancy and limited supply, have reset the forecast well down. Market participants blame a combination of shadow stock stealing high rate visitors on compression nights, and new supply. Our view is the compression nights is the greater cause with the new supply being modest and demand growing more than supply in any event. This sees our forecast downgraded from 5% RevPAR growth p.a. to 3% as rate growth is tempered. Rate growth expected at the back end once the supply cycle finishes and having not pushed occupancy below 80%

Conclusion

Unusual rate performance, abnormal to typical market dynamics is stifling recent RevPAR growth. Market behaviour is expected to normalise over the medium term, with moderate but consistent supply additions expected to be fully absorbed, placing consistent upward pressure on rates

- In the context of a positive market outlook, the Melbourne RevPAR forecast represents a large downgrade to prior expectations as current rate behaviour has lowered the launch point and softened our medium term rate sentiment. Supply activity has increased at a slightly faster rate than demand expectations
- Occupancy expectations remain very high for the life of the forecast despite the consistent material supply additions as the market remains capacity constrained in the medium term
  - In FY2018 occupancy levels are expected to contract slightly (<1%) as new supply enters the market in secondary locations, which can take more time to be absorbed
  - Substantial additions to supply in FY2020 and FY2021 are likely to take some time to be absorbed. Occupancy levels may dip as these hotels are introduced, in some cases with newer offshore operators who have weaker domestic distribution lines which may take time to develop
  - Over the back end of the forecast, occupancy levels are expected to strengthen as the supply cycle reaches the bottom of the curve and international demand growth continues
- Rate growth expectations are above inflation, although have been wound back as hoteliers appear to be significantly impacted in the short term by compression night rate erosion caused by shadow stock availability. This may continue through the short term, although will not extend long term following the reset to the small amount of event nights. The manner in which this shadow stock is managed by authorities will have ramifications on the market as a whole
  - In FY2018, rates are likely to remain static. This has already been felt through the first 8 months YTD
  - We think the compression night reset will have run its course by FY2018 end, and rate growth should return in FY2019
  - Average uptick in supply arrivals through FY2020 and FY2021 will compress rate growth opportunities, with discounting behavior likely to eventuate
  - Over the longer term, we anticipate outperformance as high occupancy pressures re-emerge and development activity slows slightly
- Our forecast is for an 12.5% reduction in average long term real RevPAR compared to our previous forecast, driven by rate downgrades. Overall the forecast remains positive with above inflation growth expected.
- RevPAR growth for the comparable period to FY2025 represents a large downgrade to prior expectations, dragged by medium term rate underperformance. We anticipate average RevPAR growth of 2.7% vs 5.0% previously
  - In FY2018, we expect slight decline, with minor contraction possible on both rate and occupancy
  - In the medium term to FY2020, limited RevPAR growth is expected as moderate supply is welcomed. We expect average growth of 1.0% p.a.
  - Long term expectations sees demand growth largely absorbing new supply, and high occupancy facilitating rate growth recovery. The RevPAR gap relative to Sydney, however, widens as we move through the forecast
  - Full forecast expectations to FY2026 are for 3.1% growth p.a.

MELBOURNE CITY REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

Three years without significant rate growth, despite high and increasing occupancy and limited supply, have reset the forecast well down. Market participants blame a combination of shadow stock stealing high rate visitors on compression nights and new supply. Our view is the first is the greater cause with the new supply being modest and demand growing more than supply in any event. This sees our forecast downgraded from 5% RevPAR growth to 3% as rate growth is tempered. Rate growth expected at the back end once the supply cycle finishes and having not pushed occupancy below 80%

MELBOURNE – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	17,821	0.6%	3.6%	$180.60	2.6%	$149.48	5.6%	82.8%
FY2015	20,260	13.7%	14.3%	$187.98	4.1%	$156.37	4.6%	83.2%
FY2016	20,151	-0.5%	1.8%	$186.26	-0.9%	$158.65	1.5%	85.2%
Avg FY14-16		4.6%	6.6%		1.9%		3.9%	83.7%

ABS Dataset change affected

ABS & STR DATA COMPARISON

Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$196.02		$167.86			85.6%
FY2017	24,036	87%	$196.98	0.5%	$168.06	0.1%	$168.06	85.3%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	21,478	4.1%	3.5%	$196.98	0.0%	$167.13	-0.6%	$163.05	84.8%
FY2019	22,293	3.8%	3.8%	$202.89	3.0%	$172.15	3.0%	$163.38	84.9%
FY2020	23,965	7.5%	6.0%	$206.95	2.0%	$173.15	0.6%	$159.85	83.7%
Avg FY 18-20		5.1%	4.4%		1.7%		1.0%	$162.09	84.5%
FY2021	25,904	8.1%	7.1%	$211.08	2.0%	$174.99	1.1%	$157.15	82.9%
FY2022	26,758	3.3%	3.7%	$217.42	3.0%	$180.94	3.4%	$158.07	83.2%
FY2023	27,960	4.5%	3.8%	$225.03	3.5%	$186.04	2.8%	$158.09	82.7%
FY2024	28,739	2.8%	3.8%	$235.15	4.5%	$196.32	5.5%	$162.29	83.5%
FY2025	29,314	2.0%	3.6%	$245.73	4.5%	$208.38	6.1%	$167.56	84.8%
FY2026	30,047	2.5%	3.6%	$258.02	5.0%	$221.14	6.1%	$172.98	85.7%
Avg FY21-26		3.9%	4.3%		3.8%		4.2%	$162.69	83.8%
Total Forecast Avg FY 2018-2026		4.3%	4.3%		3.1%		3.1%	$162.49	84.0%

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. In Melbourne, FY2017 Supply was estimated to have increased by 2.4%

DRANSFIELD HOTELS & RESORTS

In FY2017, the Perth hotel market contracted substantially, marking the 5th consecutive year of decline. Whilst the mining demand reset is largely complete, the market meets the next hurdle as significant supply arrives which was conceived through the golden days. We do expect robust demand growth in the medium term, as leisure drivers develop, however, still well below the substantial supply growth. Three more years of decline are expected before a return to growth. Long term recovery is expected thereafter

FY2017 SNAPSHOT

	STR
Establishments	65
Rooms	8,083
STR Sample Coverage	82%
Occupancy	78.1%
Rate	$180.27
RevPAR	$140.86

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	6.7%	11.0%	4.4%	▲
Occupancy*	-2.1	-4.1	-1.9	▼
ARR	-7.5%	-6.9%	0.6%	▲
RevPAR	-10.0%	-11.5%	-1.5%	▼

* Percentage Point Change

Source: STR

FY2017 Year in Review

- Changing to the STR dataset has affected our forecast launch point and the quality of the dataset has lifted. The growth rates however still represent a forecast for the entire market, however there is a disconnect between the Occupancy and rate position of the STR sample and new base, and the whole market
- In FY2017 Perth slightly underperformed to very poor expectations (-11.5% vs -10%) with the first wave of new supply compounding a long term retreating market
  - Occupancy levels declined 4.1 points as the market welcomed an 11% increase in supply. Market occupancy levels are still high at 78%, above Brisbane and Canberra
  - Rates decreased by 6.9% largely in line with expectations as above market contract levels fall off, and new supply discounting occurs, all in the environment of falling occupancy levels
- Preliminary STR data for FY2018 (YTD February 2018) indicates that market decline has slowed but is still significant, with contraction in both rate and occupancy levels. Material supply has entered through this period

Demand Driver Analysis

TRA Demand forecasts downgraded

- Access improving, demand drivers diversifying and accommodation option broadening, all placing Perth in good stead to capitalise on growing international visitor potential
- City data for FY2017 for Perth reveals:-
  - International visitor nights increased by 6.4% to 23M nights
  - Domestic visitor nights decreased by 11.4% to 12.8M nights
  - Total visitor nights decreased by 0.7% to 35.9M nights, of which only 13% is captured in hotels and motels
- In FY2017 Perth hotel's domestic visitor nights share in hotels increased to 65.3% from 52.4% previously
- The TRA forecasts for Perth for the period to FY2025 have been slightly downgraded to average growth of 4.6% p.a compared to 5.0% previously:
  - Annual domestic visitor night growth expectations of 2.9% vs. 3.3% previously
  - Annual international visitor night growth expectations of 5.5% vs. 6.1% previously

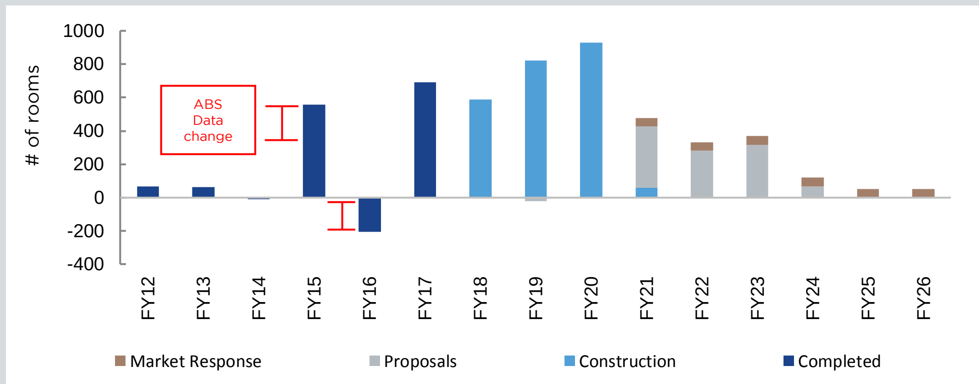
Dransfield Demand Forecast for Perth City Hotels

Annual demand growth of 5.3% is expected for Perth City hotels over the long term to FY2026, which is a minor downgrade to the prior forecast. TRA visitor night expectations have been reduced from a lower base for all years after FY2018

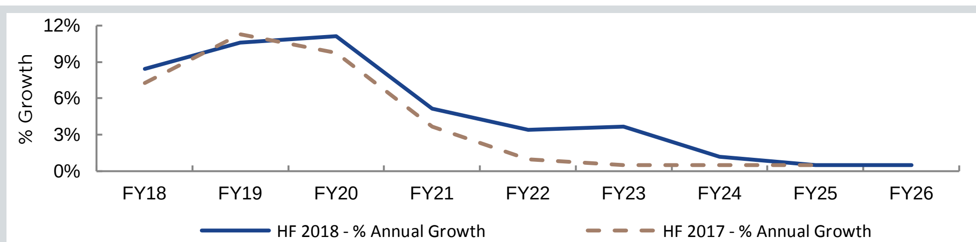
- Short term demand indicators are strong and we expect demand to increase 7.0% in FY2018. This represents an upgrade to prior expectations, taking regard of short term TRA upgrades, event induced demand (including events at the new Perth Arena), and some supply induced demand as leisure markets continue to open up
- Medium term demand to FY2019 is expected to average a high 7.3% p.a, as enabling supply at price points much lower than the last 5 years creates demand from displaced leisure guests
- Long term demand growth is expected to settle after the medium term spike, although moderate levels are still expected throughout the back end as established leisure demand drivers prosper and the destination is developed as a new potential gateway to and from Europe. Continued growth in air access, like the Perth to London route, will be required to achieve growth rates.

Relative to market size, the medium term supply outlook is matched only by Sydney's leadup to the Olympic Games. 65% of the pipeline is already in construction and due for arrival over the next 3 years. Supply proposals are still being conceived, although many are at risk. Despite all this, the long term market potential remains solid for most, if the downturn can be ridden out

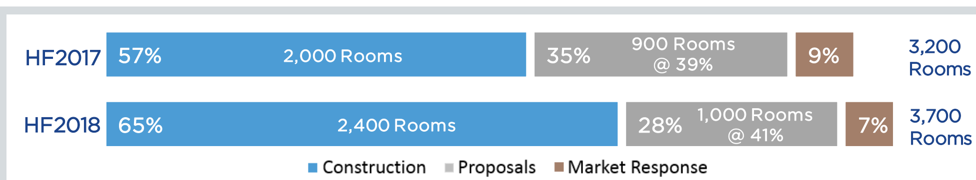
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF18 – PIPELINE BY TYPE TO FY2025



Supply Actual

- In FY2017 Perth supply grew substantially (11%), as the influx began to arrive. The relatively small size of the market, circa 6,200 rooms, means growth rates appear quite large. The 11% increase equated to just 700 additional rooms
- In this edition of Hotel Futures we have also included Burswood as the competitive area expands. Whilst historic ABS data is unavailable for this region, we think this area would slightly outperform the whole market
- Through FY2018, several more hotels have either opened or are due to open including Westin (362 rooms), Double Tree by Hilton Northbridge (205 rooms), Reopening of the newly branded Intercontinental (240 rooms) and the Tribe Walker Avenue (126 rooms). The smaller Richardson (100 rooms) has closed as of December 2017
- Construction activity is high with 15 projects recently completed or currently under construction, equating to 2,750 rooms.

Supply Forecasts

- Dransfield's supply forecast is for 3,700 new rooms to enter the market over the next 9 years to FY2026 (53% of current stock), at an average annual growth rate of 4.9%
  - Our forecast supply pipeline represents a moderate increase of 500 rooms relative to the prior forecast (after adjustment for the addition of Burswood). Proposal activity has increased unexpectedly in the soft current environment, with live projects (recently completed, under construction, proposals) increasing from 24 to 29 projects since last HF
  - Projects at the proposal level have significant risk as feasibilities are reassessed given short-term market sentiment, however despite this, the collective probability percentage for this year has increased based on an updated assessment of each project individually on its merits. We are currently aware of 13 projects in various stages of planning. Developers and investors appear to have a positive long term view on the market which is keeping them in the game
  - Supply growth in the medium term to FY2020 accounts for the majority (62%) of the long term forecast. Average supply growth of 10.1% p.a. (2,300 rooms) is expected over this period
  - We expect very few additional supply proposals to come to light over the longer term. Market Response makes up just 6% of our expected supply pipeline. This also assumes a moderate proportion of already proposed projects will not eventuate
- Luxury and upscale developments which were dominant through the beginning of this cycle have started to be evened out with lower positioned assets and serviced apartments. Older stock continues to move closer to capex decision points, and may be forced out of the market if they can't keep pace, particularly as the dynamics of the CBD are changing.

Supply challenged medium term, with downside rate risk, however positive long term outlook driven by diversified demand base. Back ended RevPAR growth expected, averaging 2.7%, as occupancy levels move towards 80%, enabling rate growth opportunities

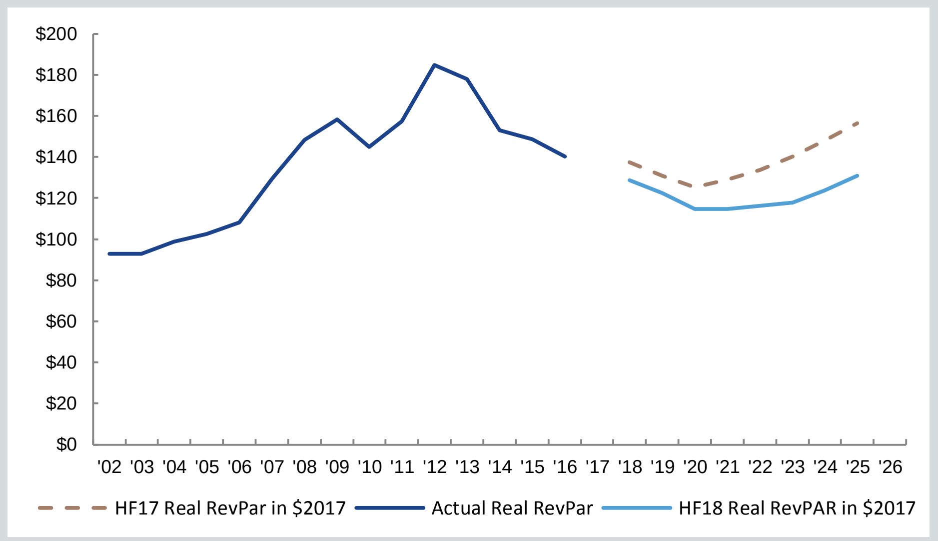
Conclusion

A positive long term outlook driven by a larger and more diversified demand base, however, three more years of supply induced decline expected

The Perth forecast represents a significant downgrade to prior expectations as the challenged rate environment continues to record worse than already poor expectations. The poor sentiment is likely to continue through the medium term as consistent material supply arrives. The market is at high risk of underperformance over the next 3 years, however the long term view of the market is strong as diversity in demand drivers is met with increased access and room availability

- Over the period of the forecast, average occupancy of 75.6% is expected with medium term deterioration followed by back ended outperformance as supply additions slow
  - In FY2018 occupancy levels are expected to fall by approximately 1 point as the first wave of new supply enters the market and is unlikely to be fully absorbed
  - The medium term occupancy growth outlook is also poor with three straight years of decline expected as the market tries to absorb supply
  - Recovery should emerge over the longer term as consistent demand growth, particularly international, meets a recently rate challenged market
- Rates will depress over the medium term as the new supply arrives. Whilst recovery should emerge over the longer term, we expect average rate growth to FY2026 to be below inflation levels
  - In FY2018 YTD, rates have continued to fall as additional rooms are added to the market. We expect this will end at -5.0% for the year
  - Over the medium term, our rate forecast is for average decline of 1.7%, albeit largely short term focused. Our forecast is highly volatile and further rate risk turns on how the first responders act as new supply comes online. This can be either the new hotel which discounts to build market share or the existing hotels which discount to keep market share. Predicting this behaviour is very difficult and often impacted by the location and proximity to competitors or the timing of new openings (high vs low season)
  - An element of quality induced rate growth is expected to partly temper the decline as new stock focused at the luxury end creates a higher average environment
- Our forecast is an 11.8% reduction in average long-term real RevPAR compared to our previous forecast. The downgrade is driven by reduced medium term rate expectations
- RevPAR growth rates for the comparable period to FY2025 have been reduced from 4.0% p.a previously to 1.9% p.a. this year, largely impacted by a significant FY2018 downgrade and lower starting base. An increase in supply proposal activity which was not expected in this soft environment has also compounded a slight reduction in TRA demand forecasts.
  - In FY2018, RevPAR decline of 6.3% is expected as rates are unable to be maintained in a market introducing supply. This is well below prior expectations which assumed greater rate preservation
  - In the medium term to FY2020, we expect three consecutive years of decline with reductions to occupancy levels as new supply comes online, creating downward pressure on rates. Further downside risk is evident through this period as hoteliers respond to additional supply
  - Long term expectations are positive with the market expected to fully absorb material supply additions over time. The breadth and depth of leisure drivers, Increased air access, and a refreshed and sophisticated improvement in the quality and diversity of supply should appeal to both domestic and international travellers alike. We are confident in taking a long term view of this bottoming market. It is more a question of when will it recover, not if
  - Full forecast expectations to FY2026 are for 2.7% growth p.a.

PERTH CITY REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

Supply challenged medium term, with downside rate risk, however positive long term outlook driven by diversified demand base. Back ended RevPAR growth expected, averaging 2.7%, as occupancy levels move towards 80%, enabling rate growth opportunities

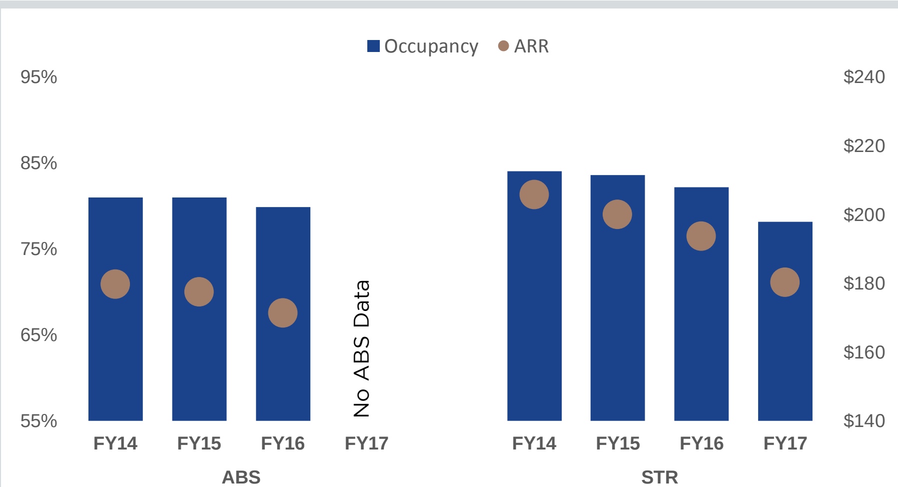
PERTH – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	5,919	-0.2%	-3.0%	$179.77	-8.8%	$145.65	-11.4%	81.0%
FY2015	6,478	9.4%	9.4%	$177.48	-1.3%	$143.74	-1.3%	81.0%
FY2016	6,275	-3.1%	-4.5%	$171.30	-3.5%	$136.83	-4.8%	79.9%
Avg FY14-16		2.0%	0.6%		-4.5%		-5.8%	80.6%

ABS Dataset change affected

ABS & STR DATA COMPARISON



Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$193.65		$159.22			82.2%
FY2017	8,083	82%	$180.27	-6.9%	$140.86	-11.5%	$140.86	78.1%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	7,555	8.4%	7.0%	$171.25	-5.0%	$132.04	-6.3%	$128.82	77.1%
FY2019	8,357	10.6%	8.0%	$171.25	0.0%	$128.92	-2.4%	$122.35	75.3%
FY2020	9,286	11.1%	7.0%	$171.25	0.0%	$124.15	-3.7%	$114.61	72.5%
Avg FY 18-20		10.1%	7.3%		-1.7%		-4.1%	$121.93	75.0%
FY2021	9,763	5.1%	6.0%	$174.68	2.0%	$127.68	2.8%	$114.66	73.1%
FY2022	10,093	3.4%	4.0%	$180.79	3.5%	$132.93	4.1%	$116.13	73.5%
FY2023	10,462	3.7%	4.0%	$188.03	4.0%	$138.71	4.3%	$117.87	73.8%
FY2024	10,583	1.2%	4.0%	$197.43	5.0%	$149.74	8.0%	$123.78	75.8%
FY2025	10,636	0.5%	4.0%	$207.30	5.0%	$162.70	8.7%	$130.83	78.5%
FY2026	10,689	0.5%	4.0%	$217.66	5.0%	$176.78	8.7%	$138.29	81.2%
Avg FY21-26		2.4%	4.3%		4.1%		6.1%	$123.59	76.0%
Total Forecast Avg FY 2018-2026		4.9%	5.3%		2.2%		2.7%	$123.04	75.6%

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. In Perth, FY2017 Supply was estimated to have increased by 11.0%

DRANSFIELD HOTELS & RESORTS

In FY2017, Sydney Hotels capitalised on ultra high occupancy, increasing rates considerably. This dynamic is likely to maintain over the medium term with demand continuing to be constrained by supply availability despite visitation forecasts being again upgraded

FY2017 SNAPSHOT

	STR
Establishments	148
Rooms	22,558
STR Sample Coverage	91%
Occupancy	88.8%
Rate	$252.33
RevPAR	$224.17

Source: STR

FY2017 YEAR IN REVIEW

	FORECAST FY2017	ACTUAL FY2017	Variance	
Supply	0.0%	0.0%	-0.1%	▼
Occupancy*	0.6	0.9	0.3	▲
ARR	6.5%	6.7%	0.2%	▲
RevPAR	7.2%	7.8%	0.6%	▲

* Percentage Point Change

Source: STR

FY2017 Year in Review

- In FY2017 Sydney Hotels performed well, recording 7.8% RevPAR growth, in line with our expectations
  - Occupancy levels continued to improve, strengthening 0.9 points to an extremely high 88.8%
  - Robust rate growth from the prior year has compounded in FY17, with a 6.7% increase recorded, in line with our expectations
- Preliminary STR data for the YTD FY2018 (Feb 2018) indicates that occupancy levels may be reaching their peak with a slight reduction recorded over the first half of the year reflecting the difficultly in achieving growth with existing occupancy near 90%. Rates however continue to display strong growth well above inflation, in what should be another healthy year for the Sydney Hotel market

Demand Driver Analysis

Moderate upgrade to Visitor Night Forecasts off a higher base

Supply blockages constrained demand growth as the city has significant capacity to attract more visitors, but nowhere for them to stay

- City data for FY2017 for Sydney reveals :-
  - International visitor nights increased by 4.3% to 76.3M nights
  - Domestic visitor nights increased by 16.7% to 26.8M nights
  - Total visitor nights increased by 7.3% to 103.1M nights, however little of this was captured in Sydney's full hotels
- In FY2017 Sydney hotel's domestic content in hotels decreased to 50.8% from 52.4% previously,
- The TRA forecasts for Sydney for the period to FY2025 have increased with growth of 5.3% p.a expected, compared to 4.6% previously :-
  - Annual domestic visitor night growth expectations have decreased to 2.2% vs. 3.1% previously, from a higher base
  - Annual international visitor night growth expectations increased to 6.2% vs. 5.0% previously, from a lower base.

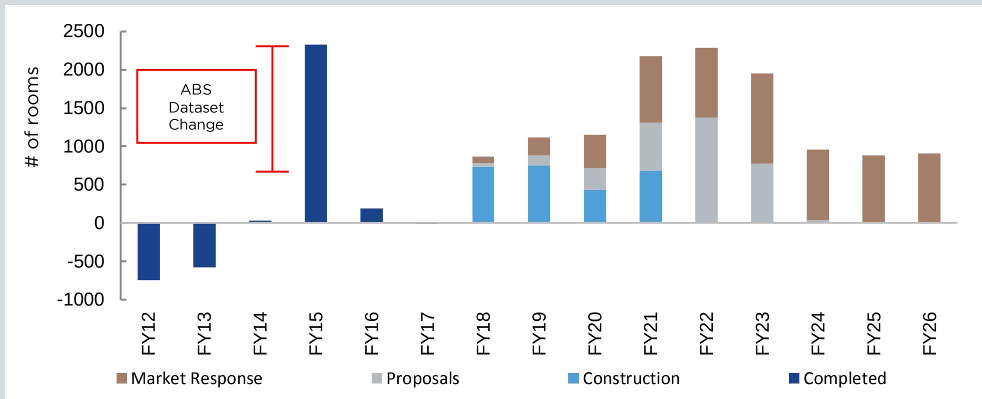
Dransfield Demand Forecast

Annual demand growth of 4.8% is expected for Sydney hotels over the long term which is a slight upgrade to the prior forecast and enabled by an upgrade to supply expectations. Demand growth will remain supply constrained despite moderate additions over the medium and longer term

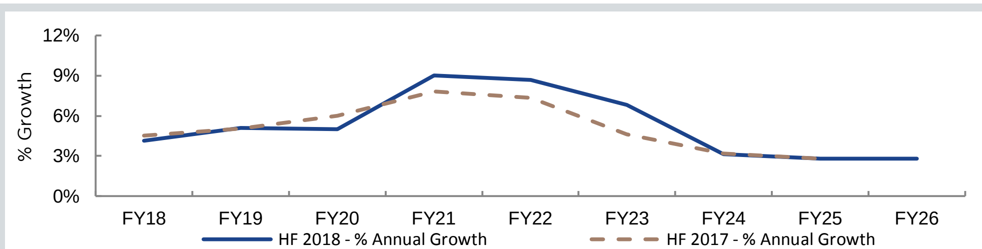
- We expect demand to increase 4.0% in FY2018 which is in line with supply growth expectations, as new rooms are quickly absorbed in the ultra high occupancy environment
- Medium term demand growth to FY2020 is expected to average 4.7% p.a, and is matched to supply expectations. The steady pace of additional supply, will enable demand growth while the depth and breadth of demand drivers should ensure there is little risk of short term absorption issues. TRA visitor night forecasts have increased from 4.8% to 5.9% p.a. over this period
- Long term demand growth expectations are supply constrained and will continue to be constrained as the city fails to deliver enough rooms to bring the occupancy environment into better equilibrium. Constraints will only be reduced if the substantial Market Response allowances are delivered.

FY2017 was another year of no net supply, as closures offset a small number of additions. Construction activity is increasing, as are proposals, almost doubling. However, only half the long term order book has been filled with the small increase in the pipeline more than offset by the growth in expected demand. Alternate use continues to block adequate levels of development, and long-term market occupancy is likely to remain unhealthily high. We expect an increased focus in the space however it remains to be seen whether this focus will achieve an outcome

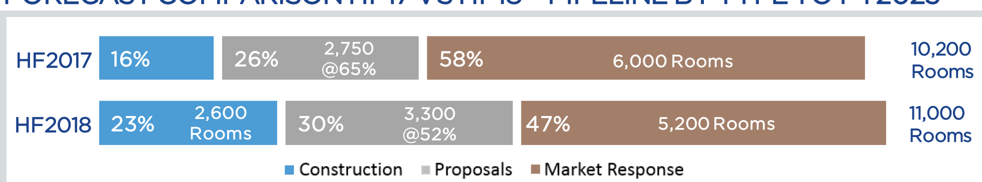
SUPPLY ACTUAL & FORECAST BY TYPE FY12-FY26



FORECAST COMPARISON HF17 VS HF18 - % ANNUAL SUPPLY GROWTH



FORECAST COMPARISON HF17 VS HF18 – PIPELINE BY TYPE TO FY2025



Supply Actual

- In FY2017 Sydney supply additions were offset by hotel closures, with the net outcome representing no material change to the prior year base
- The closure of the 446 room Menzies and the trailing room count from the 227 room Mercure Potts Point closure part way through FY2016 were equalled by the expansion to the Hyatt Regency, the 8Hotels operated Ultimo, and trailing rooms from FY2016 openings
- Construction activity has increased relative to the prior year, with around 20 projects now live. We expect to see a continuation of this trend over the next 12-18 months as mooted projects break ground

Supply Forecasts

- Dransfield's supply forecast is for 12,000 new rooms to enter the market over the next 9 years to FY2026 (57% of current stock) at an average annual growth rate of 5.1%. The forward looking supply environment has considerable scope for additional development, however current market dynamics, including availability of sites, and highest and best use alternatives has limited our back ended growth expectations
  - Our forecast supply pipeline represents a small increase of 800 rooms relative to the prior forecast and is expected to be fully absorbed in the supply constrained market
  - Live projects (recently completed, under construction, proposals) have continued to increase, with 60 projects this year compared to 35 last year. There are 18 projects that are recently completed or under construction compared with 10 previously, and 41 gross proposals compared to 24 previously. We have reduced Market Response as live projects have materialised
  - Supply timing is slightly delayed through the medium term, although catches up through increased volume in the middle of the forecast
  - Supply growth in the medium term to FY2020 is expected to average a moderately high, but much needed, 4.7% p.a (3,100 rooms). This is in line with prior expectations
  - Gross proposal volume has increased as mooted projects continue to arise, however, these are still considered below market needs. Percentage probability has fallen slightly as those previously highly probable projects moved to construction and were replaced by projects earlier along the planning process and subject to greater planning and best use feasibility risk
  - A significant proportion of forecast supply is made up of back ended Market Response which will only arrive with appropriate market and planning conditions. Our Market Response for the full forecast period to FY2026 is assumed to make up over 50% of all new supply, which is a reduction to prior expectations as growth in the number of mooted projects has absorbed some of our prior allowance
  - Whilst we think the market needs more rooms and could easily absorb them, feasibility compared to alternate use will ultimately block additional development activity. Occupancy and Rate fundamentals are expected to stay well above development trigger levels for the entirety of the forecast and should promote continued exploration of hotel development.

Long term RevPAR forecasts are unchanged with growth of 4.4% p.a, which seems low in an environment where occupancy is likely to average over 86%, and unlikely to get below 84%. Rate growth is being hampered by six years of moderate supply, which we feel will be easily absorbed but will see a lot of competition for guests from new products causing volatility in demand and excessive price competition. Despite this, we see the majority of RevPAR growth being driven by rate as there is only limited capacity for occupancy to grow

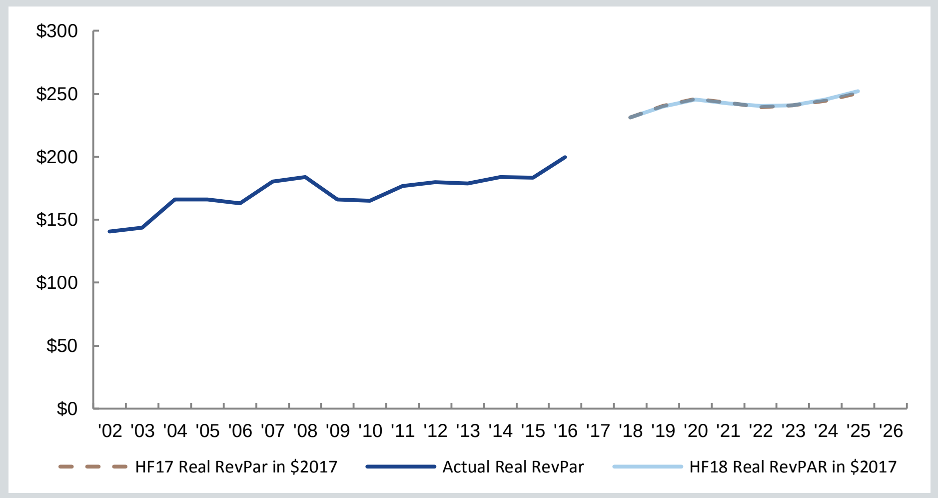
Conclusion

The extreme occupancy environment is expected to persist despite slight dampening through the medium term as material additions to supply are absorbed. The forecast assumes strong rate led growth throughout the term, with upside opportunity if forecast Market Response does not eventuate

The Sydney forecast represents a minor upgrade to a strong prior forecast. Outperformance is expected over the medium term to FY2020 before the pace of new supply arrivals increases

- Over the period of the forecast, the market is expected to continue to show signs of supply capacity constraints, with occupancy remaining in the mid to high 80's throughout. Occupancy levels will be impacted by consistent supply additions over the next 6 years, although are expected to be absorbed over the longer term. Occupancy underperformance risks are considered low for this market with unfulfilled demand evident
  - In FY2017, occupancy levels are not expected to vary considerably from the prior year with new supply being fully absorbed
  - Over the medium term to FY2020, consistent new supply is expected to have little effect on market wide Occupancy as pent up demand and organic growth take the opportunity as presented. TRA demand expectations have been moderately increased over this period driven by international growth
  - Some volatility is expected through the middle of the forecast as the compounding effect of consistent material supply additions may create a timing issue for absorption, particularity with the introduction of overseas based operators with less developed domestic distribution lines. Supply is however expected to be absorbed over the longer term
- Rate expectations of 4.7% growth p.a. are largely consistent with prior forecasts and underpinned by the ultra high occupancy levels. Rate growth underperformance risks are considered a higher concern than Occupancy levels in this market, however rate upside is also a strong possibility if hoteliers are prepared to limit discounting to counter increased newer competition in a market that should easily absorb all new rooms
  - Through the first half of FY2018, rate growth while still very strong, has slowed slightly, perhaps impacted by the first material additions to supply in many years. We expect growth of 5.8%
  - Medium term rate growth of 5.9% p.a. is expected, which is above the long term average as new supply is fully absorbed. Further rate opportunities are present, but may not be taken as hotel operators focus on occupancy first strategies. Upside opportunities are far greater than downside risk over this period
  - Rates are expected to remain strong throughout the forecast, even in the presence of consistent supply additions. Rate underperformance is more likely to be the result of a conservative Hotelier strategy, rather than demand driven. At the expected occupancy levels, rate opportunity upside remains despite the already high relative sticker price
- Our forecast is for a minor increase in average long-term real RevPAR compared to our prior forecast, from a slightly higher base
- RevPAR growth for the comparable period to FY2025 is consistent with the prior forecast averaging 4.3% growth p.a.
  - In FY2018, RevPAR growth of 5.7% is expected as occupancy levels maintain. This is largely in line with prior year expectations for 6.3% growth. YTD data is trading inline with expectations
  - In the medium term to FY2020, RevPAR growth averaging 5.8% p.a is expected, outperforming the long term average as hoteliers take advantage of rate opportunities available in the extreme occupancy environment. An element of risk is present in the forecast should hoteliers react to supply more conservatively, however, occupancy related upside is also present
  - Long term expectations are positive, with the market still expected to show signs of supply constraints. The high occupancy environment will present opportunities for rate growth, although some trepidation can be expected through the middle of the forecast (FY2021 & FY2022) as the market deals with an increase to the rate of new additions on the back of three years of moderate but consistent years of new supply. We expect the end of the forecast will foster strong growth as extreme occupancy pressures re-emerge
  - Full forecast expectations to FY2026 are for 4.4% growth p.a.

SYDNEY CITY REAL REVPAR IN $2017



* Step allowed for in HF17 Real RevPAR to align ABS and STR base

Long term RevPAR forecasts are unchanged with growth of 4.4%, which seems low in an environment where occupancy is likely to average over 86%, and unlikely to get below 84%. Rate growth is being hampered by six years of moderate supply, which we feel will be easily absorbed but will see a lot of competition for guests from new products causing volatility in demand and excessive price competition. Despite this, we see the majority of RevPAR growth being driven by rate as there is only limited capacity for occupancy to grow

SYDNEY – CITY HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL – ABS

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	Occ
HISTORICAL								
FY2014	18,527	0.2%	2.4%	$202.20	3.7%	$175.13	5.9%	86.6%
FY2015	20,850	12.5%	12.2%	$205.26	1.5%	$177.22	1.2%	86.3%
FY2016	21,041	0.9%	2.3%	$222.46	8.4%	$194.76	9.9%	87.5%
Avg FY14-16		**4.5%**	**5.6%**		**4.5%**		**5.7%**	**86.8%**

ABS Dataset change affected

ABS & STR DATA COMPARISON

Source: ABS, STR

ACTUAL – STR *see methodology for geography included

Year	Census Size	Sample Coverage	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
HISTORICAL								
FY2016			$236.54		$207.93			87.9%
FY2017	22,558	91%	$252.33	6.7%	$224.17	7.8%	$224.17	88.8%

Source: STR

DRANSFIELD FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2017 Real RevPAR	Occ
FORECAST									
FY2018	21,901	4.1%	4.0%	$266.97	5.8%	$236.90	5.7%	$231.12	88.7%
FY2019	23,016	5.1%	5.0%	$285.39	6.9%	$253.04	6.8%	$240.14	88.7%
FY2020	24,161	5.0%	5.0%	$299.66	5.0%	$265.74	5.0%	$245.33	88.7%
Avg FY 18-20		**4.7%**	**4.7%**		**5.9%**		**5.8%**	**$238.87**	**88.7%**
FY2021	26,334	9.0%	6.5%	$311.65	4.0%	$270.06	1.6%	$242.52	86.7%
FY2022	28,564	8.5%	6.2%	$324.11	4.0%	$274.98	1.8%	$240.22	84.8%
FY2023	30,392	6.4%	5.5%	$337.08	4.0%	$283.56	3.1%	$240.97	84.1%
FY2024	31,251	2.8%	3.6%	$350.56	4.0%	$297.12	4.8%	$245.62	84.8%
FY2025	32,095	2.7%	3.6%	$366.33	4.5%	$313.22	5.4%	$251.87	85.5%
FY2026	32,962	2.7%	3.6%	$382.82	4.5%	$330.18	5.4%	$258.27	86.2%
Avg FY21-26		**5.3%**	**4.8%**		**4.2%**		**3.7%**	**$246.58**	**85.4%**
Total Forecast Avg FY 2018-2026		**5.1%**	**4.8%**		**4.7%**		**4.4%**	**$244.01**	**86.5%**

Due to the cessation of the ABS survey, Dransfield has estimated FY2017 supply growth based on known openings. In Sydney, FY2017 Supply was estimated to remained unchanged

METHODOLOGY & BACKGROUND

In producing Hotel Futures, Dransfield have committed to making available to investors, long term historical information and one view of what the future might look like. Investors now have available to them forecasts of key demand drivers, published by Tourism Research Australia (TRA), and a number of other government and private sources. Supply information is provided by local and state governments as well as private organisations. Hotel Futures seeks to interpret the impact of these expectations on hotel revenues, when combined together in a supply/demand equation.

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 therefore a guide against which the past and future performance expectations for any particular hotel may be reviewed.

Sources of Historic Forecast Data

Where it is noted that ABS or STR data has been used in our analysis, this refers only to historic data. Forecasts are solely the product of Dransfield, though the construction of the forecast may rely on information published by Tourism Research Australia.

STR Global

STR is the source for premium global data benchmarking, analytics and marketplace insights. They provide data that is confidential, reliable, accurate and actionable, and their comprehensive reports empower our clients to strategize and compete within their respective markets.

Founded in 1985, STR's presence has expanded to 17 countries around the world with a corporate North American headquarters in Hendersonville, Tennessee, and an international headquarters in London, England.

The cornerstone of their business from the start has been the hotel industry. Today, they receive data from more than 59,000 hotels in over 185 countries around the world. Their vision for the future is to be a trusted advisor, partner and innovator for any global industry that relies on data. Today, their range of products includes data-driven solutions, daily and historic analytics, and unrivalled market insights, all to help their clients make better business decisions.

Historical Changes to Australian Bureau of Statistics and TRA Methodology

Historical changes to our ABS and TRA Methodology can be found in past editions of Hotels Futures, which are available on request.

Supply Expectations

In calculating supply expectations, Dransfield considers three stages of development:-

1) Under construction or recently completed

2) Proposals

3) Market Response

Our forecast recognises that not all project proposals will proceed as anticipated, and probability estimates have been applied to sites where construction has not yet started and may not start or could be delayed. Following consideration of mooted and under construction supply, and likely market performance, Dransfield allows a "Market Response" provision which seeks to estimate the volume of additional rooms that may be delivered during the forecast period that do not relate to current known projects Eg. the Market Response to forward supply and demand conditions. This is informed by past market behavior and identified trigger points in key revenue metrics.

METHODOLOGY & BACKGROUND

Demand

Our demand forecasts are partly based on international and domestic visitor forecasts published by Tourism Research Australia (TRA). They also require a level of subjective judgment. In August 2017, TRA released revised forecasts updating those issued in August 2016 which were relied upon in the 2017 edition of Hotel Futures. TRA forecasts are produced on a financial year basis.

There are multiple other indicators of future demand for the major cities considered in Hotel Futures. A range of related actual and forecast national statistics are used including:

- International Arrivals;
- International Visitor nights;
- International Visitor nights in Hotels, Motels, Guest Houses and Serviced Apartments (HMGSA);
- Domestic Visitor Nights
- Domestic Visitor nights in Hotels, Motels, Guest Houses and Serviced Apartments (HMGSA).

International visitor forecasts are now undertaken on a state by state and Capital City basis, similar to what has historically been provided for the domestic forecasts. We have undertaken correlation testing on each of the above demand indicators and found varying degrees of correlation to actual results in different years. None of the individual indicators have a very strong historical correlation with the room nights occupied in the cities that Hotel Futures reports on. This is partly due to the differing proportions of international and domestic visitors in each city, though we do take regard of the known changes in market mix. It is also due to the differing geographic boundaries of the indicators and the subject, for example, using the international forecast for the whole state has only an indirect relationship with an individual city.

Changes in the level of supply in each city also alter travel patterns as room availability improves. The demand figures estimated in Hotel Futures therefore require a significant subjective assessment.

In our analysis, the TRA visitor forecasts and customer market mix in individual states are blended and adjusted to reflect historical differences between these key drivers, actual results and the impact of additional supply. Supply often stimulates demand growth and there are differing expectations for individual city growth rates compared to the whole state. Historically, actual performance and our forecasts for a city's demand growth have exceeded 'melded' growth rates (combined weighted International and Domestic forecasts) based on TRA data for larger geographic areas, sometimes quite substantially.

Room Rate Methodology

Real room rate change is mostly impacted by occupancy levels. Changes upward generally lag occupancy movements by approximately twelve months, 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 Yield/RevPAR Methodology

The most reliable indicator of hotel profitability is the RevPAR (revenue per available room or yield) which indicates the revenue available from which profit is derived. Given the change in inflation over the last decade, we have calculated a 'real RevPAR' curve in each market so that a more realistic comparison of future expectations and past performance can be made. The real RevPAR is also a good guide as to when new projects might be considered viable, and therefore likely to proceed.

Nominal growth rates depend on the starting base, (e.g. growth rates calculated from a peak will be lower and often negative compared to growth rates calculated from a trough). Comparing the average real RevPAR of a whole forecast to prior forecasts is therefore the most objective and complete way to determine if it has been upgraded or downgraded. For the purposes of comparing current forecast real RevPAR with our previous forecasts, CPI data has been used.

DATA GEOGRAPHY

Our historical and forecast data, both ABS and STR, is based on the geographic regions listed below. Our typical approach is based on core CBD and high concentration fringe areas which are considered to be strongly competitive to the core location. Geographic areas are reviewed periodically, generally as development activity expands outwards. Small variations may exist between ABS and STR geographic regions, which have partly affected the different census sizes

Adelaide	Adelaide, North Adelaide
Brisbane	Brisbane City, Fortitude Valley, Kangaroo Point, South Brisbane, Spring Hill
Cairns	Cairns City, Port Douglas
Canberra	Belconnen, Hawker, ACT – East, Majura, Gaungahlin, Nicholls, Acton, Ainslie, Braddon Civic Dickson Lyneham O'Connor (ACT) Watson Forrest Griffith (ACT) Kingston - Barton Narrabundah Yarralumla Greenway Curtin Phillip
Darwin	Darwin City Fannie Bay - The Gardens Larrakeyah Parap Woolner - Bayview - Winnellie Berrimah Jingili Lyons (NT) Malak - Marrara Humpty Doo Palmerston - North
Gold Coast	Burleigh Heads Mermaid Beach - Broadbeach Mermaid Waters Miami Coolangatta Currumbin - Tugun Palm Beach Biggera Waters Labrador Paradise Point - Hollywell Runaway Bay Tamborine - Canungra Currumbin Valley – Tallebudgera, Carrara, Nerang - Mount Nathan, Coomera, Hope Island Ormeau - Yatala Varsity Lakes Southport Benowa Main Beach Surfers Paradise Beaudesert
Hobart	Brighton - Pontville Cambridge Lindisfarne - Rose Bay Claremont (Tas.) Derwent Park - Lutana Montrose – Rosetta, New Norfolk, Hobart New Town Sandy Bay West Hobart m Forestier - Tasman Central Highlands
Melbourne	Albert Park, Carlton, Docklands, East Melbourne, Flemington, Melbourne, Moonee Ponds, North Melbourne, Parkville, South Melbourne, South Yarra – East, South Yarra – West, Southbank
Perth	Burswood, Lathlain, Perth City, Victoria Park
Sydney	Darlinghurst, Potts Point – Woolloomooloo, Pyrmont – Ultimo, Redfern – Chippendale, Surry Hills, Sydney – Haymarket – The Rocks

GLOSSARY OF TERMS

Australian Bureau of Statistics (ABS)	The ABS is Australia's national statistical authority and provides survey based 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).
HF	Dransfield's annual Hotel Futures publication
Hotels	Hotels with guest facilities, licensed to operate a public bar. References made to the 'hotel market' generally include motels, guest houses and serviced apartments.
HMGSA	Hotels, Motels, Guest Houses and Serviced Apartments, a statistical basket of competitors
Live Pipeline	Refers to specific supply projects which have been conceptualised and are either in construction or mooted
Major Cities	Refers to the cumulative 10 major cities forecast in this document, being Adelaide, Brisbane, Cairns & Port Douglas, Canberra, Darwin, Gold Coast, Hobart, Melbourne, Perth and Sydney
Market Response	Supply allowance over and above the Live Pipeline which have not yet been conceptualised, but are expected given market conditions
P.C.P	Prior corresponding period
Serviced Apartments	Self contained units with full cooking facilities, daily service and provision of linen and laundry.

GLOSSARY OF TERMS

RevPAR
The RevPAR is the revenue per available room night, calculated as occupancy multiplied by Average Room Rate or total room revenue divided by available room nights. Also known as and previously defined in Hotel Futures as Yield.

Real RevPAR
The RevPAR calculated in 2017 dollars to remove the effect of inflation. Previously defined in Hotel Futures as Real Yield.

Tourism Research Australia (TRA)
TRA is a branch within the Tourism Division of Austrade. It is charged with providing official long-term forecasts for Australia's international, domestic, and outbound tourism sectors, usually in April and October

Yield/Room Yield
The Room Yield is the revenue per available room night calculated as occupancy multiplied by Average Room Rate. Also known as RevPAR.

Yoy
Year on year change

TABLE REFERENCES

Supply % Change
This is the annual percentage change in the sum of the number of rooms available for each night of the year (supply). Supply 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 year.

Rooms
This figure is based on the equivalent rooms available for the full year calculated by dividing supply by the number of days in the year.

Demand % Change
This is the annual percentage change in the sum of the number of rooms occupied for each night of the year (demand). Demand information is not directly supplied by the ABS and is calculated by multiplying supply by the reported occupancy.

SOURCES OF DATA

ABS – Australian Bureau of Statistics
www.abs.gov.au

Actual Data to FY2016 relating to Room Night Supply, Occupancy, Takings/Rate and RevPAR, and Dransfield calculated historical growth rates as published in:

- Survey of Tourist Accommodation (STA), Tourist Accommodation, Small Area Data (Cat. No. 8635)
- International Visitor Arrivals to Australia, 3401.0 Table 1: Total Movement, Visitor Arrivals – Category of Movement
- Resident Departures, 3401.0 Table 2: Total Movement, Resident Departures – Category of Movement (Short Term less than 1 year)

STR
www.str.com

Data from STR as published in custom destination report for Dransfield Hotels and Resorts.

For year on year growth rates as published in:

- 2017, June, STR Global, Ltd. Australia and New Zealand Hotel Review

For month on month and year to date growth rates for FY2018 as published in:

- 2018, February STR Global, Ltd. Dransfield Hotels & Resorts

Tourism Research Australia (TRA)
tra.gov.au

Data relating to historical and forecast demand as published by TRA:

- State and Territory Tourism Forecasts 2016 (tables)

Data relating to latest publications and forecasts

- IVS – International Visitors in Australia: Quarterly results of the International Visitor Survey
- NVS – Travel by Australians: Quarterly results from of National Visitor Survey
- TRA Special Request: NVS and IVS overnight visitors in Hotels and Motels