HOTEL FUTURES 2020

COVID-19 UPDATE SERIES

PART 3 – BRISBANE & PERTH

DRANSFIELD
HOTELS & RESORTS

MAY 2020

See separate Introduction to Dransfield Australian Hotel Market COVID-19 before reading individual Market Outlooks

Brisbane Market Outlook: COVID-19 Market Outlook Series

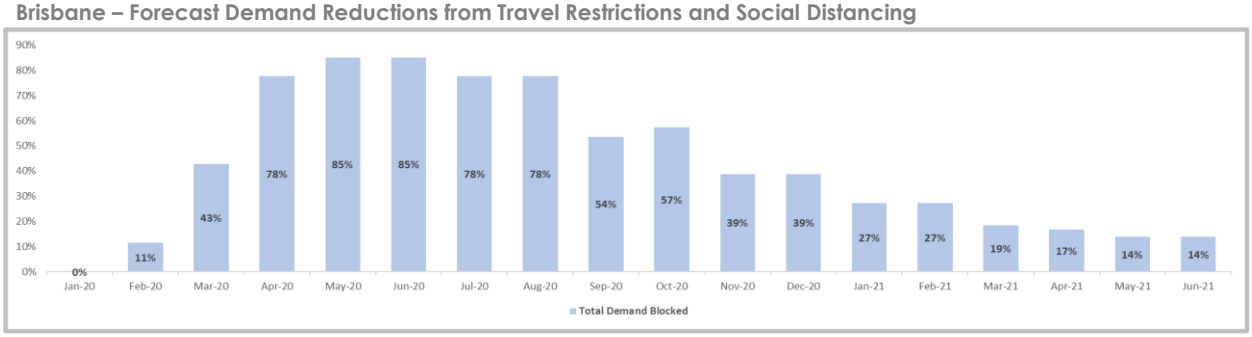
Brisbane has recently emerged from a sustained period of material new hotel supply which stretched the last 3 years, placing downward pressure on both occupancy and rate growth. With the supply cycle largely complete, an abundance of high-quality new offerings an improving state economy and a renewed range of leisure drawcards Brisbane had one of the strongest growth outlooks across the major cities in Australia. Hotel occupancy levels were showing strong signs of improvement in the months leading up to the COVID-19 pandemic, and this was expected for continue through to FY2023/FY2024 as additional supply remained modest, until the Queenswharf casino precinct completed, which in any event was a net demand driver. Our prior edition of Hotel Futures 2019 forecast 5.8% average growth in the three years to FY2022, largely sustaining over the longer term to FY2027, averaging a very strong 4.9% p.a.

The Positive pre-covid supply and demand dynamics should largely maintain as the COVID recovery takes place through the medium term

Demand Outcome

Our short term forecast for demand reduction (for the next 15 months) compared to our pre COVID-19 demand scenario is presented below. Brisbane hotels have a moderate international market mix at 26%. We expect a moderate proportion will be replaced by domestic holiday makers who will transfer some of their international holiday plans to shorter domestic getaways and surrounds in the next 18 months.

Brisbane – Forecast Demand Reductions from Travel Restrictions and Social Distancing

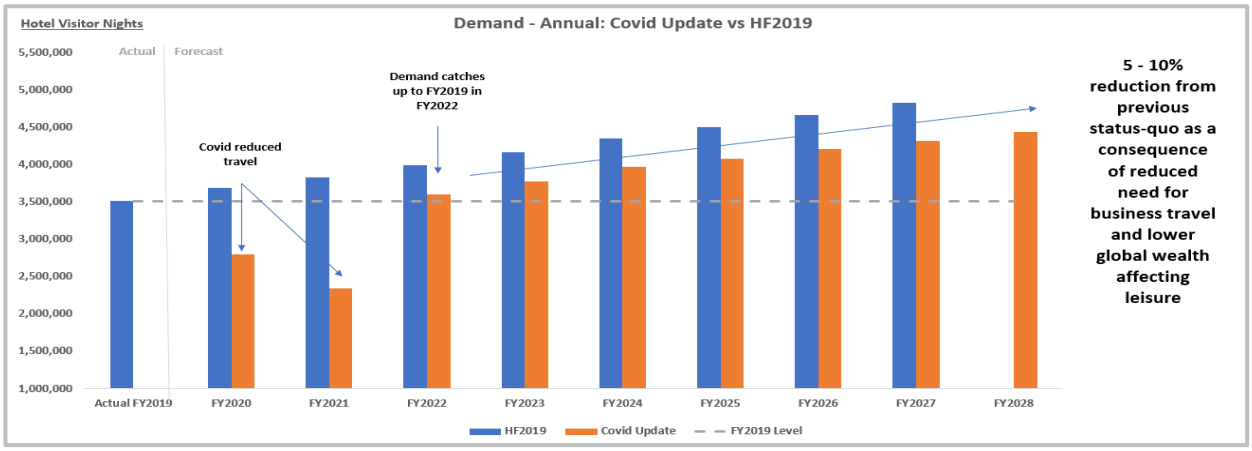


Short-term Outlook (next 12-18 months)

- Reduction to normal demand is minor in February as only Chinese sourced nights were blocked through this month. In Brisbane, Chinese nights make up a reasonably large 5% of total nights
- Reductions build through March and April as more pronounced social distancing measures were put in place, stopping all International travel and most interstate Domestic travel
- We assume the State Government border restriction stance will soften by July/August, with domestic travel ramping up through the intrastate drive markets first, before interstate travelers arrive
- We anticipate more widespread domestic travel will take effect from the September school holidays, and on subsequent holidays

Longer-term Outlook

Our long term Brisbane demand forecast is presented below. We compare it to our Hotel Futures 2019 demand assumptions formed in April 2019.



- FY2020 demand falls approximately 15-20%, with only 4-5 months COVID-19 affected
- FY2021 demand remains blocked/reduced, albeit some typically international nights are replaced by typically outbound guests who are also blocked from leaving Australia
- As the vast majority of travel restrictions are lifted in FY2022, demand returns to above FY2019 levels, albeit, does not reach previous growth expectations due to the economic and health damage caused
- Demand absolute numbers will continue to grow, although are likely to remain two-three years behind prior expectations as outbound opportunities re-open.

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Brisbane Market Outlook: COVID-19 Market Outlook Series

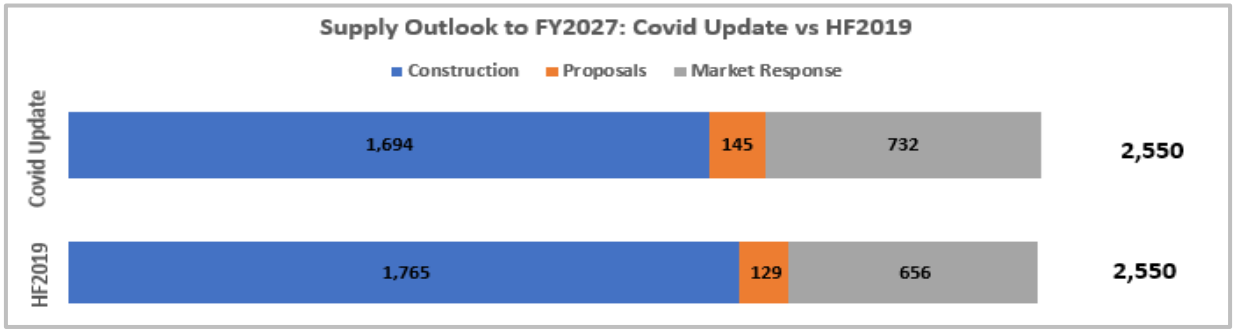
Downward Pressure on Rates

- FY2020 second half rates are expected to be around 15-25% below 2019 rates post March 2020, using current STR data as the barometer
- FY2021 is likely to continue in this vein, recovering slowly as travel restrictions ease, but not completely due to weak demand, low occupancy, hotel re-openings and a fragile economy. We expect Brisbane rates will start to record growth from about March 2021 compared to the weakened March 2020. Scattered months of rate growth, linked to holiday periods, may eventuate if domestic replacement demand is strong
- FY2022 should start to see more significant recovery, as prior period reductions unwind and current rate discounting eases. This could mean double digit growth in FY2022, albeit from the much lower base.
- This would see rates recover to FY2019 levels in FY2022 or FY2023

Supply Response and Effect on Occupancy

In Brisbane there is limited opportunity for supply recalibration with the majority of the pipeline linked to either the large scale, Government backed Queenswharf casino precinct, or later term Market Response.

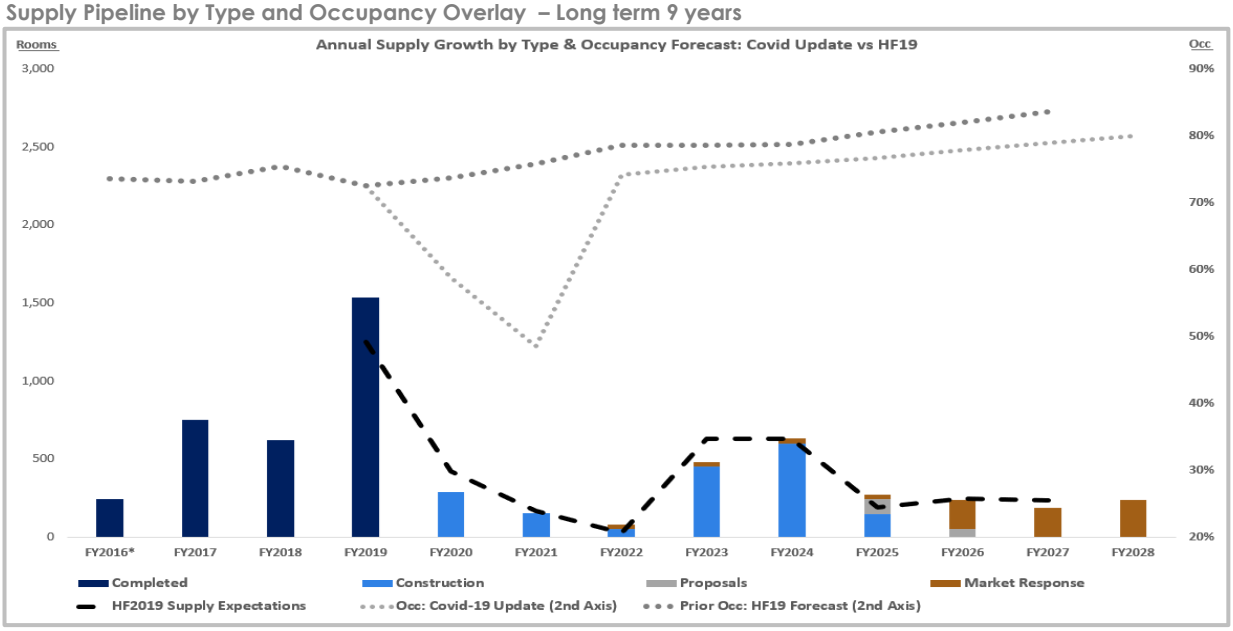
Brisbane Supply Pipeline by Type – Long term 9 years



We expect 2,550 new rooms to arrive over the long term to FY2028, in line with prior expectations. The outcome of the Queenswharf development is the only major project which is likely to significantly affect these expectations. Alternate proposals by room count are minor, and later term Market Response should eventuate as the hotel sector recovers in Brisbane.

A comparison of the revised supply expectations and the resulting occupancy is presented below

Supply Pipeline by Type and Occupancy Overlay – Long term 9 years

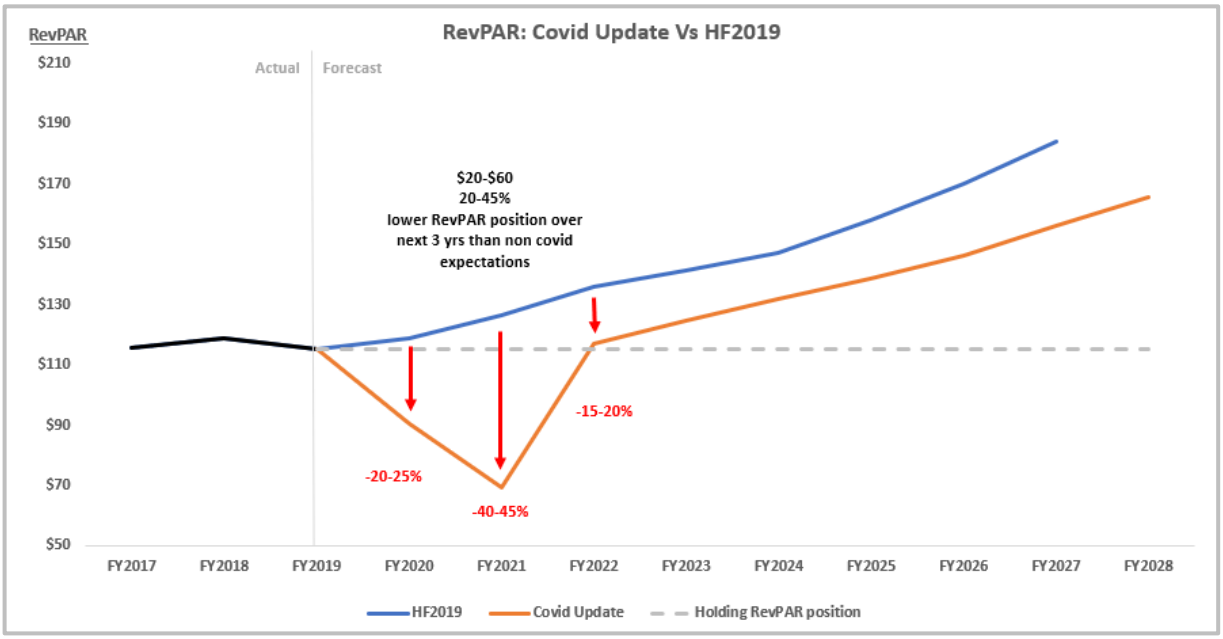


- Brisbane occupancy for FY2020 is likely to end 15-20 percentage points lower than the prior year. We expect annualised levels to finish at 55-60%
- Under our demand scenario, occupancy will only contract slightly in FY2021as international travel restrictions remain in place, but some nights are replaced by diverted outbound travelers. We expect a 5-10% reduction, ending the financial year at an annualised 45-50%
- FY2022 will likely see a big recovery as demand blockages unwind and Australian's continue to choose to travel domestically in the short term. We anticipate, market occupancy will increase to 70-75%, and may even be slightly above FY2019 levels.

Brisbane Market Outlook: COVID-19 Market Outlook Series

RevPAR Impact

- RevPAR destruction over the next 12-24 months will be significant
- We anticipate 20-45% reductions to prior expectations over this period ($30-60), with the RevPAR forecast over 15% lower for the full period to FY2027, however, mostly recovered to below 10% from FY2023



- We have also tested the impact of an improved recovery period (Accelerating the elimination of travel restrictions and demand damage and accelerating the rate recovery), and a situation where International travel is blocked (inbound and outbound) until June 2021.
- In both scenarios, this reduces the short term RevPAR damage to 25-30% ($30-40), with almost full recovery by FY2023, however the long term forecast remains circa 10% below our prior Hotel Futures 2019 expectations.

This Individual market snapshot should be read in conjunction with our Introduction to the Australian Hotel Market COVID-19 update

Our base case and sensitivity methodology as described in the theoretical overlay has changed since our first city re-forecasts as new information about the virus and border restrictions has emerged. We now assume international borders are closed until January 2021.

More detail on individual markets and how this forecast will affect individual hotels can be obtained by contacting us. Please also join our free database to receive all future market intelligence publications.

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Perth Market Outlook: COVID-19 Market Outlook Series

The Perth market is approaching completion of their supply cycle which began through the mining boom. This has compounded performance deterioration over the last 5 years as mining demand and rates re-set and the economy slowed. The upturn was in sight pre-COVID-19 as supply and demand started to come back into balance and the improved hotel offerings were matched by a strengthening State economy and more diverse leisure platform. Pre-COVID, Perth demand was outperforming prior expectations, which still gives us confidence for the long term prospects for the city, especially when matched with a very low longer term supply pipeline.

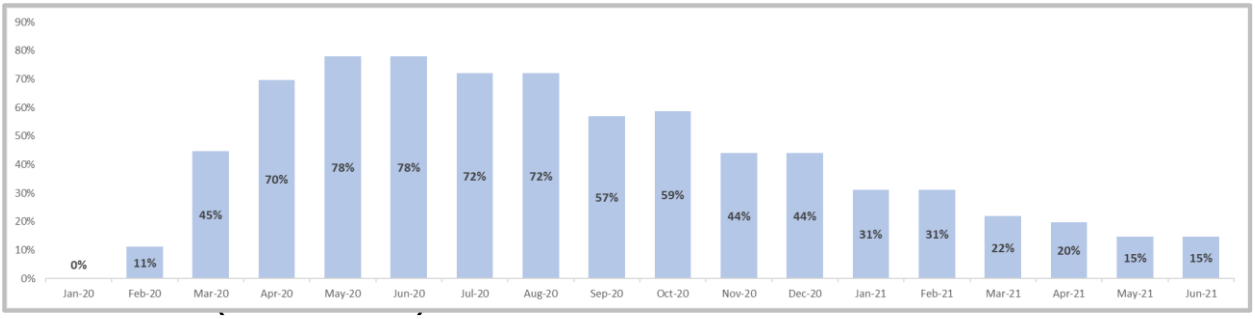
During the pandemic, there is opportunity for Perth to leverage it's typically strong intrastate travel behavior through the very short term. Moving through the months. Perth could also leverage Australian's heightened sense of patriotism and concerns regarding international travel, which could see a significant pool of East Coast Australians, who would typically holiday overseas, now more open and willing to seeing their remote backyard

Our prior edition of Hotel Futures 2019 forecast negligible growth in the three years to FY2022 as the last of the supply boom arrives, before strengthening considerably over the longer term to FY2027, averaging a very strong 4.7% p.a.

Demand Outcome

Our short term forecast for demand reduction (for the next 15 months) compared to our pre COVID-19 demand scenario is presented below. Perth hotels have a moderate international market mix at 29%. We expect a moderate proportion will be replaced by domestic holiday makers who will transfer some of their international holiday plans to shorter domestic getaways and surrounds in the next 18 months.

Perth– Forecast Demand Reductions from Travel Restrictions and Social Distancing

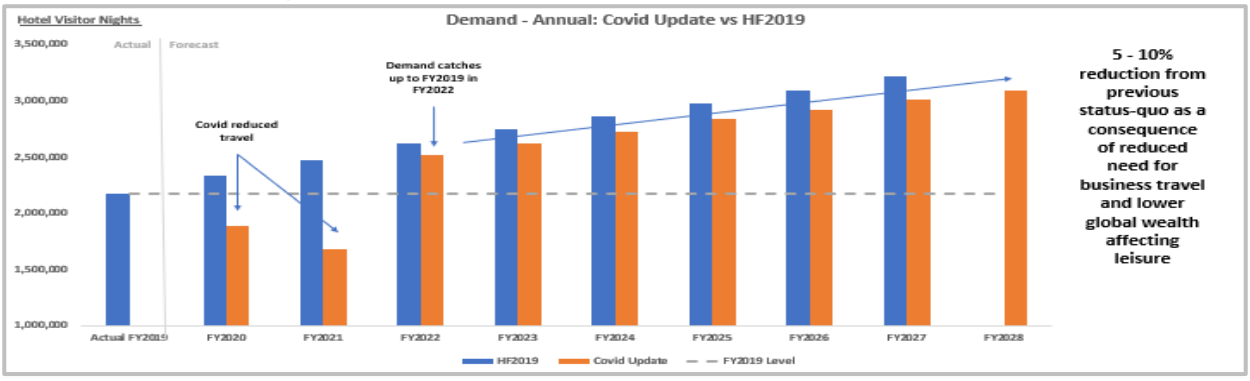


- Reduction to normal demand is minor in February as only Chinese sourced nights were blocked through this month. In Perth, Chinese nights make up only 3% of total nights
- Reductions build through March and April as more pronounced social distancing measures were put in place, stopping all International travel and most interstate Domestic travel. FIFO workers held in state appear to have assisted in holding Perth demand higher relative to other major cities, especially those which are leisure based
- Demand Reductions soften slightly through July/August, as limited domestic travel ramps up, most likely from drive markets
- We anticipate more widespread domestic travel will take effect from the September school holidays, and on subsequent holidays, and as the Eastern city's population feel more comfortable to travel by plane

Longer-term Outlook

Our long term Perth demand forecast is presented below. We compare it to our Hotel Futures 2019 demand assumptions formed in April 2019.

Annualised Demand Compare – Pre and Post COVID-19 Outlook



FY2020 demand falls approximately 15-20%, with only 4-5 months COVID-19 affected

- FY2021 demand remains blocked/reduced, albeit some typically international nights are replaced by typically outbound guests who are also blocked from leaving Australia
- As the vast majority of travel restrictions are lifted in FY2022, demand returns to above FY2019 levels with much more supply and following outperformance in FY2019 albeit however does not reach previous growth expectations due to the economic and structural travel damage caused
- Demand absolute numbers will continue to grow, although are likely to remain one to two years behind prior expectations as outbound opportunities re-open.

Perth Market Outlook: COVID-19 Market Outlook Series

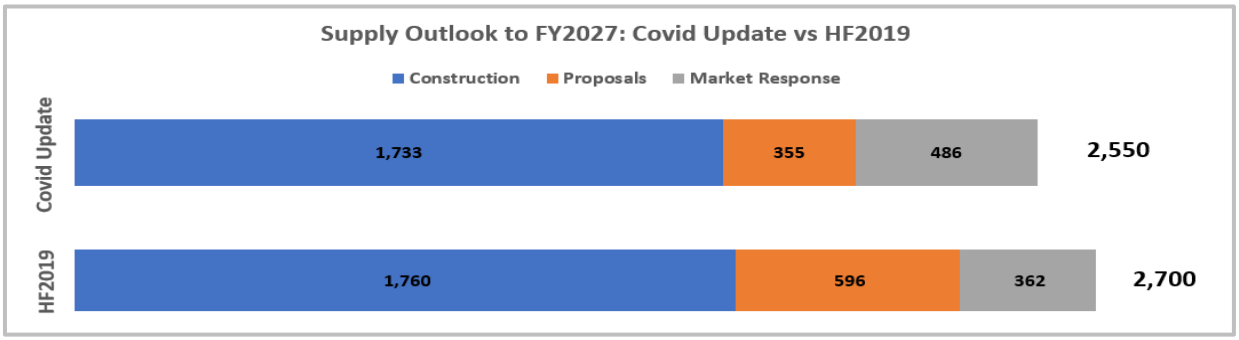
Downward Pressure on Rates

- FY2020 second half rates are expected to be around 15-25% below 2019 rates post March 2020, using current STR data as the barometer. The quarantine rate that hotels are achieving from the Government appears to be artificially lowering the rate in April and May below expected normal market forces
- FY2021 is likely to recover slowly as travel restrictions ease, but not completely due to weak demand, low occupancy, hotel re-openings and a fragile economy. We expect Perth rates will start to record growth from about March 2021 compared to the weakened March 2020. Scattered months of rate growth, linked to holiday periods, may eventuate if domestic replacement demand is strong
- FY2022 should start to see more significant recovery, as prior period reductions unwind and current rate discounting eases. This could mean double digit growth in FY2022, albeit from the much lower base.
- This would see rates recover to FY2019 levels in FY2022

Supply Response and Effect on Occupancy

In Perth there is limited opportunity for supply recalibration with the majority of the pipeline already under construction and likely to complete

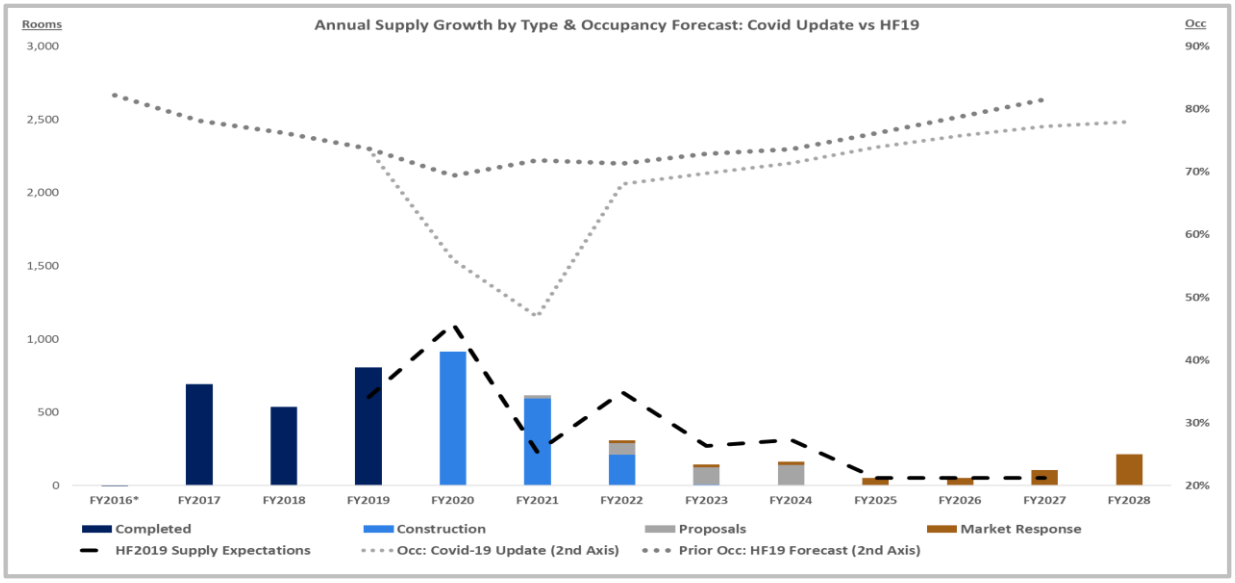
Perth Supply Pipeline by Type – Long term 9 years



We expect 2,550 new rooms to arrive over the long term to FY2028, largely in line with prior expectations. However a significant portion (900 odd) of these have already opened through the year to date. The remaining construction projects will arrive over the next 2 years, whilst some late term Market Response should eventuate following a very low period of new supply through the middle of the forecast and as the market recovers.

A comparison of the revised supply expectations and the resulting occupancy is presented below

Supply Pipeline by Type and Occupancy Overlay – Long term 9 years

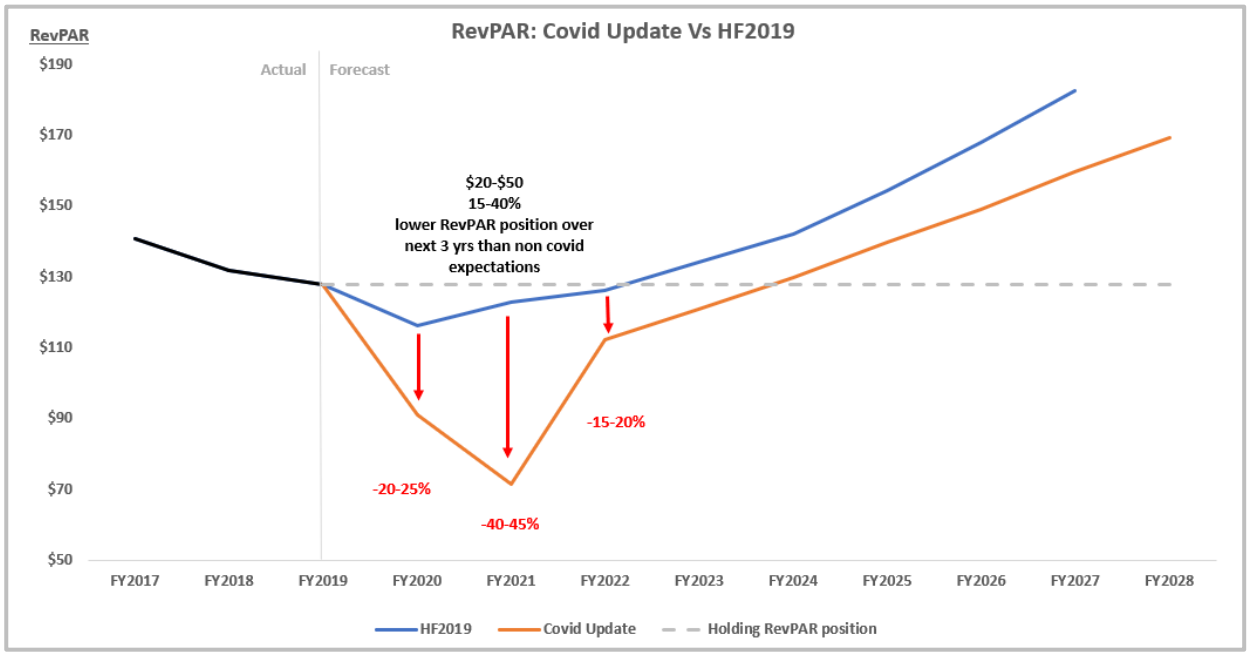


- Perth occupancy for FY2020 is likely to end 15-20 percentage points lower than the prior year. We expect annualised levels to finish at 55-60%
- Under our demand scenario, occupancy will contract slightly in FY2021 as international travel restrictions remain in place, but some nights are replaced by diverted outbound travelers. Perth's distance from other major cities may somewhat slow the speed at which interstate people arrive with nervousness regarding travelling by plane and weaker schedules, however this may be offset by strong intrastate travel which is a feature of WA. We expect a 5-10% reduction, ending the financial year at an annualised 45-50%
- FY2022 will likely see a big recovery as demand blockages unwind and Australian's continue to choose to travel domestically in the short term. We anticipate, market occupancy will increase to circa 65-70%, recognizing that substantial new supply will have also come into the market at the same time.

Perth Market Outlook: COVID-19 Market Outlook Series

RevPAR Impact

- RevPAR reduction over the next 12-24 months will be significant
- We anticipate 20-45% reductions to prior expectations over this period ($25-50), with the RevPAR forecast over 15% lower for the full period to FY2027, however, mostly recovered to below 10% from FY2023



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- In both scenarios, this reduces the short term RevPAR damage to 20-30% ($25-35), with almost full recovery by FY2023, however the long term forecast remains circa 7-10% below our prior Hotel Futures 2019 expectations.

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