

Industry Brief

Tourist Accommodation market

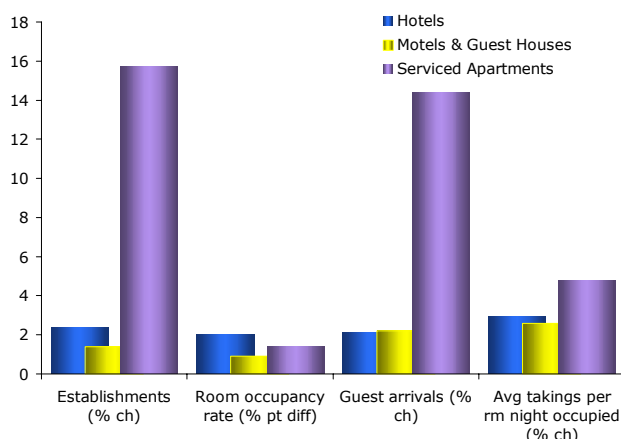
The tourist accommodation industry encompasses a broad spectrum of facilities but this report focuses on hotels, motels & guesthouses and serviced apartments. This segment fared better than expected in 2003 after a particularly difficult operating environment in the first half of the year. The outlook for 2004 appears brighter, supported by a strong recovery in international visitor arrivals. However, additional room supply and competition between the different types of accommodation offered will keep room rate rises in check.

Industry weathers difficult operating environment

We thought operating conditions were tough in 2002 but 2003 proved to be another challenging year for the tourist accommodation industry with the Iraq conflict and the impact of SARS sending overseas visitor arrivals plummeting. International visitor arrivals dropped by 8.1% in the six months to June 2003 compared with the same period in 2002 and only picked up towards the latter part of the year, lifted by the Rugby World Cup.

Yet, room occupancy rates for hotels held up well with the average rate for the first half of 2003 at 60.9%, up 0.6% points from the same period in 2002 and that for motels & guesthouses was up 1% point. Serviced apartments fared slightly better with an average occupancy rate of 62.4%, up 1.1% points.

Tourist Accommodation, 2003 vs 2002



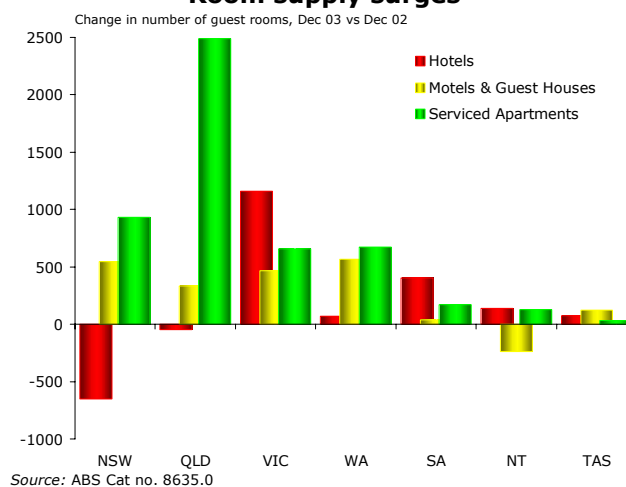
The second half of 2003 saw a steady improvement in the hotels, motels & guesthouses and serviced apartments market with the average room occupancy rate and average takings per room night occupied up 2.3% points and 4.6% on H2 2002 respectively. This helped to generate a stronger performance for the tourist accommodation market for 2003 as a whole.

Overall, the tourist accommodation market fared better than initially expected thanks largely to the domestic travel market as residents opted to holiday

at home. Short-term resident departures fell by 2% in 2003, extending the weak trend since 2001. Domestic visitor nights in hotels, motels and guesthouses and serviced apartments rose by 2.8% in 2003.

In terms of room supply, the serviced apartment market saw a sharp increase in supply reflecting its increasing popularity. The supply of guest rooms rose by 14% in contrast to just 1-2% for hotels and motels & guesthouses. Despite the surge in supply of serviced apartments, average takings per room night occupied rose in all states except for Victoria, which recorded a marginal decline, while the highest increase was in the Northern Territory where the average rate rose by 13.6%.

Room supply surges



The hotel segment recovered from the poor showing in 2002. The average room rate rose by around 4% in New South Wales, supported in part by the drop in the number of hotel rooms as refurbishments were being carried out. Conventions and big events also absorbed supply, supporting the rise in rates. Hotel room rates in Victoria were remarkably resilient, keeping steady in 2003, despite the largest increase in hotel room supply across all states. Riding on its tourism boom and limited supply, Tasmanian hotels recorded the best outcome with guest arrivals up 7% and average takings per room night occupied rising by 9.6%. The Northern Territory, however, did not fare well with hotel room rates down 5.6%, perhaps reflecting a shift in demand to serviced apartments.

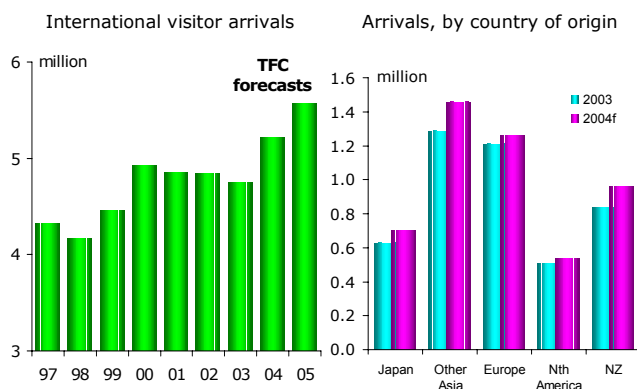
Motels are generally heavily dependent on inter and intra-state travellers. Motels in Tasmania were the stand-out performers, with guest arrivals rising by 18.9% in 2003 and the average room rate up 8.9%. Queensland and the ACT also fared relatively well with average growth in guest arrivals of 4.4% and takings per room night occupied of 3.3%.

Brighter prospects ahead

The outlook for the tourism accommodation sector appears brighter with the number of overseas visitor arrivals expected to rebound after three years of decline. This optimism is underpinned by a global economic recovery with real GDP growth forecast to reach 4.6% this year, up from 3.7% in 2003 and the highest rate since 2000. The expansion of airline services (eg. new services to China and India introduced by Qantas earlier this year, direct flights to Melbourne by Qatar Airways later this year and increased number of landings by Emirates Airlines), and overseas marketing efforts are also expected to support growth in tourist arrivals in 2004.

According to the Tourism Forecasting Council (TFC), international visitor arrivals are projected to rise by 9.9%, bringing the total number of visitors to 5.2 mn in 2004, breaching the 5 mn mark for the first time. This appears to be a conservative estimate given that the number of inbound tourists jumped 11% during the first four months of 2004 compared with the same period in 2003. The New Zealand and UK markets, which were resilient in 2003, are likely to show further growth in 2004. More significantly, the fading of SARS-related fears and upturn in the Japanese economy are expected to produce a rebound in tourist arrivals from Asia. Northeast and Southeast Asia collectively account for about 40% of total visitor arrivals.

Inbound tourist arrivals set to rebound



Source: Tourism Forecasting Council, April 2004.

The Australian economy is set to grow at a solid pace of 4% in 2004, with private consumption

expected to remain healthy underpinned by a strong employment base and budget giveaways.

The strong economic environment bodes well for domestic leisure travel and, in turn, the tourist accommodation market. The launch of Jetstar is expected to lift competitive pressures on domestic airfares, which should benefit travellers. However, the growth momentum in domestic leisure travel would have been stronger if not for a recovery in demand for outbound travel. Notwithstanding numerous travel alerts, the strong Australian dollar, pent-up demand and the easing of concerns on issues that adversely impacted outbound travel in 2003 (eg. SARS and Iraq war), are likely to prompt more holidays abroad. This has been evident with short-term departures rising by 21% in the five months to March 2004 compared with the same period in 2003. Added sweeteners will come from proposed income tax cuts and lifting of concessions on duty-free gifts (from \$400 to \$900 for adults), alcohol and cigarettes.

Domestic corporate travel is also likely to pick up supported by relatively healthy growth in business investment and strong corporate profitability. Domestic visitor nights in hotels, motels & guesthouses by business travellers are projected to rise by close to 5% in 2004 according to the TFC.

Overall, the tourist accommodation sector is expected to fare better in 2004, supported by a favourable travel outlook. Room rates are likely to continue to edge up as occupancy levels strengthen. However, any room rate increase is likely to be constrained by the completion of renovations, coming on-stream of new supply and competitive pressures between different types of accommodation offered. The latter is likely to be particularly evident between serviced apartments and hotels in CBD areas. Attractive flight and accommodation packages will also keep competition within the accommodation market high.

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