

Tough times ahead but limited new supply supportive for sector

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The tourist accommodation sector (hotels, serviced apartments and motels & guesthouses) has been able to generate strong revenue growth in recent years as occupancy levels improved. Room rates in main capital cities have risen by an average annual rate of 10% in the first half of 2008 as occupancy levels have pushed towards 75%.

Global market conditions have, however, turned quite dramatically over the past year and we are now faced with recession in the G7, which account for 36% of Australia's tourist markets. New Zealand, the top market, is forecast to post negative growth for 2009, its first since 1991. Asian growth is forecast to retreat to 2003 rates. And, the risks to these forecasts are firmly to the downside as the turmoil in global financial markets continues.

International visitor arrivals have already begun to post sharp declines with arrivals from the UK, NZ and Japan falling by 2.5%, 2.8% and 19.9% respectively in the first ten months of this year compared with the same period in 2007. However, growth in outbound travel, which has been robust in recent years, is showing signs of easing and that could bode well for the tourism sector.

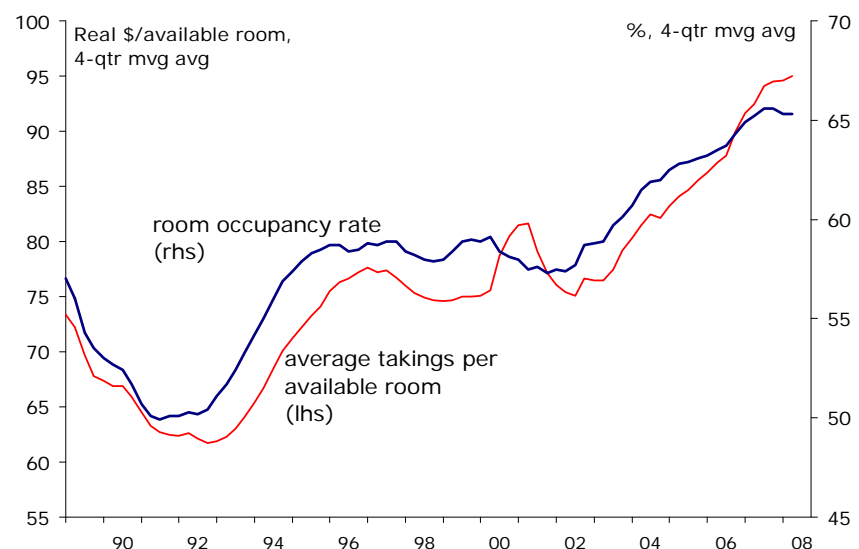
One supportive factor for the sector is that additional room supply is expected to be limited over the medium term, except in Victoria. Tight credit conditions have also forced some projects to be cancelled or delayed.

Based on the more balanced demand-supply of stock, a weaker currency, and aggressive marketing campaigns, the accommodation sector is better placed than in previous downturns to weather the tougher operating conditions, with potential downward pressure on room rates likely to be contained.

Meanwhile, investment activity in this sector has not been immune to the dislocation in credit markets with yields softening by around 50-100 bps over the past year and may have further to run.

Revenue and occupancy indicators hold up

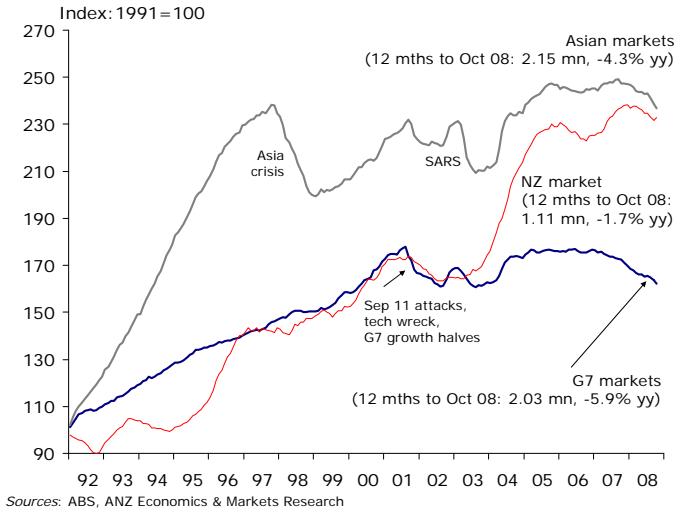
Occupancy rates vs. average takings
Total establishments



Sources: ABS, ANZ Economics & Markets Research

Tourist Accommodation Update

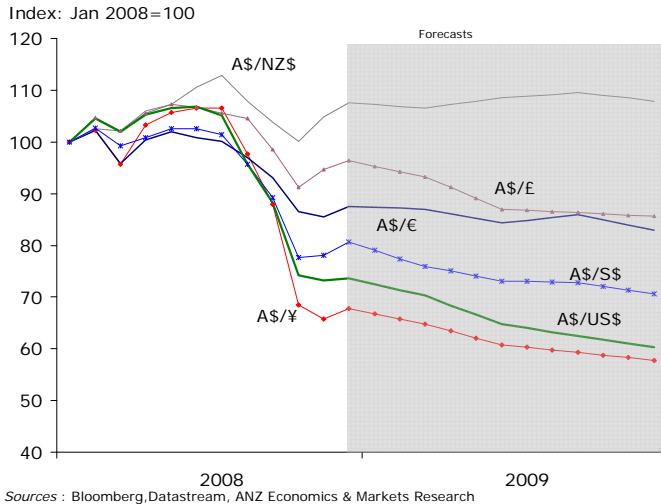
Short-term overseas visitor arrivals



Visitor Arrivals

- Developed economies are expected to be the hardest hit with G7 growth, making up 36% of Australia's tourist market, forecast at just 0.1% in 2009, the slowest rate of expansion since 1982. New Zealand, the top market accounting for 19.8% of total, is in recession with the economy forecast to contract by close to 1% in 2009.
- Asia is not immune but is better positioned than a decade ago to weather the slowdown. But with wealth being eroded by sliding equity and property prices, and the proliferation of budget airlines across Asia, long-haul travel plans are likely to be deferred.
- Australian Tourism Export Council member tour operators have reported 20-30% declines in forward bookings. Will Baz Luhrmann's "Australia" do the trick? Tourism Australia has invested some \$50mn in a campaign leveraging on its anticipated success.

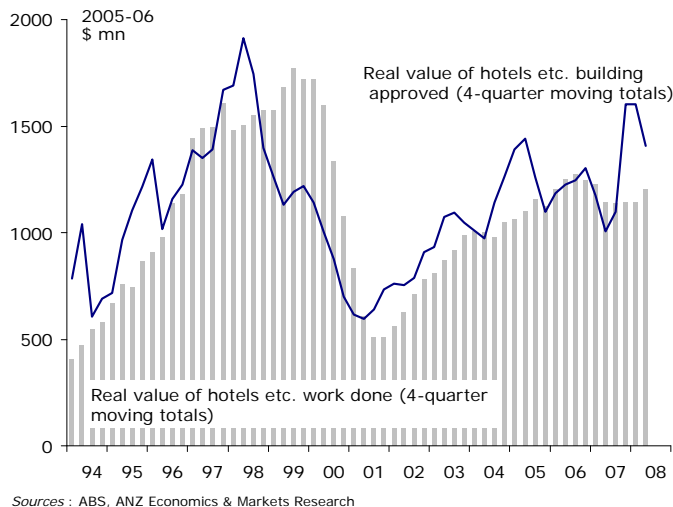
Currency trends



Currency

- The decline in the Australian dollar is a saving grace, with a cheaper dollar significantly improving visitors' purchasing power. The Australian dollar has declined by some 22% on average, against major tourist-generating market currencies since July 2008.
- Further downside to the A\$/US\$ outlook is expected over the coming months on the back of downgrades to the global growth, commodities and interest rate forecasts. Against the US dollar, we anticipate that the A\$ could trade within the range of A\$/US\$0.54-0.66 over the next year. Against the crosses, this translates into falls of between 3-18% against the Yen, Euro, Pound, NZ\$, Yuan and S\$ between end-November 2008 and December 2009.
- Another plus for the sector is that a weaker A\$ is likely to dampen outbound travel and may improve domestic tourism prospects instead.

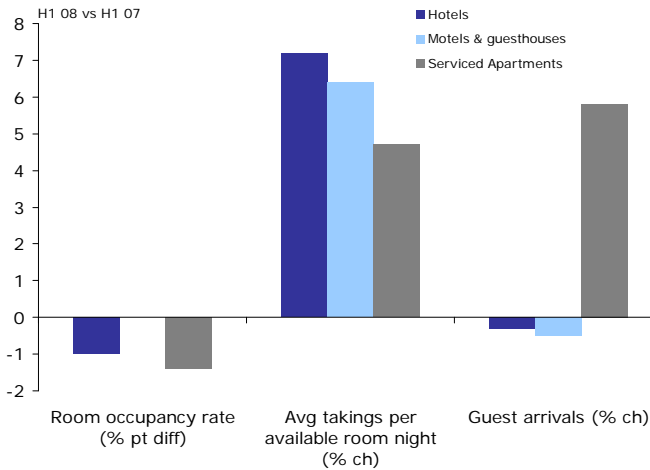
Building approvals



Building Approvals

- Another supportive factor for the tourist accommodation sector is that limited new supply is expected over the next 12 months, with the exception of Melbourne.
- For the first ten months of 2008, nominal building approvals in this sector declined by around 10% compared with the same period in 2007.
- While a lower interest rate outlook lends support to activity, high land and construction costs as well as more costly financing arrangements than a year ago are expected to limit scope for new projects over the next 12-18 months. This also reflects softness in overseas visitor traffic.
- Tight credit conditions have led to some hotel developments being cancelled or postponed.

Occupancy and revenue indicators

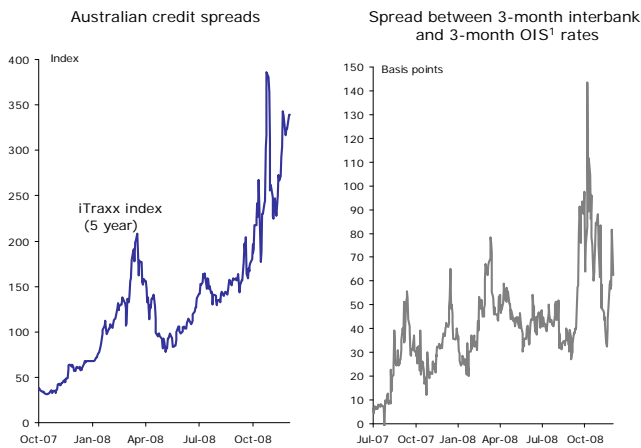


Sources: ABS, ANZ Economics & Markets Research

Room rates and occupancy levels

- Latest ABS data show that the tourist accommodation market remains resilient. Average takings per available room rose by 6.4% in H1 2008 compared with the same half in 2007 to \$96 although occupancy rates, which averaged 63.7%, were down slightly from 64.3% in H1 2007.
- Except for Queensland, occupancy rates for 4 and 5-star hotel accommodation stayed above 70% in H1 2008 despite tough global conditions.
- Serviced apartments, which account for around 20% of establishments in the accommodation sector, with the bulk (about 40%) in Queensland, saw occupancy rates dip slightly in H1 2008 but rates climbed close to 5%.
- Motels, which rely on inter and intra-state domestic travel and also travel by road, are likely to benefit from cheaper petrol prices and a weaker currency.
- Limited new supply should help to contain downward pressure on revenue and occupancy indicators coming from a weaker tourist market.

Spreads stay wide



iTraxx Australia – This is an index of the 5-year CDS spread of the 25 most liquid traded investment grade entities listed on the ASX. The composition of iTraxx rolls every 6 months. Each member of the index has an equal (4%) weighting.

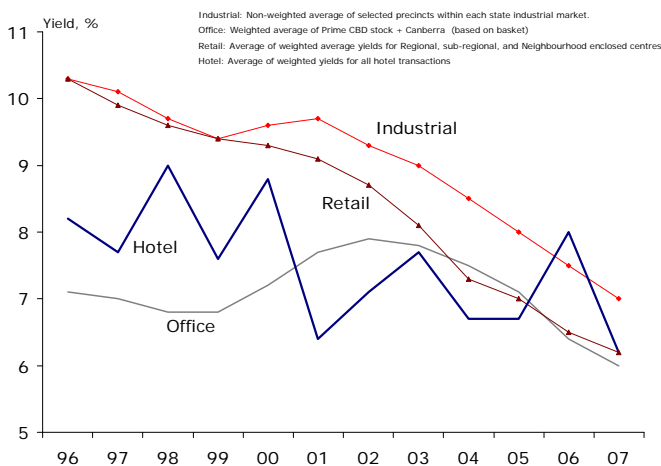
¹ Overnight indexed swap rate, a measure of market expectations of official policy rates

Sources: ANZ Economics & Markets Research, Bloomberg

Credit crunch

- Income growth, driven by the rise in average room rates and only a moderate increase in supply suggest that investor demand should hold up.
- However, the theme of risk aversion continues with the current turmoil in financial markets and a downbeat economic assessment restraining activity.
- On a global perspective, coordinated central bank and government action to shore up liquidity and support the real economy have had less of a “circuit-breaking” impact than desired, suggesting that this will take not only time but more funds.
- In Australia, there is scope for further macroeconomic policy action to counter slowing growth. The RBA’s overnight cash rate, currently at 4.25%, is forecast to trough at 3.5% by mid-2009. Further fiscal stimulus is also expected to support industry, consumer spending and infrastructure expansion.

Yield comparison



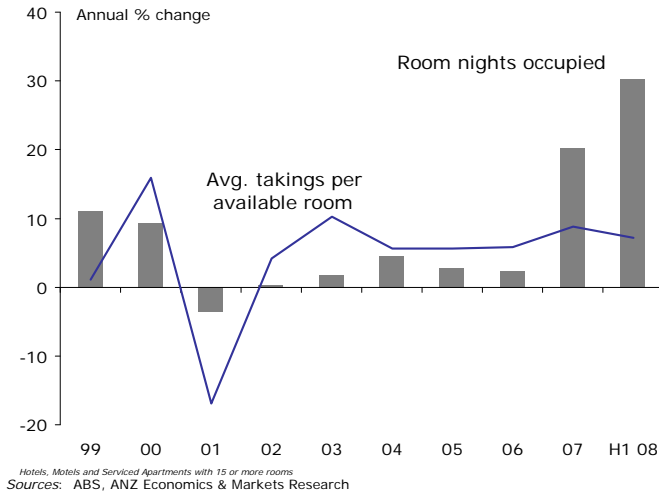
Source: Jones Lang LaSalle

Investment activity

- Although trading performance in this sector has held up well, financial pressures have seen some financiers, listed property trusts and unlisted funds etc. sell assets in a bid to reduce debt and in anticipation of redemptions.
- At the same time, local and overseas interest, particularly from sovereign wealth funds and private investors, remains strong but the expectation of some softening in property valuations against the high cost of debt, recessionary economic conditions and weaker tourist market are likely to see investors hold out to optimise purchases.
- Industry analyses suggest that recent sales of good quality properties have produced yields of around 7-8% in the hotel sector and average yields could soften further.

State Update

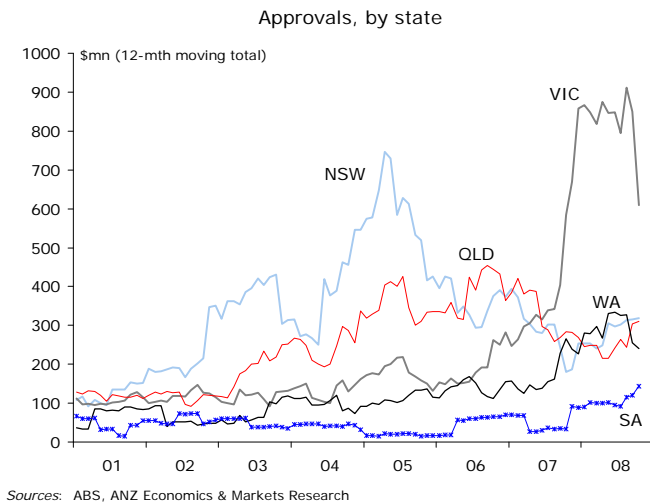
Sydney tourist accommodation trends



New South Wales

- Limited new supply should support room rates but further price growth is constrained by tough global conditions and tightening business travel budgets. Survey data showed that international business visitors spent 34% of their nights in Sydney and 60% of their nights in Australia were spent in a hotel, resort, motel, or motor inn for the year ended Jun 2008.
- However, recent periods of downturn in overseas visitor arrivals, eg. 2001 and 2003 have been followed by a quicker recovery in occupancy and revenue indicators which bodes well for the sector.
- The medium term growth potential for the accommodation sector in NSW has been boosted by the government's proposed investment of \$40mn over the next three and a half years to implement the "NSW Tourism Strategy" alongside the tourism industry's investment of \$20mn.

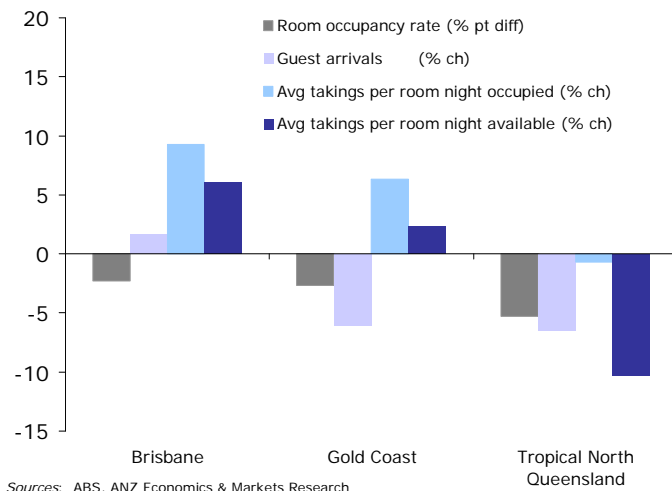
Building approvals by state



Victoria

- The bulk of the increase in room supply in the next couple of years will be seen in Victoria. Major projects underway include Crown Casino's 658-room, \$240mn hotel – the third for the precinct due to open in 2010, 396-room Hilton Hotel at the convention centre site scheduled for completion in 2009 and \$90mn Travelodge hotel development.
- Despite an increase in the number of establishments registered in the June quarter, room occupancy rates averaged 76.7% in Melbourne in H1 2008, up 1.2 percentage points from H1 2007 while average takings per available room jumped 10.9% for the same period.
- Scope for further rate increases, however, is limited in the near term and some softness may even occur as pressure on occupancy levels becomes more evident. Nevertheless, a gradual global economic recovery in 2010, convention centre business expected to pick up, and a strong events calendar, additional room supply is likely to be absorbed, providing medium term support for room rates.

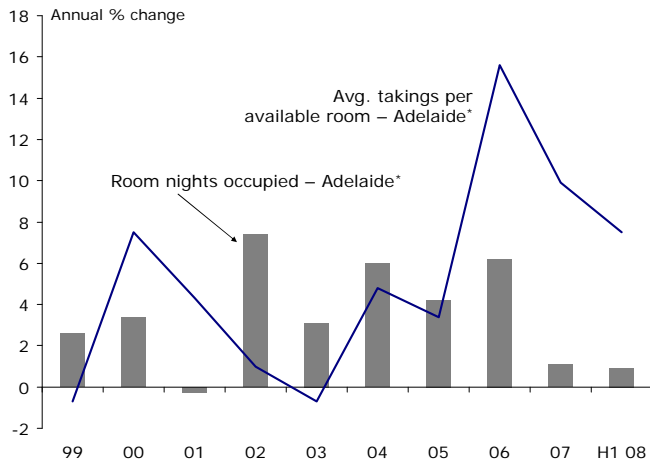
Regional accommodation



Queensland

- The market is mixed in Queensland. Brisbane and the Gold Coast saw revenue indicators register positive growth even as average occupancy levels fell in H1 2008 against the same period in 2007. Tropical North Queensland, however, saw averaging takings per available room drop by 10.3% over the year to H1 2008 as guest arrivals fell 6.5%, reflecting in part weakness in the Japanese travel market.
- Revenue and occupancy indicators are likely to remain soft over the coming year. In the short term, Queensland is likely to benefit from domestic leisure tourism although corporate demand is likely to consolidate. Over the medium term, the cancellation of some projects and recovery in tourist demand should help lift the trading performance.

Adelaide tourist accommodation trends

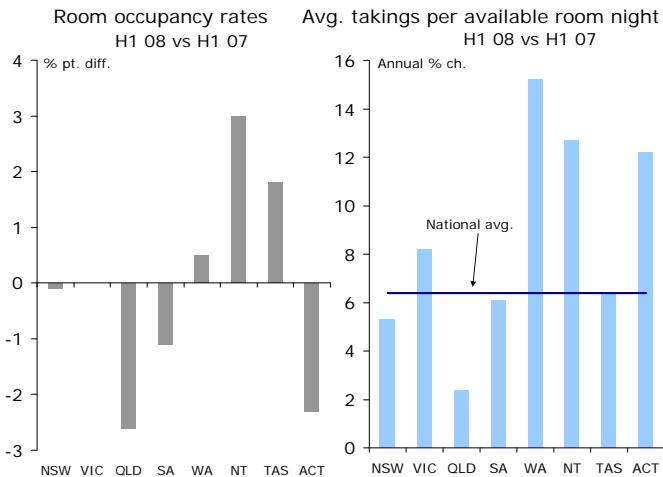


* Hotels, Motels and Serviced Apartments with 15 or more rooms
Sources: ABS, ANZ Economics & Markets Research

South Australia

- South Australia is increasingly benefiting from mining activity and infrastructure-related spending. Growth in final demand in Q3 2008 was up 1.2%, only slightly lower than the previous quarter's growth of 1.3%, and was one of the better performers across the states.
- The general upbeat growth momentum in the economy has been reflected in improving revenue and occupancy indicators. Occupancy rates in Adelaide held up at 73% in H1 2008, exceeding the national average, as guest arrivals rose 4.7%. Average room rates per available room climbed 7.5% to \$106.
- Despite declining commodity prices, on-going exploration and feasibility studies in the resources sector and relatively healthy employment growth supported by business and public sector investment, is expected to underpin the trading performance in the months ahead.

Revenue and occupancy indicators



Sources: ABS, ANZ Economics & Markets Research

Western Australia

- WA has played catch-up in terms of revenue indicators with the average takings per available room posting a strong 15% annual increase in H1 2008. Perth recorded a 19.9% rise in room rates.
- One of the factors that has underpinned the tourist accommodation market in WA has been the resources boom. However, the outlook for corporate sector demand has been clouded by declining commodity prices, which we expect have further to run, and the prospect of some projects being postponed.
- While the proximity to Asia and a weaker currency is likely to support the international visitor market, the pace of growth is also likely to soften given current stresses in the global economy.
- Having had a strong run in room rates, scope for further price growth is likely to be limited over the next twelve months.

Tasmania the Movie

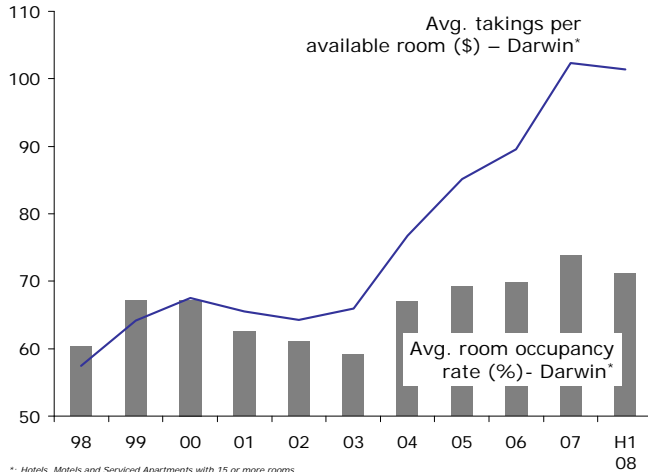


Source: Tourism Tasmania

Tasmania

- Tasmania's latest marketing campaign "Tasmania the Movie", leveraging off the film "Australia", has received unparalleled exposure. Prospects for increased interstate visitors, which dominate tourist activity in Tasmania, is also likely to be good given the boost from increased air capacity, with the launch of Tiger Airways' services between Hobart and Adelaide from March 2009 and the recent expansion of services by Jetstar and Virgin.
- Trading performance has been positive with occupancy rates in Hobart & surrounds averaging 76% in H1 2008, up from 74% in H1 2007 and room rates per available room climbing by 5% to \$106 with takings per room night occupied averaging \$139.
- However, scope for further improvements in room rates is likely to be limited under the current economic climate.

Darwin tourist accommodation sector

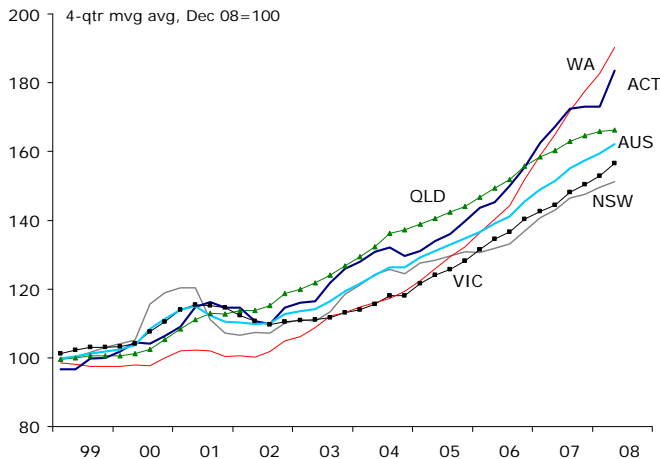


*: Hotels, Motels and Serviced Apartments with 15 or more rooms
Sources: ABS, ANZ Economics & Markets Research

Northern Territory

- Darwin's tourist accommodation sector has been an out-performer. Occupancy levels in the June quarter reached 80.7%, the highest on record for the quarter. Average takings per available room for the first half of this year was up a solid 16.4% compared with the same period in 2007.
- There has been some consolidation in this sector with the number of rooms down 3.7% from its peak in Q3 2005 but there has also been a surge in guest arrivals.
- With the Northern Territory featured prominently in the film "Australia", and new marketing campaigns (eg. Kakadu campaign to be launched in January and the \$2mn global Red Centre campaign which started in September), demand is expected to hold up. In addition, increased airline services, notwithstanding the termination of Tiger Airways' service to Darwin, should support domestic and international visitor growth.

Average takings per available room



Sources: ABS, ANZ Economics & Markets Research

ACT

- Average takings per available room jumped by 21% in the hotel sector in H1 2008 to close to \$142 and takings per room night occupied was \$193, well above the national average of \$182.
- Building approvals data suggests that activity is expected to remain relatively subdued over coming months. For the ten months to October, hotels etc. approvals were down 11% from the same period in 2007.
- A favourable trading environment, with an active political calendar and business travel market, and limited new supply, will help support further rises in room rates, albeit at a slower pace.

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