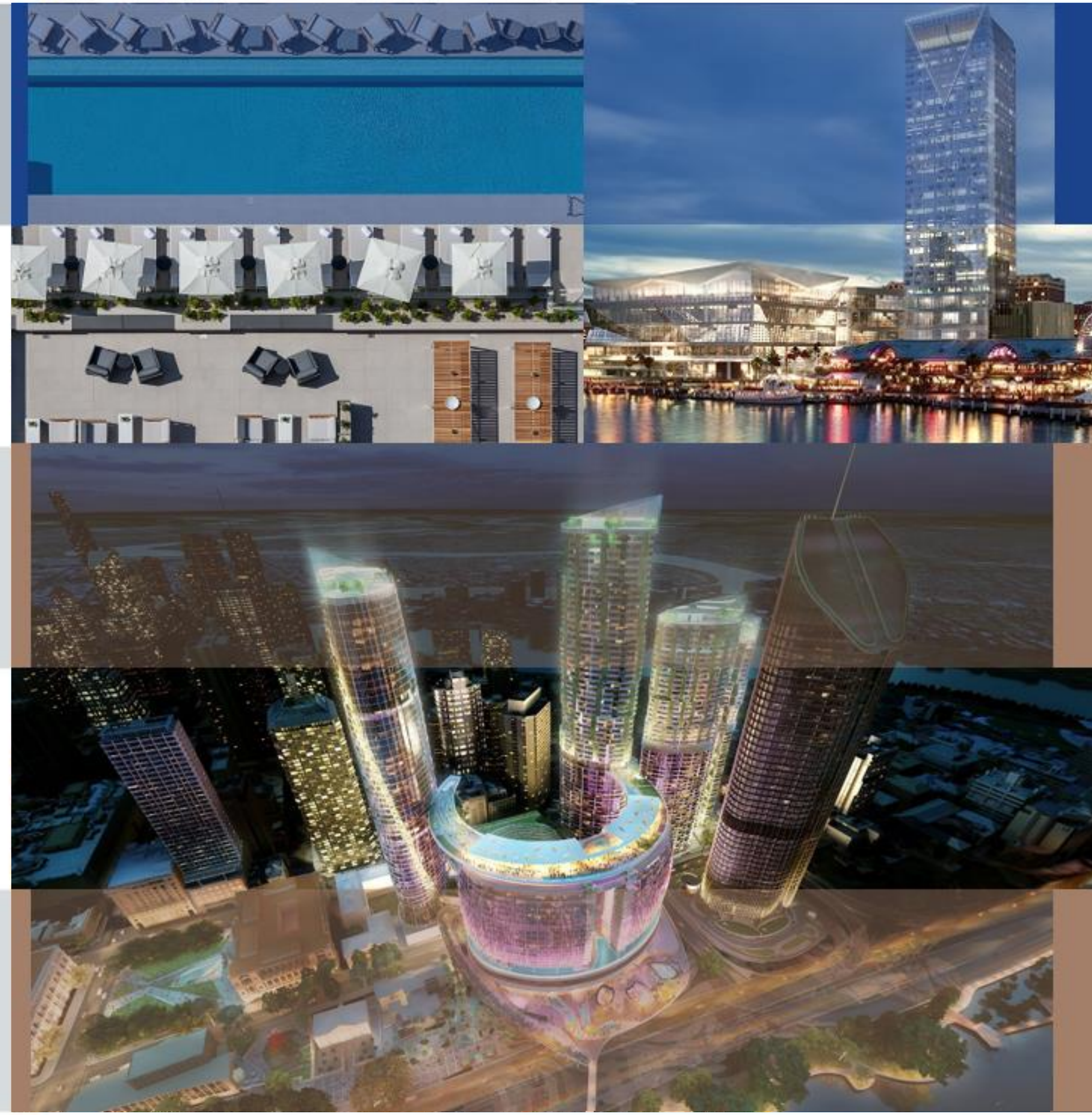
HOTEL FUTURES 2016



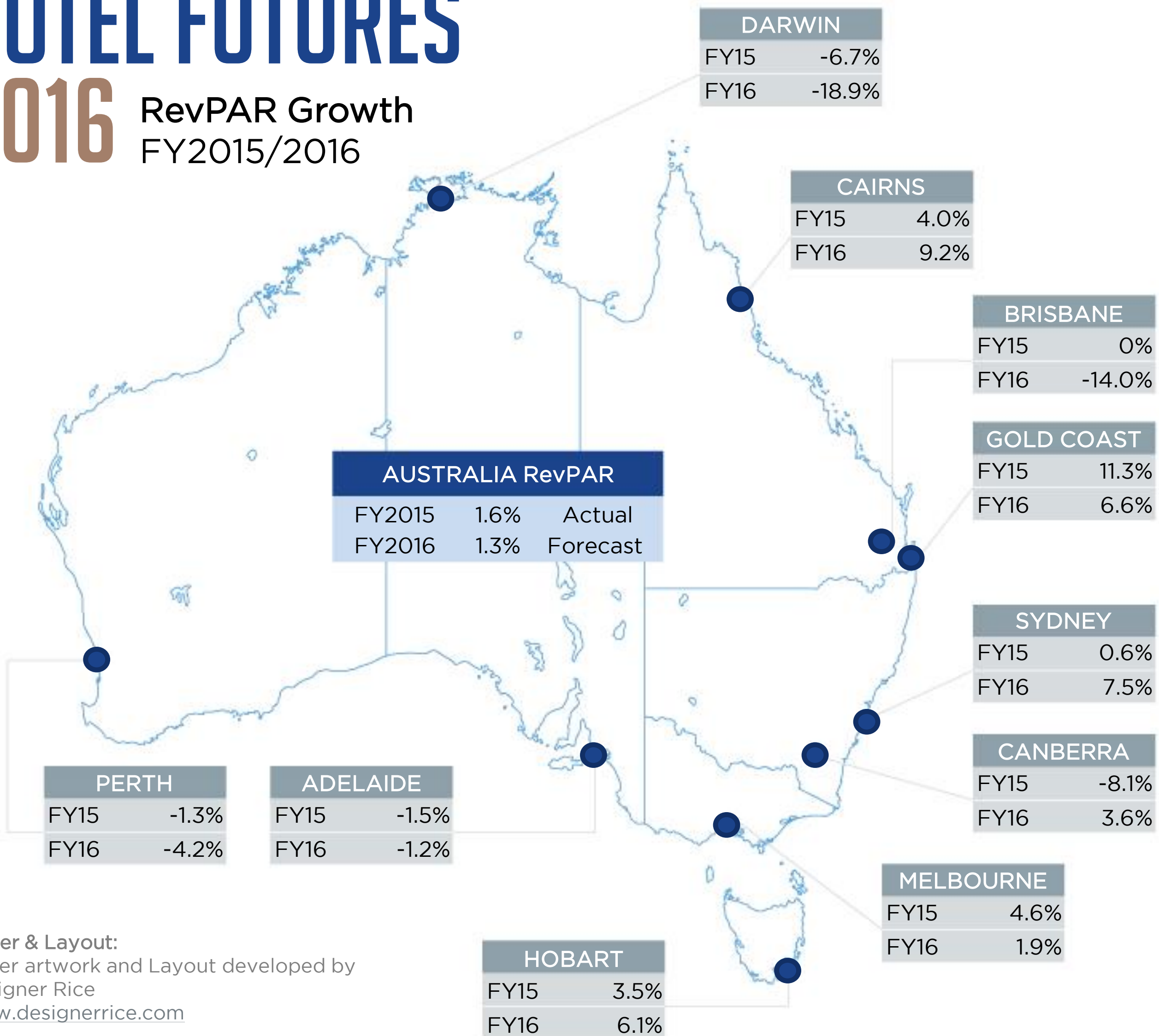
A REVIEW OF THE REVENUE PERFORMANCE
OF MAJOR AUSTRALIAN HOTEL MARKETS
WITH FORECASTS TO 2024

www.dransfield.com.au

DRANSFIELD
HOTELS & RESORTS

HOTEL FUTURES 2016

RevPAR Growth FY2015/2016



Cover & Layout:
Cover artwork and Layout developed by Designer Rice
www.designerrice.com

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 60,000 hotel rooms and numerous food and beverage outlets in more than 600 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 the various service skill sets into a cohesive solution for development, operations and overarching advice. Service streams include:

TRANSACTIONS
- Agency
- Operator Selection
- Due Diligence
- Vendor Representation
- Interested Party Assessments
- 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
- 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

DISCLAIMER This document contains both qualitative and quantitative statements concerning the future performance of hotel and property markets, which may or may not prove to be correct. Dransfield & Co Pty Ltd (Dransfield) does not make any representation or warranty, express or implied that such statements will prove correct, or that estimates or forecasts contained in this document will be achieved. The projections contained in this document are estimates and represent only one possible result, depending on the assumptions made. Potential users of these forecasts should satisfy themselves as to the current market conditions. Individual hotel performance may differ to market averages. Due to the difficulty in predicting future events, the assumptions we have used may not hold true. Dransfield accepts no responsibility for any action taken or any failure to act, in reliance upon the information contained in this document. No liability for negligence or otherwise is accepted by Dransfield directly or indirectly in relation to the material contained in this document. Hotel Futures 2016 was compiled by Dean Dransfield, Raq Pustetto, Scot McLaughlin, Grace Lam and Hayden Longmuir © May 2016

HF2016 SNAPSHOT

Medium term RevPAR growth averaging 4.2% p.a with a similar outlook over the long term. Increases to both supply and demand expectations likely to maintain occupancy levels above 75%. Rate opportunities available across much of the country. Highly varied outlook by city

FY2015

The Australian Capital City Hotel market recorded 1.6% revenue growth (RevPAR) which was slightly below our 4.0% forecast as expected rate growth did not fully materialise despite occupancy levels remaining high

- The addition of previously overlooked properties within the ABS survey dataset had a dampening effect on recorded market performance as weaker properties diluted the survey results

RevPAR

The long term revenue forecast for Australian Capital City hotels is for consistent RevPAR growth averaging 4.3% p.a as high occupancy levels and moderate supply provide a good basis for rate growth, despite a weak FY2016 as resource dominant markets reset

- Hotel Futures 2016 represents a slight average Real RevPAR downgrade relative to prior expectations as a result of a lower FY2015 base. Long term growth rates are largely unchanged
- Significant variances have emerged between cities, with substantial downgrades to resource orientated markets being offset by upgrades to leisure based cities and major CBD's

Supply

Hotel Futures 2016 represents an upgrade in absolute supply of 4,350 rooms to FY2024 which is a small uplift of 0.4% p.a compared with prior forecasts. Average growth of 3.2% p.a expected

- Over the last 12-18 months the development cycle has progressed with improved certainty and increased proposal activity. Market Response expectations have partly infilled although total numbers remain within previous expectations. Our forecasts still assume considerably more additional projects than currently mooted
- Slight delays have eventuated over the short to medium term which are likely to catchup over the long term

Demand

Hotel Futures 2016 long term demand forecast is for strong average annual growth of 3.7% to FY2024, which is above the prior decade average of 2.4% and Hotel Futures 2015 expectations for 3.5% growth

- Long term demand expectations have improved across 8 of the 10 forecast cities
- Tourism Forecasting Committee's Capital City visitor night expectations to FY2023 have been increased to 3.9% growth p.a compared to 3.2% previously. This is impressive given outperformance in FY2015 meaning a higher starting point. The upgrade was led by significant improvements to the domestic market, with international nights showing a minor downgrade

Average Room Rate (ARR)

Healthy long term rate growth expectations averaging 3.8% p.a are expected as occupancy levels maintain above 75% for the life of the forecast

- The ability of hoteliers to seize rate growth opportunities in Australia continues to be problematic with long term benefits often overlooked for short term safety
- Upside opportunity remains in many cities

TOTAL AUSTRALIAN MAJOR CITIES (WEIGHTED) – HMGSA

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2007	81,717	0.8%	4.4%	$145.88	7.7%	$111.74	11.6%	$137.02	76.6%
FY2008	83,007	1.6%	1.8%	$156.22	7.1%	$119.87	7.3%	$140.65	76.7%
FY2009	85,043	2.5%	-1.9%	$155.82	-0.3%	$114.54	-4.4%	$132.46	73.5%
FY2010	85,740	0.8%	2.5%	$152.39	-2.2%	$113.89	-0.6%	$127.81	74.7%
FY2011	87,002	1.5%	3.6%	$159.94	5.0%	$122.00	7.1%	$132.15	76.3%
FY2012	87,009	0.0%	0.1%	$166.47	4.1%	$127.08	4.2%	$136.04	76.3%
FY2013	86,989	0.0%	0.7%	$168.94	1.5%	$129.85	2.2%	$135.75	76.9%
FY2014	87,346	0.4%	0.1%	$170.77	1.1%	$130.81	0.7%	$132.77	76.6%
FY2015	96,207	10.1%	10.4%	$173.11	1.4%	$132.92	1.6%	$132.92	76.8%
Actual Avg FY2007-2015		**2.0%**	**2.4%**		**2.8%**		**3.3%**		**76.0%**
Avg FY2011-2015		**2.4%**	**3.0%**		**2.6%**		**3.2%**		**76.6%**
Year	Rooms*	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	98,093	2.0%	2.2%	$174.92	1.0%	$134.67	1.3%	$131.39	77.0%
FY2017	100,483	2.4%	3.3%	$183.07	4.7%	$142.09	5.5%	$138.62	77.6%
FY2018	104,312	3.8%	4.2%	$192.89	5.4%	$150.35	5.8%	$143.10	77.9%
Avg FY2016-2018		**2.7%**	**3.3%**		**3.7%**		**4.2%**		**77.5%**
FY2019	110,420	5.9%	4.7%	$200.90	4.2%	$154.85	3.0%	$142.40	78.1%
FY2020	115,805	4.9%	4.6%	$208.62	3.8%	$160.38	3.6%	$143.19	77.6%
FY2021	119,954	3.6%	3.9%	$216.21	3.6%	$166.74	4.0%	$144.54	77.6%
FY2022	123,107	2.6%	3.6%	$224.51	3.8%	$174.83	4.8%	$147.13	78.4%
FY2023	125,931	2.3%	3.5%	$233.33	3.9%	$183.76	5.1%	$150.15	79.3%
FY2024	128,081	1.7%	3.4%	$242.11	3.8%	$193.89	5.5%	$153.81	80.2%
Avg FY2019-2024		**3.5%**	**3.9%**		**3.9%**		**4.3%**		**78.0%**
Total Forecast Avg FY2016-2024		**3.2%**	**3.7%**		**3.8%**		**4.3%**	**$143.81**	**77.8%**

ABS Dataset change affected

Source: ABS

DRANSFIELD HOTELS & RESORTS

AUSTRALIA AT A GLANCE FY2015

This is the 19th edition of Hotel Futures. We report on major Australian hotel markets during FY2015 with long term forecasts to FY2024

- According to the ABS, the Australian Capital City Hotel market recorded 1.6% revenue growth (RevPAR) in FY2015, slightly below 4.0% expectations, partially influenced by a break in the ABS data series
  - The change to the ABS supply base included the addition of 17,828 rooms across 279 STA properties which were previously overlooked. Whilst these additional rooms are not solely within Hotel Futures city borders, the effect has made supply and demand growth figures unreliable for FY2015 as data is not directly comparable to the past
  - Generally speaking, the new supply is considered to be of lesser quality than the existing base and has diluted growth statistics
- 6 of the 10 major cities covered in Hotel Futures experienced year on year growth
  - Leisure city outperformance
  - Resource orientated market corrections continue
  - The Gold Coast led the nation with an 11.3% RevPAR increase, whilst the consistently high occupancies in Melbourne once again facilitated robust 4.6% growth
  - The smaller markets of Cairns and Hobart continued to strengthen, recording 4.0% and 3.5% growth respectively
  - Sydney's underperformance (0.6%) was shackled by underwhelming rate growth despite the highest occupancy by some margin
  - The small markets of Canberra (-8.1%) and Darwin (-6.7%) underperformed to already poor expectations, recording the most significant declines
- Visitor night data, although only an indirect guide to short term accommodation demand, displayed strong growth as the weakening $AUD appears to have had a doubled barreled effect in both attracting internationals and enticing locals to holiday domestically
  - International visitor nights increased 8.3% to 235M, slightly higher than prior expectations, the largest year on year growth since the 2001 Sydney Olympics
  - Domestic visitor nights also grew by a robust 6.2% to 313M
- Occupancy levels improved slightly to 76.8% providing a solid basis for rate growth, however this was not fully realised. Rate growth of just 1.4% was well below 3.6% expectations, and inflation, and was the primary factor to the slight underperformance
- The STR sample, which typically represents higher quality and larger scale operations, and which generally outperform the ABS survey recorded considerably better RevPAR growth of 4.2%, with increases in both occupancy (1.4 points) and rate (2.2%).

AUSTRALIAN MAJOR CITY HOTEL FY2015 PERFORMANCE

	FY2015 Performance		
Location	Rate	Occupancy	RevPAR
Adelaide	4.0%	73.8%	-1.5%
Brisbane	1.6%	74.1%	0.1%
Cairns	4.5%	64.9%	4.0%
Canberra	-9.9%	68.1%	-8.1%
Darwin	3.6%	68.7%	-6.7%
Gold Coast	3.5%	69.3%	11.3%
Hobart	-0.8%	73.6%	3.5%
Melbourne	4.1%	83.2%	4.6%
Perth	-1.3%	81.0%	-1.3%
Sydney	0.9%	86.4%	0.6%
Total Market	**1.4%**	**76.8%**	**1.6%**

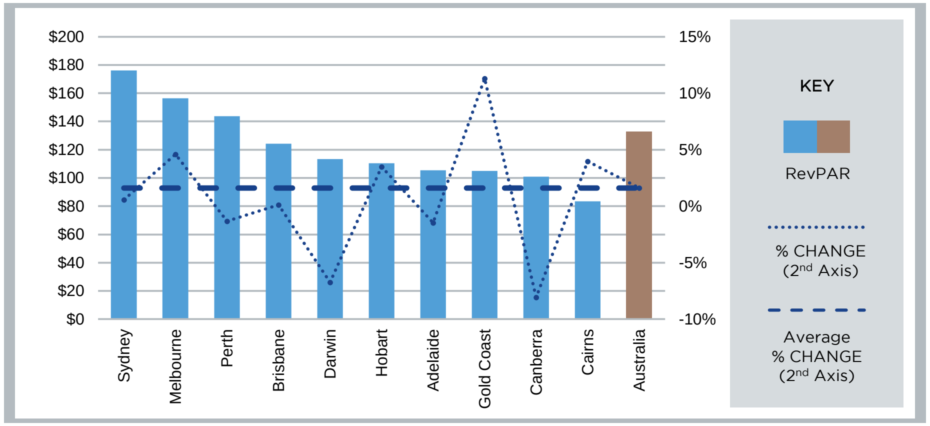
Source: ABS

DRANSFIELD HOTELS & RESORTS

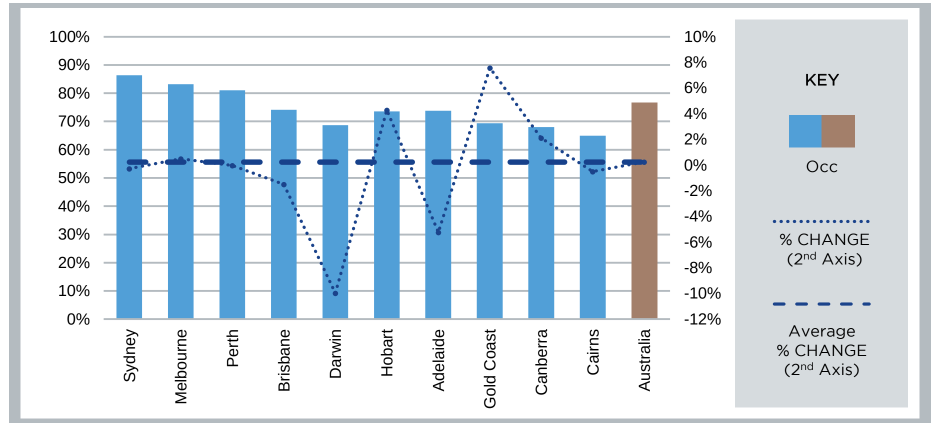
AUSTRALIA AT A GLANCE FY2015

Major City RevPAR growth of 1.6% in FY2015 as a slight 0.2 point increase in occupancy was accompanied by a 1.4% increase in ARR

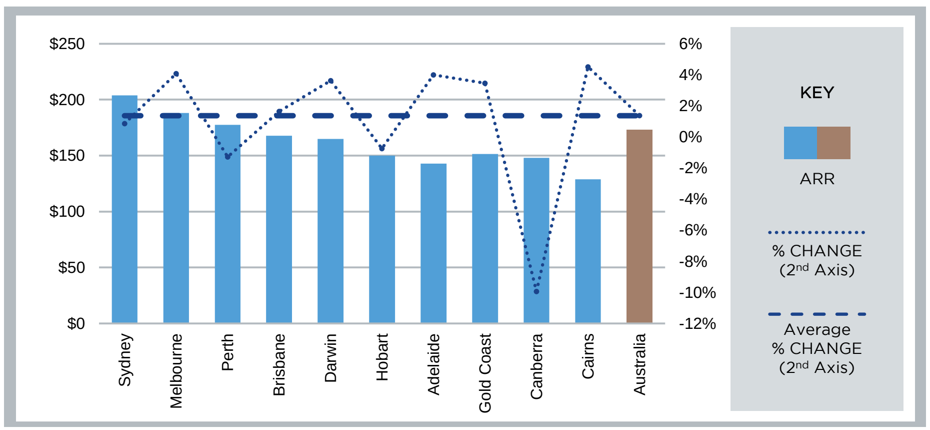
REVPAR – ACTUAL & % CHANGE FY2015



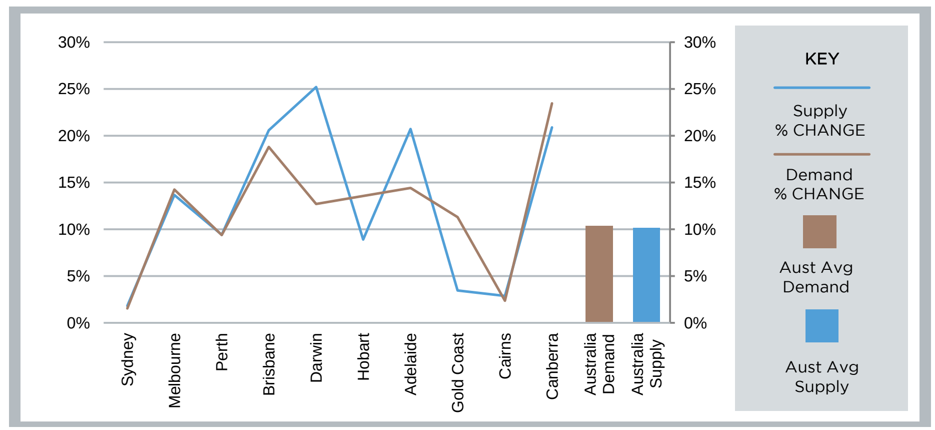
OCCUPANCY – ACTUAL & % CHANGE FY2015



ARR – ACTUAL & % CHANGE FY2015



SUPPLY AND DEMAND % CHANGE FY2015



Source: ABS

DRANSFIELD HOTELS & RESORTS

SHORT AND MEDIUM TERM OUTLOOK

FY2016 National Outlook

- RevPAR for FY2016 is forecast to increase by a low 1.3% with occupancy levels improving slightly to 77%
- The expected growth represents a downgrade to Hotel Futures 2015 RevPAR expectations of 5.4% as rate opportunities fail to be realised and resource influenced markets continue to experience difficulties beyond expectations
- Strength lies within leisure orientated cities as the repositioning of the $AUD has a twin barreled effect, making it more expensive for domestics to holiday overseas and thus increasing domestic visitor numbers in Australia, as well as making Australia more attractive globally
- Supply growth forecasts of 2.0% have been slightly delayed and are below organic demand growth expectations
- Demand growth of 2.2% is above the decade long average (excluding FY2015 base change) and is expected to push occupancy levels to 77% for the fist time. Australia remains supply constrained
- Rates continue to grow slowly with just 1% growth expected in FY2016

Medium Term Outlook to FY2018

- Strong RevPAR growth averaging 4.2% p.a. as demand growth exceeds supply growth
  - Growth is slightly behind the 5.1% p.a. previously expected, dragged by underperformance in the short term. This is expected to unwind over the next two years
  - Despite the weaker FY2016, the following two years are forecast to outperform prior expectations. A positive uplift to the supply and demand equation should facilitate improved rate growth
- Expected supply has been delayed slightly and is expected to average 2.7% growth p.a, although from a higher base as a result of the ABS base change
- Demand growth expectations averaging 3.3% over the medium term are expected to fully absorb supply additions
  - The medium term demand forecast represents a slight reduction to robust prior forecasts despite upgraded visitor forecasts
  - Supply delays constrain demand growth in major markets and aggregate demand is impacted by the larger than expected downturn in resource orientated markets
- Occupancy expectations averaging 77.5% are inline with previous expectations and represent a strong basis for rate growth
- Rates are expected to grow steadily averaging 3.7% p.a over the medium term

AUSTRALIAN MAJOR CITY HOTEL MARKET REVENUE FORECASTS

	Forecast Average RevPAR Growth		
Location	Short FY2016	Medium FY16-18	Long FY16-24
Adelaide	-1.2%	3.9%	3.6%
Brisbane	-14.0%	-3.2%	3.2%
Cairns	9.2%	8.5%	5.3%
Canberra	3.6%	3.5%	4.4%
Darwin	-18.9%	-5.6%	2.1%
Gold Coast	6.6%	7.7%	4.4%
Hobart	6.1%	2.7%	2.6%
Melbourne	1.9%	5.4%	4.4%
Perth	-4.2%	-1.6%	2.2%
Sydney	7.5%	7.0%	4.9%
Total Market	**1.3%**	**4.2%**	**4.3%**

DRANSFIELD HOTELS & RESORTS

AUSTRALIA AT A GLANCE

FY2024 LONG TERM OUTLOOK

Long Term Outlook to FY2024

- Australian major city RevPAR is forecast to grow at a strong average of 4.3% p.a over the long term
  - This represents a slight absolute downgrade to prior expectations based on underperformance in FY2015 and a soft FY2016
  - Performance is expected to catch up over the long term with growth rates being largely maintained
- Supply expectations have increased to 3.2% p.a representing an increase to Hotel Futures 2015 expectations of 3.0%. We expect supply to be fully absorbed
  - Supply has been slightly delayed through the first 3 years of the forecast, before increasing over the long term as market conditions improve
  - Certainty has increased as we move through the development cycle with an increased proportion of projects in construction and proposal stages
  - The primary development window appears to be several years away, with the bulk of new supply expected to come online through FY2019 & FY2020
- Demand growth has been upgraded to 3.7% p.a. compared to 3.5% previously, as tourism visitor forecasts improve and supply bottlenecks in key gateway cities ease
- Occupancy is forecast to maintain above 77% for the life of the forecast which will enable consistent rate growth
- Rate growth averaging 3.8% p.a is expected over the life of the forecast, largely in line with previous expectations
  - Upside opportunity exists across many of the major cities as the general quality of assets improve and occupancy levels grow
  - Some rate risk lies in resources centric cities as operators seek to consolidate occupancy at the expense of rate.

TOTAL AUSTRALIAN MAJOR CITIES (WEIGHTED) – HMGSA

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	98,093	2.0%	2.2%	$174.92	1.0%	$134.67	1.3%	$131.39	77.0%
FY2017	100,483	2.4%	3.3%	$183.07	4.7%	$142.09	5.5%	$138.62	77.6%
FY2018	104,312	3.8%	4.2%	$192.89	5.4%	$150.35	5.8%	$143.10	77.9%
Avg FY 16-18		**2.7%**	**3.3%**		**3.7%**		**4.2%**		**77.5%**
FY2019	110,420	5.9%	4.7%	$200.90	4.2%	$154.85	3.0%	$142.40	77.1%
FY2020	115,805	4.9%	4.6%	$208.62	3.8%	$160.38	3.6%	$143.19	76.9%
FY2021	119,954	3.6%	3.9%	$216.21	3.6%	$166.74	4.0%	$144.54	77.1%
FY2022	123,107	2.6%	3.6%	$224.51	3.8%	$174.83	4.8%	$147.13	77.9%
FY2023	125,931	2.3%	3.5%	$233.33	3.9%	$183.76	5.1%	$150.15	78.8%
FY2024	128,081	1.7%	3.4%	$242.11	3.8%	$193.89	5.5%	$153.81	80.1%
Avg FY19-24		**3.5%**	**3.9%**		**3.9%**		**4.3%**		**78.0%**
Total Forecast Avg FY 2016-2024		**3.2%**	**3.7%**		**3.8%**		**4.3%**	**$143.81**	**77.8%**

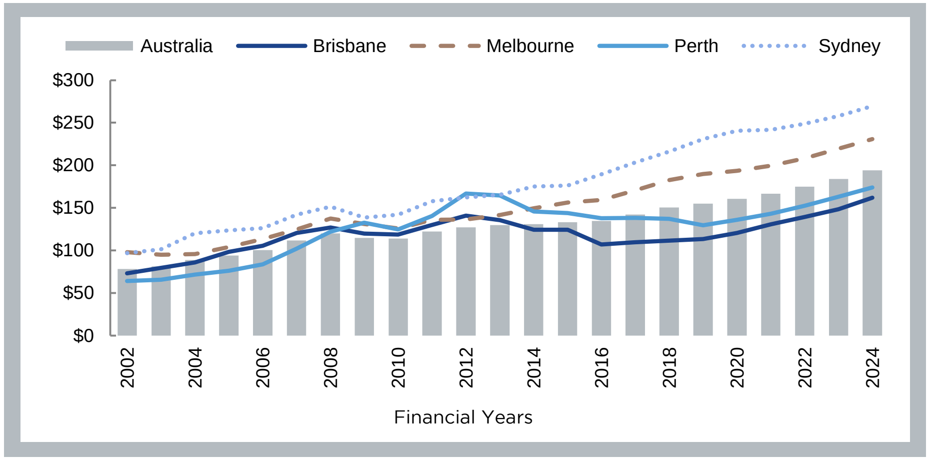
DRANSFIELD HOTELS & RESORTS

CITY SUMMARIES

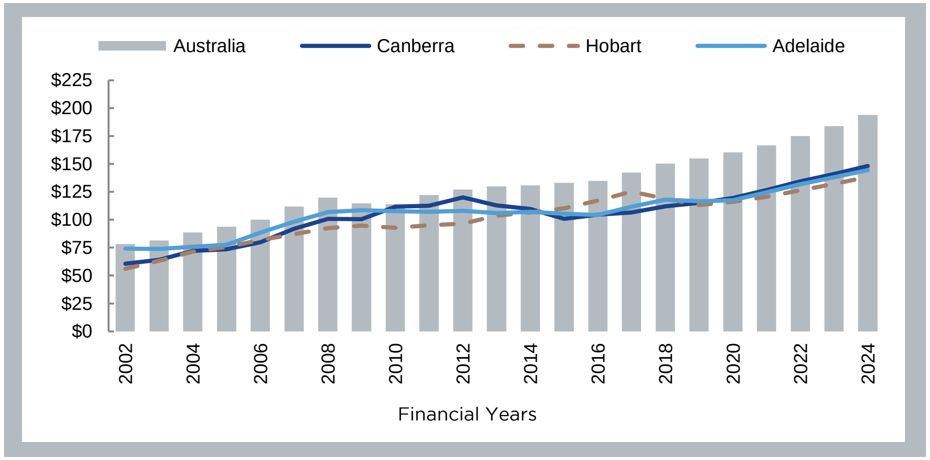
City	3 Year RevPAR Outlook (avg. p.a)	Comment	Key Driver
Adelaide	3.9%	Lesser decline than expected in FY2015, shielded by unexpected rate growth. Supply upgrades through the middle of the forecast to stifle rate opportunities. Long term RevPAR slightly downgraded to 3.6% p.a.	Rate growth uncertainty with supply
Brisbane	-3.2%	A large market downgrade as substantial sustained medium term supply is not absorbed by weak demand. Soft short term performance compounded as G20 effect reverses. Recovery expected over the long term with 3.2% growth p.a.	Sustained supply additions at a time of market vulnerability
Cairns & Port Douglas	8.5%	Significant market upgrade as demand outlook improves following repositioning of the $AUD. Strong long term expectations for 5.3% p.a RevPAR growth, driven by medium term performance	Demand growth coupled with limited supply
Canberra	3.5%	Slight long term RevPAR growth upgrade from a lower base as occupancy expectations improve. Good growth prospects averaging 4.4% p.a. to FY2024. Supply upgrades to be fully absorbed improving occupancy levels	Supply upgrades to be fully absorbed improving occupancy
Darwin	-5.6%	A major downgrade in FY2016 is likely to extend over the medium term as the market reacts and supply continues. The correction continues, unwinding resource related outperformance. Market recovery to commence from a much lower base in 2-3 years	Additional supply compounded by weak demand
Gold Coast	7.7%	Long term upgrade with significant outperformance over the medium term. Demand upgrades improve occupancy expectations, facilitating rate opportunities. Long term RevPAR expectations of 4.4% p.a.	Demand growth facilitate rate opportunity
Hobart	2.7%	Slight forecast upgrade with outperformance in FY2016 & FY2017 as demand increases. Substantial supply though the middle of the forecast to be slowly absorbed. Long term RevPAR growth of 2.6% p.a.	Demand growth largely absorbing new supply providing rate growth opportunities
Melbourne	5.4%	A positive supply and demand equation should entice consistent rate growth for the life of the forecast. Occupancy expectations are to stay above 80%. Melbourne remains supply constrained despite considerable pipeline activity. Long term RevPAR growth averaging a strong 4.4% p.a.	Rate growth in a consistently high occupancy market
Perth	-1.6%	A major downgrade caused by continued supply increases over several years and a weaker local economy/demand profile over the medium term. Recovery expected over the long term with RevPAR growth expectations of 2.2% p.a.	Major supply not absorbed over the medium term
Sydney	7.0%	Growth upgrade following rate related underperformance in FY2015. Significant rate growth expected over the medium term as occupancy levels hold above 87%. Much needed supply additions over the long term to enable demand growth. Long term RevPAR growth averaging a strong 4.9% p.a.	Rate driven growth in a supply constrained market
Australia	**4.2%**	**Australian Capital Cities to maintain strong overall growth. Significant downgrade to the 3 resource centric markets offset by strong performance in leisure cities and major CBDs. A diverse bag!**	**Positive supply and demand equate to growing occupancy levels**

CITY SUMMARIES

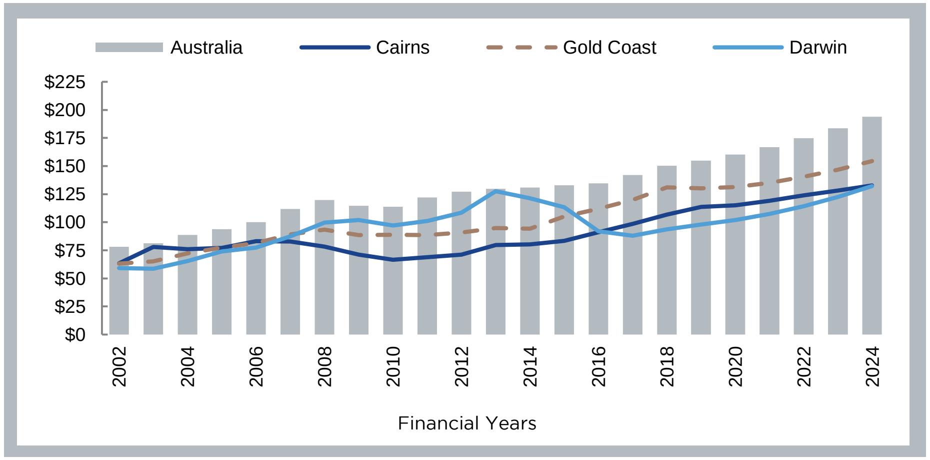
MAJOR CAPITAL CITY REVPAR COMPARISON



SECONDARY CAPITAL CITY REVPAR



LEISURE BASED CITY REVPAR



Relative RevPAR

- Average RevPAR growth of 4.3% p.a across Australia to FY2024 with steady growth across the majority of cities
- The large markets of Sydney and Melbourne, which collectively make up 41% of the national capital city stock are forecast to remain the highest RevPAR cities and are the only cities forecast to stay above the national average long term
- The correction in Perth continues with RevPAR expected to fall below the national average in FY2017, and closing in on Brisbane over the long term
- Darwin’s reliance on resource projects has affected its place as the highest RevPAR leisure orientated city, with Gold Coast and Cairns appearing ready and able to take advantage of the expected tourism boom over the medium term
- Secondary capital cities are generally forecast to grow slower than the national average long term as Sydney and Melbourne continue to prosper

DRANSFIELD HOTELS & RESORTS

MARKET TRENDS

Positive outlook and capital availability is seeing record levels of transactions in almost every area

Transaction Trends

Capital availability across a broad spectrum sees transaction volumes continue to rise with diversity

- Transaction volumes continue to grow, increasing from $2.6b in 2014 to $3.9b in 2015 as capital availability continues to improve
- 2016 YTD (May) has started off in the same fashion with nearly $700M worth of assets already trading
- Scarcity of investment product combined with increased capital availability is driving asset competition
  - Combination of rising hotel earnings and falling cost of debt adding to appetite with good supply/demand equation in major cities
  - Many first time/new investors open to the asset class
  - Portfolio transactions are both touted and occurring as are regional, non institutional quality and development assets
  - New funds securing mandates including development and initial investments
- Mixture of Australian and international investor appetite.
  - Asia continues to be the dominant international continent
  - Emergence of China continues. High interest in trophy assets across major capital cities
  - Australia is considered a safe to place to park money
  - Mainstream investors increasingly looking at hotels as a respectable property class
- The falling $AUD has taken the edge of some investors returns and been ignored by others

Development trends and Activity Uplift

Construction and proposal numbers infill Market Response Allowances. Still room for more

- Development activity significantly lifts as the cycle advances.
  - Local resourcing gaining experience but being stretched
  - Identified projects in capital cities have increased from 96 last year to 146 this year
- Positive demand sentiment and rising performance metrics will entice additional development.
- Increase in Luxury segments
- Refurbishment activity has been prominent over the last 12-18 months and is expected to continue over the medium term
  - Refurbishment has been particularly prominent in destinations where the development trigger, which is generally considered to be occupancy of 70%+ in leisure destinations and 75%+ in Major Capital Cities, has not yet been reached
  - Older and tired stock needs to refurbish or reposition to stay competitive. We are seeing a two speed market where smaller and independent hotels are increasingly being left behind
- Stronger level of government sponsorship (Crownland sites, government grants, space bonuses, infrastructure grants)

Market Consolidation

Big guys getting bigger for synergies in IT centric distribution and marketing. Newer and offshore operators still seek positions in the local market with significant new builds creating opportunities

- Market consolidation on several fronts, with operators, distribution and ownership. Partly fueled by Capital Markets appetite rather than just operating metrics
- Major operators merging and aligning
  - Starwood and Marriott
  - Accor and Fairmont/Raffles/Swissotel
  - IHG and Kempinski
- Business complication is encouraging the search for scale in distribution and investment platforms
  - Reaching out is now difficult as so many different outlets available
  - Mass/cut through/real power needed to hold the attention, though still need to be nimble
  - Loyalty programs gaining power and resonance

DRANSFIELD HOTELS & RESORTS

TRANSACTIONS

KEY TRANSACTIONS: January 2015 – May 2016

Property	Purchaser	Reported Price ($'m)
Westin, Sydney	JV Far East Land & Sino Land Company	$445.3
Hilton, Sydney	Bright Ruby	$442
Sofitel Wentworth, Sydney	Frasers Centrepoint	$202.7
Citadines on Bourke	Ascott REIT (Ascott Residence Trust)	$158.5
Crowne Plaza Melbourne	Equiset Grollo Group	$141
Intercontinental Hotel Melbourne, The Rialto	Equiset Grollo Group	$133
Mercure Potts Point/ Crest Hotel, Kings Cross	Greenland Group	$131
Aurora Melbourne Central	Ascendas Hospitality Trust	$120
NEXT Hotel, Brisbane (Hotel Only)	Challenger	$100
The Olsen, Melbourne	M&G Real Estate	$97.8
Sheraton Four Points, Perth	Bonvests Holdings Limited	$91.5
Vibe Sydney	Far East Organisation	$90
Novotel Brighton le Sands	Oscars Hotel Group	$84.8
Pullman Sydney Airport	Nashan Group	$84
Crowne Plaza Coogee	Equiset Grollo Group	$80.4
Hotel Grand Chancellor	Challenger/Abu Dhabi Investment Council	$80

SUPPLY

Supply expectations slightly upgraded as proposal activity increases in an environment of escalating demand

Australian Bureau of Statistics – Data Series Break

In FY2015 a break in the ABS data series occurred, with the inclusion of an additional 17,828 rooms across 279 Short Term Accommodation (STA) properties which were previously overlooked. Whilst these additional rooms are not solely within the areas in Hotel Futures cities, the effect has made supply and demand growth figures unreliable for FY2015 as data is not directly comparable

For more information on the effect of the data series break, please visit the Australian Bureau of Statistics' website www.abs.gov.au

National Supply Outlook

- In FY2015, the ABS recorded 10.1% growth for Australian major city hotel supply, which is equivalent to an additional 8,861 new rooms
- Actual new rooms in major cities, excluding the ABS data change, are estimated to be approximately 2,300 or a 2.6% increase. This real growth still constitutes the highest level of supply growth over the last decade, however remains within organic demand growth levels. Average growth of 1.1% p.a was recorded over the decade to FY2014
- Hotel Futures 2016 represents an upgrade in absolute supply levels to prior expectations, with slightly higher growth from a significantly higher FY2015 base. Demand expectations have also improved and supply is expected to be fully absorbed over the long term
  - In FY2016 supply is forecast to grow 2.0%. Slight delays deliver a small downgrade to prior 2.5% expectations
  - Supply growth is expected to average 2.7% p.a. over the medium term to FY2018 and is expected to be fully absorbed. This is a downgrade to 3.6% p.a. prior expectations as supply is delayed
  - Our national long term forecast is for supply to increase by 3.2% p.a. and slightly above 3.0% expectations from Hotel Futures 2015

Supply Cycle Comparison to FY2023 – HF2015 vs HF2016

	Hotel Futures 2015	Hotel Futures 2016	Var.
Construction	4,000	7,900	3,900
Net Proposals (% probability applied)	6,900	10,300	3,400
Market Response	**14,600**	**11,700**	**-2,900**
Supply Pipeline	25,500	29,850	4,350
Forecast Supply FY2023	121,650	126,000	3.6%
Average Annual Uplift			0.4%

Supply Cycle Comparison

- Australian Capital City long term supply forecasts have received a small increase of 4,350 rooms over 9 years, which is relative to a base of 97,000 and a previously expected pipeline of an additional 25,500 rooms. The increase represents a small supply uplift of 0.4% p.a over the forecast life and is expected to be fully absorbed
- The identified live pipeline has infilled, increasing to 18,100 rooms compared with 10,900 in the previous forecast
- The new forecast represents an increase in identified project numbers to 146 from 96 previously
- Certainty in the forecast has improved with the transition of proposals to construction and Market Response to proposals
  - Construction activity has doubled to 7,900 rooms
  - Proposed rooms have increased to 18,600 gross to which we have applied a 55% prospect of completion, delivering 10,200 net rooms. This has been increased from 6,900 net rooms in the previous forecast at 60% probability
- Over the next 6 years, live construction and proposals represent 71% of the forecast supply pipeline, which is below demand growth expectations for the corresponding period (2.9% p.a vs. 4.2% p.a) and should be easily fully absorbed. Market Response over this period is forecast to add a further 6,800 rooms and will still be slightly below expected demand growth
- Despite the upgrade to supply expectations, major markets are still supply constrained and supply numbers need to increase further to meet long term demand growth expectations
- Market Response for the full forecast period allows for an additional 11,750 rooms above identified live projects
  - This is a decrease to prior expectations, responding to the uplift and transfer to construction and proposal activity
  - Market Response to FY2023 now accounts for 39% of all new supply compared with 57% in the previous forecast

Supply by type– Short, Medium and Long term – Full forecast to FY2024

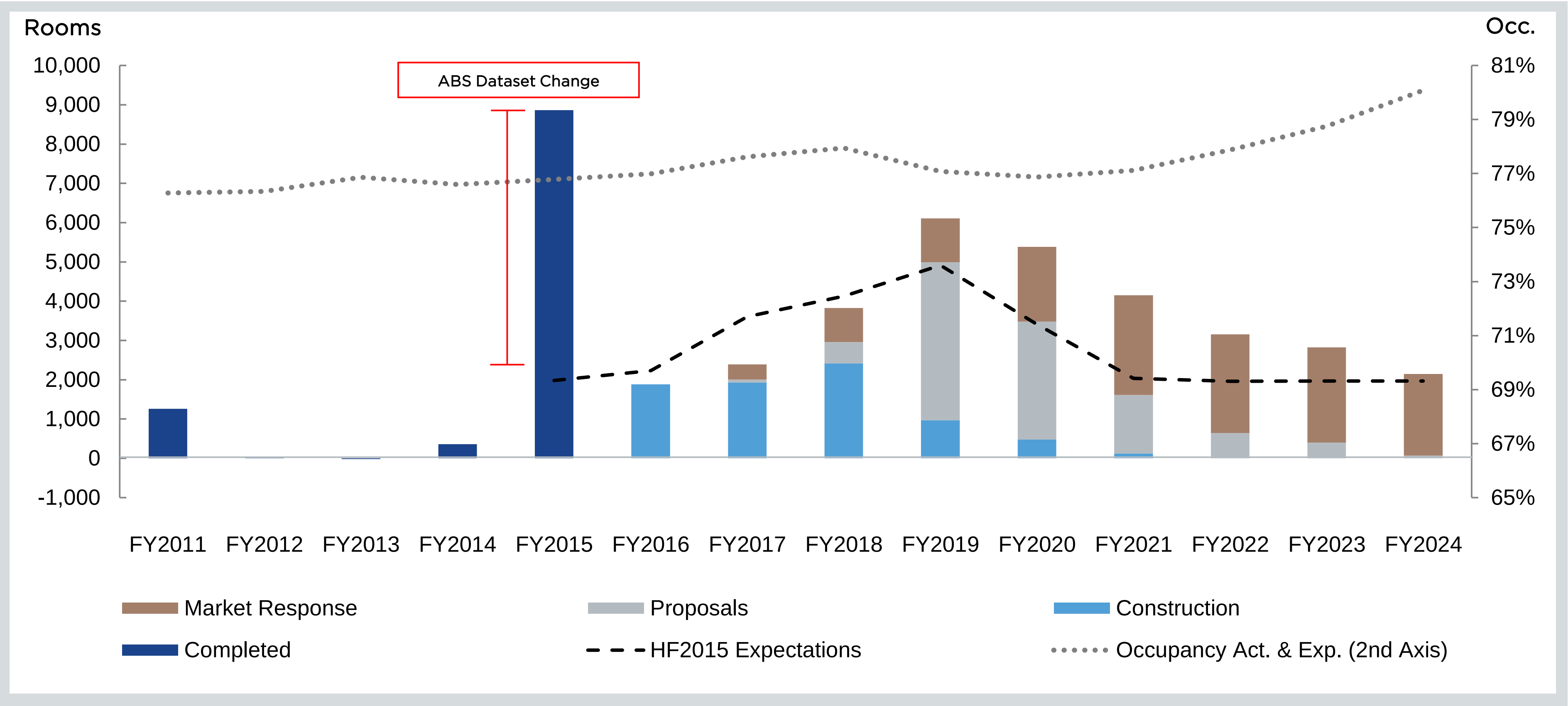
	FY16 1 Yr	FY16-FY18 3 Yrs	FY16-FY21 6 Yrs	FY16-FY24 9 Yrs
Construction	100%	77%	33%	25%
Proposals	0%	8%	38%	32%
Market Response	0%	15%	29%	43%

DRANSFIELD HOTELS & RESORTS

SUPPLY NATIONAL

Supply expectations have increased in Hotel Futures 2016 as the demand outlook strengthens. The peak of the supply cycle remains in FY2019, although short to medium term development has been delayed by 12-18 months. Supply is expected to be fully absorbed with occupancy trending up

MAJOR CITY SUPPLY GROWTH PERFORMANCE AND FORECASTS TO FY2024 – ROOMS

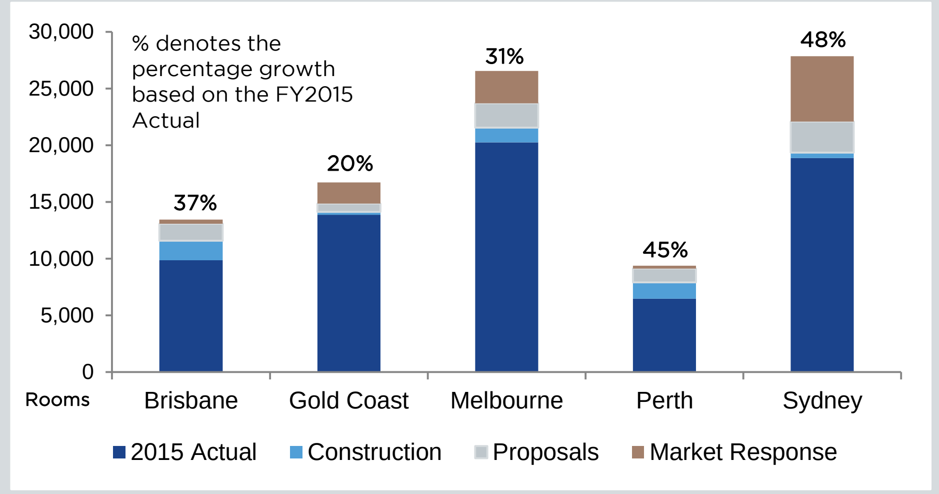


DRANSFIELD HOTELS & RESORTS

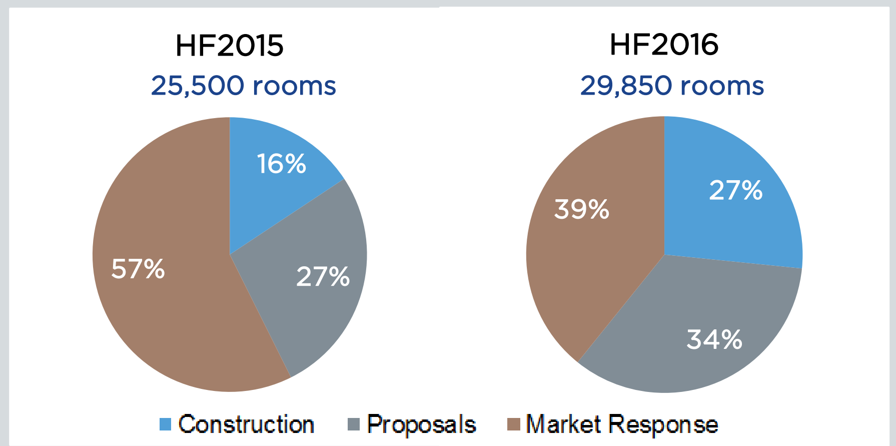
SUPPLY NATIONAL

- Development activity has continued to flourish since the release of Hotel Futures 2015 with much needed supply progressing and becoming more certain
- As we move through the development cycle, projects have progressed from proposals into the construction phase, and those evolved proposals have been replaced by new proposals. The general outlook for market performance has improved as a result of improved optimism on the demand front, which has in turn led to an increase in our Market Response allowances and total supply forecast
- On a national level, and despite the increased expectations, the forecast remains that there is considerable scope for further development required to satisfy demand growth over the long term. Should Market Response not eventuate, there is performance upside potential for rate and RevPAR in some cities
  - Live hotel projects in construction or proposed make up the majority (61%) of forecast new rooms to FY2023, up from 43% in HF2015
- Refurbishment activity has also been prominent over the last 12-18 months. This theme is expected to continue over the medium term and, in conjunction with new supply, continues to increase the general level of quality nationwide
  - Refurbishment has been particularly prominent in destinations where the development trigger, which is generally considered to be occupancy of 70%+ in leisure destinations and 75%+ in Major Capital Cities, has not yet been reached
  - As a result of the increasing general level of quality, older and tired stock may feel increased pressures to either refurbish/reposition or move to alternate use

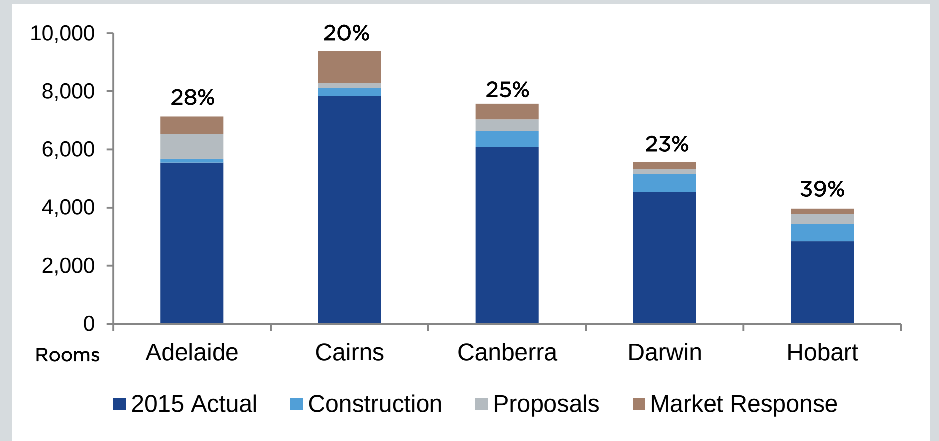
MAJOR CITY FORECAST SUPPLY GROWTH BY TYPE FY2016-2024



SUPPLY BY TYPE COMPARISON - HF2015 vs HF2016: FY2016 to FY2023



MAJOR CITY FORECAST SUPPLY GROWTH BY TYPE FY2016-2024



DRANSFIELD HOTELS & RESORTS

DEMAND TFC FORECASTS

Tourism Research Australia's long term visitor night forecast to FY2025 has been upgraded. Average annual growth of 3.8% p.a now expected compared to 3.3% in the prior forecast, from a higher base. This is led by a significant domestic upgrade, and followed robust growth of 7.1% in FY2015

TFC Domestic Forecasts

Domestic visitor night forecasts to FY2023 have been substantially upgraded with growth expectations of 2.9% p.a, compared to 0.7% previously

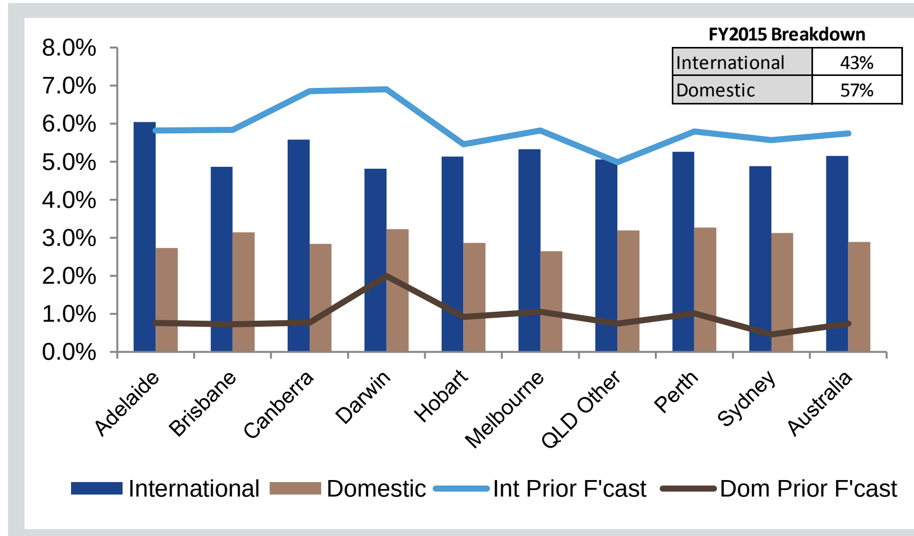
- In FY2015 domestic visitor night growth of 6.2% significantly outperformed 0.8% expectations
- Total domestic visitor nights are now expected to reach 394M by 2023 (previously 308M)
- Long term domestic visitor night forecasts in HMGSA have also been significantly upgraded, with annual average growth of 3.0% expected, up from 1.1% in the prior forecast. Domestic visitor nights in HMGSA are now expected to reach 109.3M by FY2025 (103.8M to FY2023 vs previous expectations of 84.3M)
- The share of domestic nights spent in HMGSA has been slightly downgraded from 27.0% in the previous forecast for the period FY2015–FY2023, to 26.2% in this years update (FY2016-FY2025). Whilst this is a slight downgrade in percentage, this represents an absolute upgrade in net visitor numbers. In FY2023 the upgrade is relative to 4.3M additional visitor nights.

TFC International Forecasts

Long term international visitor night forecasts represent a slight downgrade with average annual growth of 5.2% expected to FY2023, compared to 5.7% previously

- In FY2015 international visitor nights increased by 8.3%, slightly below 9.2% expectations
- In FY2016 international visitor nights are forecast to grow a further 8.3% to 254M. For the same period, international visitors are expected to account for 26.0% of total visitor nights spent in HMGSA, slightly up on FY2015 actuals of 25.7%
- Asian visitors are expected to drive inbound growth in the medium term with China, India, South Korea, and Indonesia forecast to achieve the most significant growth levels
- China's share of total visitors is expected to increase to 18.4% by FY2025, up from 13.1% in FY2015. China will overtake New Zealand as Australia's largest international market by arrivals in FY2020

TFC FORECAST MOVEMENT – Long Term to FY2023



Source: TFC

Outbound Travel Forecasts.

- Following strong recent growth, FY2015 displayed slower outbound growth of 2.9%, well below 4.3% expectations, and recent experience
- The TFC have forecast a 3.2% increase in short term departures for FY2016 revised down 0.2 points. Current figures are outperforming expectations with short term departures for the YTD (8 months to February 2016) recording a 4.3% uplift on the prior corresponding period
- The 10 year forecast to FY2025 has been downgraded 0.5 points to 3.3% average growth p.a
- Tempered growth levels are forecast to stretch over the medium term as the weak $AUD continues to have a dampening affect on outbound travel

ARRIVALS AND DEPARTURES

In FY2015, 6.9% growth in international arrivals was recorded following robust growth of 7.9% in the prior year. The 8 months to February 2016 has continued in the same vein

Visitor Arrivals

- International arrivals increased 6.9% in FY2015, following decade high growth of 7.9% in the prior year
- All but 1 month experienced growth, with 3 months in double digits
- The increase in visitor arrivals in FY2015 enabled a higher 8.3% increase in visitor nights spent in Australia due to slightly longer average stay
- Leisure travel continued to underpin growth in international visitation with 58% of people traveling for this reason. Leisure based travel grew 6.4% for the year
- Growth has continued in the new financial year with a 9.7% increase on the prior corresponding period (8 months to February 2016)
- The top 5 markets, by visitor numbers, continue to deliver robust growth (YE December 2015):

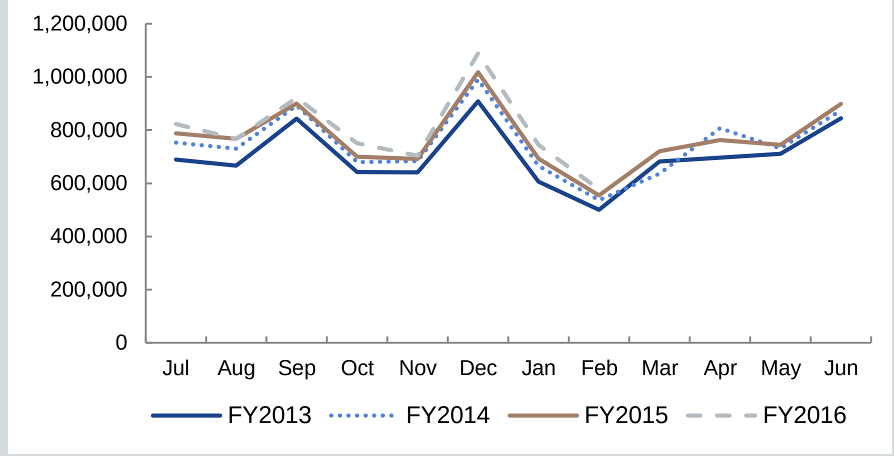
  - China 21% - UK 6% - US 10% - New Zealand 5% - Singapore 6%
- The improved value of $AUD will continue to drive inflated visitor arrivals over the medium term

Resident Departures

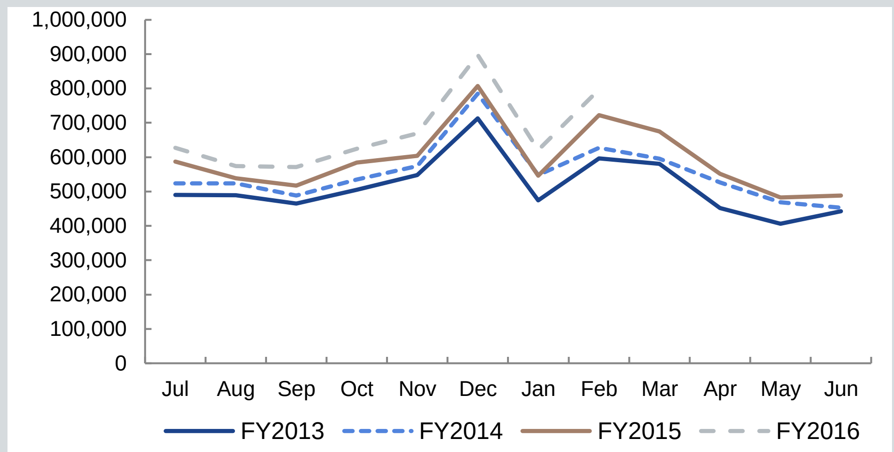
- In FY2015, domestic departures slowed, increasing just 2.9%, following 6.5% growth in the previous year, as holiday makers chose to travel domestically, in the environment of a devalued $AUD
- 11 of the 12 months recorded period on period growth, although at much lower levels than the previous 5 years
- Holiday makers made up 58% of all outbound departures
- Modest TFC growth forecasts for a 3.2% increase to 9.5 million departures in FY2016 are likely to be outpaced, with resident departure growth for the YTD (8 months to February 2016) trending above expectations and recording a 4.3% uplift on the prior corresponding period

Source: ABS, TRA National and International Visitor Survey YE Dec 2015, TRA Outbound Tourism Statistics YE June 2015

RESIDENT DEPARTURES – SHORT TERM LESS THAN 1 YEAR



INTERNATIONAL VISITOR ARRIVALS TO AUSTRALIA



DRANSFIELD HOTELS & RESORTS

DEMAND DRANSFIELD OUTLOOK

Dransfield demand forecasts have been upgraded. A significant upgrade to TFC's domestic visitor forecasts has more than offset a slight reduction in international visitor expectations. Our forecast is for long term average annual growth of 3.7% compared to 3.5% previously

National Demand FY2015

Actual demand growth recorded in the area captured by Hotel Futures for FY2015 was considerably impacted by a change in the ABS supply base. Calculated changes are not reliable when viewed independently.

- The ABS regions recorded a 10.4% increase in hotel demand, which is relative to a 10.1% increase in supply
- Occupancy levels increased 0.2 points to 76.8%, in line with our Hotel Futures 2015 expectation, suggesting demand growth, when analysed on a like for like basis, was in the vicinity of 2-3%
- Tourism Research Australia recorded a 7.1% increase in total visitor nights across Australia in FY2015, however these are do not directly translate to nights spent in paid accommodation
  - International visitor nights grew 8.3% to 234.9M
  - Domestic visitor nights grew 6.2% to 313.3M

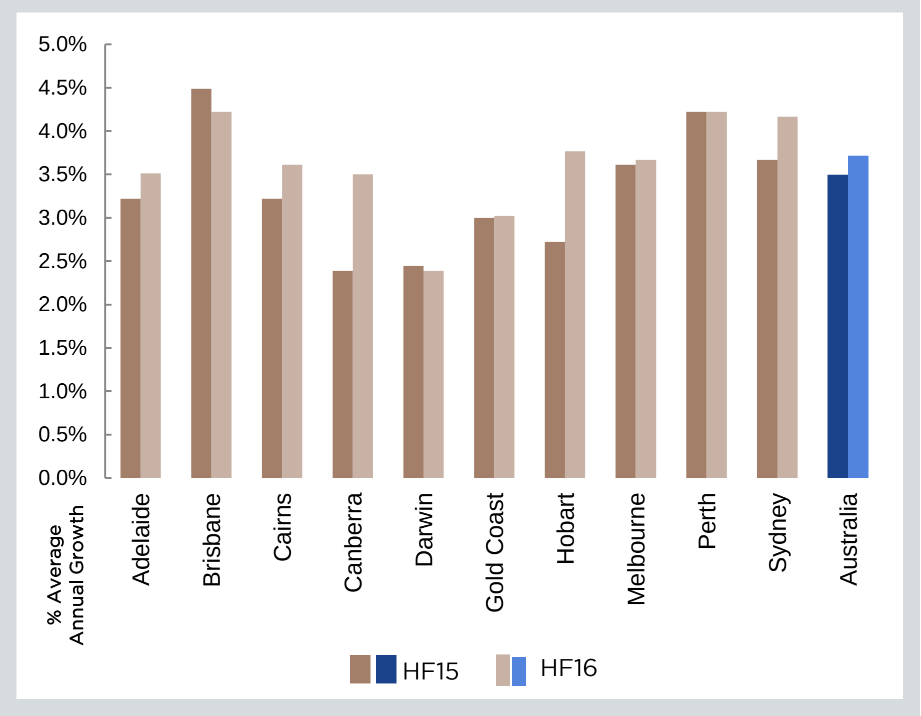
Dransfield National Demand Forecast

Hotel Futures 2016 long term demand forecast is for average growth of 3.7% p.a, which is a slight upgrade from the 3.5% previously expected, constrained by short and medium term supply

Significant upgrades to the Tourism Forecasting Committees' visitor night forecasts, the favourable repositioning of the $AUD and some minor easing of capacity constraints in key gateway cities have led to the demand upgrade

- We expect demand to increase by 2.2% in FY2016 slightly below prior expectations of 3.3% as resource centric cities experience further softening
- Medium term demand growth is expected to average 3.3% p.a, and is slightly below prior expectations due to delayed supply constraining growth in major cities and downgrades to resource orientated markets
- Long term growth forecast of 3.7% p.a. is slightly above prior expectations, enabled by increased supply

DRANSFIELD NATIONAL LONG TERM DEMAND FORECAST



DRANSFIELD HOTELS & RESORTS

ADELAIDE REGIONS – JUNE 2015

	Establishments	Rooms	RevPAR
Adelaide City	42	5,247	$108.13
ADELAIDE TOURISM REGION			
Hotels	36	4,457	$112.45
Motels	48	1,841	$72.08
Serviced Apartments	23	1,688	$100.72
Total	**107**	**7,986**	**$100.66**
STAR GRADING			
Luxury	7	n.p.	n.p.
Up-Scale	43	4,286	$106.57
Mid-Scale	43	1,722	$70.36
Budget	14	n.p.	n.p.
Total	**107**	**7,986**	**$100.66**

FY2015 YEAR IN REVIEW

	FORECAST 2015	ACTUAL 2015	Var	
RevPAR	-3.1%	-1.5%	1.6%	▲
Supply	9.9%	20.7%	10.8%	▲
Demand	5.0%	14.4%	9.4%	▲
Occupancy	74.4%	73.8%	-0.6%	▼
ARR	1.5%	4.0%	2.5%	▲

FY2015 saw a slight reduction in revenue as anticipated though surprisingly rate not only held, it increased

FY2015 Year In Review

- In FY2015 Adelaide hotels recorded a small 1.5% RevPAR decline as new supply was not fully absorbed. The minor market contraction outperformed poor expectations for further market decline of 3.1% as rates actually improved. The change to ABS datasets had a large impact on reported results
  - Occupancy levels contracted 4.1 points to 73.8%, largely in line with expectations
  - Rates grew 4.0%, well above our 1.5% expectation despite the negative supply and demand equation
- The STR sample of higher quality, larger hotels performed marginally better than ABS data, recording lesser RevPAR decline of 0.9% from greater occupancy preservation
- Preliminary STR data for FY2016 YTD (April 2016) indicates that market decline has continued as occupancy levels continue to slowly decrease

Demand Driver Analysis

As upgrades to the convention centre and Adelaide Oval continue to benefit the hotel market, further proposed upgrades at the casino precinct and other public spaces will be required to sustain momentum and growth

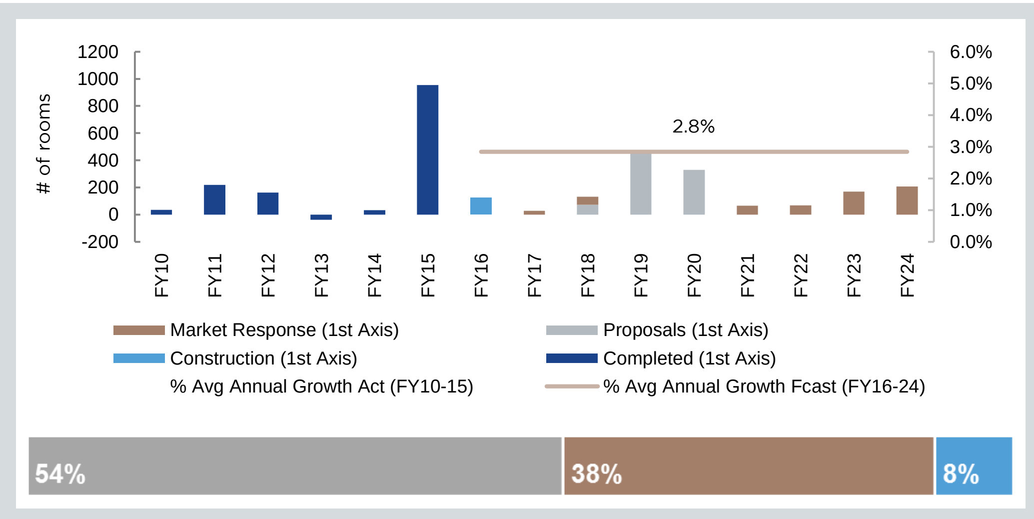
- In FY2015, ABS statistics recorded a 14.4% increase in room night demand. This was largely affected by the ABS supply base increase. Dransfield estimate actual demand growth of approximately 5% which did not fully absorb actual supply growth
- Considerable contractions in both domestic and international visitor nights in FY2015 sees visitor forecasts start from a much lower base. Improved growth expectations however, brought about by stronger domestic travel, should see long term net visitors largely inline with previous expectations
- City data for FY2015 for Adelaide reveals:-
  - International visitor nights decreased by 6.4% to 7.4 nights
  - Domestic visitor nights decreased 13.3% to 7.5M nights
  - Total visitor nights decreased by 10.0% to 14.9M nights, however nights spent in hotels actually increased
- In FY2015 Adelaide hotel's domestic visitor night content decreased to 74.9% from 75.7%
- The TFC forecasts for Adelaide for the period to FY2023 have been upgraded to average growth of 4.5% p.a compared to 3.6% previously, although represent a slightly lower absolute value based on a much lower starting point :-
  - Annual domestic visitor night growth of 2.7% vs. 0.8% previously
  - Annual international visitor night growth of 6.0% vs. 5.8% previously

Dransfield Demand Forecast

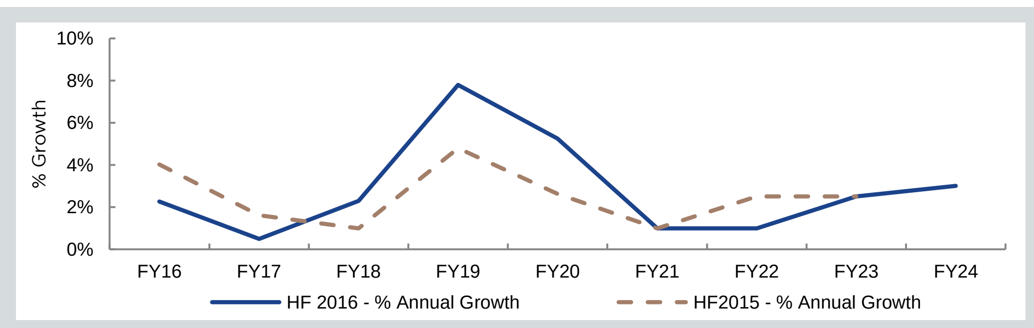
- Annual demand growth of 3.5% is expected over the long term which is an upgrade to the prior forecast when analysed on a like for like basis. Supply additions through the middle of the forecast will enable additional growth
  - We expect a slight demand increase of 0.5% in FY2016 which is below supply growth expectations
  - Medium term demand growth to FY2018 is expected to average 2.8% p.a, representing a downgrade from previous expectations as FY2016 underperforms
  - Long term growth to FY2023 of 3.5%,excluding the ABS data change, realises a small 117,000 night absolute upgrade to prior forecast. This is a 6.7% increase on the prior forecast FY2023 figure
  - Domestic travel upgrades influenced by the repositioning of the $AUD will benefit Adelaide as Australian tourists look for alternate destinations

Adelaide supply has evolved, with previous expectations for new rooms being met with a slight overall increase and perhaps matched by improved demand growth expectations

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015 the ABS survey recorded a 20.7% increase (953 rooms) in rooms, which was significantly affected by a change in the ABS supply base calculation. The ABS data break included 13 additional short term accommodation properties across South Australia
- Actual organic supply growth for FY2015 has been estimated to account for approximately 500 rooms, which is equivalent to a large 11% supply increase
- The majority of supply growth through FY2015 was made up of hotels which opened at the back end of FY2014. For some of these hotels we have only attributed part of the stock for FY2015, based on the days of the year actually available. The balance of these rooms will be included in FY2016
- Over the last decade, excluding FY2015, supply growth has been minor, averaging just 0.6% p.a. Forecasts for increased supply levels will enable further demand growth however absorption rates are uncertain

Supply Forecasts

- Supply forecast to FY2023 represent a small absolute increase, despite representing a lower average annual growth rate due to the increase to the base
- Dransfield's supply forecast is for 1,600 new rooms to enter the market over the next 9 years (28% of current stock) at an average annual growth rate of 2.8%
  - Growth is concentrated through the middle of the forecast, (FY2019-20) as new, well backed proposals have come to light
  - We expect supply to be fully absorbed over the life of the forecast
  - Supply growth in the medium term to FY2018 is expected to average a low 1.7% p.a. (285 rooms) and will allow the market to consolidate on robust visitor expectations and improve market occupancy before the next wave of supply comes online through FY2019-20
  - Expected supply in the pipeline is focused towards larger scale properties of 200 rooms plus
  - The pipeline includes a diverse range of mix and quality, led by several luxury/ 5 star properties. The question for the Adelaide luxury hotel space is the ability to generate high rates in the typically low rate Adelaide environment

Supply Cycle Comparison

- Long term supply forecasts have received a minor increase of 250 rooms, representing a small uplift of 0.5% p.a which is below the increase in incremental demand expectations

DRANSFIELD HOTELS & RESORTS

Long term RevPAR expectations are for average 3.6% growth with higher 3.9% in the medium term. Slight downgrade off a lower base and lower FY2016 with an increase in mid term supply. No more rooms please

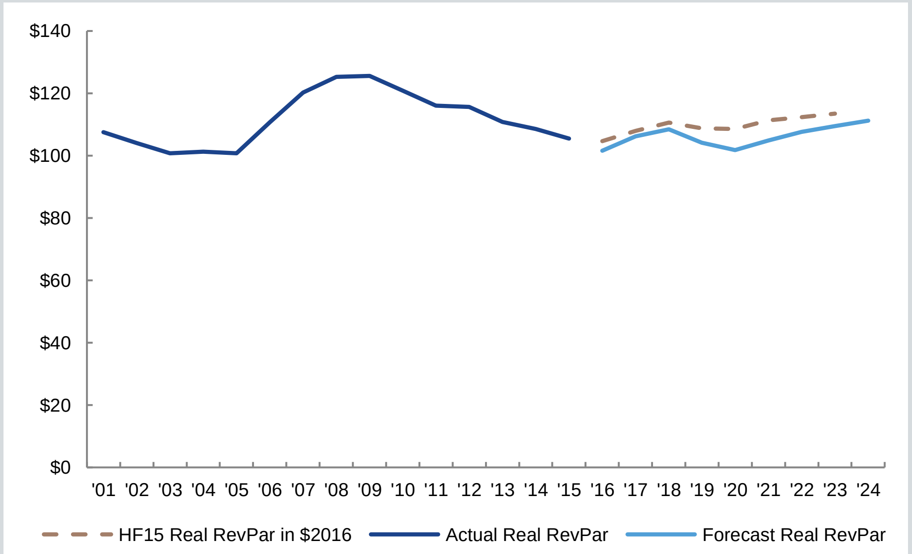
- The identified pipeline has infilled, increasing to 1,000 rooms compared with 350 previously, with much lower probability of proposal completion
  - The new forecast represents an increase in identified project numbers to 9 from 6 with the majority of rooms in the proposal stage with completion risk
  - Construction activity has remained in line with prior expectations
  - Proposal activity has increased and now consists of 7 projects and 850 rooms which we estimate as having a 60% prospect of delivery compared with 200 rooms and 50% previously. We have increased the percentage probability of completion as many of the proposed hotels have capable proponents involved
- Over the next 6 years, live construction and proposals represent 87% of the forecast supply pipeline and is below demand growth expectations for the corresponding period (3.0% vs 4.0%). Market Response in this period totals a low 150 rooms and 13% of supply assumed in the forecast
- Market Response for the full forecast allows for an additional 600 rooms above identified projects
  - This represents a decrease responding to the uplift in identified projects
  - Market Response to FY2023 now accounts for 28% of all new supply compared with 69% in the prior forecast

Conclusion

- The Adelaide forecast is a small absolute downgrade from a lower base as occupancy expectations are slightly reduced, affecting rate
- RevPAR contraction has continued over the first 3 quarters of FY2016, led by occupancy
- Over the period of the forecast, average occupancy expectations of 75.8% are slightly below prior 76.6% expectations
  - Occupancy levels over the medium term should recover above FY2015 levels before weakening through the middle of the forecast with the addition of meaningful supply
  - Limited supply growth coupled with maintaining demand growth over the latter stages of the forecast should see occupancy improve back above 75%
- Rate growth expectations for the forecast period have been reduced to 2.9% p.a
  - Adelaide hotels low rate regime (typically one of the country's lowest rate yielding cities) should persist as the market looks to absorb additional supply over the medium to long term
- Our forecast is for decreased long term average Real RevPAR of 3.8%

- RevPAR growth to FY2023 is a slight downgrade to prior forecast but still represents healthy growth of 3.5% p.a compared to the previous 4.1%
  - In FY2016, RevPAR is expected to decrease 1.2%, which is well below prior expectations for 3.5% growth as demand growth has not eventuated
  - In the medium term to FY2018 RevPAR is expected to consolidate with strong growth averaging 3.9% p.a. for the period. Low levels of new supply coupled with robust demand expectations will facilitate rate growth
  - RevPAR growth for the full forecast period is expected to average 3.6% p.a. Strong demand growth expectations are the catalyst for sustained and robust long term performance

ADELAIDE CITY REAL REVPAR



DRANSFIELD HOTELS & RESORTS

Long term RevPAR expectations are for average 3.6% growth with higher 3.9% in the medium term. Slight downgrade off a lower base and lower FY2016 with an increase in mid term supply. No more rooms please

ADELAIDE CITY – HOTELS, MOTELS AND SERVICE APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	3,518	2.3%	1.2%	$109.34	-2.9%	$74.51	-3.9%	$107.54	68.1%
FY2002	3,691	4.9%	3.4%	$110.38	0.9%	$74.09	-0.6%	$103.99	67.1%
FY2003	4,152	12.5%	10.8%	$111.54	1.1%	$73.74	-0.5%	$100.79	66.1%
FY2004	4,325	4.2%	4.7%	$114.23	2.4%	$75.91	2.9%	$101.24	66.4%
FY2005	4,451	2.9%	7.1%	$112.02	-1.9%	$77.43	2.0%	$100.77	69.1%
FY2006	4,276	-3.9%	3.6%	$118.67	5.9%	$88.43	14.2%	$110.68	74.5%
FY2007	4,159	-2.7%	1.3%	$126.29	6.4%	$98.06	10.9%	$120.23	77.6%
FY2008	4,147	-0.3%	-0.3%	$137.49	8.9%	$106.71	8.8%	$125.21	77.6%
FY2009	4,186	0.9%	-0.9%	$142.43	3.6%	$108.56	1.7%	$125.54	76.2%
FY2010	4,220	0.8%	1.7%	$140.07	-1.7%	$107.73	-0.8%	$120.89	76.9%
FY2011	4,439	5.2%	3.0%	$142.34	1.6%	$107.15	-0.5%	$116.06	75.3%
FY2012	4,602	3.7%	3.0%	$144.34	1.4%	$107.97	0.8%	$115.59	74.8%
FY2013	4,564	-0.8%	-0.6%	$141.48	-2.0%	$106.03	-1.8%	$110.85	74.9%
FY2014	4,597	0.7%	4.7%	$137.34	-2.9%	$106.97	0.9%	$108.58	77.9%
FY2015	5,550	20.7%	14.4%	$142.82	4.0%	$105.42	-1.5%	$105.42	73.8%
Actual Avg FY 2001 - 2015		**3.4%**	**3.8%**		**1.7%**		**2.2%**		**73.1%**
Avg FY 11-15		**5.9%**	**4.9%**		**0.4%**		**-0.4%**	**$111.30**	**75.3%**
Avg FY 12-15		**6.9%**	**6.2%**		**-0.3%**		**-0.8%**	**$108.28**	**75.6%**

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	5,676	2.3%	0.5%	$143.53	0.5%	$104.13	-1.2%	$101.59	72.5%
FY2017	5,704	0.5%	4.0%	$148.56	3.5%	$111.52	7.1%	$106.15	75.1%
FY2018	5,835	2.3%	4.0%	$154.50	4.0%	$117.92	5.7%	$108.44	76.3%
Avg FY 16-18		**1.7%**	**2.8%**		**2.7%**		**3.9%**	**$105.39**	**74.6%**
FY2019	6,290	7.8%	5.0%	$156.82	1.5%	$116.58	-1.1%	$104.09	74.3%
FY2020	6,621	5.3%	5.0%	$158.39	1.0%	$117.46	0.8%	$101.82	74.2%
FY2021	6,687	1.0%	3.5%	$163.93	3.5%	$124.58	6.1%	$104.85	76.0%
FY2022	6,754	1.0%	3.2%	$169.67	3.5%	$131.75	5.8%	$107.65	77.7%
FY2023	6,923	2.5%	3.2%	$176.45	4.0%	$137.96	4.7%	$109.44	78.2%
FY2024	7,130	3.0%	3.2%	$184.39	4.5%	$144.44	4.7%	$111.25	78.3%
Avg FY19-24		**3.4%**	**3.9%**		**3.0%**		**3.5%**	**$106.52**	**76.4%**
Total Forecast Avg FY 2016-2024		**2.8%**	**3.5%**		**2.9%**		**3.6%**	**$106.14**	**75.8%**

COMPARISON HF2015 vs HF2016 – Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	6,157	2.5%	3.0%	$184.44	3.6%	$142.66	4.1%	$109.71	76.6%
HF2016	6,923	2.8%	3.6%	$176.45	2.7%	$137.96	3.5%	$105.50	75.5%

FY2015 RevPAR was neutral, performing as expected however FY2016 will see a large decline as the impact of the G20 reverses and new supply is not absorbed

BRISBANE REGIONS – JUNE 2015

	Est	Rooms	RevPAR
Brisbane City Core	85	10,196	$111.75
BRISBANE TOURISM REGION			
Hotels	43	5,603	$131.85
Motels	95	4,104	$86.64
Serviced Apartments	82	6,155	$110.85
Total	**220**	**15,862**	**$111.98**
STAR GRADING			
Luxury	7	1,409	$182.97
Up-Scale	104	10,157	$117.51
Mid-Scale	99	3,936	$76.70
Budget	10	360	$64.02
Total	**220**	**15,862**	**$111.98**

FY2015 YEAR IN REVIEW

Excludes Fortitude Valley

	FORECAST 2015	ACTUAL 2015	Var	
RevPAR	0.3%	0.1%	-0.2%	▼
Supply	8.9%	20.6%	11.7%	▲
Demand	5.0%	18.8%	13.8%	▲
Occupancy	72.6%	74.1%	1.6%	▲
ARR	4.0%	1.6%	-2.4%	▼

FY2015 Year in Review

- In FY2015 Brisbane hotels recorded negligible 0.1% RevPAR growth, in line with expectations, as demand steadied following two straight years of contraction. The growth appears to have been augmented by extreme revenue fundamentals experienced through the G20 summit which is likely to unwind in FY2016.
  - Occupancy fell 1.1 points to 74.1%, outperforming expectations of 72.6% for the year
  - New openings coupled with refurbishments have increased the general quality of hotels in Brisbane, creating upward pressure on rate. Hoteliers took advantage with a 1.6% increase in ARR
- Reported performance was affected by a change to the ABS supply base which included a significant amount of previously overlooked supply. This has made measuring growth relative to the prior year unreliable
- The STR sample of higher quality hotels displayed stronger rate driven RevPAR growth of 1.8%, similarly constrained by a slight fall in occupancy
- Preliminary STR data for FY2016 (YTD April 2016) indicates that FY2016 will deliver a substantial RevPAR decline. Occupancy contraction has had a pronounced effect on rate, leading to high double digit RevPAR decline

In Hotel Futures 2016 we have increased the Brisbane City forecast boundaries to include Fortitude Valley which consists of a pproximately 500 rooms as of FY2015. The decision to include the city fringe area was made following a noticeable increase in hotel development activity and the natural geographic growth of city limits in recent years

Demand Driver Analysis

The Government's commitment to destination development and infrastructure expansion will assist in diversifying Brisbane's demand base and reduce its reliance on resource related corporate activity, which will benefit the hotel market long term

- In FY2015, ABS statistics recorded an 18.8% increase in room night demand. This was largely the result of the ABS supply base increase. Dransfield estimate actual demand growth of approximately 7%. Demand growth was significant but below the substantial supply growth
- City data for FY2015 for Brisbane reveals:-
  - International visitor nights increased by 14.2% to 23M room nights
  - Domestic visitor nights increased by 4.7% to 17.3M nights
  - Total visitor nights increased by 9.9% to 40.3M nights
- In FY2015 Brisbane hotel's domestic visitor nights content decreased slightly to 70.8% from 71.3%
- The TFC forecasts for Brisbane for the period to FY2023 have been slightly increased to average growth of 4.0% p.a compared to 3.6% previously :-
  - Annual domestic visitor night growth of 3.1% vs. 0.7% previously
  - Annual international visitor night contracted to 4.9% vs. 5.8% previously

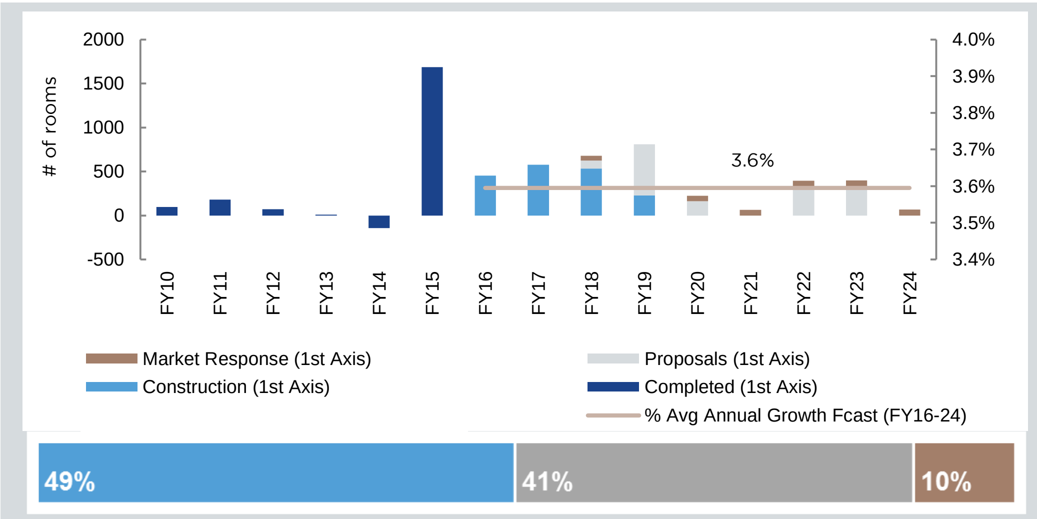
Dransfield Demand Forecast

- Annual demand growth of 4.2% p.a is expected over the long term which is a slight absolute upgrade to the prior forecast
  - We expect demand to be flat in FY2016 as the market resets following G20 summit induced demand
  - Medium term demand growth to FY2018 is expected to average 3.3% p.a, representing a downgrade from previous 5.7% p.a expectations, dragged by soft FY2016 forecasts and impacted by the higher ABS base
  - Long term growth to FY2023 of 4.2% p.a, excluding the ABS data change and on a like for like basis, realises a small 107,000 night absolute upgrade to prior forecasts. Comparative AUD strength should encourage both Domestic and International leisure travel to Brisbane. This is likely to be tempered by weakness in the State-wide economy limiting gateway travel to regional Queensland, particularly for mining infrastructure planning and development. Destination development, in particular the Queens Wharf project, should see demand growth improve through the medium to long term

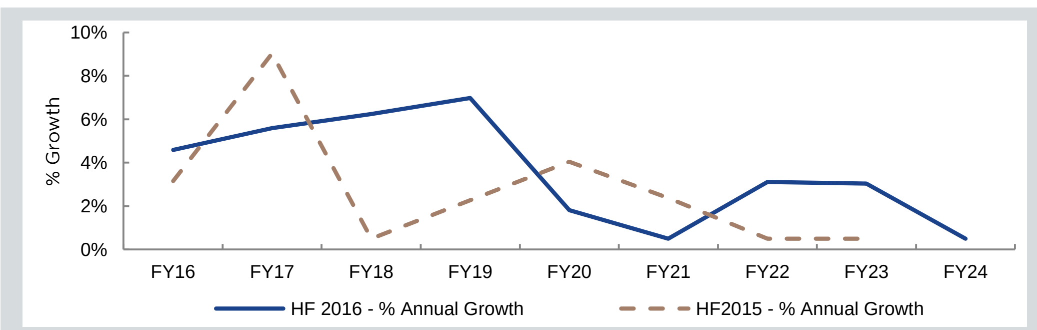
BRISBANE

The supply outlook has slightly increased and become more certain. The longer term outlook is for very few new projects as occupancy may drop below 70%

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015 the ABS survey recorded a 20.6% increase (1,686 rooms) in rooms, which was significantly affected by a change in the ABS supply base dataset. The ABS data break included 105 additional hotels in Queensland. We estimate approximately 6 of these (950 rooms) to have been included in our forecast boundaries
- Actual organic supply growth has been estimated to account for approximately 700 rooms which is equivalent to an 9% supply increase, and was the first year with supply growth above 2.5% since FY2009

Supply Forecasts

- Supply forecasts to FY2023 represent a small absolute increase over the prior forecast with slightly delayed timing
- Dransfield's supply forecast is for 3,650 new rooms to enter the market over the next 9 years to FY2024 (37% of current stock) at an average annual growth rate of 3.6%
  - The majority of supply is expected over the next 4 years and is unlikely to be fully absorbed over the medium term
  - There is a strong level level of diversity among the supply in the pipeline with a good mix of luxury, midscale and budget properties. With the general level of all tiers improving, there is a chance that older and tired stock, may fall out of the market as the operating environment becomes more competitive

Supply Cycle Comparison

- Long term supply forecasts have received a reasonable increase of 750 rooms representing an uplift of 0.6% p.a, and are concentrated in the short to medium term. This is in contrast to demand expectations which have reduced in the short term
  - The addition of Fortitude Valley in our forecast boundaries account for approximately 400 of these new rooms
- The identified live pipeline has infilled, increasing to 3,350 rooms compared with 2,400 previously, with slightly lower probability for completion
  - The new forecast represents an increase in identified project numbers to 18 from 12 previously with more than half in the construction phase. Some of these are located in the newly reported Fortitude Valley area
  - Construction activity has increased to 1,850 rooms, from 1,300 previously

DRANSFIELD HOTELS & RESORTS

Long term RevPAR expectations are for an average 3.2% p.a growth. A large market downgrade and poor medium term outlook as a poor FY2016 lowers the base which is compounded by continuous supply at a time of market vulnerability

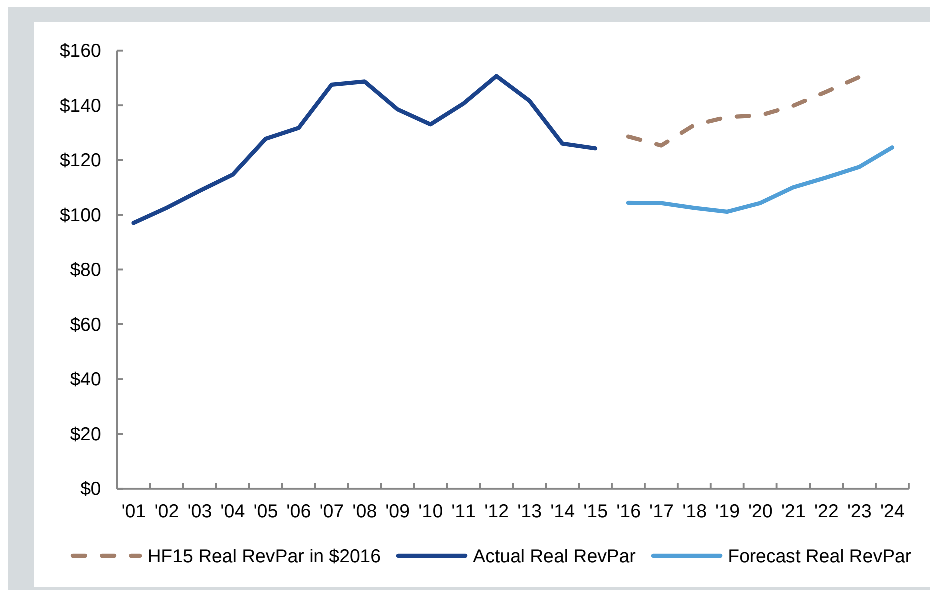
- Proposals now consist of 8 projects and 1,500 rooms to which we have applied a 63% estimated prospect of delivery compared with 1,100 rooms at 77% previously

- Over the next 6 years, live construction and proposals represent 93% of the forecast supply pipeline which is slightly below demand growth expectations for the corresponding period (4.2% vs 4.5%). Additional Market Response in this period is assumed at a very low 200 rooms and 7% of supply adopted in the forecast
- Market Response for the full forecast period allows for an additional 350 rooms above those already identified
  - This represents a decrease, responding to the uplift in construction and proposal activity
  - Market Response to FY2023 now accounts for just 9% of all new supply compared with 18% in the prior forecast

Conclusion

- The Brisbane forecast represents a considerable downgrade, as the effect of sustained supply additions over the medium term meets a weak local and regional economy. Occupancy and rate softness provide further downside risk
- RevPAR performance through the first 3 quarters of FY2016 has significantly deteriorated with substantial reductions in rate and to a lesser degree occupancies
- Over the period of the forecast, average occupancy expectations of 72.1% are below prior 76.6% expectations
  - Occupancy levels dipped below 75% for the first time in 12 years and are expected to follow a similar trend over the medium term as the supply cycle peaks and is not fully absorbed
  - The backend of the forecast is expected to see the beginning of recovery as sustained demand growth slowly absorbs rooms
- Rate growth expectations for the forecast period have been reduced to 2.4% p.a as market confidence levels continue to be tempered by state wide economic uncertainty and large supply increases. Downside risk is a possibility should demand growth not eventuate
  - Rates in FY2016 are expected to record double digit decline as new supply, coupled with flat demand force, hoteliers to compete for occupancy
  - Medium term rate growth is expected to see average decline of 1.3% which is largely affected by the forecast decline in FY2016
  - Long term rate growth excluding FY2016 is in line with prior expectations although from a lower base as the market cycle improves towards the back end of the forecast. The general quality of the Brisbane hotel market will be much improved following significant development and is expected to drive positive rate movement in the long term if matched with presently expected demand growth
- Our forecast is for reduced long term average Real RevPAR of 21.8% compared to previous expectations, influenced by much lower performance in FY2016
- RevPAR growth to FY2023 represents a substantial downgrade with average growth of 2.5% p.a compared to the previous 5.4%. Supply induced market uncertainty may impact rates short term
  - In FY2016, RevPAR is expected to decline a significant 14.0%, well below previous expectations for growth as the expected demand recovery is delayed and rate competition intensifies
  - In the medium term to FY2018, RevPAR is expected to decline by an average of 3.2% p.a though largely affected by FY2016. The short term decline is expected to recover through FY17 and FY18 with demand expected to bounce back.
  - The inclusion of high quality new supply over the next few years is expected to force older and tired stock out of the market over this period as it becomes increasingly difficult for sub standard properties to compete. This will have a strengthening effect on market fundamentals.
  - Average RevPAR growth of 3.2% p.a over the full forecast period is buoyed by a strong back end to the forecast. A supply cycle pause should see occupancy levels push towards 75% leading to more aggressive rate movements.

BRISBANE CITY REAL REVPAR



Long term RevPAR expectations are for an average 3.2% p.a growth. A large market downgrade and poor medium term outlook as a poor FY2016 lowers the base which is compounded by continuous supply at a time of market vulnerability

BRISBANE CITY CORE – HOTELS, MOTELS AND SERVICE APARTMENTS

ACTUAL – Dataset includes Fortitude Valley

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	6,359	-4.6%	3.8%	$98.87	-2.1%	$67.21	6.5%	$97.01	68.0%
FY2002	6,266	-1.5%	3.1%	$102.73	3.9%	$73.04	8.7%	$102.51	71.1%
FY2003	6,043	-3.6%	0.5%	$107.36	4.5%	$79.57	8.9%	$108.75	74.1%
FY2004	6,088	0.7%	5.8%	$110.53	3.0%	$86.00	8.1%	$114.70	77.8%
FY2005	6,255	2.7%	6.0%	$122.39	10.7%	$98.25	14.2%	$127.86	80.3%
FY2006	6,893	10.2%	9.3%	$131.26	7.2%	$104.53	6.4%	$130.83	79.6%
FY2007	7,235	5.0%	8.3%	$145.25	10.7%	$119.39	14.2%	$146.40	82.2%
FY2008	7,812	8.0%	5.4%	$156.62	7.8%	$125.70	5.3%	$147.48	80.3%
FY2009	8,404	7.6%	1.0%	$158.40	1.1%	$119.41	-5.0%	$138.09	75.4%
FY2010	8,500	1.1%	3.2%	$153.89	-2.8%	$118.39	-0.9%	$132.85	76.9%
FY2011	8,689	2.2%	4.6%	$165.19	7.3%	$129.98	9.8%	$140.79	78.7%
FY2012	8,763	0.9%	4.0%	$173.03	4.7%	$140.43	8.0%	$150.34	81.2%
FY2013	8,786	0.3%	-3.5%	$177.17	2.4%	$138.43	-1.4%	$144.72	78.1%
FY2014	8,636	-1.7%	-5.3%	$164.71	-7.0%	$123.96	-10.5%	$125.82	75.3%
FY2015	10,429	20.8%	18.4%	$167.94	2.0%	$123.96	0.0%	$123.96	73.8%
Actual Avg FY 2001 - 2015		**3.2%**	**4.3%**		**3.6%**		**4.8%**		**76.8%**
Avg FY 11-15		**4.5%**	**3.6%**		**1.9%**		**1.2%**	**$137.13**	**77.4%**
Avg FY 12-15		**6.4%**	**3.2%**		**-0.9%**		**-4.0%**	**$131.50**	**75.7%**

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	10,908	4.6%	0.0%	$151.14	-10.0%	$106.67	-14.0%	$104.06	70.6%
FY2017	11,517	5.6%	5.0%	$155.68	3.0%	$109.25	2.4%	$103.99	70.2%
FY2018	12,235	6.2%	5.0%	$160.35	3.0%	$111.22	1.8%	$102.28	69.4%
Avg FY 16-18		**5.5%**	**3.3%**		**-1.3%**		**-3.2%**	**$103.45**	**70.0%**
FY2019	13,088	7.0%	6.0%	$164.36	2.5%	$112.97	1.6%	$100.86	68.7%
FY2020	13,326	1.8%	4.0%	$170.93	4.0%	$120.00	6.2%	$104.02	70.2%
FY2021	13,393	0.5%	4.5%	$178.62	4.5%	$130.39	8.7%	$109.74	73.0%
FY2022	13,810	3.1%	4.5%	$187.55	5.0%	$138.75	6.4%	$113.37	74.0%
FY2023	14,230	3.0%	4.5%	$196.93	5.0%	$147.76	6.5%	$117.21	75.0%
FY2024	14,301	0.5%	4.5%	$206.78	5.0%	$161.32	9.2%	$124.25	78.0%
Avg FY19-24		**2.7%**	**4.7%**		**4.3%**		**6.4%**	**$111.58**	**73.2%**
Total Forecast Avg FY 2016-2024		**3.6%**	**4.2%**		**2.4%**		**3.2%**	**$108.87**	**72.1%**

COMPARISON* HF2015 vs HF2016 – Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	11,086	2.8%	4.4%	$229.26	3.7%	$189.05	5.4%	$136.74	77.1%
HF2016	14,230	4.0%	4.2%	$196.93	2.1%	$147.76	2.5%	$107.26	71.4%

* Comparison is for the forecast excluding Fortitude Valley

DRANSFIELD HOTELS & RESORTS

In FY2015 RevPAR growth of 4.0% was below 8.7% expectations as demand growth did not eventuate in line with expectations. Large branded hotels significantly outperformed reported average market growth. This trend appears to have rectified in FY2016 with preliminary figures displaying strong occupancy and rate growth

CAIRNS REGIONS – JUNE 2015

	Establishments	Rooms	RevPAR
Cairns	63	5,341	$80.75
Port Douglas	49	2,535	$92.14
Cairns & Port Douglas	112	7,876	$86.45
Tropical North Queensland			
Hotels	39	4,023	$80.87
Motels	64	3,255	$64.87
Serviced Apartments	88	4,045	$88.90
Total	**191**	**11,323**	**$79.14**

FY2015 YEAR IN REVIEW

	FORECAST 2015	ACTUAL 2015	Var	
RevPAR	8.7%	4.0%	-4.7%	▼
Supply	0.0%	2.9%	2.9%	▲
Demand	4.0%	2.4%	-1.6%	▼
Occupancy	67.8%	64.9%	-2.9%	▼
ARR	4.5%	4.5%	0.0%	▲

FY2015 Year in Review

- In FY2015 Cairns hotels recorded RevPAR growth of 4.0% marking the 5th consecutive year of growth, driven by increases in both demand and rate. The positive results were slightly below robust 8.7% expectations. Reported performance was influenced by a change in the ABS supply base which has diluted performance growth
  - Occupancy levels were largely maintained, recording a negligible 0.3 point decline to 64.9%
  - Rates grew by a healthy 4.5%, in line with expectations, and are forecast to continue to strengthen with the general quality of products increasing through refurbishment to many existing hotels
- The STR sample for Cairns, of generally higher quality hotels, recorded significantly stronger fundamentals with RevAR growth of 11.7%, suggesting that larger branded properties are performing well above the market as a whole. A tiered market continues to emerge
- Preliminary STR data for FY2016 (April 2016) indicates that performance has continued to strengthen. Occupancy and to a lesser degree rate, have improved resulting in strong growth in FY2016

Demand Driver Analysis

The repositioning of the AUD is expected to generously benefit the Cairns and Port Douglas tourism market as leisure visitors seek to maximise their tourist dollar. Domestic visitors are expected to be the primary growth market

- FY2015 demand for Cairns/Port Douglas hotels increased by 2.4%, slightly below 4.0% expectations
- City data for FY2015 for Tropical North Queensland reveals:-
  - International visitor nights increased by 9.1% to 6.8M nights
  - Domestic visitor nights grew by 3% to 9M nights
  - Total visitor nights increased by 5.6% to 15.8M nights however this did not translate to hotel demand
- In FY2015 Cairns hotel's domestic visitor nights content decreased to 63.5% from 65.4%
- The TFC forecasts for Queensland, excluding Brisbane, for the period to FY2023 have been upgraded to average growth of 3.7% p.a compared to 2.1% previously :-
  - Annual domestic visitor night growth of 3.2% vs. 0.7% previously
  - Annual international visitor night growth of 5.1% and in line with previous forecasts

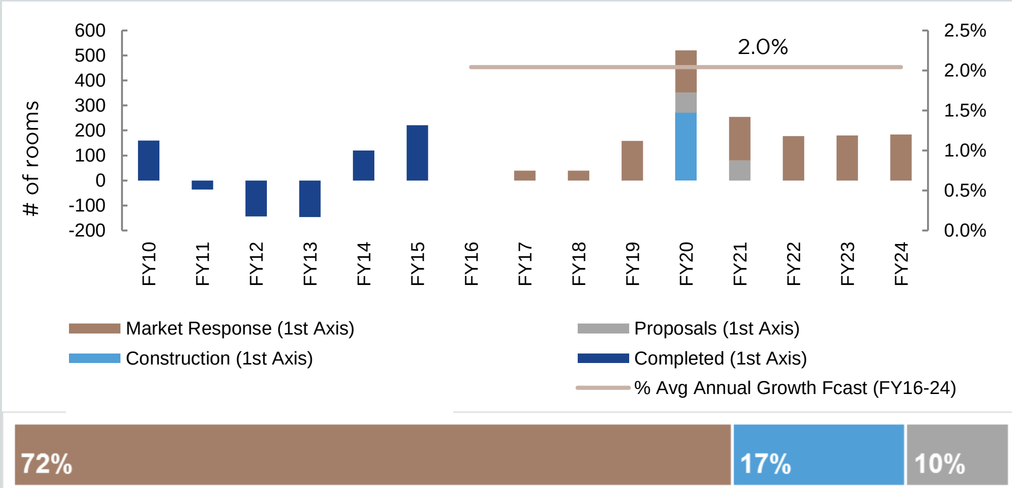
Dransfield Demand Forecast

- Annual demand growth of 3.6% is expected over the long term which is a slight absolute upgrade to the prior forecast
  - We expect demand to increase 5% in FY2016, the largest single year movement of the past 15 years
  - Medium term demand growth to FY2018 is expected to average 4.3% p.a, representing an upgrade from previous 3.5% expectations as the repositioning of the AUD aids leisure based demand. Expansion of air services particularly from Asia and domestic hubs have facilitated access
  - Long term growth to FY2023 of 3.6% pa, excluding the ABS data change, realises a small 28,000 night absolute upgrade to prior forecasts
  - Should the Aquis Casino Resort at Yorkey's Knob go ahead as outlined, the entire supply & demand environment will be redefined. At this stage we anticipate a significantly scaled back scheme to be more likely to proceed than the proposed 7,500 room scheme, if at all.

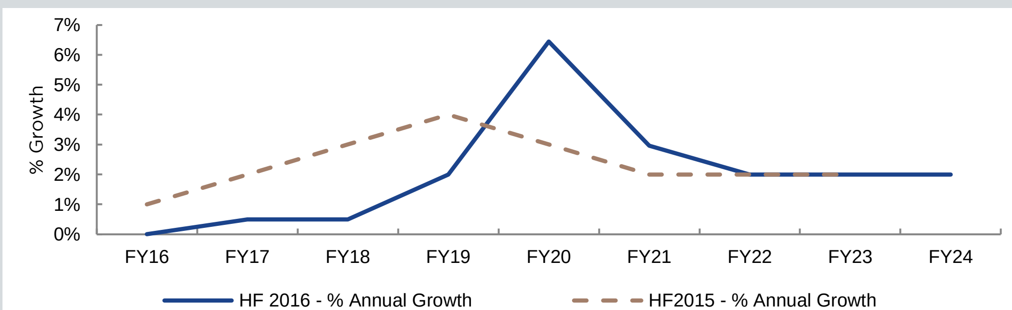
CAIRNS & PORT DOUGLAS

Despite strong growth forecasts, new development feasibility is unlikely due to low rates and moderate occupancy. Refurbishment is more likely to take precedence. Development activity should emerge over the medium to long term following strong expected performance

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015 the ABS supply survey recorded a 2.9% increase (221 rooms) in rooms which largely appear related to the change in the ABS base dataset
- In this market, private dwellings/available for rent (Stayz or Air BNB) are new additional competition for the region's traditional short term accommodation and will absorb a small portion of visitor night demand which may have typically stayed in paid accommodation

Supply Forecasts

- Supply forecasts to FY2023 represent a small absolute downgrade, with delays appearing as Market Response hasn't occurred
- Dransfield's supply forecast is for 1,550 new rooms to enter the market over the next 9 years (20% of current stock) at an average annual growth rate of a low 2.0%
  - We expect the low level of anticipated supply to be fully absorbed over the life of the forecast, and for the development trigger (70% + Occupancy) to switch on towards the middle of the forecast
  - The potential large scale Aquis project will also inhibit developers from undertaking scoping exercises until more certainty is reached
- Supply growth in the medium term to FY2018 is expected to average a low 0.3% growth p.a (just 79 rooms)
  - Proposal activity has slowly started to recommence as market performance improves and occupancies edge towards 70%. At this stage most proposal activity appears in its infancy
  - The tiered nature of the market, with large and branded properties substantially outperforming smaller independents may cause some of these smaller properties to fall out of the marker as new supply comes online increasing the competitive environment

Supply Cycle Comparison

- Long term supply forecasts have received a minor decrease of 200 rooms, representing a small downgrade of 0.2% p.a. Incremental demand expectations have increased over the same period
- The identified live pipeline has infilled, increasing to 3 projects and 450 rooms compared with zero previously
  - The forecast remains that there is not substantial new supply. There is one project in the early stages of construction which is a redevelopment of an existing hotel. Total additional rooms in construction amount to 271
  - Live proposal numbers have increased to 2 projects and 400 rooms representing a 100% increase to the prior forecast. We assume a 40% prospect of delivery

CAIRNS & PORT DOUGLAS

Long term RevPAR expectations are for average 5.3% growth, inline with prior expectations. Cairns and Port Douglas should experience a significant market upswing over the medium term as demand pushes occupancy well above decade long averages

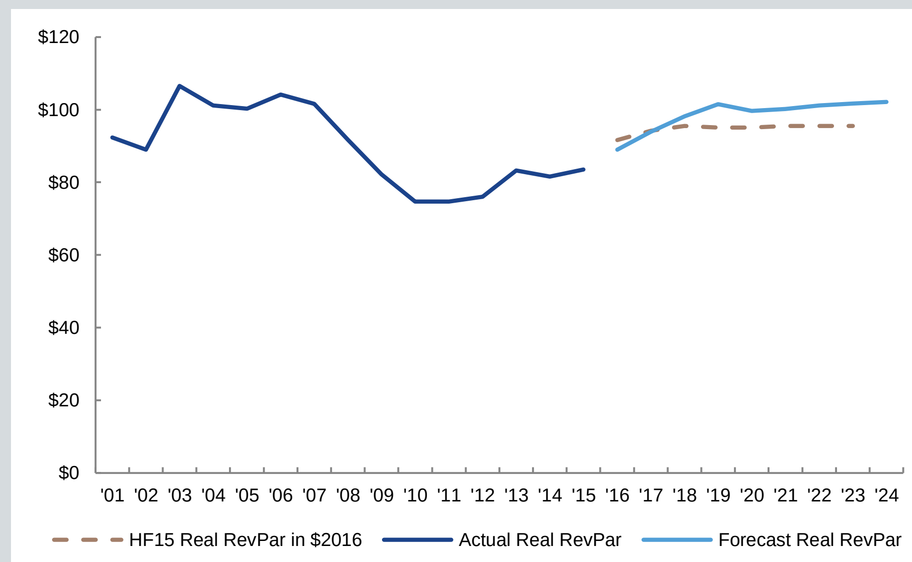
- Over the next 6 years, live construction and proposals represent 43% of the forecast supply pipeline and is well below demand growth expectations for the corresponding period (0.9% vs 4.4%). Market Response in this period has been assumed as 600 rooms and 57% of supply assumed in the forecast
- Market Response for the full forecast allows for an additional 950 rooms
  - This represents a decrease, responding to movement of projects into the construction and proposal stage
  - Market Response to FY2023 now accounts for 68% of all new supply, compared with 100% in the prior forecast and will be highly dependent on the status of the Aquis Yorkies Knob Resort development

Conclusion

- The Cairns & Port Douglas forecast represents a small upgrade on an already robust forecast as leisure demand improves in an environment of minimal supply growth
  - In the first half of FY2016 both domestic and international demand appears to have followed strong growth expectations. The level of rate claiming is also trending in line with full year expectations
- Over the period of the forecast, average occupancy expectations averaging 72.7% are above prior expectations
  - Occupancy levels which dipped slightly in FY2015 are expected to rebound strongly through the medium term as demand growth outpaces extremely low levels of supply
  - Longer term occupancy will be highly sensitive to any major development at the Yorkeys Knob Aquis site
- Rate growth expectations for the forecast period have been slightly increased with 3.7% p.a. expected compared to 3.3% in the prior forecast. Upside potential remains
  - Opportunity to outperform is a possibility as demand growth progresses and a wave of planned refurbishments drive the general level of quality upwards
  - Medium term rate growth of 4.3% p.a is above the long term average and has the greatest possibility of outperforming, driven by demand
  - Long term expectations are in line with prior expectations, with some tempering towards the back end of the forecast to allow for the occasional underperforming year which is always a possibility in a temperamental regional leisure destination
- Our forecast is for increased long tem average Real RevPAR of 3.6%

- RevPAR growth to FY2023 represents an upgrade with average growth of 5.5% p.a expected compared with 4.1% previously. Growth is driven by strong demand growth throughout the forecast period with minimal supply, especially through the short to medium term
  - In FY2016, RevPAR is expected to outperform strong prior forecasts to record 9.2% growth as demand growth intensifies
  - In the medium term to FY2018, RevPAR expectations are for three consecutive years of significant growth averaging 8.5% p.a. This is an upgrade on the prior forecast of 5.9% growth p.a. Further rate opportunities are available over this period
  - RevPAR growth for the full forecast period is expected to average a slightly lesser 5.3% p.a

CAIRNS & PORT DOUGLAS REAL REVPAR



DRANSFIELD HOTELS & RESORTS

CAIRNS & PORT DOUGLAS

Long term RevPAR expectations are for average 5.3% growth, inline with prior expectations. Cairns and Port Douglas should experience a significant market upswing over the medium term as demand pushes occupancy well above decade long averages

CAIRNS & PORT DOUGLAS HOTELS, MOTELS AND SERVICE APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	7,020	2.9%	2.0%	$97.86	-0.9%	$63.96	-1.8%	$92.32	65.4%
FY2002	7,105	1.2%	0.0%	$98.17	0.3%	$63.39	-0.9%	$88.97	64.6%
FY2003	6,155	-13.4%	-1.2%	$105.85	7.8%	$77.94	22.9%	$106.53	73.6%
FY2004	7,338	19.2%	7.0%	$114.82	8.5%	$75.87	-2.7%	$101.19	66.1%
FY2005	7,373	0.5%	0.0%	$117.16	2.0%	$77.06	1.6%	$100.29	65.8%
FY2006	7,192	-2.5%	0.6%	$122.72	4.7%	$83.24	8.0%	$104.18	67.8%
FY2007	7,273	1.1%	-1.3%	$125.12	2.0%	$82.83	-0.5%	$101.57	66.2%
FY2008	7,612	4.7%	-0.8%	$124.67	-0.4%	$78.20	-5.6%	$91.76	62.7%
FY2009	7,669	0.7%	-3.9%	$118.77	-4.7%	$71.08	-9.1%	$82.20	59.8%
FY2010	7,829	2.1%	-1.8%	$115.57	-2.7%	$66.55	-6.4%	$74.68	57.6%
FY2011	7,792	-0.5%	2.9%	$115.92	0.3%	$69.00	3.7%	$74.74	59.5%
FY2012	7,649	-1.8%	1.5%	$115.33	-0.5%	$71.02	2.9%	$76.03	61.6%
FY2013	7,502	-1.9%	2.7%	$123.47	7.1%	$79.64	12.1%	$83.26	64.5%
FY2014	7,622	1.6%	2.8%	$123.16	-0.2%	$80.35	0.9%	$81.55	65.2%
FY2015	7,843	2.9%	2.4%	$128.71	4.5%	$83.55	4.0%	$83.55	64.9%
Actual Avg FY 2001 - 2015		**1.1%**	**0.9%**		**1.9%**		**2.0%**		**64.4%**
Avg FY 11-15		**0.1%**	**2.5%**		**2.2%**		**4.7%**	**$79.82**	**63.1%**
Avg FY 12-15		**0.9%**	**2.6%**		**3.8%**		**5.7%**	**$82.79**	**64.9%**

FORECAST

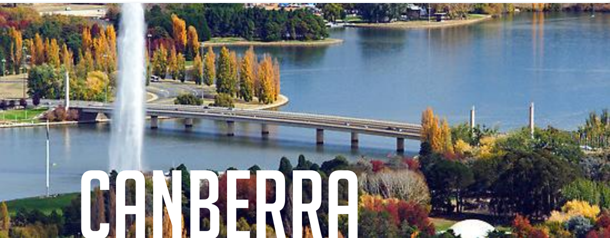
Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	7,843	0.0%	5.0%	$133.86	4.0%	$91.23	9.2%	$89.01	68.2%
FY2017	7,882	0.5%	4.0%	$139.89	4.5%	$98.66	8.1%	$93.90	70.5%
FY2018	7,922	0.5%	4.0%	$146.18	4.5%	$106.69	8.1%	$98.11	73.0%
Avg FY 16-18		**0.3%**	**4.3%**		**4.3%**		**8.5%**	**$93.67**	**70.6%**
FY2019	8,080	2.0%	4.0%	$152.76	4.5%	$113.67	6.5%	$101.49	74.4%
FY2020	8,600	6.4%	4.0%	$158.11	3.5%	$114.96	1.1%	$99.65	72.7%
FY2021	8,854	3.0%	3.5%	$162.85	3.0%	$119.03	3.5%	$100.18	73.1%
FY2022	9,032	2.0%	3.0%	$167.73	3.0%	$123.80	4.0%	$101.16	73.8%
FY2023	9,212	2.0%	2.5%	$172.77	3.0%	$128.14	3.5%	$101.65	74.2%
FY2024	9,396	2.0%	2.5%	$177.95	3.0%	$132.64	3.5%	$102.15	74.5%
Avg FY19-24		**2.9%**	**3.3%**		**3.3%**		**3.7%**	**$101.05**	**73.8%**
Total Forecast Avg FY 2016-2024		**2.0%**	**3.6%**		**3.7%**		**5.3%**	**$98.59**	**72.7%**

COMPARISON HF2015 vs HF2016– Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	9,194	2.4%	3.1%	$167.00	3.3%	$120.14	4.1%	$94.76	70.9%
HF2016	9,212	2.0%	3.8%	$172.77	3.8%	$128.14	5.5%	$98.14	72.5%

ABS Dataset change affected

DRANSFIELD HOTELS & RESORTS



FY2015 data has been significantly affected by the change in the ABS supply dataset, recording a large decrease in RevPAR in contrast to a more likely neutral performance. The demand outlook has been strongly upgraded

CANBERRA REGIONS – JUNE 2015

	Establishments	Rooms	RevPAR
Canberra	58	6,181	$118.97
CANBERRA TOURISM REGION			
Hotels	23	3,384	$131.75
Motels	17	1,353	$85.42
Serviced Apartments	18	1,444	$120.24
Total	**58**	**6,181**	**$118.97**
STAR GRADING			
Luxury	4	n.p	n.p
Up-Scale	36	3,903	$122.88
Mid-Scale	15	1,393	$96.74
Budget	3	n.p.	n.p.
Total	**58**	**6,181**	**$118.97**

FY2015 YEAR IN REVIEW

	FORECAST 2015	ACTUAL 2015	Var
RevPAR	0.0%	-8.1%	-8.1%
Supply	0.0%	20.9%	20.9%
Demand	0.0%	23.5%	23.5%
Occupancy	66.7%	68.1%	1.4%
ARR	0.0%	-9.9%	-9.9%

FY2015 Year in Review

- ABS data for Canberra recorded a significant rate led decline in FY2015. This appears to have been heavily influenced by a change in the ABS supply base calculation. ABS performance was well below STR survey results and the consensus of informed market participants
- The change in the ABS supply base likely included a majority of small, unbranded and non CBD properties which typically have lower rate positioning and have diluted market averages
- ABS recorded an 8.1% RevPAR decline, driven by rate contraction of 9.9%
  - Occupancy levels increased 1.4 points to 68.1% as visitor nights in the ACT increased 15.0%
- Contrary to ABS recoded performance, the STR sample of higher quality hotels recorded 1.3% RevPAR growth as occupancy levels increased against a backdrop of minor rate decline
- Preliminary STR data for FY2016 YTD (April 2016) indicates that rate growth has begun as occupancy levels continue to improve

Demand Driver Analysis

A combination of improved infrastructure and access, more certainty in new supply, and continued upgrades to key tourism and corporate demand drivers have driven improved long term demand expectations

- In FY2015, ABS statistics recorded a 23.5% increase in room night demand. This was mostly the result of the ABS supply base change. Dransfield estimates that actual demand growth was still high at approximately 6%
- City data for FY2015 for Canberra reveals:-
  - International visitor nights increased by 8% to 4.6M nights
  - Domestic visitor nights increased by 20.7% to 6.3M nights
  - Total visitor nights increased by 15% to 10.9M nights
- In FY2015 Canberra hotel's high domestic visitor nights content decreased slightly to 89.1% from 90.3%
- The TFC forecasts for Canberra for the period to FY2023 have been slightly upgraded to average growth of 4.1% p.a compared to 3.8% previously :-
  - Annual domestic visitor night growth of 2.8% vs. 0.8% previously
  - Annual international visitor night contracted to 5.6% vs. 6.9% previously

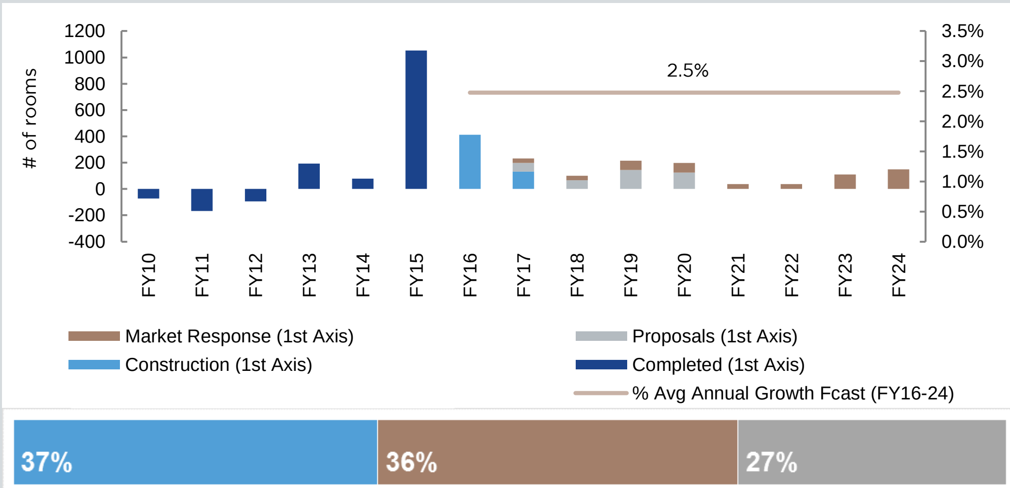
Dransfield Demand Forecast

- Annual demand growth of 3.5% is expected over the long term which is an upgrade to prior forecasts when analysed on a like for like basis
  - We expect demand to increase by 8.5% in FY2016 which is slightly above supply growth expectations as government activity surrounding the election takes effect
  - Medium term demand growth to FY2018 is expected to average 5.2% p.a, representing an upgrade from previous 3.3% expectations as Government related/induced travel increases and domestic tourism strengthens
  - Long term growth to FY2023 of 3.5%, excluding the ABS data change, realises a large 285,000 night absolute upgrade to the prior forecast

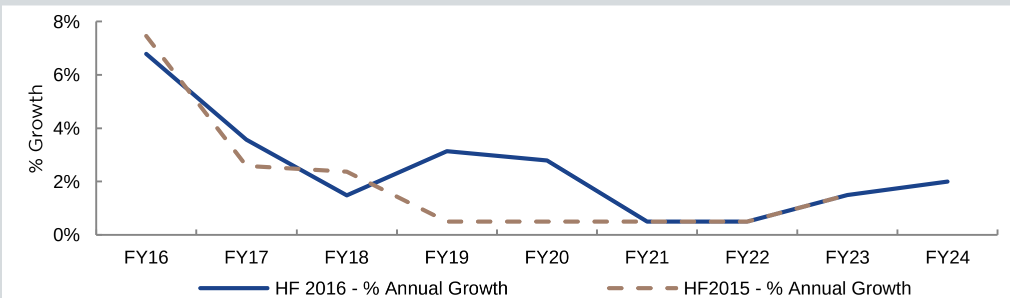
DRANSFIELD HOTELS & RESORTS

Slight supply increases still averaging below organic demand growth. The supply cycle is well advanced in Canberra

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015 the ABS survey recorded a 20.9% increase (1,052 rooms) in supply which was significantly affected by the change in the ABS supply base calculation. The ABS included 9 additional hotels in the forecast area which were previously overlooked
- Based on known openings in the calculation period, we estimate actual supply growth was approximately 4.5%

Supply Forecasts

- Supply forecasts to FY2023 represent a small absolute increase over the prior forecast
- Dransfield's supply forecast is for 1,500 new rooms to enter the market over the next 9 years to FY2024 (25% of current stock) a low average annual growth rate of 2.5%
- The majority of the anticipated supply is expected in FY2016 and is already open at the time of publication
- Until recently, much of the room stock in Canberra was old and tired. This has changed over the last few years as new high quality supply additions and refurbishment have improved the market as a whole
- Anticipated future supply is evenly spread across all tiers with an appropriate mix of luxury, upscale and midscale properties the pipeline

Supply Cycle Comparison

- Long term supply forecasts have received a modest increase of 500 rooms, representing an uplift of 1.2% p.a . This is below the increase in demand growth expectations
- The identified live pipeline has infilled, increasing to 950 rooms compared with 550 previously
  - The new forecast represents an increase in identified project numbers to 11 from 5 previously, with half of these in the construction stage
  - Construction activity increased to 550 rooms, from 450 previously, with many of these properties now open
  - Live proposal numbers have increased with several additional projects identified but too early in the planning process to be specifically included in our forecast. If these projects progress they can be absorbed in our allowance for additional Market Response. Proposals now consist of 6 projects and 400 rooms to which we have applied a 56% probability of delivery, compared to 75 rooms and 50% previously

Good growth prospects sees a slight upgrade to long term RevPAR growth averaging 4.4% p.a, with demand moving upwards more than supply despite short term absorption issues

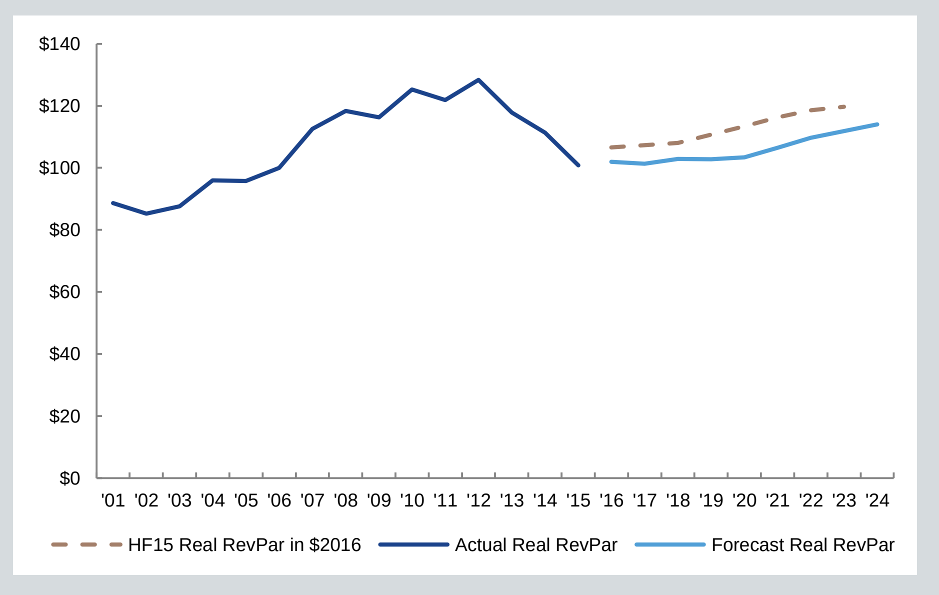
- Over the next 6 years, live construction and proposals represent 79% of the forecast supply pipeline and is below demand growth expectations for the corresponding period (2.6% vs 4.4%). Market Response in this period totals a low 250 rooms and 21% of supply assumed in the forecast.
- Market response for the full forecast represents allows for 400 additional rooms above those already known
  - This represents a small increase, responding to increased demand expectations
  - Market Response to FY2023 now accounts for 29% of all new supply compared with 37% in the prior forecast

Conclusion

- The Canberra forecast is a small absolute downgrade from a much lower base following amendment to the ABS dataset in FY2015. It does however represent an upgrade in growth expectations relative to the prior forecast
- The improved growth expectations are the result of strong upgrades to demand expectations which sees average occupancy levels 4 points higher than the prior forecast
- Occupancy and rate increases over the first 3 quarters of FY2016 are likely to continue and will produce steady RevPAR growth for the full year
- Over the period of the forecast, average occupancy expectations of 71.5% are above prior 67.2% expectations
  - Occupancy levels are expected to move back into the 70's through the medium term following the absorption of near term supply
  - Over the longer term, occupancy levels may further improve as supply additions remain low
- Rate growth expectations for the forecast period have been maintained from a lower base
  - Medium term rate growth averaging 2.3% p.a, is slightly below the long term average as new supply of 3.3% is absorbed
  - Over the long term, the positive supply and demand equation should produce rate opportunities
  - New and upgraded hotel and apartment stock will facilitate further rate opportunities if demand expectations are realised
- Our forecast is for reduced long term average Real RevPAR of 6.7% which is solely related to underperformance in FY2015 which was affected by the ABS supply base change

- RevPAR growth to FY2023 represents a minor upgrade with average growth of 4.3% p.a compared to the previous 4.1% led by demand upgrades
  - In FY2016, RevPAR is expected to increase by 3.6%, well above prior expectations as rates consolidate on increasing occupancy levels
  - In the medium term to FY2018, RevPAR expectations are for 3.5% average growth p.a with demand fully absorbing supply over the period
  - RevPAR growth for the full period is expected to average 4.4% p.a in a strong demand, low supply environment

CANBERRA CITY REAL REVPAR



Good growth prospects sees a slight upgrade to long term RevPAR growth averaging 4.4% p.a, with demand moving upwards more than supply despite short term absorption issues

CANBERRA CITY HOTELS, MOTELS AND SERVICE APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	5,039	3.8%	0.7%	$100.79	0.6%	$61.41	-2.3%	$88.63	60.9%
FY2002	5,197	3.1%	3.7%	$99.10	-1.7%	$60.73	-1.1%	$85.23	61.3%
FY2003	5,102	-1.8%	0.9%	$101.76	2.7%	$64.08	5.5%	$87.58	63.0%
FY2004	4,994	-2.1%	5.5%	$106.03	4.2%	$71.94	12.3%	$95.95	67.8%
FY2005	4,911	-1.7%	-1.3%	$108.10	2.0%	$73.60	2.3%	$95.78	68.1%
FY2006	4,960	1.0%	4.4%	$113.47	5.0%	$79.85	8.5%	$99.94	70.4%
FY2007	5,011	1.0%	5.4%	$125.11	10.3%	$91.85	15.0%	$112.62	73.4%
FY2008	5,016	0.1%	-2.5%	$141.08	12.8%	$100.89	9.8%	$118.37	71.5%
FY2009	5,097	1.6%	-2.0%	$145.72	3.3%	$100.54	-0.4%	$116.26	69.0%
FY2010	5,023	-1.4%	6.8%	$149.28	2.4%	$111.61	11.0%	$125.25	74.8%
FY2011	4,857	-3.3%	-5.4%	$153.80	3.0%	$112.49	0.8%	$121.84	73.1%
FY2012	4,762	-2.0%	-2.3%	$164.43	6.9%	$119.86	6.6%	$128.31	72.9%
FY2013	4,954	4.0%	-1.5%	$163.29	-0.7%	$112.67	-6.0%	$117.79	69.0%
FY2014	5,032	1.6%	-1.9%	$164.50	0.7%	$109.65	-2.7%	$111.29	66.7%
FY2015	6,085	20.9%	23.5%	$148.13	-9.9%	$100.82	-8.1%	$100.82	68.1%
Actual Avg FY 2001 - 2015		1.7%	2.3%		2.8%		3.4%		68.7%
Avg FY 11-15		4.3%	2.5%		0.0%		-1.9%	$116.01	69.9%
Avg FY 12-15		8.8%	6.7%		-3.3%		-5.6%	$109.97	67.9%

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	6,498	6.8%	8.5%	$151.10	2.0%	$104.48	3.6%	$101.93	69.1%
FY2017	6,730	3.6%	3.5%	$154.12	2.0%	$106.49	1.9%	$101.36	69.1%
FY2018	6,830	1.5%	3.5%	$158.74	3.0%	$111.86	5.0%	$102.87	70.5%
Avg FY 16-18		4.0%	5.2%		2.3%		3.5%	$102.06	69.6%
FY2019	7,045	3.1%	3.0%	$163.50	3.0%	$115.06	2.9%	$102.73	70.4%
FY2020	7,242	2.8%	3.0%	$169.23	3.5%	$119.33	3.7%	$103.44	70.5%
FY2021	7,278	0.5%	2.5%	$176.00	4.0%	$126.57	6.1%	$106.52	71.9%
FY2022	7,314	0.5%	2.5%	$183.04	4.0%	$134.25	6.1%	$109.69	73.3%
FY2023	7,424	1.5%	2.5%	$190.36	4.0%	$141.00	5.0%	$111.85	74.1%
FY2024	7,572	2.0%	2.5%	$198.92	4.5%	$148.06	5.0%	$114.04	74.4%
Avg FY19-24		1.7%	2.7%		3.8%		4.8%	$108.04	72.4%
Total Forecast Avg FY 2016-2024		2.5%	3.5%		3.3%		4.4%	$106.05	71.5%

COMPARISON HF2015 vs HF2016 – Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	5,880	2.0%	2.7%	$213.49	3.3%	$150.56	4.1%	$112.58	67.3%
HF2016	7,424	2.5%	3.6%	$190.36	3.2%	$141.00	4.3%	$105.05	71.1%

DRANSFIELD HOTELS & RESORTS

A poor FY2015 with results confused by a large change in the ABS data set. Demand growth outlook reduced

DARWIN REGIONS – JUNE 2015

HOTELS & MOTELS			
Hotels	14	2,295	$135.79
Motels	14	753	$83.20
Serviced Apartments	16	1,501	$133.81
Total	**44**	**4,549**	**$126.43**
STAR GRADING			
Luxury	2	n.p.	n.p.
Up-Scale	24	2,556	$136.25
Mid-Scale	12	n.p	n.p
Budget	6	174	$39.23
Total	**44**	**4,549**	**$126.43**

FY2015 YEAR IN REVIEW

	FORECAST 2015	ACTUAL 2015	Var	
RevPAR	-4.9%	-6.7%	-1.8%	▼
Supply	8.3%	25.2%	16.9%	▲
Demand	1.0%	12.7%	11.7%	▲
Occupancy	71.1%	68.7%	-2.5%	▼
ARR	2.0%	3.6%	1.6%	▲

FY2015 Year in Review

- In FY2015 Darwin's market correction continued following a short period of extreme demand outperformance which was resource construction related. RevPAR decline of 6.7% slightly underperformed already poor expectations for lesser decline of 4.9% as demand for traditional hotel accommodation reduced to traditional levels
  - Occupancy levels fell 7.6 points to 68.7% as the shift away from labour intensive mining construction continues
  - Contrary to the occupancy movement, rates actually grew by 3.6%
- The STR sample of higher quality hotels recorded a lesser decline of 4.8%, in line with our prior expectations
- Preliminary STR data for FY2016 YTD (April 2016) indicates that market contraction has significantly increased with large reductions in both occupancy and rate. High double digit market decline is expected for the full year.

Demand Driver Analysis

The fragmented nature of Australia's tourism boom is evident in Darwin, with the city needing to re-invent itself as a tourist gateway to replace early phase resource accommodation demand

- The strength of activity in the gas sector will continue to underpin the market, and as the resource projects move towards completion the risk for hotel market decline is high
- In FY2015 ABS statistics recorded a 12.7% increase in room night demand, compared to an expected decline. This was a result of the ABS supply base increase. Based on known hotel openings over the period, we estimate actual demand movement was an approximate 13% decline
- City data for FY2015 for Darwin reveals:-
  - International visitor nights increased by 13.6% to 3M
  - Domestic visitor nights increased by a large 41.0% to 3.4M nights, which appears largely affectedly nights in mining camps rather than traditional short term accommodation
  - Total visitor nights increased by 26.6% to 6.4M nights, however did not directly translate through to hotel demand
- In FY2015 Darwin hotel's high domestic visitor nights mix decreased to 77.0% from 80.5%
- The TFC forecasts for Darwin for the period to FY2023 have been downgraded to average growth of 4.0% p.a compared to 4.8% previously:-
  - Annual domestic visitor night growth of 3.2% vs. 2.0% previously
  - Annual international visitor nights reduced to 4.8% vs. 6.9% previously

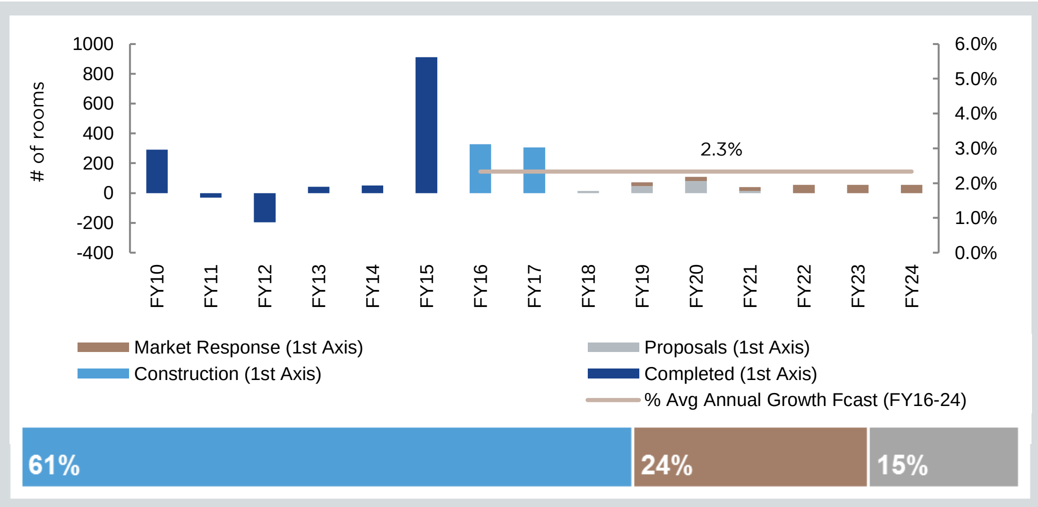
Dransfield Demand Forecast

Annual demand growth of 2.4% p.a. is expected over the long term which is a small absolute downgrade to the prior forecast when analysed on a like for like basis

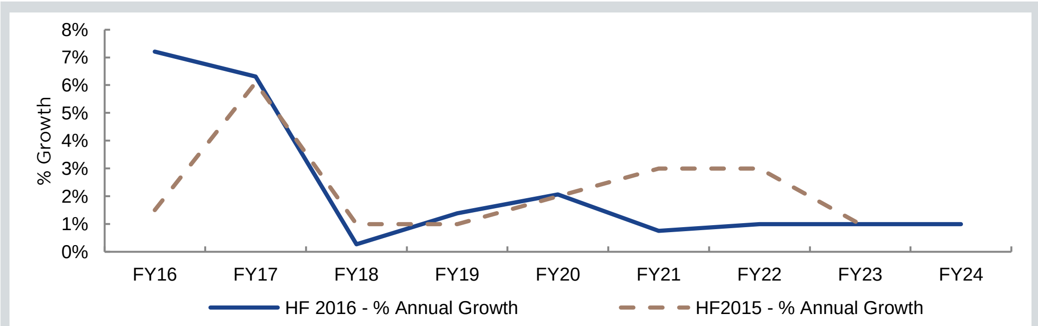
- We expect demand to decrease 5.0% in FY2016 as the market contraction intensifies.
- Medium term demand growth to FY2018 is expected to average a small 0.3% p.a. decline. We suspect the downturn will stretch through FY2017 before growth returns. The market correction coincides with major LNG project completion
- Long term growth to FY2023, excluding the ABS data change, realises a small 59,000 night absolute downgrade to prior forecasts, which is equivalent to a 5% discount to the prior FY2023 demand total.

Supply needs have been meet and perhaps exceeded in the short term, coinciding with reduced demand. We expect mooted proposals will be re-assessed and deferred pending a change in market conditions

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015, Darwin was significantly affected by the ABS supply base change, recording 25.2% growth. Dransfield are aware of one large accommodation product (301 rooms) to have opened early enough to have been included in FY2015 figures. This equates to an approximate 8% increase
- Supply increases has been more pronounced recently with several new products opening over the first 4 months of FY2016, adding 500+ rooms to the market. These have been apartment orientated products without major operator/brands associated. These projects would have been conceived during the market upswing and will now place pressure on older and tired stock to either refurbish in a down market or risk loss of market position and perhaps closure

Supply Forecasts

- Supply forecasts to FY2023 represent a small absolute increase to the prior forecast
- Dransfield's supply forecast is for 1,000 new rooms to enter the market over the next 9 years to FY2024 (23% of current stock) at an average annual growth rate of 2.3%
  - It is important to note that half of these rooms have already opened during FY2016 and the market effect has already been felt
  - The outlook for additional supply over the long term is for limited growth. Any project which has not already commenced, or does not have specific backing from a sponsor (Government or alternative) for a specific purpose or to stimulate the market, is either unlikely to proceed or will be significantly delayed, as feasibility is re-assessed
  - Supply is unlikely to be absorbed over short to medium term as the market resets
  - Unless there is more economic certainty for the region, it is hard to envisage any significant new proposal activity coming to light
  - Quality concerns over currently available stock remain, and risk of supply withdrawal is a real possibility over the medium term

Supply Cycle Comparison

- Long term supply forecasts have received a minor increase of 200 rooms, representing a small uplift of 0.4% p.a which is converse to a decrease in demand expectations
- The identified live pipeline has infilled, increasing to 800 rooms compared with 200 rooms previously
  - Construction activity includes a proportion of new properties which opened in the first quarter of FY2016 and were not considered in the previous forecast. Recently completed and under construction hotels account for 650 of the 800 identified rooms in the pipeline

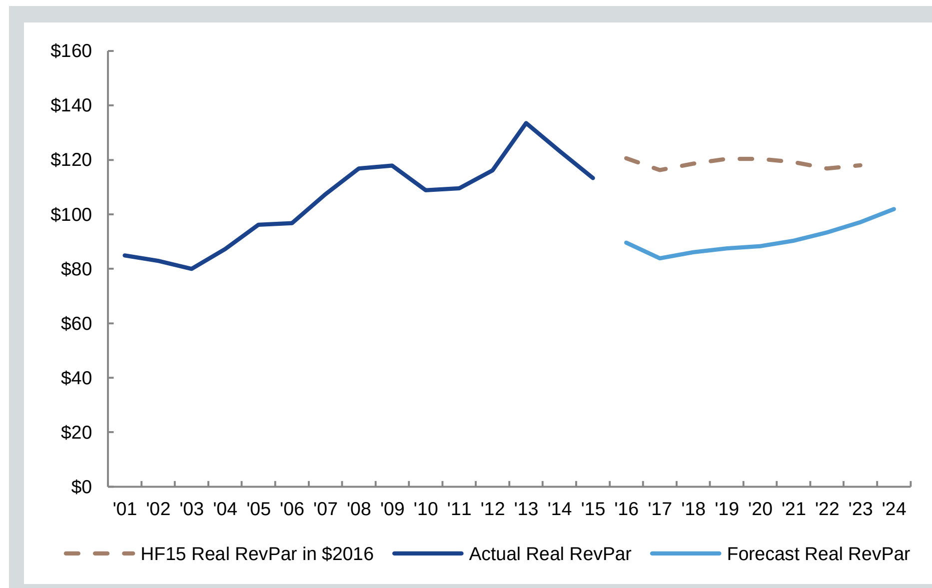
Long term RevPAR expectations have been downgraded to 2.1% p.a. A major downgrade has been experienced in FY2016 and is likely to continue over the medium term as the market responds to significantly lower occupancy and supply continues. Recovery to commence from a lower base in 2-3 years

  - Live proposals consist of 8 projects and 650 rooms which we estimate having a very low 25% prospect of delivery. Only 150 rooms in the proposal stage are anticipated to progress
- Over the next 6 years, live construction and proposals represent 91% of the forecast supply pipeline which is above demand growth expectations for the corresponding period (2.9% vs 1.7%). More than half of these already opened in the beginning of FY2016. Market response in this period totals a very low 80 rooms and 9% of supply assumed in the forecast
- Market Response for the full forecast allows for a very low 200 additional rooms above the known pipeline
  - This represents a decrease responding to the uplift in proposals and construction activity
  - Market Response to FY2023 now accounts for just 19% of all new supply compared with 77% in the prior forecast

Conclusion

- The Darwin forecast represents a major downgrade following short term underperformance and demand withdrawal
  - Following extreme market outperformance in FY2013 where occupancy levels topped 78%, the market has corrected with two straight years of decline. The strength of activity in the gas sector underpinned much of Darwin's growth, and with expectations for resource softness to continue as the construction phase of large projects come to an end, expectations are for further and significant decline
  - Market contraction has amplified through the first 3 quarters of FY2016 with significant reductions in both rate and occupancy
- Over the period of the forecast, average occupancy expectations of 63.1% are well below prior 72.5% expectations
  - FY2016 will see a significant fall in occupancy as new supply comes online in an environment of reducing demand
  - Occupancy levels are expected to hover around 60% for the next 3 years as the market tries to overcome the lifecycle position of mining. The repositioning of the $AUD may help leisure demand although it is unlikely to cover the entire reduction in high value corporate nights
- Rate growth expectations for the forecast have been significantly downgraded to 1.8% p.a as occupancy levels bottom out
  - Medium term rate decline of 2.0% is well below the long term average and is impacted by a significant decline in FY2016. Preliminary FY2016 STR data indicates double digit rate decline
  - Short term underperformance and uncertainty in future demand is expected to have a dampening effect on rate growth through the medium and long term
- Our forecast is for significant market contraction with reduced long term average Real RevPAR of 24.6% compared to prior expectations
- RevPAR growth to FY2023 represents a significant downgrade with average growth of 1.4% p.a compared to 3.2% in the prior forecast, off a much lower base. Extreme market decline is expected in the short term
  - In FY2016, RevPAR is expected to decrease 18.9%, well below prior expectations for rebounding growth as market demand continues to deteriorate, forcing hoteliers to compete for occupancy by reducing rates. The first substantial supply increase in the last 5 years will compound the result
  - In the medium term to FY2018, the level of further decline will be highly dependent on Darwin's ability to attract leisure visitors which have been displaced more recently. Expectations are for average RevPAR decline of 5.6% p.a. with performance improving as we move away from the present market imbalance
  - Expectations are for the market to start recovering over the long term as the demand base stabilises and rates reset at a lower point. Full forecast expectations are for 2.1% growth p.a.

DARWIN CITY REAL REVPAR



Long term RevPAR expectations have been downgraded to 2.1% p.a. A major downgrade has been experienced in FY2016 and is likely to continue over the medium term as the market responds to significantly lower occupancy and supply continues. Recovery to commence from a lower base in 2-3 years

DARWIN CITY HOTELS, MOTELS AND SERVICE APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	2,605	0.3%	-12.6%	$93.23	-4.4%	$58.84	-16.7%	$84.92	63.1%
FY2002	2,619	0.5%	-0.7%	$94.73	1.6%	$59.05	0.4%	$82.88	62.3%
FY2003	2,652	1.3%	-4.2%	$99.16	4.7%	$58.47	-1.0%	$79.92	59.0%
FY2004	2,658	0.2%	9.0%	$102.06	2.9%	$65.43	11.9%	$87.27	64.1%
FY2005	2,796	5.2%	12.0%	$108.28	6.1%	$73.93	13.0%	$96.21	68.3%
FY2006	2,902	3.8%	5.6%	$111.24	2.7%	$77.31	4.6%	$96.77	69.5%
FY2007	2,880	-0.7%	2.6%	$121.87	9.6%	$87.51	13.2%	$107.31	71.8%
FY2008	2,847	-1.2%	4.7%	$131.00	7.5%	$99.63	13.8%	$116.89	76.0%
FY2009	3,461	21.6%	13.9%	$143.04	9.2%	$101.95	2.3%	$117.90	71.3%
FY2010	3,753	8.4%	6.0%	$139.27	-2.6%	$97.04	-4.8%	$108.89	69.7%
FY2011	3,723	-0.8%	-0.3%	$144.34	3.6%	$101.10	4.2%	$109.50	70.0%
FY2012	3,527	-5.3%	0.9%	$145.41	0.7%	$108.52	7.3%	$116.18	74.6%
FY2013	3,569	1.2%	6.9%	$161.97	11.4%	$127.65	17.6%	$133.45	78.8%
FY2014	3,619	1.4%	-1.9%	$159.21	-1.7%	$121.43	-4.9%	$123.25	76.3%
FY2015	4,531	25.2%	12.7%	$164.96	3.6%	$113.27	-6.7%	$113.27	68.7%
Actual Avg FY 2001 - 2015		4.1%	3.6%		3.7%		3.6%		69.6%
Avg FY 11-15		4.3%	3.7%		3.5%		3.5%	$119.13	73.7%
Avg FY 12-15		9.3%	5.9%		4.4%		2.0%	$123.32	74.6%

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	4,857	7.2%	-5.0%	$150.94	-8.5%	$91.84	-18.9%	$89.60	60.8%
FY2017	5,164	6.3%	3.0%	$149.43	-1.0%	$88.09	-4.1%	$83.84	58.9%
FY2018	5,178	0.3%	3.0%	$154.66	3.5%	$93.65	6.3%	$86.12	60.5%
Avg FY 16-18		4.6%	0.3%		-2.0%		-5.6%	$86.52	60.1%
FY2019	5,250	1.4%	3.0%	$159.30	3.0%	$97.98	4.6%	$87.48	61.5%
FY2020	5,359	2.1%	3.0%	$164.08	3.0%	$101.85	3.9%	$88.29	62.1%
FY2021	5,399	0.8%	3.0%	$169.00	3.0%	$107.24	5.3%	$90.25	63.5%
FY2022	5,453	1.0%	3.5%	$175.76	4.0%	$114.29	6.6%	$93.39	65.0%
FY2023	5,508	1.0%	4.0%	$182.80	4.0%	$122.40	7.1%	$97.09	67.0%
FY2024	5,563	1.0%	4.0%	$191.94	5.0%	$132.33	8.1%	$101.92	68.9%
Avg FY19-24		1.2%	3.4%		3.7%		5.9%	$93.07	64.7%
Total Forecast Avg FY 2016-2024		2.3%	2.4%		1.8%		2.1%	$90.89	63.1%

COMPARISON HF2015 vs HF2016 – Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	4,706	2.3%	2.6%	$203.69	2.9%	$148.42	3.2%	$118.78	72.7%
HF2016	5,508	2.5%	2.2%	$182.80	1.4%	$122.40	1.4%	$89.51	62.4%

ABS Dataset change affected

In FY2015, the Gold Coast Hotel Market experienced high 11.3% RevPAR growth exceeding expectations, driven by strong leisure demand

GOLD COAST REGIONS – JUNE 2015

	Establishments	Rooms	RevPAR
Hotels	31	6,875	$109.47
Motels	29	1,366	$62.85
Serviced Apartments	97	5,693	$91.65
Total	**157**	**13,934**	**$97.62**

FY2015 YEAR IN REVIEW

	FORECAST 2015	ACTUAL 2015	Var	
RevPAR	8.2%	11.3%	3.1%	▲
Supply	0.0%	3.5%	3.5%	▲
Demand	4.0%	11.3%	7.3%	▲
Occupancy	67.0%	69.3%	2.3%	▲
ARR	4.0%	3.5%	-0.5%	▼

FY2015 Year in Review

- In FY2015 Gold Coast Hotels displayed country leading 11.3% RevPAR growth, outperforming already strong 8.2% forecasts. This was driven by returning visitors
  - Occupancy increased 4.8 points to 69.3%, above our prior expectations of 67.0% as the weakening $AUD made Australian holidays more appealing to domestics and internationals
  - Rates strengthened 3.5% largely in line with expectations
- The STR sample displayed lesser growth of a still strong 9.1%
- Preliminary STR data for FY2016 (April 2016) indicates occupancy growth has continued to strengthen, facilitating further rate improvement. We expect another year of above inflation RevPAR growth in FY2016.

Demand Driver Analysis

Demand indicators and Tourism Australia's forecasts have improved as the relative cost to visit/stay in Australia lowers compared to key leisure competitor destinations.

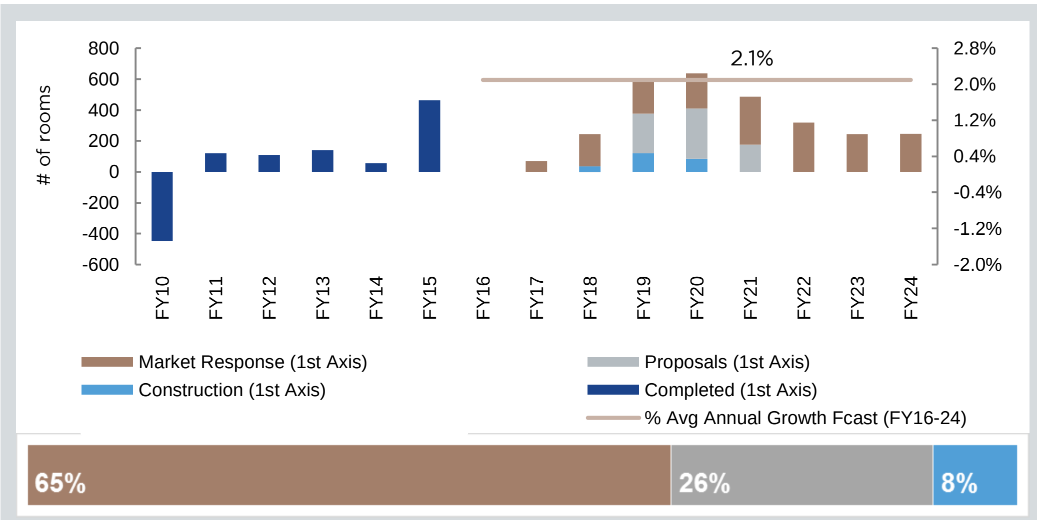
- The effect of the Commonwealth Games on the market will be two fold, not only attracting visitors and increasing destination awareness but also improving and expanding infrastructure (rail, airport, shopping centre, sporting facilities, casino) which will continue to benefit the destination long term
- In FY2015 demand for Gold Coast hotels increased by a significant 11.3%, and well above our 4.0% expectations. A small portion of which is ABS data change related
- City data for FY2015 for Gold Coast reveals:-
  - International visitor nights increased by 1% to 8.7M nights
  - Domestic visitor nights decreased by 7.5% to 13.2M nights
  - Total visitor nights decreased by 4.3% to 21.9M nights
- In FY2015 Gold Coast hotel's domestic visitor night content decreased to 74.3% from 77.0%
- The TFC visitor night forecasts for Queensland (excluding Brisbane) for the period to FY2023 have been upgraded to average growth of 3.7% p.a compared with 2.1% previously
  - Annual domestic visitor night growth of 3.2% vs. 0.7% previously
  - Annual international visitor night growth of 5.1% in line with previous forecasts

Dransfield Demand Forecast

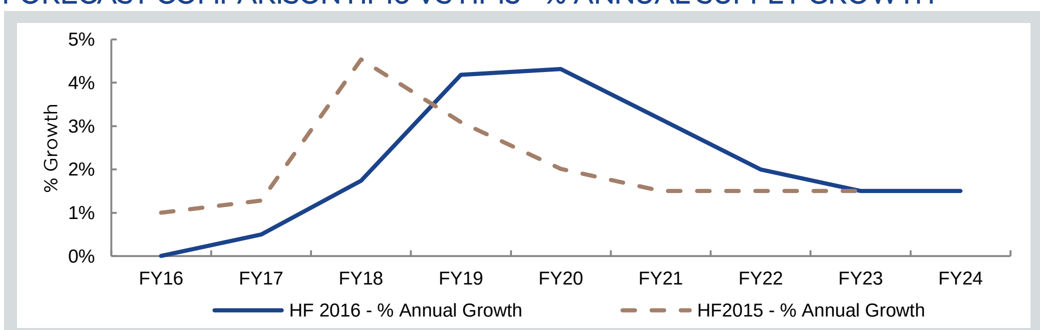
- Annual demand growth of 3.0% p.a. is expected over the long term which is a small absolute upgrade to the robust prior forecast. The uplift benefits from outperformance in FY2015 which carries through for the life of the forecast
  - We expect demand to increase 2.5% in FY2016 which is well above supply growth expectations
  - Medium term demand growth to FY2018 is expected to average 3.5% p.a, representing a slight downgrade from a higher base, but a higher absolute value. There is opportunity for outperformance should leisure visitors come on stronger than anticipated especially though the Commonwealth Games period in FY2018
  - Long term growth to FY2023, excluding the ABS data change, realises a small 243,000 night absolute upgrade to the prior forecast. The drivers for Gold Coast tourism show no immediate signs of softening and should continue to display growth through the medium and long term

Annual supply growth of a low 2.1% p.a. is expected over the long term, representing a minor increase on prior expectations. Additional rooms are limited and not expected until FY2019 and FY2020

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015 the ABS survey recorded a 3.5% increase (963 rooms) in supply which appears based on the ABS dataset change. There were no large properties that came online
- The Gold Coast continues to sit at the bottom of the supply development cycle with low levels of development over the last 10 years. The general trigger for substantial development (70+% occupancy) is however here and is expected to pressure developers over the medium term despite development costs being well above market values
- The known new supply appears to be primarily focused towards upscale properties with additions including The Star's additional tower (formerly Jupiter's Casino) and the 5 star Jewel.

Supply Forecasts

- Supply forecasts to FY2023 represent a minor absolute increase with a slight delay in timing
- Dransfield's supply forecast is for 2,800 new rooms to enter the market over the next 9 years (20% of current stock) at an average annual growth rate of 2.1%
  - This is well above the actual decade average 0.5% p.a.
  - A significant proportion of the expected supply is an allowance for Market Response which will only come to fruition with appropriate market conditions
- Supply growth in the medium term to FY2018 has been delayed and is expected to average a low 0.7% p.a (300 rooms) which will push occupancy levels towards 75% and stimulate rate opportunities which are more limited in leisure based markets
- Supply is however anticipated to catch up though FY2019-2021 with room additions for the period overtaking prior expectations
- Supply is expected to be fully absorbed over the long term with occupancy expectations above those of the prior forecast

Supply Cycle Comparison

- Long term supply forecasts have received a minor increase of 250 rooms, representing a small uplift of 0.2% p.a on prior expectations and are well below incremental demand growth expectations
- The identified live pipeline has infilled, increasing to 1,000 rooms compared with 700 previously

DRANSFIELD HOTELS & RESORTS

Long term RevPAR growth averaging 4.4% p.a is an upgrade with occupancy levels maintaining above 70% for the life of the forecast. Medium term RevPAR growth stronger at 7.7% p.a with robust demand growth and low additional supply facilitating rate opportunities

- The new forecast represents an increase in identified project numbers to 9 from 6 previously, with the majority of known projects still in the proposal stage
- Construction activity has increased to 250 rooms from none previously
- Live proposal numbers which migrated to construction have been more than replaced. Proposals now consist of 7 projects and 1,400 rooms which we estimate as having a 53% prospect of delivery compared to 1.200 and 55% previously

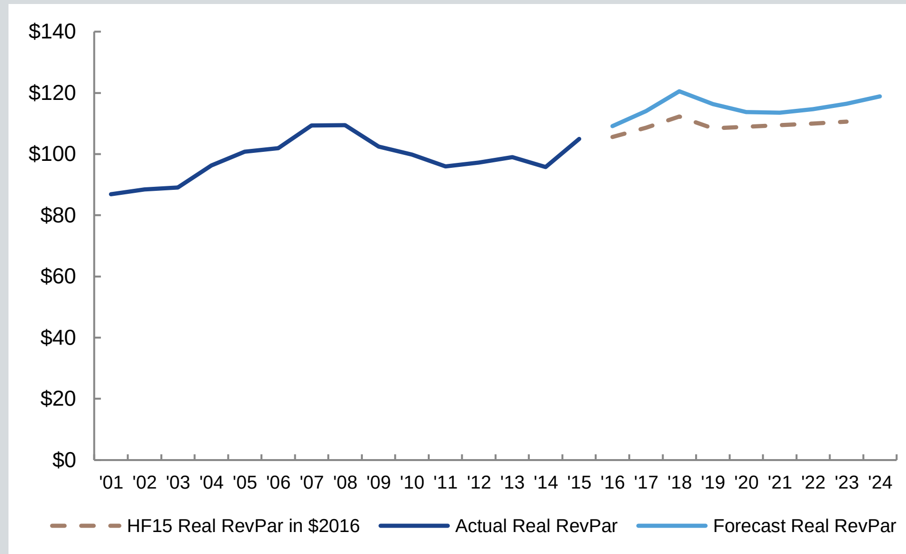
- Over the next 6 years, live construction and proposals represent 49% of the forecast supply pipeline and is well below demand growth expectations for the corresponding period (1.2% vs 3.4%). Market Response in this period totals an additional 1,050 rooms and 51% of the supply assumed in the forecast
- Market response for the full forecast allows for an additional 1,600 rooms
  - This represents a slight decrease responding to the uplift in construction and proposal activity
  - Market Response to FY2023 now accounts for 62% off all new supply compared with 71% in the prior forecast

Conclusion

- The Gold Coast forecast represents an upgrade on already strong forecasts resulting from increased demand growth expectations which flow through to rate
- Market growth has continued through the first 3 quarters of FY2016, led by rate
- Over the period of the forecast, average occupancy expectations of 73.6% are above prior 70.1% expectations and long term averages
  - After unexpectedly falling in FY2014, occupancy levels regained all of the lost ground in FY2015. Expectations are for further consolidation over the short to medium term as demand growth outpaces supply. Our forecast for demand is considered to be conservative and there is opportunity for outperformance
  - Dransfield expect occupancy to maintain above 70% for the life of the forecast, which is above historical figures. This reflects a more developed market with newer supply and improved transport links by road and air. Complementary macroeconomic conditions will help facilitate this expectation
- The new expected occupancy floor for the market (70+%) should enable consistent rate growth for the life of the forecast
- Rate growth expectations for the forecast period have been increased to 3.4% p.a. as hoteliers become more confident in the improved market environment. Increased domestic travel and rising discretionary spending of the burgeoning Chinese middle class will also positively impact rate decisions
  - Medium term rate growth averaging 4.8% p.a is above the long term average and has upside potential as supply growth remains low

- Our forecast is for increased average long term real RevPAR of 5.1% compared to prior expectations
- The Gold Coast forecast represents an absolute upgrade to already strong prior forecasts with outperformance expected through the short to medium term. Average annual RevPAR growth of 4.4% p.a has been maintained off a higher base
  - In FY2016 RevPAR is expected to increase 6.6%, slightly above prior expectations (6.1%) as rate claiming takes effect on the back of higher occupancy
  - In the medium term to FY2018, a delay in supply will push occupancy levels above prior expectations. We expect RevPAR growth to increase to 7.7% p.a on average over this period compared to 6.1% expectations previously
  - We have tempered long term expectations as we move through to the latter parts of the forecast as supply comes online and hoteliers look to compete more fiercely on rate. The increase to supply should normalise occupancy levels, albeit at a higher level than previous expectations.

GOLD COAST REAL REVPAR



Long term RevPAR growth averaging 4.4% p.a is an upgrade with occupancy levels maintaining above 70% for the life of the forecast. Medium term RevPAR growth stronger at 7.7% p.a with robust demand growth and low additional supply facilitating rate opportunities

GOLD COAST HOTELS, MOTELS AND SERVICED APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	13,251	0.6%	2.5%	$95.77	-0.8%	$60.18	1.1%	$86.87	62.8%
FY2002	13,223	-0.2%	2.7%	$97.46	1.8%	$63.03	4.7%	$88.47	64.7%
FY2003	12,976	-1.9%	-1.5%	$100.37	3.0%	$65.14	3.3%	$89.03	64.9%
FY2004	13,357	2.9%	8.3%	$105.65	5.3%	$72.16	10.8%	$96.24	68.3%
FY2005	13,206	-1.1%	0.3%	$111.82	5.8%	$77.46	7.3%	$100.80	69.3%
FY2006	13,281	0.6%	0.1%	$118.19	5.7%	$81.47	5.2%	$101.96	68.9%
FY2007	13,081	-1.5%	0.3%	$127.01	7.5%	$89.15	9.4%	$109.32	70.2%
FY2008	13,386	2.3%	1.0%	$134.68	6.0%	$93.33	4.7%	$109.51	69.3%
FY2009	13,436	0.4%	-4.7%	$134.59	-0.1%	$88.58	-5.1%	$102.44	65.8%
FY2010	12,989	-3.3%	-1.1%	$132.09	-1.9%	$88.93	0.4%	$99.80	67.3%
FY2011	13,109	0.9%	-0.4%	$133.37	1.0%	$88.64	-0.3%	$96.01	66.5%
FY2012	13,219	0.8%	1.8%	$135.44	1.6%	$90.85	2.5%	$97.25	67.1%
FY2013	13,360	1.1%	2.6%	$139.14	2.7%	$94.73	4.3%	$99.03	68.1%
FY2014	13,415	0.4%	-4.9%	$146.31	5.2%	$94.31	-0.4%	$95.73	64.5%
FY2015	13,880	3.5%	11.3%	$151.37	3.5%	$104.97	11.3%	$104.97	69.3%
Actual Avg FY 01 - 15		**0.4%**	**1.2%**		**3.1%**		**3.9%**		**67.1%**
Avg FY 11-15		**1.3%**	**2.1%**		**2.8%**		**3.5%**	**$98.60**	**67.1%**
Avg FY 12-15		**1.6%**	**3.0%**		**3.8%**		**5.0%**	**$99.91**	**67.3%**

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	13,880	0.0%	2.5%	$157.42	4.0%	$111.89	6.6%	$109.16	71.1%
FY2017	13,949	0.5%	3.0%	$164.50	4.5%	$119.84	7.1%	$114.06	72.8%
FY2018	14,191	1.7%	5.0%	$174.37	6.0%	$131.10	9.4%	$120.57	75.2%
Avg FY16-18		**0.7%**	**3.5%**		**4.8%**		**7.7%**	**$114.60**	**73.0%**
FY2019	14,785	4.2%	2.5%	$176.12	1.0%	$130.27	-0.6%	$116.31	74.0%
FY2020	15,423	4.3%	3.0%	$179.64	2.0%	$131.20	0.7%	$113.73	73.0%
FY2021	15,910	3.2%	3.0%	$185.03	3.0%	$134.93	2.8%	$113.56	72.9%
FY2022	16,228	2.0%	3.0%	$190.58	3.0%	$140.34	4.0%	$114.67	73.6%
FY2023	16,472	1.5%	2.6%	$197.25	3.5%	$146.83	4.6%	$116.48	74.4%
FY2024	16,719	1.5%	2.6%	$205.14	4.0%	$154.36	5.1%	$118.88	75.2%
Avg FY19-24		**2.8%**	**2.8%**		**2.8%**		**2.8%**	**$115.60**	**73.9%**
Avg FY2016-2024		**2.1%**	**3.0%**		**3.4%**		**4.4%**	**$115.27**	**73.6%**

COMPARISON HF2015 vs HF2016– Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	15,775	2.1%	2.9%	$194.56	3.1%	$139.05	4.0%	$109.25	70.5%
HF2016	16,472	2.2%	3.1%	$197.25	3.4%	$146.83	4.3%	$114.82	73.4%

ABS Dataset change affected

Good performance in FY2015 though slightly off expectations and somewhat affected by a large change in the ABS supply base. Quality properties showing higher growth

HOBART REGIONS – JUNE 2015

	Establishments	Rooms	RevPAR
Hotels	25	1,632	$99.04
Motels	20	711	$70.73
Serviced Apartments	12	652	$143.63
Total	**57**	**2,995**	**$102.03**
STAR GRADING			
Luxury	1	n.p.	n.p.
Up-Scale	29	1,882	$121.80
Mid-Scale	24	n.p.	n.p.
Budget	3	51	$18.81
Total	**57**	**2,995**	**$102.03**

FY2015 YEAR IN REVIEW

	FORECAST 2015	ACTUAL 2015	Var	
RevPAR	5.1%	3.5%	-1.6%	▼
Supply	0.0%	8.9%	8.9%	▲
Demand	2.0%	13.6%	11.6%	▲
Occupancy	72.0%	73.6%	1.6%	▲
ARR	3.0%	-0.8%	-3.8%	▼

FY2015 Year in Review

- In FY2015 Hobart hotels recorded RevPAR growth of 3.5% driven by demand growth outpacing supply
  - Occupancy levels increased 3 points to 73.6% with increases in both domestic and international visitors
  - Contrary to performance, rates contracted by 0.8% despite occupancy growth
  - The change in the ABS data set significantly affected Hobart
- The STR sample of higher quality, larger hotels recorded stronger RevPAR growth of 5.5%, outperforming our 5.1% expectations. The tiered nature of supply is evident in Hobart with STR sample occupancy rates 10+ points higher than the ABS survey
- Preliminary STR data for FY2016 YTD (April 2016) indicates that RevPAR growth will continue at a higher level, with increases in both occupancy and rate

Demand Driver Analysis

Robust upgrades to the TFC visitor night forecasts have been driven by the larger domestic contingent as Australians are increasingly compelled to holiday domestically as the value of the AUD weakens. Destination development has, and will continue to improve as Hobart leverages its linkages to nature, food and art. Over the long term, slow population and business investment growth will inhibit corporate demand growth opportunities

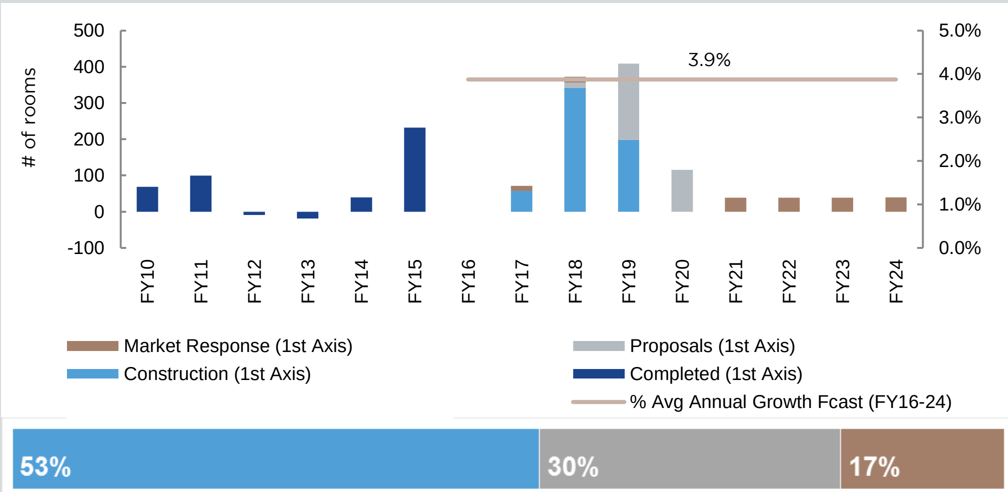
- In FY2015, ABS statistics recorded a 13.6% increase in room night demand. This was significantly affected by the ABS supply base increase with actual demand growth estimated at around 4.5%
- City data for FY2015 for Hobart reveals :-
  - International visitor nights increased by 12.7% to 1.8M nights
  - Domestic visitor nights increased by 21% to 4.4M nights
  - Total visitor nights increased by 18.4% to 6.2M nights, however did not directly translate through to nights in paid accommodation
- In FY2015 Hobart hotel's high domestic visitor nights content decreased to 82.0% from 84.1%
- The TFC forecasts for Hobart for the period to FY2023 have been upgraded to average growth of 3.6% p.a compared to 2.4% previously:-
  - Annual domestic visitor night growth of 2.9% vs. 0.9% previously
  - Annual international visitor night contracted to 5.1% vs. 5.5% previously

Dransfield Demand Forecast

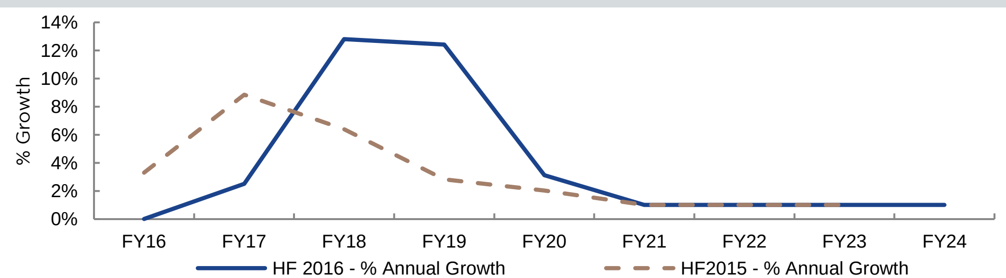
- Annual demand growth averaging 3.8% p.a is expected over the long term which is a significant absolute upgrade to the prior forecast. Growth is a factor of improved visitor conditions as well as increased supply expectations which will enable demand
  - We expect demand to increase 3.0% in FY2016 pushing occupancy towards historic highs
  - Medium term demand growth to FY2018 is expected to average 4.5% p.a. representing an upgrade from previous 3.5% expectations. Demand growth should strengthen as supply constraints are released in FY2018 and FY2019
  - Long term growth to FY2023 of 3.8%, excluding the ABS data change, realises a substantial 119,000 night absolute upgrade to the prior forecast which is equivalent to a 14% increase in FY2023 numbers compared to the prior forecast
  - Continued Government contribution in both tourism marketing and infrastructure development will be required to facilitate growth

Live proposals have doubled and were largely anticipated. The slight increase in supply has been matched by increased demand growth expectations

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015 the ABS survey recorded an 8.9% increase (232 rooms) in supply. We are not aware of any major new properties to have opened during the year, and the additions appear mostly due to the ABS base change
- Outside of traditional short term accommodation, private dwellings for rent (Stayz /Airbnb etc.) are increasingly becoming competition for lesser hotels and will absorb a small portion of visitor night demand in the market

Supply Forecasts

- Our supply forecast to FY2023 represents a small absolute upgrade to the prior forecast
- Dransfield forecast is for 1,100 new rooms to enter the market over the next 9 years (39% of existing stock) at an average annual growth rate of 3.9%
  - The primary development window is expected to mature through FY2018 and FY2019 with much of the additional supply already in construction, or deep in the conception stage.
  - Limited supply growth over the last decade (1.0% p.a. excluding FY2015) and the extremely high occupancy levels recorded in the STR sample indicate that supply is needed and should be largely absorbed
- Medium term supply growth to FY2018 is high and expected to average 5.1% p.a, which increases to 6.9% when including FY2019
  - The tiered nature of the market, with large and branded properties substantially outperforming smaller independents may cause some of these lesser properties to fall out of the market as new supply comes online

Supply Cycle Comparison

- Long term supply forecasts have received a minor increase of 300 rooms representing a small uplift of 1.0% p.a and are below the increase in incremental demand growth expectations
- The identified live pipeline has infilled, increasing to 950 rooms compared with 500 rooms previously, with slightly lower probability for proposal completion
  - The new forecast represents an increase in identified project numbers to 9 from 7 previously, with a high proportion of rooms in the construction stage and the supply cycle becoming more concentrated
  - Construction activity has increased to 600 rooms, from 120 previously, as formerly proposed projects break ground

DRANSFIELD HOTELS & RESORTS

Long term RevPAR expectations are for average 2.6% growth p.a which is a slight forecast upgrade softened in the mid term by large proportionate supply in a small market

- Live proposal numbers which migrated to construction have been replaced by new proposals although at a lower probability of proceeding as the market fills. Proposals now consist of 6 projects and 850 rooms which we estimate as having a 40% prospect of delivery compared to 700 and 53% previously

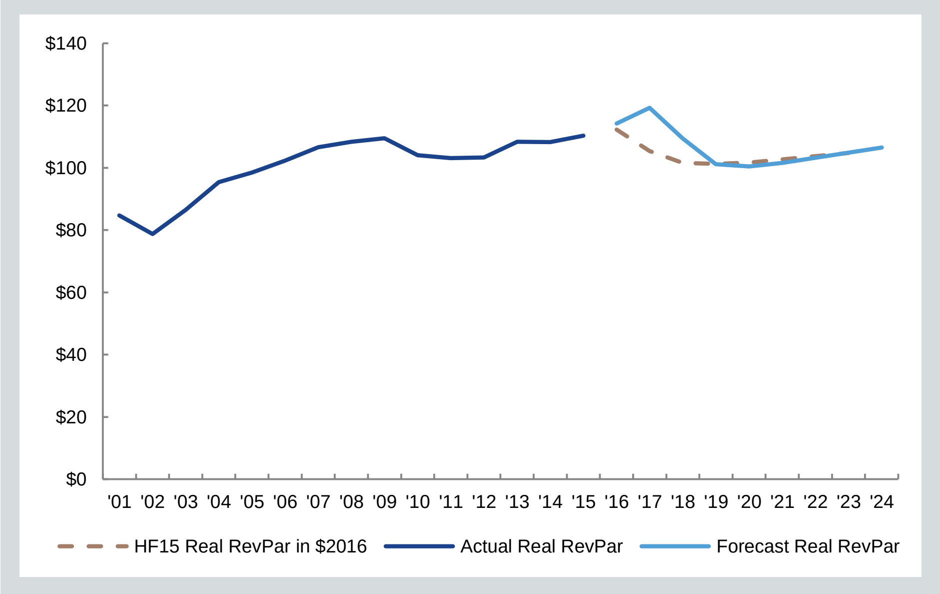
- Over the next 6 years, live construction and proposals represent 93% of the forecast supply pipeline and is slightly above demand growth expectations for the corresponding period (5.5% vs 4.8%). Market Response in this period is below 100 rooms and is just 7% of the supply assumed in the forecast
- Market Response for the full forecast allows for an additional 150 rooms above the identified pipeline
  - This represents a decrease, responding to the upgrade of construction activity and replacement of proposals
  - Market Response to FY2023 now accounts for just 13% of all new supply compared with 38% in the prior forecast

Conclusion

- The Hobart forecast represents a small upgrade as demand expectations improve, softened by an increase in concentrated supply in the medium term
- The market growth in FY2015 has continued through the first 3 quarters of FY2016 as rate claiming begins
- Over the period of the forecast, average occupancy expectations of 72.3% are above prior 68.9% expectations
  - Occupancy levels are expected to strengthen over the next two years reaching 77% before supply comes online in FY2018 and FY2019
  - The ability of the government to deliver required infrastructure to leverage the tourism boom will play a vital role in the growth of the market long term
- Rate growth expectations have been maintained at 2.6% p.a. over the long term with improved demand expectations matched by additional likely supply
  - Medium term rate growth of 3.0% is above the long term average as additional supply remains low over the next two years
  - The general level of supply quality will increase with new supply entering the market and will place upward pressure on rates over the long term
  - Opportunity to outperform these expectations is available should proposed developments not eventuate
- Our forecast is for moderate market growth with improved average Real RevPAR of 2.5% compared to our prior expectations

- RevPAR growth to FY2023 represents a small upgrade on prior expectations from a slightly higher base with outperformance over the first two 2 years. Expectations are for average annual growth of 2.4% compared with 2.1% in the prior forecast
- In FY2016, RevPAR is expected to strengthen further following 5 consecutive years of growth
  - In the medium term to FY2018, Hobart is expected to benefit from a combination of delayed supply and increased demand which will incite growth outperformance. Supply will come online at the back end of the timeframe which will restrict growth in FY2018
  - RevPAR growth is forecast to stabilise over the latter stages of the forecast as supply is absorbed. The level at which the city can induce repeat visitation (corporate/incentive) over the long term is the opportunity in a market where weekend getaways reign. Full forecast expectations are for 2.6% RevPAR average growth p.a

HOBART CITY REAL REVPAR



Long term RevPAR expectations are for average 2.6% growth p.a which is a slight forecast upgrade softened in the mid term by large proportionate supply in a small market

HOBART CITY HOTELS, MOTELS AND SERVICE APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	2,063	-1.7%	-3.3%	$94.01	2.6%	$58.67	0.9%	$84.69	62.4%
FY2002	2,145	4.0%	0.1%	$93.41	-0.6%	$56.09	-4.4%	$78.73	60.1%
FY2003	2,241	4.5%	12.8%	$97.48	4.4%	$63.21	12.7%	$86.40	64.8%
FY2004	2,358	5.2%	10.5%	$105.04	7.8%	$71.54	13.2%	$95.42	68.1%
FY2005	2,403	1.9%	2.4%	$110.46	5.2%	$75.63	5.7%	$98.42	68.5%
FY2006	2,435	1.3%	4.2%	$116.04	5.0%	$81.73	8.1%	$102.29	70.4%
FY2007	2,366	-2.8%	-2.9%	$123.46	6.4%	$86.93	6.4%	$106.59	70.4%
FY2008	2,376	0.4%	4.6%	$125.93	2.0%	$92.37	6.3%	$108.38	73.4%
FY2009	2,428	2.2%	2.9%	$128.14	1.8%	$94.62	2.4%	$109.43	73.8%
FY2010	2,497	2.8%	4.2%	$123.83	-3.4%	$92.68	-2.1%	$104.00	74.8%
FY2011	2,596	4.0%	1.9%	$129.68	4.7%	$95.14	2.7%	$103.05	73.4%
FY2012	2,587	-0.3%	-0.7%	$131.98	1.8%	$96.51	1.4%	$103.32	73.1%
FY2013	2,568	-0.7%	0.4%	$140.15	6.2%	$103.62	7.4%	$108.33	73.9%
FY2014	2,608	1.5%	-3.1%	$151.10	7.8%	$106.62	2.9%	$108.22	70.6%
FY2015	2,840	8.9%	13.6%	$149.96	-0.8%	$110.34	3.5%	$110.34	73.6%
Actual Avg FY 2001 - 2015		2.1%	3.2%		3.4%		4.5%		70.1%
Avg FY 11-15		2.7%	2.4%		3.9%		3.6%	$106.65	72.9%
Avg FY 12-15		3.2%	3.6%		4.4%		4.6%	$108.96	72.7%

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	2,840	0.0%	3.0%	$154.46	3.0%	$117.06	6.1%	$114.20	75.8%
FY2017	2,911	2.5%	4.5%	$162.18	5.0%	$125.29	7.0%	$119.25	77.3%
FY2018	3,284	12.8%	6.0%	$163.80	1.0%	$118.91	-5.1%	$109.36	72.6%
Avg FY 16-18		**5.1%**	**4.5%**		**3.0%**		**2.7%**	**$114.27**	**75.2%**
FY2019	3,692	12.4%	6.0%	$165.44	1.0%	$113.23	-4.8%	$101.10	68.4%
FY2020	3,808	3.1%	4.0%	$167.92	1.5%	$115.90	2.4%	$100.46	69.0%
FY2021	3,846	1.0%	2.6%	$172.12	2.5%	$120.68	4.1%	$101.56	70.1%
FY2022	3,884	1.0%	2.6%	$177.28	3.0%	$126.27	4.6%	$103.17	71.2%
FY2023	3,923	1.0%	2.6%	$182.60	3.0%	$132.11	4.6%	$104.80	72.4%
FY2024	3,962	1.0%	2.6%	$188.08	3.0%	$138.23	4.6%	$106.46	73.5%
Avg FY19-24		**3.3%**	**3.4%**		**2.3%**		**2.6%**	**$102.93**	**70.8%**
Total Forecast Avg FY 2016-2024		**3.9%**	**3.8%**		**2.6%**		**2.6%**	**$106.71**	**72.3%**

COMPARISON HF2015 vs HF2016 – Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	3,372	3.3%	2.8%	$189.59	2.5%	$131.71	2.1%	$104.15	68.5%
HF2016	3,923	4.2%	3.9%	$182.60	2.5%	$132.11	2.4%	$106.74	72.1%

ABS Dataset change affected

In FY2015 the market performed as anticipated though rate grew below expectations. This continues in FY2016. Demand for Melbourne hotels is expected to outperform supply growth through the medium term. Occupancy pressures are anticipated

MELBOURNE REGIONS – JUNE 2015

	Establishments	Rooms	RevPAR
Melbourne	145	20,354	$140.86
MELBOURNE TOURISM REGION			
Hotels	103	16,725	$151.93
Motels	99	5,052	$81.74
Serviced Apartments	126	10,149	$138.88
Total	**328**	**31,926**	**$136.68**
STAR GRADING			
Luxury	26	n.p.	n.p.
Up-Scale	181	19,165	$131.65
Mid-Scale	107	5,715	$79.91
Budget	14	n.p.	n.p.
Total	**328**	**31,926**	**$136.68**

FY2015 YEAR IN REVIEW

	FORECAST 2015	ACTUAL 2015	Var	
RevPAR	6.2%	4.6%	-1.6%	▼
Supply	2.8%	13.7%	10.9%	▲
Demand	3.0%	14.3%	11.3%	▲
Occupancy	82.9%	83.2%	0.2%	▲
ARR	6.0%	4.1%	-1.9%	▼

FY2015 Year in Review

- In FY2015 Melbourne hotels performed well recording strong rate driven RevPAR growth of 4.6%, slightly behind our robust 6.2% expectations. A large change in the ABS supply base has influenced reported performance
  - Melbourne maintained its position as the second strongest performer in the Australian market in terms of RevPAR growth
  - Historically high occupancy levels were maintained, increasing 0.4 points to 83.2%, slightly above our expectations as supply was fully absorbed
  - Rate growth of 4.1% was the strongest in the last 7 years as hotelier's confidence rose on the back of consistently strengthening demand and occupancy over 80%
- STR reported similar growth of 4.1% with increases in both occupancy levels and rate
- Preliminary STR data for FY2016 (April 2016) indicates occupancy levels have continued to strengthen however this hasn't translated through to rate, with hoteliers still appearing cautious.

Demand Driver Analysis

Demand for Melbourne hotels is showing no signs of weakening. As occupancy levels approach 85%, supply restriction is the immediate danger

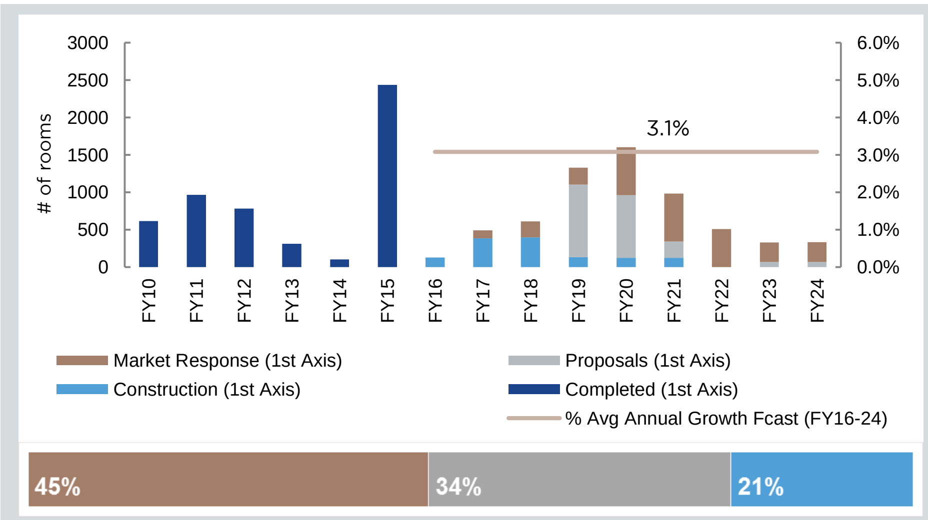
- Demand for Melbourne hotels continues to outpace supply growth and drive occupancy levels upwards. Relative strength of the AUD should improve an already strong international contingent of visitors. Melbourne's title as the sports capital of Australia is unabashed and a healthy calendar of events and conferences continues to drive healthy leisure demand and topping up the corporate core
- City data for FY2015 for Melbourne reveals :-
  - International visitor nights increased by 15.7% to 48.3M nights
  - Domestic visitor nights increased by 10.2% to 23.1M nights
  - Total visitor nights increased by 13.9% to 71.4M nights
- In FY2015 Melbourne hotel's domestic visitor nights content increased slightly to 66.6% from 66.2%
- The TFC forecasts for the period to FY2023 have been maintained at an average annual growth of 4.5%, from a higher base:-
  - Annual domestic visitor night growth of 2.7% vs. 1.1% previously
  - Annual international visitor night contracted to 5.3% vs. 5.8% previously

Dransfield Demand Forecast

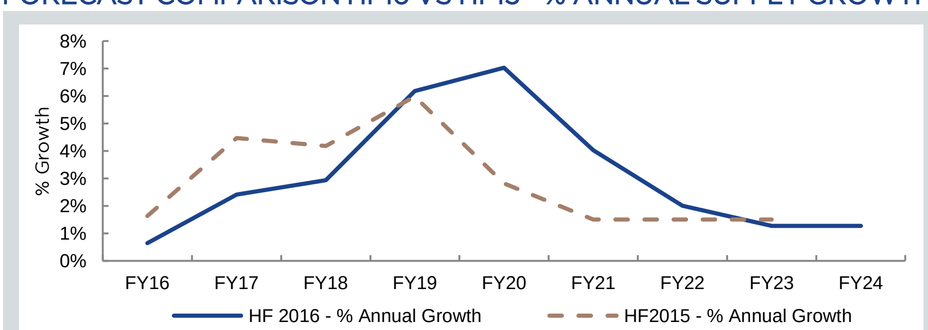
- Annual demand growth of 3.7% is expected in Melbourne City hotels over the long term which is a slight absolute upgrade to the prior forecast. The uplift comes through the middle to back end of the forecast with further growth constrained by supply
  - We expect demand to increase 2.0% in FY2016, and well above supply growth
  - Medium term demand growth to FY2018 is expected to average 3.0% p.a, representing a downgrade from previous expectations as supply delays effectively constrain demand growth below organic visitor growth
- There is a slight element of risk emanating from the Sydney International Convention Centre which opens in FY2018 and could potentially divert activity away from the MECC, although the Victorian government has committed up to $210M to expand current operations and negate the Sydney effect
- Long term growth to FY2023 of 3.7% p.a, excluding the ABS data change, realises a small 179,000 night absolute upgrade to prior forecasts. The strong supply pipeline should unlock and enable further demand growth.

A supply constrained market continues despite significant pipeline activity. We expect presently anticipated supply and substantial additional market response to be fully absorbed

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015 the ABS survey recorded a 13.7% increase (2,439 rooms) in rooms, which was significantly affected by a change in the ABS supply base calculation
  - Actual supply growth has been estimated to account for approximately 500 rooms, which is equivalent to a 3.0% supply increase
  - The majority of supply growth through FY2015 was made up of hotels which opened at the back end of FY2014 and were only partially included in prior year calculations
- Melbourne continues to sit at the bottom of the development cycle with low levels of growth experienced over the last two years. This trend is expected to continue over the short/medium term despite continued strengthening of occupancy levels. Market performance is encouraging developers to focus on Melbourne with many projects already in the pipeline
- The geographic area for Melbourne hotels continues to expand with meaningful stock continuing to appear in fringe locations such as Southbank, Dockland and South Yarra. These areas lend themselves to funky, lifestyle brands which are well placed to capitalise on the leisure boom

Supply Forecasts

- Our supply forecast to FY2023 represents a small absolute increase over the prior forecast, with delayed timing
- Dransfield's supply forecast is for 6,300 new rooms to enter the market over the next 9 years (31% of current stock) at an average annual growth rate of 3.1%
  - This follows 8,600 rooms which were added over the long term from FY1997 to FY2014 which were fully absorbed with occupancy levels actually improving from 76% to 82.8%.
  - Supply growth is concentrated through the middle of the forecast between FY2019-FY2021.
  - A significant proportion of the expected supply is made up of Market Response which will only eventuate with appropriate market conditions
- All of the expected additional supply is likely to be absorbed
- Supply growth in the medium term to FY2018 is expected to average a low 2.0% pa (1,200 rooms), which is a slight decrease on the 1,942 rooms expected in the prior forecast as project timing has delayed or has not proceeded. This delay is expected to catchup through FY2020 and FY2021
- There is a diverse range of supply in the pipeline led by several large luxury 5 star developments. Mid and Upscale properties, as well as serviced apartments are also well represented as the total Melbourne hotel market continues to show improvement across all tiers. Older stock will need to explore refurbishment options to stay competitive

Supply Cycle Comparison

- Long term supply forecasts have received a minor increase of 800 rooms representing a small uplift of 0.3% p.a and largely inline with demand growth increase expectations

MELBOURNE

Long term RevPAR expectations are for average 4.4% p.a. growth, and is largely inline with prior expectations. High growth of 5.4% in the medium term until supply arrives. A positive supply and demand equation should enable consistent rate growth

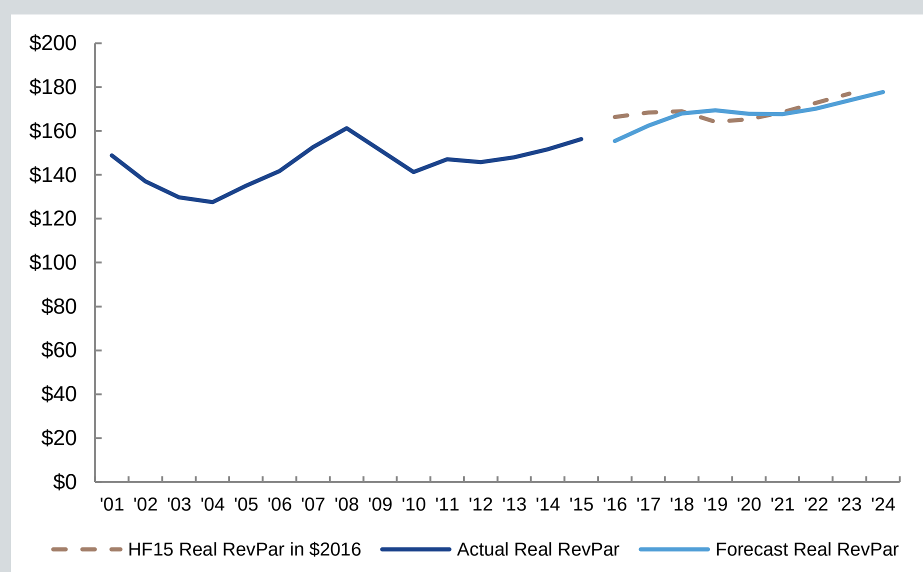
- The identified live pipeline has increased to 3,500 rooms compared with 2,700 previously, with slightly lesser probability of proposal completion assumed
  - The new forecast represents an increase in identified project numbers to 21 from 19 previously, and well within previously forecast market response
  - Construction activity more than doubled to 1,300 rooms while proposals also regenerated at higher levels
  - Live proposals now consist of 14 projects and 4,150 rooms which we estimate having a 52% prospect of delivery, compared to 3,500 rooms at 60% previously
- Over the next 6 years, live construction and proposals represent 64% of the forecast supply pipeline which is well below demand growth expectations for the corresponding period (2.7% vs 4.1%). Market response in this period totals 1,800 and 36% of supply assumed in the forecast
- Market response for the full forecast has been increased and allows for an additional 6,050 rooms above known projects
  - This represents an small increase and is in response to improved trading conditions in Melbourne
  - Market response to FY2023 now accounts for 52% of all new supply compared with 44% in the prior forecast.

Conclusion

- The Melbourne forecast represents a small downgrade to strong prior expectations as a result of underperformance in FY2015 and a softer than expected FY2016
- Over the period of the forecast, average occupancy expectations of 84.8% are slightly above prior expectations
  - Occupancy levels reached historic highs in FY2015 and are expected to strengthen in the short to medium term as demand growth outpaces supply additions
  - The supply cycle upswing has been delayed and is now expected through FY2019-2021. This has pushed expected occupancy levels above 85% before softening slightly as new supply comes online
- Rate expectations for the forecast period have been increased to 3.8% p.a. as occupancy constraints entice hoteliers to move more on rate. Despite the healthy rate expectations, there is opportunity for rate to outperform further as the quality of the market supply increases
  - Rate growth opportunities have not been realised over the first 3 quarters of FY2016 despite rising occupancy levels
  - Significant pressure on rate growth is expected through FY17/FY18 as occupancies continue to strengthen. Medium term rate growth of 4.3% is ahead of the long term average

- Our forecast is for a 1.2% reduction in average long term real RevPAR compared to our previous forecast. Impacted by a lower FY2015 base and underperformance in FY2016
- RevPAR growth to FY2023 of 4.3% is inline with prior forecasts, although outperformance opportunities exist in both demand and rate
  - In FY2016, RevPAR is expected to increase 1.9%, below previous expectations for 7.4% growth, as hoteliers fail to claim rate despite occupancy pressures
  - In the medium term to FY2018, RevPAR is expected to grow by an average of 5.4% p.a. as occupancy levels maintain above 85%
  - Long term expectations have been tempered as supply is absorbed. During this period rate growth has been moderated in line with the supply peak before the market normalizes and strengthens in the back end. Full forecast expectations to FY2024 are for 4.4% growth p.a

MELBOURNE CITY REAL REVPAR



Long term RevPAR expectations are for average 4.4% p.a. growth, and is largely inline with prior expectations. High growth of 5.4% in the medium term until supply arrives. A positive supply and demand equation should enable consistent rate growth

MELBOURNE CITY HOTELS, MOTELS AND SERVICE APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	11,228	2.1%	3.6%	$141.34	-1.7%	$103.15	-0.2%	$148.88	73.0%
FY2002	11,673	4.0%	-0.3%	$139.58	-1.2%	$97.70	-5.3%	$137.13	70.0%
FY2003	12,472	6.8%	6.0%	$136.79	-2.0%	$94.95	-2.8%	$129.78	69.4%
FY2004	13,517	8.4%	9.6%	$136.31	-0.4%	$95.70	0.8%	$127.63	70.2%
FY2005	13,883	2.7%	11.3%	$136.36	0.0%	$103.78	8.4%	$135.05	76.1%
FY2006	14,433	4.0%	4.6%	$147.87	8.4%	$113.25	9.1%	$141.75	76.6%
FY2007	14,853	2.9%	7.5%	$155.54	5.2%	$124.48	9.9%	$152.63	80.0%
FY2008	14,724	-0.9%	0.8%	$169.01	8.7%	$137.48	10.4%	$161.31	81.3%
FY2009	15,037	2.1%	-2.1%	$167.83	-0.7%	$130.90	-4.8%	$151.37	78.0%
FY2010	15,655	4.1%	2.1%	$164.62	-1.9%	$125.91	-3.8%	$141.30	76.5%
FY2011	16,621	6.2%	10.4%	$170.64	3.7%	$135.78	7.8%	$147.07	79.6%
FY2012	17,403	4.7%	4.0%	$172.41	1.0%	$136.21	0.3%	$145.81	79.0%
FY2013	17,717	1.8%	3.6%	$176.10	2.1%	$141.55	3.9%	$147.98	80.4%
FY2014	17,821	0.6%	3.6%	$180.60	2.6%	$149.48	5.6%	$151.72	82.8%
FY2015	20,260	13.7%	14.3%	$187.98	4.1%	$156.37	4.6%	$156.37	83.2%
Actual Avg FY 2001 - 2015		4.2%	5.3%		1.9%		2.9%		77.1%
Avg FY 11-15		5.4%	7.2%		2.7%		4.5%	$149.79	81.0%
Avg FY 12-15		5.4%	7.1%		2.9%		4.7%	$152.02	82.1%

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	20,389	0.6%	2.0%	$188.92	0.5%	$159.28	1.9%	$155.39	84.3%
FY2017	20,880	2.4%	3.5%	$200.25	6.0%	$170.63	7.1%	$162.41	85.2%
FY2018	21,491	2.9%	3.5%	$213.27	6.5%	$182.74	7.1%	$168.05	85.7%
Avg FY 16-18		2.0%	3.0%		4.3%		5.4%	$161.95	85.1%
FY2019	22,820	6.2%	5.0%	$223.93	5.0%	$189.74	3.8%	$169.40	84.7%
FY2020	24,424	7.0%	5.0%	$232.89	4.0%	$193.58	2.0%	$167.81	83.1%
FY2021	25,408	4.0%	3.5%	$241.04	3.5%	$199.34	3.0%	$167.76	82.7%
FY2022	25,916	2.0%	3.5%	$248.27	3.0%	$208.34	4.5%	$170.23	83.9%
FY2023	26,245	1.3%	3.5%	$255.72	3.0%	$219.32	5.3%	$173.98	85.8%
FY2024	26,577	1.3%	3.5%	$263.39	3.0%	$230.89	5.3%	$177.82	87.7%
Avg FY19-24		3.6%	4.0%		3.6%		4.0%	$171.17	84.6%
Total Forecast Avg FY 2016-2024		3.1%	3.7%		3.8%		4.4%	$168.10	84.8%

COMPARISON HF2015 vs HF2016 – Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	23,085	2.9%	3.7%	$253.19	3.6%	$222.59	4.3%	$168.98	84.7%
HF2016	26,245	3.3%	3.7%	$255.72	3.9%	$219.32	4.3%	$166.88	84.4%

DRANSFIELD HOTELS & RESORTS

In FY2015, the Perth hotel market correction continued, albeit at much reduced levels as rates were not maintained despite consistent occupancy. The demand outlook has been upgraded

PERTH REGIONS – JUNE 2015

	Establishments	Rooms	RevPAR
Perth City	53	6,494	$151.49
PERTH TOURISM REGION			
Hotels	54	6,972	$150.85
Motels	33	1,874	$90.56
Serviced Apartments	50	3,142	$136.52
Total	**137**	**11,988**	**$137.64**
STAR GRADING			
Luxury	7	n.p.	n.p.
Up-Scale	62	6,059	$152.25
Mid-Scale	57	3,799	$96.08
Budget	11	n.p.	n.p.
Total	**137**	**11,988**	**$137.64**

FY2015 YEAR IN REVIEW

	FORECAST 2015	ACTUAL 2015	Var	
RevPAR	-0.5%	-1.3%	-0.8%	▼
Supply	0.0%	9.4%	9.4%	▲
Demand	1.0%	9.4%	8.4%	▲
Occupancy	81.8%	81.0%	-0.8%	▼
ARR	-1.5%	-1.3%	0.2%	▲

FY2015 Year in Review

- In FY2015 Perth recorded a small 1.3% RevPAR decline as the market continues to correct following the mining boom
  - Occupancy levels stabilised at 81.0%
  - Rates decreased by 1.3%, in line with expectations
- The STR sample of higher quality, larger hotels recorded a more pronounced RevPAR decline of 2.6% from a higher base
- Preliminary STR data for FY2016 YTD (April 2016) indicates that the correction is not over, with further softening of rates and to a lesser degree occupancy levels. Despite contraction, occupancy levels still remain high, exceeding 80%.

Demand Driver Analysis

Core resource prices have been widely forecast to remain in hibernation for the short to medium term which will limit any resurgence in mining infrastructure planning/construction and associated travel.

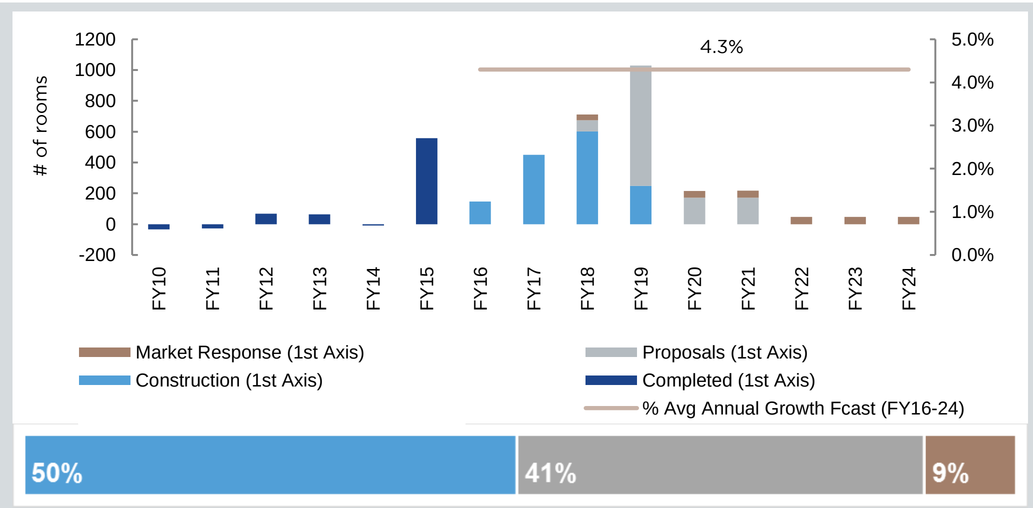
- Perth's ability to replace corporate demand with leisure guests will have a significant impact on market growth. The market must diversify so that its less vulnerable to boom and bust cycles, with leisure development leading the way and providing a high level of demand replacement
- In FY2015, ABS statistics recorded a 9.4% increase in room night demand. This was mostly a result of the ABS supply base increase which had an equal effect on supply. Dransfield is unaware of any significant property to have opened in the FY2015 calculation period
- City data for FY2015 for Perth reveals :-
  - International visitor nights increased by 8% to 23M nights
  - Domestic visitor nights grew by 0.5% to 11.7M nights
  - Total visitor nights increased by 2.0% to 34.7M nights
- In FY2015 Perth hotel's domestic visitor nights share decreased to 63.5% from 68.1% due to higher growth in international nights
- The TFC forecasts for Perth for the period to FY2023 have been marginally upgraded to average growth of 4.6% p.a compared to 4.3% previously :-
  - Annual domestic visitor night growth of 3.3% vs. 1.0% previously
  - Annual international visitor nights slightly reduced to 5.3% vs. 5.8% previously

Dransfield Demand Forecast

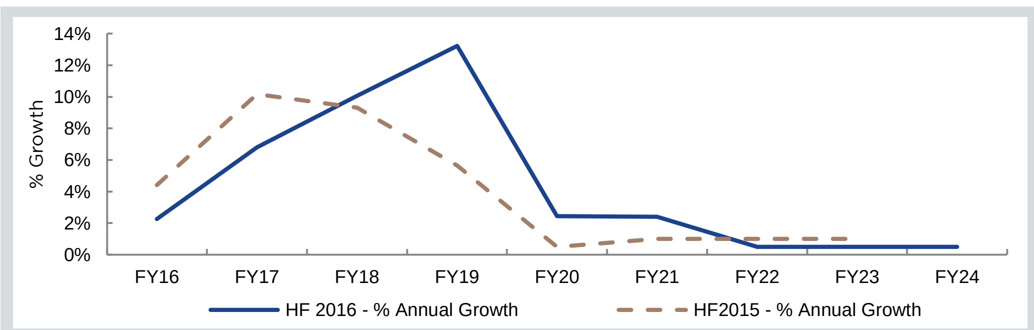
- Annual demand growth of 4.2% p.a. is expected over the long term which is a small upgrade to the prior forecast when analysed on a like for like basis
  - We expect demand to increase 1.0% in FY2016, which is below supply growth expectations
  - Medium term demand growth to FY2018 is expected to average 4.3% p.a, representing a downgrade from previous 6.3% expectations as the change over from corporate to leisure guests takes longer to transition than previously anticipated and resources have a higher level of challenge
  - Long term growth to FY2023 of 4.2% p.a, excluding the ABS data change, realises a small 1,000 night absolute upgrade to prior forecasts. The slowdown of mining and consequent local economic impact continues to erode confidence. Destination development is underway with major upgrades at Burswood, Elizabeth Quay, Perth Stadium, the Riverside as well as WA museum to drive growth though the medium to long term. New, quality accommodation options are in the pipeline to facilitate growth of leisure guests, including the lucrative and growing Chinese middle class.

Supply expectations have increased despite the market outlook slightly deteriorating. Supply has become more certain with more construction activity

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015 the ABS survey recorded a 9.4% increase (558 rooms) in supply, which was significantly affected by the change in the ABS supply base calculation. The ABS data break included 16 additional hotels in Western Australia, of which we estimate 5 properties to be included in our earlier forecast boundaries
- The largely supply base oriented change in FY2015 was the first year with supply growth above 250 rooms over the last decade
- Proactive government strategy including the opportunity to bid for Crown land at reduced market rates, flexible floor space bonuses and infrastructure grants have improved development conditions and have set the platform for increased supply

Supply Forecasts

- Supply forecasts to FY2023 represent a small absolute increase over the prior forecast with slightly delayed timing
- Dransfield's supply forecast is for 2,900 new rooms to enter the market over the next 9 years to FY2024 (45% of current stock) at an average annual growth rate of 4.3%
  - The majority of the anticipated supply is expected over the next 4 years and is unlikely to be fully absorbed as the market resets following extreme mining induced outperformance
  - The development of the Crown Perth's new luxury 500 room hotel and integrated resort sits outside Dransfield forecast boundaries and is not included. Whilst this will place additional pressure on Perth supply, it will also act as a primary demand driver to the region
  - Anticipated supply is geared towards upscale properties as the market fills a segment which has traditionally lacked depth. Luxury brands from both international and domestic operators have been linked to several projects
  - Upgrades/refurbishments and repositioning of existing properties is expected to continue as the large stock of older properties improve to stay competitive

Supply Cycle Comparison

- Long term supply forecasts have received a minor increase of 650 rooms representing a small uplift of 0.9% p.a and exceed incremental demand growth expectations
- The identified live pipeline has infilled, increasing to 2,650 rooms compared with 1,800 previously, with slightly lower probability for proposal completion
  - The new forecast represents an increase in identified project numbers to 22 from 19 previously, with a high proportion of projects in the construction stage

Long term RevPAR expectations averaging growth of 2.2% p.a which represents a major downgrade, caused by continuous increases in supply over several years and a weaker local economy/demand profile in the medium term

- Construction activity has significantly increased to 1,500 rooms, from 200 previously, as formerly proposed projects break ground
- Live proposal numbers which migrated to construction have been largely replaced by new proposals although at a lower probability of proceeding as the market fills. Proposals now consist of 11 projects and 2,500 rooms which we estimate having a 49% prospect of delivery compared to 2,750 at 57% previously

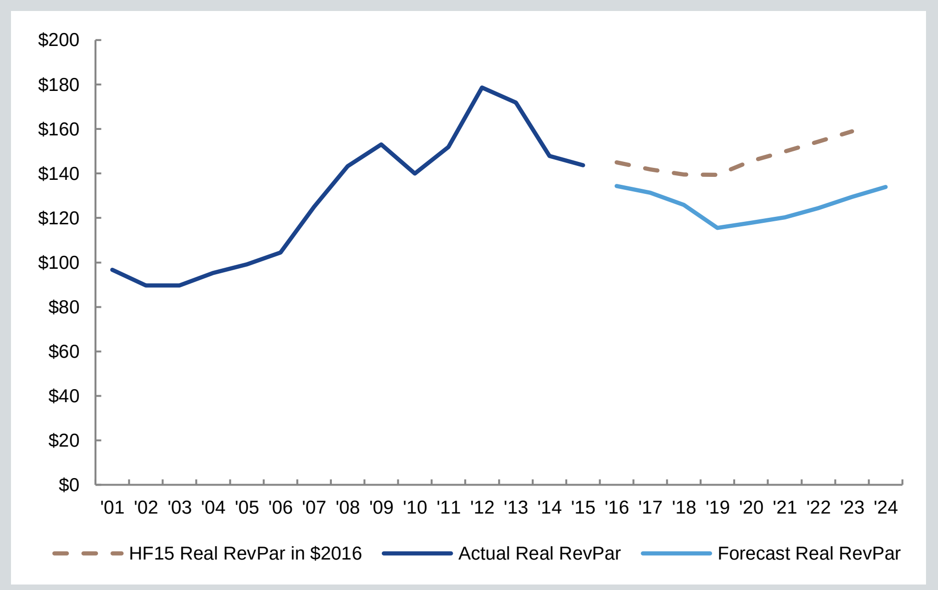
- Over the next 6 years, live construction and proposals represent 95% of the forecast supply pipeline and is above demand growth expectations for the corresponding period (7.4% vs 5.2%). Market response in this period totals a low 130 rooms and 5% of supply assumed in the forecast
- Market Response for the full forecast allows for a low additional 250 rooms over known projects
  - This represents a decrease responding to the uplift in construction and proposal activity and a more advanced supply cycle
  - Market response to FY2023 now accounts for just 8% of all new supply compared with 20% in the prior forecast

Conclusion

- The Perth forecast represents a major downgrade as the effect of increased supply concentrated in the medium term meets with demand uncertainty
- The market contraction experienced in FY2015 has amplified through the first three quarters of FY2016, with reductions in both occupancy and rate, though there are recent signs of slowing
- Over the period of the forecast, average occupancy expectations of 77.0% are below prior 81.2% expectations
  - Occupancy levels are expected to weaken through the medium term as substantial supply comes online moving into the early 70's. The market is repositioning itself following extensive mining related infrastructure development which inflated occupancy and rate over the last decade. The natural position for Perth occupancy is likely to be in the mid to high 70%'s
  - Occupancy is expected to recover towards the back end of the forecast as a more rounded visitor type makeup (corporate and leisure) takes effect and supply normalises
- Rate growth expectations for the forecast period have been reduced to 2.2% p.a as new supply is slowly absorbed. Rate consolidation may occur towards the latter stages of the forecast as the evolution of the new upscale market products take effect
  - Medium term rate growth of 0.3% p.a is well below the long term average and is impacted by a decline in FY2016
  - Over the long term, the effect of supply and demand repositioning should lead to increasing rates as the average level of supply quality rises
- Our forecast is for reduced average long term Real RevPAR of 14.9% and is impacted by underperformance in FY2015

- RevPAR growth to FY2023 represents a downgrade with average growth of 1.7% p.a. compared to the previous 4.1%. Medium term performance is expected to go through a repositioning phase with lower rates and occupancy levels
  - In FY2016, RevPAR is expected to decline by 4.2%, well below previous expectations for 2.6% growth as contractions in rate and to a lesser degree occupancy continue
  - In the medium term to FY2018, RevPAR expectations limited as new supply is not fully absorbed. Economic uncertainty and the price of iron ore will limit growth possibilities over this period. Expectations are for average RevPAR just decline of 1.6% p.a.
  - RevPAR growth is forecast to recover over the latter stages of the forecast as occupancy levels improve. The development of significant new supply, whilst inhibiting performance in the short to medium term, is much needed. It can reposition the market as a quality leisure destination with supply options available across all segments. Destination development should entice visitors who were displaced by corporate miners over the last decade.
  - Full forecast expectations are for 2.2% RevPAR average growth p.a

PERTH CITY REAL REVPAR



Long term RevPAR expectations averaging growth of 2.2% p.a which represents a major downgrade, caused by continuous increases in supply over several years and a weaker local economy/demand profile in the medium term

PERTH CITY HOTELS, MOTELS AND SERVICE APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	5,208	1.7%	1.1%	$97.69	-4.2%	$67.02	-4.8%	$96.73	68.6%
FY2002	5,322	2.2%	-2.1%	$97.20	-0.5%	$63.91	-4.6%	$89.70	65.8%
FY2003	5,386	1.2%	6.9%	$94.49	-2.8%	$65.63	8.7%	$89.70	69.5%
FY2004	5,749	6.7%	10.0%	$99.82	5.6%	$71.47	8.9%	$95.33	71.6%
FY2005	5,702	-0.8%	2.4%	$103.04	3.2%	$76.15	6.5%	$99.11	73.9%
FY2006	5,594	-1.9%	2.1%	$108.53	5.3%	$83.51	9.7%	$104.52	76.9%
FY2007	5,515	-1.4%	4.1%	$125.55	15.7%	$101.95	22.1%	$125.01	81.2%
FY2008	5,722	3.8%	6.9%	$145.92	16.2%	$122.05	19.7%	$143.20	83.6%
FY2009	5,860	2.4%	-0.9%	$163.53	12.1%	$132.38	8.5%	$153.09	81.0%
FY2010	5,827	-0.6%	-3.9%	$159.43	-2.5%	$124.72	-5.8%	$139.96	78.2%
FY2011	5,799	-0.5%	4.9%	$170.00	6.6%	$140.24	12.4%	$151.90	82.5%
FY2012	5,866	1.2%	5.6%	$193.66	13.9%	$166.83	19.0%	$178.59	86.1%
FY2013	5,929	1.1%	-2.1%	$197.12	1.8%	$164.41	-1.4%	$171.88	83.4%
FY2014	5,919	-0.2%	-3.0%	$179.77	-8.8%	$145.65	-11.4%	$147.83	81.0%
FY2015	6,478	9.4%	9.4%	$177.48	-1.3%	$143.74	-1.3%	$143.74	81.0%
Actual Avg FY 2001 - 2015		1.6%	2.8%		4.0%		5.7%		77.6%
Avg FY 11-15		2.2%	3.0%		2.5%		3.4%	$158.79	82.8%
Avg FY 12-15		3.4%	1.4%		-2.8%		-4.7%	$154.49	81.8%

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	6,624	2.3%	1.0%	$172.16	-3.0%	$137.71	-4.2%	$134.35	80.0%
FY2017	7,074	6.8%	6.0%	$173.88	1.0%	$138.06	0.3%	$131.41	79.4%
FY2018	7,786	10.1%	6.0%	$179.10	3.0%	$136.94	-0.8%	$125.94	76.5%
Avg FY 16-18		6.4%	4.3%		0.3%		-1.6%	$130.57	78.6%
FY2019	8,816	13.2%	7.0%	$179.10	0.0%	$129.42	-5.5%	$115.55	72.3%
FY2020	9,032	2.4%	4.0%	$185.36	3.5%	$135.98	5.1%	$117.87	73.4%
FY2021	9,248	2.4%	4.0%	$191.85	3.5%	$142.94	5.1%	$120.29	74.5%
FY2022	9,295	0.5%	3.5%	$198.57	3.5%	$152.35	6.6%	$124.49	76.7%
FY2023	9,341	0.5%	3.5%	$206.51	4.0%	$163.18	7.1%	$129.45	79.0%
FY2024	9,388	0.5%	3.0%	$214.77	4.0%	$173.93	6.6%	$133.95	81.0%
Avg FY19-24		3.3%	4.2%		3.1%		4.2%	$123.60	76.1%
Total Forecast Avg FY 2016-2024		4.3%	4.2%		2.2%		2.2%	$125.92	77.0%

COMPARISON HF2015 vs HF2016 – Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	8,141	4.1%	4.6%	$234.27	3.6%	$199.90	4.1%	$146.82	81.1%
HF2016	9,341	4.8%	4.4%	$206.51	1.9%	$163.18	1.7%	$124.92	76.5%

ABS Dataset change affected

Third straight year of underwhelming rate growth limits Sydney RevPAR growth despite occupancy staying above 86%. Demand growth stifled by high occupancy and limited supply

SYDNEY REGIONS – JUNE 2015

	Establishments	Rooms	RevPAR
Sydney	114	18,900	$158.78
SYDNEY TOURISM REGION			
Hotels	128	21,477	$166.12
Motels	110	7,492	$95.37
Serviced Apartments	78	7,743	$162.10
Total	**316**	**36,712**	**$150.85**
STAR GRADING			
Luxury	31	8,376	$237.41
Up-Scale	138	19,202	$141.50
Mid-Scale	120	7,680	$95.90
Budget	27	1,454	$65.26
Total	**316**	**36,712**	**$90.56**

FY2015 YEAR IN REVIEW

	FORECAST 2015	ACTUAL 2015	Var	
RevPAR	5.6%	0.6%	-5.0%	▼
Supply	0.0%	1.8%	1.8%	▲
Demand	1.5%	1.6%	0.1%	▲
Occupancy	87.9%	86.4%	-1.5%	▼
ARR	4.0%	0.9%	-3.1%	▼

FY2015 Year in Review

- In FY2015 Sydney hotels recorded limited RevPAR growth of 0.6%, well below our 5.6% expectations due to nominal rate growth. A change in the ABS supply base, although rather minimal, appears to have been a drag on performance as lesser quality hotels were added to the supply base
  - Occupancy and demand movement was negligible (-0.2 points to 86.4%) as there is very limited capacity Monday through Thursday and Saturday nights. There is considerable scope for additional accommodation required to enable expected organic demand growth
  - Rates increased by only 0.9%, well below our modest 4.0% expectations given occupancy levels. Hoteliers continue to be over cautious in a consistently high occupancy market
- The STR sample of higher quality larger hotels recorded considerably better results with rate led RevPAR growth of 4.5%
- Preliminary STR data for FY2016 YTD (Apr 2016) indicates that rate growth has improved and will drive robust performance above the prior forecast.

Demand Driver Analysis

Sydney hotel demand continues to be a low risk proposition with significant and diverse demand drivers keeping hotels full 5 out of 7 days. The reopening of the Convention Centre in 2018 will assist in the absorption of new supply which is concentrated in the burgeoning Darling Harbour precinct

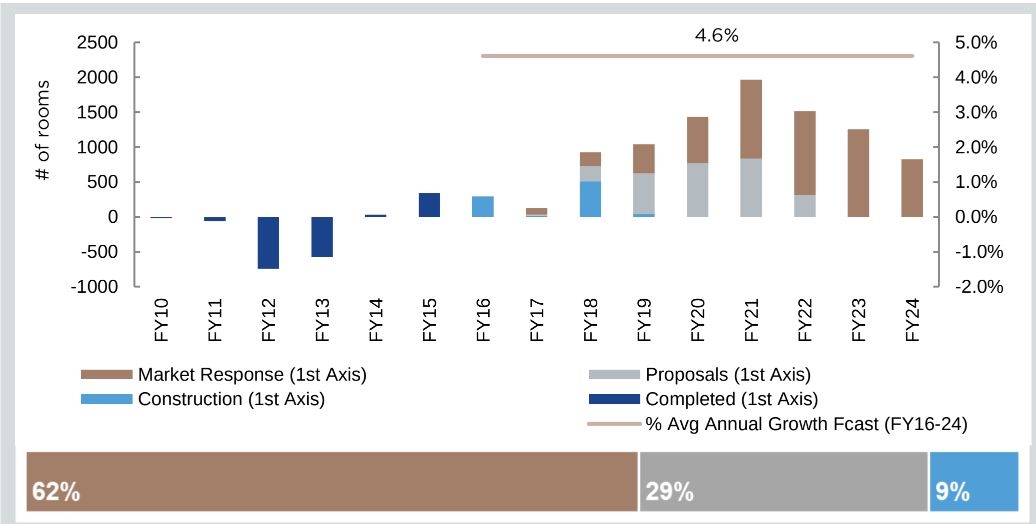
- In FY2015 demand for Sydney hotels grew by 1.6%, impacted by the ABS data base change. We estimate actual demand growth was negligible due to capacity constraints and consistent occupancy
- City data for FY2015 for Sydney reveals :-
  - International visitor nights increased by 7% to 67.3M nights
  - Domestic visitor nights grew by 5.6% to 24.9M nights
  - Total visitor nights increased by 6.6% to 92.2M nights
- In FY2015 Sydney hotel's domestic visitor nights content increased to 57.0% from 53.9%
- The TFC forecasts for Sydney for the period to FY2023 have been maintained with growth of 4.4%:-
  - Annual domestic visitor night growth of 3.1% vs. 0.5% previously
  - Annual international visitor night contracted to 4.9% vs. 5.6% previously

Dransfield Demand Forecast

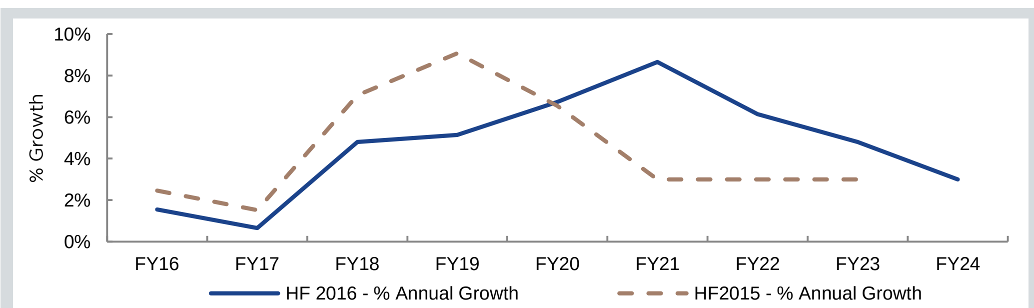
- Annual demand growth of 4.2% is expected over the long term which is a small absolute upgrade to the prior forecast
  - We expect demand to increase 3.0% in FY2016, the largest increase over the last 5 years as a small rise in supply slightly eases the demand bottleneck
  - Medium term demand growth to FY2018 is expected to average 2.7% p.a, representing a slight downgrade from previous 3.5% p.a, expectations as supply has been slightly delayed, and will constrain growth opportunities
- Long term growth to FY2023 of 4.2%, excluding the ABS data change, realises a small 296,000 night absolute upgrade on the prior forecast
- Increased supply expectations will facilitate growth in demand, however, with occupancy expectations above 85%, demand growth in Sydney will continue to be constrained requiring more supply.

Meaningful supply is expected to come online over the back half of the next 6 years. New supply will relieve growing demand pressures, although much of our longer term supply forecast remains as anticipated Market Response rather than more certain live projects with sponsorship

SUPPLY ACTUAL & FORECAST BY TYPE FY10-FY24



FORECAST COMPARISON HF16 VS HF15 - % ANNUAL SUPPLY GROWTH



Supply Actual

- In FY2015 the ABS survey recorded a 1.8% increase (342 rooms) in supply which appears based on the ABS supply base change. There were no large properties that came online
- FY2015 marked just the second year of recorded supply growth over the past 6 years

Supply Forecasts

- Supply forecasts to FY2023 represent a slight increase to our prior forecast with delayed timing
- Dransfield's supply forecast is for 9,350 new rooms to enter the market over the next 9 years to FY2024 (48% of current stock) at an average annual growth rate of 4.6%
  - In the short to medium term, supply will be balanced by several hotel closures including the recently closed 226 room Mercure Potts Point and the soon to close 446 room Menzies
  - Supply growth in the medium term to FY2018 of 2.3% p.a is below the full forecast average and will create ongoing rate pressure
  - There is wide diversity in the Sydney pipeline with all tiers of accommodation well represented including luxury
  - Sydney hotel development has finally emerged from obscurity as high barriers to entry (land value, best use etc) reduce with rising hotel earnings and planning concessions. Record sales values and hungry capital markets have reset feasibility and opened the door to developers
  - Development activity in the Barrangaroo/Darling Harbour precinct leads the way with several high quality hotels in construction and in proposal stages. The precinct's development activity, bookended by two casinos, will improve the already prominent leisure destination supported by major co-located residential and commercial development
  - Supply remains below market needs and capacity

Supply Cycle Comparison

- Long term supply forecasts have received a minor increase of 900 rooms representing a small uplift of 0.4% p.a. and are well below incremental demand growth expectations
- The identified live pipeline has infilled, increasing to 3,600 rooms compared with 1,800 previously, with similar 66% probability for proposal completion assumed

Long term RevPAR expectations are for average growth of 4.9% p.a, upgraded from 4.4%. Proposal activity has doubled yet remains below needs, leaving Occupancy in the mid 80's. Very high occupancy in the short, medium and long term can enable rate growth well above inflation

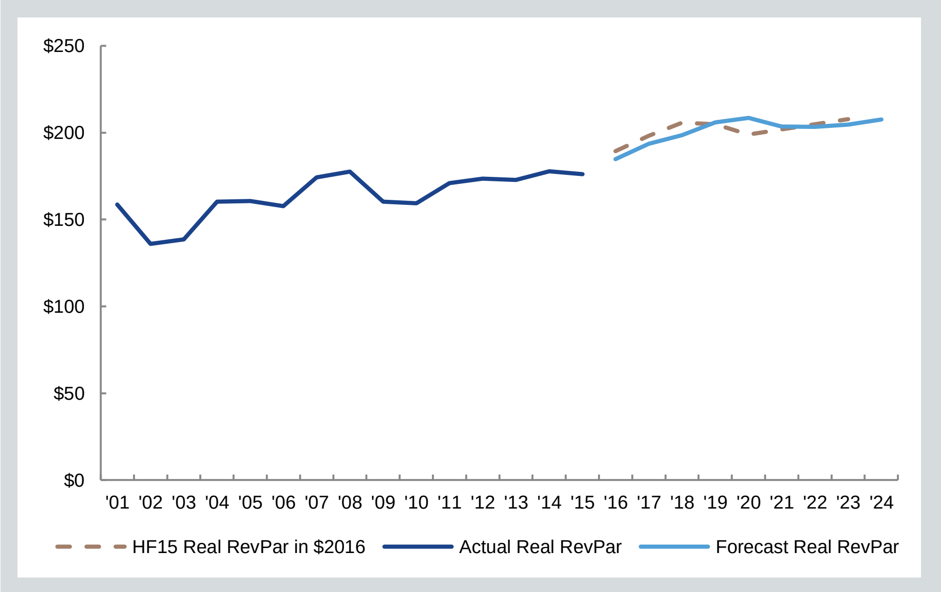
- The new forecast represents an increase in identified project numbers to approximately 32 from 19 previously, and well within previously forecast market response
- Construction activity actually reduced pending commencement of proposals and impacted by hotel closures
- Live proposals now consist of 20 projects and 4,150 rooms which we estimate as having a 66% prospect of delivery compared with 1,200 rooms at 65% previously

- Over the next 6 years, live construction and proposals represent 57% of the forecasted supply pipeline and is below demand growth expectations for the corresponding period (2.9% vs 4.6%). Market Response in this period totals 2,500 rooms and 43% of supply in the forecast
- Market Response for the full forecast allows for an additional 5,000 rooms above known projects
  - This represents a decrease to prior expectations and responds to the increase in proposals and a more advanced supply cycle
  - Market response to FY2023 now accounts for 58% of all new supply compared with 77% in the prior forecast.

Conclusion

- The Sydney forecast represents a slight upgrade on an already strong forecast with outperformance over the first 3 years as well as the back end of the forecast
  - RevPAR performance in the first half of FY2016 has improved from FY2015 expectations off a lower base. Rate claiming appears to have finally started
- Expectations to FY2024 are for high average occupancy levels of 85.6%
  - Despite registering above 86% in the last 2 years, occupancy levels are expected to strengthen further over the medium term, pushing towards an unprecedented 88% by FY2018 as demand growth fully absorbs limited supply additions
  - Occupancy levels will normalise slightly from FY2019 as supply comes online and satisfies some demand pressure
- Long term rate growth expectations have been increased slightly to average 5.3% p.a, despite hoteliers historically cautious approach in Sydney
  - Supplementary market data for FY2016 indicates rate claiming has began through the first half of the year. Significant rate pressures are expected to continue over the medium term as new supply is still under construction. Average growth is driven by a strong first 3 years, expecting 6.7% p.a. from very high occupancy levels
  - We have tempered the rate forecast for the back end of the forecast as supply slightly eases occupancy pressure. There remains opportunity for outperformance at the back end if demand takes up the additional supply quicker than expected
  - The risk of underperformance on rate growth is offset by the high level of supply anticipated in Market Response at the back end of the forecast. This may not eventuate and will wind back with any RevPAR growth failure
- Our forecast is for decreased long term average real RevPAR of 0.5% which was highly affected by underperformance in FY2015
- RevPAR growth to FY2023 has been increased slightly (4.9% p.a. vs 4.4% p.a.), driven by consistently high occupancy lifting rate and the lower base
  - In FY2016, RevPAR is expected to increase by 7.5%, well above prior 5.0% expectations. This increase is primarily related to a delay in supply which has compounded occupancy and rate pressures
  - In the medium term to FY2018, RevPAR is expected to grow by an average of 7.0% p.a. and is slightly above prior 6.5% p.a expectations. Medium term supply delays are expected to place upwards pressures on occupancies and in turn, rate
- Robust long term growth expectations have the opportunity for outperformance should market response allowances not eventuate as forecast. The effect of the International Convention Centre will also impact market performance. Continued pressure on rates is expected throughout the forecast.

SYDNEY CITY REAL REVPAR



Long term RevPAR expectations are for average growth of 4.9% p.a, upgraded from 4.4%. Proposal activity has doubled yet remains below needs, leaving Occupancy in the mid 80's. Very high occupancy in the short, medium and long term can enable rate growth well above inflation

SYDNEY CITY HOTELS, MOTELS AND SERVICE APARTMENTS

ACTUAL

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
HISTORICAL									
FY2001	21,425	10.6%	8.6%	$156.65	7.9%	$109.83	5.9%	$158.52	70.1%
FY2002	20,707	-3.4%	-4.5%	$139.87	-10.7%	$96.86	-11.8%	$135.95	69.3%
FY2003	18,625	-10.1%	-4.8%	$138.43	-1.0%	$101.43	4.7%	$138.63	73.3%
FY2004	18,152	-2.5%	4.8%	$152.54	10.2%	$120.13	18.4%	$160.22	78.8%
FY2005	18,568	2.3%	2.9%	$155.79	2.1%	$123.41	2.7%	$160.60	79.2%
FY2006	19,429	4.6%	1.4%	$164.10	5.3%	$125.96	2.1%	$157.65	76.8%
FY2007	19,648	1.1%	6.7%	$175.49	6.9%	$142.09	12.8%	$174.23	81.0%
FY2008	19,763	0.6%	1.9%	$184.57	5.2%	$151.35	6.5%	$177.58	82.0%
FY2009	19,896	0.7%	-3.5%	$176.31	-4.5%	$138.57	-8.4%	$160.25	78.6%
FY2010	19,878	-0.1%	6.2%	$170.09	-3.5%	$142.06	2.5%	$159.41	83.5%
FY2011	19,817	-0.3%	3.0%	$182.93	7.5%	$157.88	11.1%	$171.01	86.3%
FY2012	19,073	-3.8%	-7.4%	$195.20	6.7%	$162.11	2.7%	$173.54	83.0%
FY2013	18,498	-3.0%	-1.0%	$195.04	-0.1%	$165.29	2.0%	$172.81	84.7%
FY2014	18,527	0.2%	2.4%	$202.20	3.7%	$175.13	5.9%	$177.75	86.6%
FY2015	18,868	1.8%	1.6%	$203.95	0.9%	$176.15	0.6%	$176.15	86.4%
Actual Avg FY 2001 - 2015		-0.1%	1.2%		2.4%		3.9%		80.0%
Avg FY 11-15		-1.0%	-0.3%		3.7%		4.5%	$174.25	85.4%
Avg FY 12-15		-0.3%	1.0%		1.5%		2.8%	$175.57	85.9%

ABS Dataset change affected

FORECAST

Year	Rooms	Supply % Chng	Demand % Chng	ARR	% Chng	RevPAR	% Chng	$2015 Real RevPAR	Occ
FORECAST									
FY2016	19,160	1.5%	3.0%	$216.19	6.0%	$189.39	7.5%	$184.77	87.6%
FY2017	19,285	0.7%	1.0%	$231.33	7.0%	$203.35	7.4%	$193.55	87.9%
FY2018	20,211	4.8%	4.0%	$247.52	7.0%	$215.92	6.2%	$198.57	87.2%
Avg FY 16-18		2.3%	2.7%		6.7%		7.0%	$192.30	87.6%
FY2019	21,250	5.1%	5.0%	$264.84	7.0%	$230.72	6.9%	$205.99	87.1%
FY2020	22,681	6.7%	6.5%	$276.76	4.5%	$240.57	4.3%	$208.54	86.9%
FY2021	24,644	8.7%	5.5%	$286.45	3.5%	$241.77	0.5%	$203.47	84.4%
FY2022	26,157	6.1%	4.5%	$299.34	4.5%	$248.75	2.9%	$203.24	83.1%
FY2023	27,412	4.8%	4.0%	$312.81	4.5%	$257.95	3.7%	$204.63	82.5%
FY2024	28,235	3.0%	4.0%	$323.76	3.5%	$269.58	4.5%	$207.62	83.3%
Avg FY19-24		5.7%	4.9%		4.6%		3.8%	$205.58	84.5%
Total Forecast Avg FY 2016-2024		4.6%	4.2%		5.3%		4.9%	$201.15	85.6%

COMPARISON HF2015 vs HF2016 – Average and Absolute to FY2023

Year	Rooms	Supply Avg	Demand Avg	ARR	ARR Avg	RevPAR	RevPAR Avg	Avg Real RevPAR	Avg Occ
HF 2015	26,192	4.5%	3.9%	$308.99	4.9%	$261.33	4.4%	$201.45	85.5%
HF2016	27,412	4.8%	4.2%	$312.81	5.5%	$257.95	4.9%	$200.35	85.8%

DRANSFIELD HOTELS & RESORTS

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.

Australian Bureau of Statistics – Adjustment in Reporting

In FY2015 a break in the ABS data series occurred, with the inclusion of an additional 17,828 rooms across 279 STA properties in Australia which were previously overlooked. Whilst these additional rooms are not solely included in Hotel Futures city borders, the effect has made supply and demand growth figures unreliable for FY2015 as data from the September quarter 2014 onwards is not directly comparable to the past

For more information on the change visit www.abs.gov.au

Effect of changes to Australian Bureau of Statistics Classifications

Following the ABS change in the supply base, Dransfield identified a general downgrade in reported FY2015 data, which appears to be brought about by the change in methodology.

The impact varies across individual cities and is related to the amount and quality of additional stock added to the market base.

Dransfield identified performance below other market reports and expectations, that suggest the newly identified properties are typically based at the lower end of the performance spectrum from both a rate and occupancy level.

Where possible we have provided our supply and demand estimates excluding the base change. These are only an estimate and should not be relied on as being completely accurate.

Sources of Historic Forecast Data

Where it is noted that ABS 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.

Tourism Research Australia was created on 1 July 2004 and brings together the Australian Tourism Commission, See Australia, the Bureau of Tourism Research and the Tourism Forecasting Council. The Tourism Forecasting Committee (TFC) was also established following the formation of Tourism Australia (TA). The TFC remains an independent body providing forecasts of activity across international, domestic and outbound tourism sectors. The resources for the TFC are provided by Tourism Research Australia (TRA), which is a division of Tourism Australia.

STR Global

STR Global provides global hotel data covering daily and monthly performance data, forecasts, annual profitability, pipeline and census information. STR collects data from 46,000 hotels globally, representing 5.3 million rooms.

The Australian and New Zealand Hotel Review provides a sample of the whole market and coverage typically sits within a range of 50-75% of the entire census. The data consists of the majority of larger and branded operators but also contains information from many smaller operators and independents. This sample is on average of a higher quality than the market covered in the full ABS survey.

Typically, STR sample data outperforms ABS survey data and provides a slightly skewed top end performance review, based on subject properties who participate in the survey.

METHODOLOGY & BACKGROUND

Other Historical Changes to Australian Bureau of Statistics and TFC Methodology

As a result of the introduction of the Goods and Services Tax (GST) on 1 July 2000, the ABS reports data inclusive of GST. To enable meaningful comparison to the previous years, we have adjusted the post 1 July 2000 data by reducing revenues by 1/11th, making them net of GST.

In the June 2003 quarter, an additional 132 establishments (5,918 rooms) were added to the Australian Bureau of Statistic's Survey of Tourist Accommodation room stock count. The addition of these establishments resulted in a break in the time series between the March and June quarters 2003 and would tend to overstate supply growth. To offset this, the base figures for quarters June 2002 to June 2003 have been increased by a factor, provided by the ABS, to take into account the effect of the break in the series. The factor used varies for different cities and ranges from an increase of 1.9% to 6.2%. In 2007 the ABS redrew the geographical boundaries of the Sydney City Region and divided the City Region into four sub-regions: Inner, South, East and West. The changes to the boundaries has not impacted the total Sydney City region, rather the sub parts of the region have been redrawn.

In the 2012 TFC forecast, historical performance and forecasts are being reported on a financial year basis. Previous calendar year forecast of November 2011 have been adjusted to report on a financial year basis for comparative purposes. They are at best an indication of what the financial year forecasts would have been if prepared on that basis.

Effective from 1 January 2012, the ABS has replaced the Australian Standard Geographical Classification (ASGC) with the new Australian Statistical Geography Standard (ASGS) as the geographic framework for its survey data. For the purposes of our Hotel Futures analysis, this changes the boundaries applicable to the Darwin and Cairns regions.

Accordingly, comparisons with prior period data for these two regions is not exactly like for like, however the effect of the change in coverage is relatively minimal. We have taken the opportunity through these classification changes to include Port Douglas in our Cairns market forecasts.

From 1 July 2013, the ABS changed the collection and release activity of the survey of tourist accommodation small area data (STA). The collection frequency of the STA moved from a quarterly to annual release and from a calendar to financial year basis.

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, including identified trigger points in key revenue metrics.

Demand

Our demand forecasts are partly based on international and domestic visitor forecasts published by Tourism Research Australia (TRA) through the Tourism Forecasting Committee (TFC). They also require a level of subjective judgment. In December 2015, TRA released revised forecasts updating those issued in July 2014 which were relied upon in the 2015 edition of Hotel Futures. TFC forecasts are produced on a financial year basis.

There are multiple indicators of future demand for the major cities considered in Hotel Futures. The TFC publishes a range of related actual and forecast national statistics including:

METHODOLOGY & BACKGROUND

- 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 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 difficulty in using raw statistics/forecasts is demonstrated by considering the lack of growth in International Arrivals in 2009 compared to the 5% increase in International Visitor nights and 6% reduction in International Visitor Nights to Hotels. The demand figures estimated in Hotel Futures therefore require a significant subjective assessment.

In our analysis, the TFC 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 TFC 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.

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
P.C.P	Prior corresponding period
Serviced Apartments	Self contained units with full cooking facilities, daily service and provision of linen and laundry.
Occupancy	The Occupancy is the number of rooms occupied divided by the number of rooms available.
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 2015 dollars to remove the effect of inflation. Previously defined in Hotel Futures as Real Yield.

GLOSSARY OF TERMS

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.
STR	STR Global
Tourism Forecasting Committee (TFC)	A division of Tourism Australia. The TFC is an independent body charged with providing consensus forecasts of activity across international, domestic and outbound tourism sectors.

TABLE REFERENCE

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 FY2015 relating to Room Night Supply, Occupancy, Takings/Rate and RevPAR actuals, and 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 to STR for year on year growth rates as published in:

- 2016 STR Global, Ltd. Australia and New Zealand Hotel Review

Tourism Research Australia (TRA) and The Tourism Forecasting Committee (TFC) www.tourism.australia.com

Data relating to historical and forecast demand as published through TRA and its affiliate TFC:

- State and Territory Tourism Forecasts 2015 (tables), Tourism Research Australia, Canberra.

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 Hotel/Resort or Motor Inn