



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Melbourne, Australia

APRIL 2019



Flinders Street Station, Melbourne

Melbourne Hotel Supply Outlook

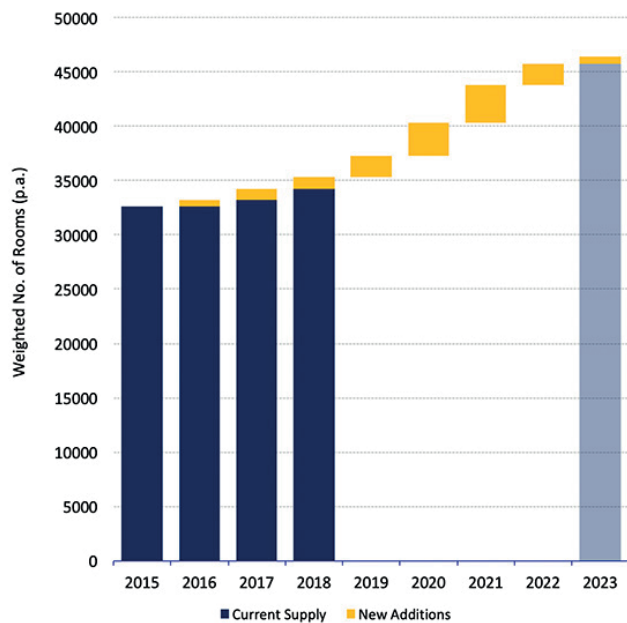
Melbourne is about to experience a burst of hotel supply that is set to test the strength of the market known for its strong events calendar driving consistent year-round demand.

From 2019 through to the end of 2023, Horwath HTL has identified 88 projects in the Greater Melbourne area comprising a total potential addition to room supply of 18,708 rooms. Weighted for likelihood for each of the hotel projects to proceed, this number of potential rooms additions can be reduced to 10,381 rooms. Close to 6,000 rooms are currently under construction across the city. Based on these estimates and using STR’s census data for Melbourne as the base for total existing supply (34,268 rooms at the end of 2018), supply is set to grow at a compound annual average growth rate (CAAGR) of 5.6% over the next 5 years.

The weighted room additions in 2019 is estimated at 1,971 representing a growth of 5.6%. This is expected to increase to 3,037 rooms in 2020 (8.4% growth) and further again to 3,507 rooms in 2021 (8.4% growth) before declining to 1,916 rooms in 2022 (4.4% growth) and 639 rooms in 2023 (1.4% growth).

By year end 2023, Melbourne room supply is estimated to increase to a total of approximately 45,750 rooms. It is possible that as supply increases in 2019 and 2020, the likelihood for some future projects to proceed may decline further, with the result of a lower volume of supply entering the market over the next 5 years.

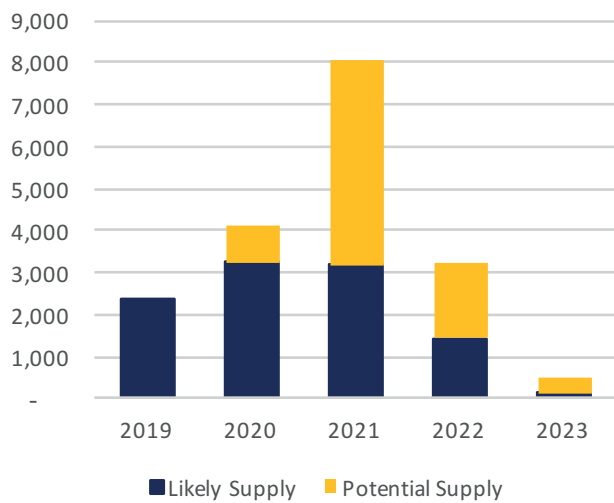
Annual Supply Additions 2019 - 2023
Weighted Impact of Supply



Source: Horwath HTL



Likely Supply Per Year Versus Total Potential Supply Per Year

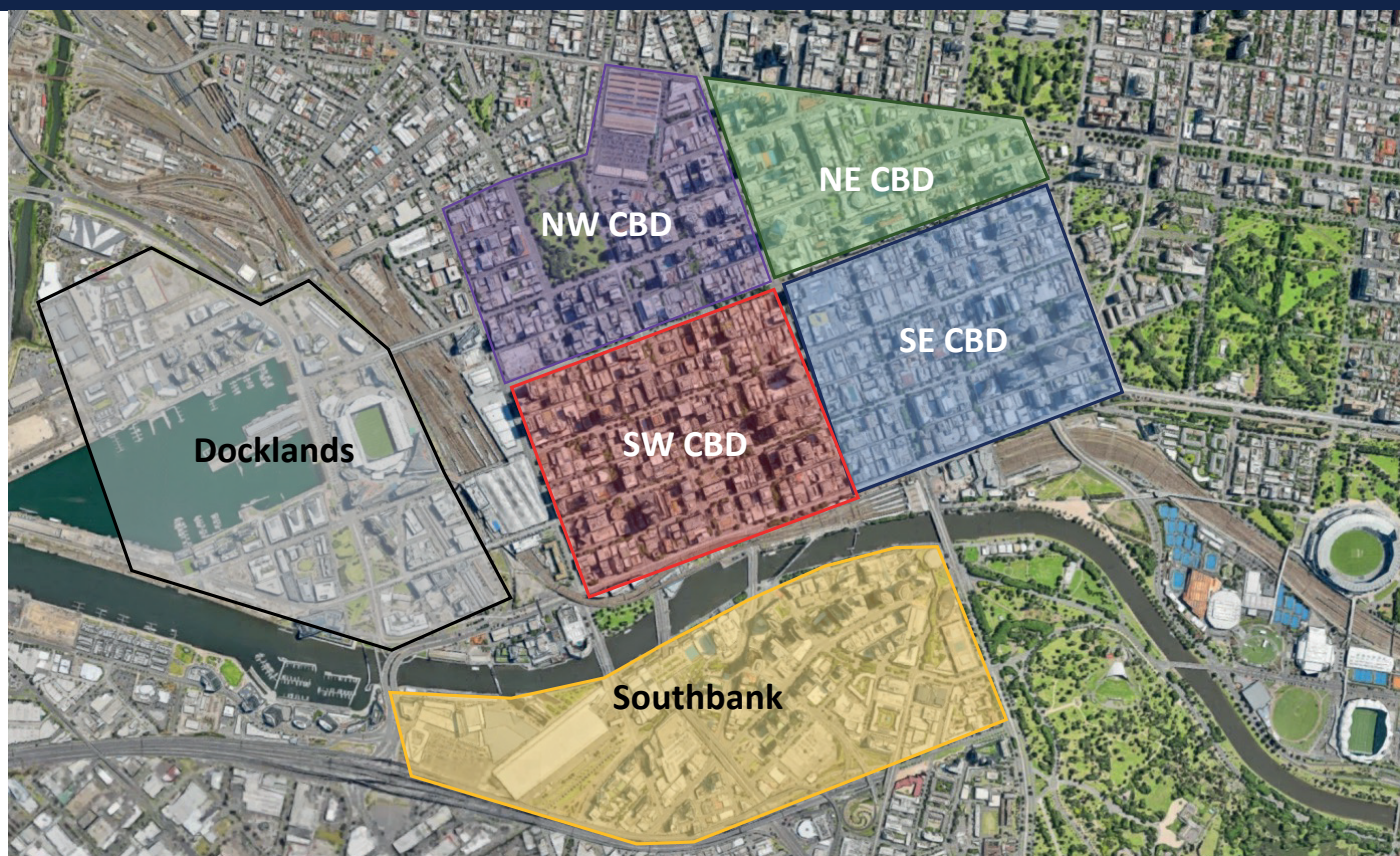


Source: Horwath HTL

All of the supply identified to open in 2019 (not weighted supply) is considered 100% likely as it has either already opened or is currently under construction and set to open during the year.

This covers 15 hotel projects and just under 2,400 rooms. For 2020, likely room supply decreases to 79.3% of total identified supply, representing about 3,250 rooms from 26 identified projects. As expected, the further into the future, the likelihood of projects to proceed reduces significantly.

By 2021, only 39.5% of rooms potentially opening that year are considered likely to proceed (from 34 identified projects). 2022 has 45% of rooms likely to proceed while 2023 has a low of 25%.



Note: The CBD area is divided by Elizabeth Street and by Lonsdale Street.

Location	Total Supply	% Share	Likely Supply	% Share	Open	% Share	Under Construction	% Share	Likelihood %	Current Supply (STR)	Est 2023	CAAGR
SE CBD	1,258	6.7%	698	6.7%	-	0%	316	25.1%	55.5%	6,383	7,081	2.1%
NE CBD	1,010	5.4%	634	6.1%	-	0%	590	58.4%	62.7%	1,114	1,748	9.4%
SW CBD	2,644	14.1%	2,051	19.8%	-	0%	1,722	65.1%	77.6%	4,143	6,194	8.4%
NW CBD	2,558	13.7%	1,068	10.3%	-	0%	625	24.4%	41.8%	2,065	3,133	8.7%
Docklands	1,153	6.2%	715	6.9%	221	19.2%	196	17.0%	62.0%	996	1,711	11.4%
Southbank	3,609	19.3%	1,698	16.4%	-	0%	889	24.6%	47.1%	4,094	5,792	7.2%
Inner Suburban	1,862	10.0%	893	8.6%	104	5.6%	357	19.2%	48.0%	6,724	7,617	2.5%
Suburban	4,614	24.7%	2,624	25.3%	-	0%	1,121	24.3%	56.9%	10,310	12,934	4.6%
TOTAL	18,708		10,381		325	1.7%	5,816	31.1%	55.5%	35,829	46,210	5.2%



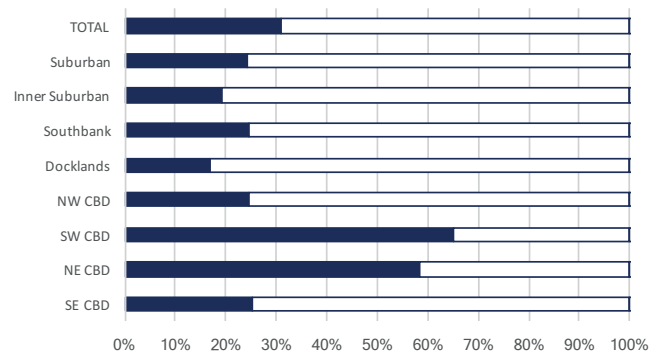
Southbank, Melbourne

The CBD, including Southbank and Docklands account for about 65% of all identified potential supply and 66% of likely future supply for Melbourne. Breaking the CBD into 6 areas, the Southwest CBD area represents the largest share of total Melbourne likely supply additions at about 20% with 2,051 rooms. Currently 1,722 rooms, or 65% of total potential supply is under construction. This will make the Southwest CBD almost comparable in scale to the more established Southeast CBD area.

Southbank has the second largest share of likely new supply at 1,698 rooms (16%), but currently only has 25% of total potential supply under construction, meaning that future total supply additions might reduce over time, depending on market fundamentals.

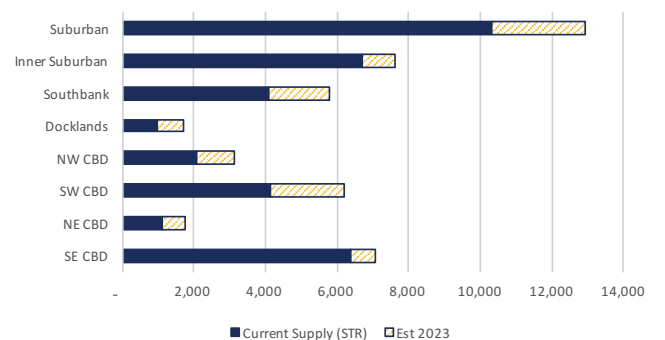
Northeast CBD also has a relatively high share of future additions already under construction at 58%, while Docklands as set to see the largest CAAG at 11% to 2023.

% of Total Potential Supply Under Construction



Source: Horwath HTL

Current & Future Estimated Supply by Area (2023)



Source: Horwath HTL

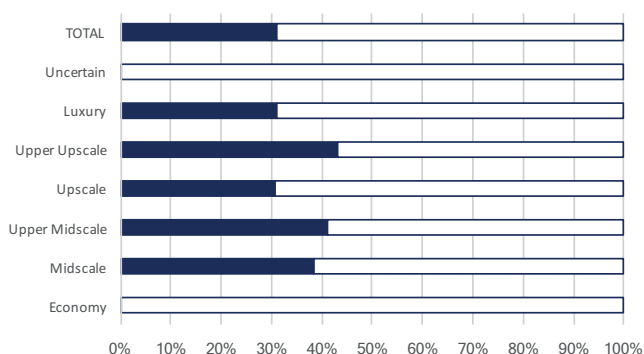
Class	Total Supply	% Share	Likely Supply	% Share	Open	% Share	Under Construction	% Share	Likelihood %	Current Supply (STR)	Est 2023	CAAGR
Economy	270	1.4%	68	0.7%	-	0%	-	0%	25.0%	1,205	1,273	1.1%
Midscale	1,050	5.6%	843	8.1%	-	0%	403	38.4%	80.2%	6,176	7,019	2.6%
Upper Midscale	2,760	14.8%	1,853	17.9%	-	0%	1,134	41.1%	67.1%	7,233	9,086	4.7%
Upscale	4,839	25.9%	2,462	23.7%	325	6.7%	1,478	30.5%	50.9%	12,888	15,350	3.6%
Upper Upscale	4,620	24.7%	3,308	31.9%	-	0%	1,998	43.2%	71.6%	4,442	7,750	11.8%
Luxury	2,597	13.9%	1,128	10.9%	-	0%	803	30.9%	43.4%	3,885	5,013	5.2%
Uncertain	2,572	13.7%	719	6.9%	-	0%	-	0%	28.0%	n/a	719	n/a
TOTAL	18,708		10,381		325	1.7%	5,816	31.1%	55.5%	35,829	46,210	5.2%

Breaking the supply pipeline into Class, the bulk of total potential future supply is within the Upscale and Upper Upscale categories, accounting for more than 50% between them, increasing to about 54% when looking at likely new supply, with Upper Upscale likely supply at about 3,300 rooms and Upscale supply just under 2,500 rooms.

43% of total potential Upper Upscale supply is under construction, compared to about 30% of Upscale supply. There is also a good share of potential Upper Midscale projects already under construction at 41%, 1,134 rooms of the 2,760 identified.

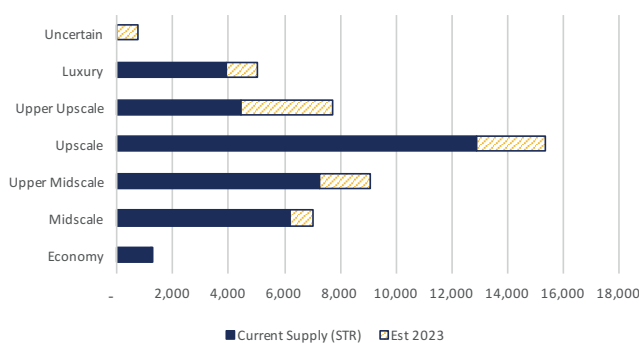
About 14% of potential future supply remains uncertain as to the positioning of the project.

% of Total Potential Supply Under Construction



Source: Horwath HTL

Current & Future Estimated Supply by Area (2023)



Source: Horwath HTL

Based on STR census data, Upscale accommodation represents the largest share to total supply in the Melbourne market, which is set to continue over the next 5 years with an estimated CAAGR of 3.6%.

Upper Upscale supply is set to record the highest CAAGR over the next 5 years at 11.8%. Together with a CAAGR of 5.2% in the Luxury Class, competition at the top-end of the market is expected to heat up over the next 5 years.

Summary

Notwithstanding this imminent daunting supply pipeline facing hotel operators in the Melbourne hotel market, the medium- to long-term outlook for hotel performance remains relatively positive given continued robust forecast growth of demand at 3-4% CAAGR, which is similar to historical growth levels. Melbourne’s hoteliers would be well-advised to remain optimistic, as the city has a well-documented track record in absorbing supply growth whilst continuing to calmly increase ADR.

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Damien Little has been a Director of Horwath HTL in Asia Pacific for the last 18 years. Damien has 20 years of consulting experience and has significant experience in financial modeling. During this time he has undertaken hotel related projects in 17 countries across the Asia Pacific region, being involved in more than 400 projects.

Damien has been involved in projects across all industry segments including 5 star city hotels, golf resort properties, mid-scale regional hotels, budget hotels, backpacker accommodation, restaurants and clubs. He has significant experience in the China market having traveled to more than 70 cities across the country. Damien is also a frequent speaker at industry related conferences around the region and has published numerous research articles in regional industry publications.

Horwath HTL

At Horwath HTL, our focus is one hundred percent on hotel, tourism and leisure consulting. Our services cover every aspect of hotel real estate, tourism and leisure development.

Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global Brand with 45 offices, who have successfully carried out over 20,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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- Health & Wellness
- Strategic Advice
- Expert Witness & Litigation



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