

Deloitte Access Economics

# Tourism and Hotel Market Outlook 2014

## Half yearly report

July 2014

**Deloitte.**



# Overview

## A strong start to 2014

Improved economic conditions in the US and UK have contributed to the strongest growth in international visitor arrivals in nine years, although domestic and international visitor nights both grew modestly as trip duration shortened.

### Domestic tourism

- Growth in domestic overnight travel remained considerably above its post-2000 average over the year to March, with trips growing by a healthy x%. However, domestic visitor nights grew by just x% as travellers continued to favour shorter trips
- Unlike previous quarters, where leisure travel did the heavy lifting, the primary driver of this growth was corporate travel. Business trips grew x% on the back of a strengthening in general levels of economic activity and the lingering effects of the mining construction boom
- While domestic holiday travel failed to maintain the momentum that carried through mid-2013, it nevertheless out-performed its decade average, growing x% for the year to March
- That said, Australians continued their love of holiday travel, with the resilience of the Australian dollar contributing to outbound holiday travel growing nearly x% for the year
- Across the country, growth patterns were typically mixed, with the stabilisation of corporate travel in Western Australia banding with buoyant leisure travel to grow visitor nights x%, while overall growth in visitor nights in the eastern states was modest
- Domestic day trips fell by x% over the year to March 2014, but were stable in the March quarter relative to the previous year.

### International tourism

- International visitor arrivals grew x% over the year to May, driven by a x% increase in leisure travel. For both leisure and overall travel, the recent pace of growth have been the fastest recorded in nearly a decade

- Growth continued to be driven by arrivals from Asia. Arrivals from China grew by x%, while the expansion of low-cost carrier capacity saw arrivals from Malaysia and Singapore grow by x% and x% respectively, as holiday numbers surged
- But it wasn't all about Asia, with improving economic conditions in the US and UK contributing to a further acceleration in arrivals from these important source markets
  - Arrivals from the UK grew x% over the year to May, a major turnaround after having fallen by almost x% over the previous six years
  - Arrivals from the US grew by x%, their fastest annualised pace since March 2010
- Growth in visitors, however, has not translated into growth in nights, with international visitor nights growing by just x% over the year to March
  - While trip duration shortened across the board, the primary driver was in fact compositional change, with leisure travellers – who accounted for the lion's share of growth visiting, on average, for nearly ten days less than other travellers.

### Hotel performance

- With some exceptions, 2013–14 – and January to June 2014 especially – saw stellar performance across Australia's hotel accommodation market, as room rates and Revenue Per Available Room (RevPAR) accelerated, outpacing their respective decade averages
- Strengthening demand and a steady national supply pipeline continues to see hotel occupancies push further into record territory nationally, and across many individual markets
- Sydney and Melbourne continued to break new ground, in terms of both occupancy levels and room rate growth, with both closing in on x% occupancy

# Overview

## A strong start to 2014

- In Perth and Brisbane, demand momentum from resources investment activity has tapered, with room rates softening, despite resilience in occupancies – Against RevPAR, the cities rank third and fourth respectively, some way ahead of the remaining markets
- The smaller markets were led by expectation-defying growth in Adelaide and continued momentum in Hobart – against both the occupancy and room rate dimensions.
- A stronger economic outlook for the US and UK is forecast to result in growth in visitor arrivals of close to x% p.a. over the next three years – a brighter outlook than that witnessed as recently as 12 months ago
- With the three-year domestic economic outlook remaining broadly stable, Deloitte Access Economics' forecast for domestic visitor activity remain relatively unchanged, with domestic visitor trips expected to grow by an average of x% p.a. over the next three years

### Outlook

#### Macroeconomic developments

- Growth in Australia's major trading partners is likely to remain close to trend in 2014 and 2015, but the balance of global growth is slowly changing
- The economic recovery in the US and the UK continues to gather steam, leading to strong growth in visitor arrivals from both markets. However, China faces increasing challenges in rebalancing its growth away from infrastructure spending, which is likely to see economic growth moderate marginally over the next three years
- Locally, the Australian dollar strengthened in the first half of 2014 as Australia maintained its status as a global safe haven for investors. However, Deloitte Access Economics continues to forecast the Australian dollar depreciating to around US \$x by 2017, in turn supporting growth in domestic and inbound leisure expenditure
- While growing export volumes boosted Australia's GDP in recent quarters, domestic economic growth is expected to remain slightly below trend over the next three years.
- Despite recent trends, we continue to project domestic leisure travel assuming a greater share of the growth task – especially toward the end of the forecast period
- While outbound travel has remained robust, partly as a result of the sustained strength Australian dollar, Deloitte Access Economics continues to forecast outbound travel easing to x% p.a. over the next three years as the Australian dollar abates from its lofty heights.

#### Hotel performance

- The outlook for hotel market performance overall is one of demand growing at nearly twice the pace of supply over the next three years and occupancy rates being propelled further into record territory as a result
- The national average occupancy is set to add almost two points, approaching x% by December 2016. This assessment represents an upward revision from our February Outlook and, if realised, would mean a five percentage point growth in Australian hotel occupancies in as many years
- The hotel investment pipeline is steady relative to what was reported at the start of the year, with x medium-term projects identified, and a marginal pull back of expected room additions to x over the three years to the end of 2016
- Nationally, room rates are forecast to grow x% p.a. and RevPAR x% p.a. to December 2016 – an acceleration that will see increased out-performance of the market's ten year average
- RevPAR performance is forecast to be led by Melbourne and Sydney, while yields in Perth are expected to be steady, and slip back marginally for Darwin, as new supply is realised over the medium term.

# Detailed economic, tourism and hotel market analysis

## The macroeconomic context

An overview of key developments in the global and Australian economy and their implications for the nation's tourism and hotel market outlook.

Drawing on Deloitte Access Economics' most recent Business Outlook publication, the discussion canvasses economic growth prospects locally and across major tourism source markets as well as other macroeconomic indicators of interest, including oil prices and exchange rates.

## The outlook for Australia's tourism sector

An analysis of recent trends in the Australian visitor economy and their underlying drivers, along with Deloitte Access Economics' latest forecasts for visitor growth.

The analysis and forecasts examine international, domestic and outbound travel at the national level and across individual states and territories.

Commentary and trend analysis is provided across market segments – business, leisure, VFR and other – and for all major international sources markets.

Emergent industry issues and their implications for the sector's growth prospects are examined on an ad hoc basis.

## Hotel market outlook

An examination of the recent performance of the national hotel market and its demand- and supply-side drivers.

The analysis includes an overview of performance across the nation's major markets and the factors driving performance variation.

Includes an update on the national supply pipeline, including projects, rooms and expected market entry.

Three-year national forecasts are presented for room rates, occupancy and RevPAR.

**Focus on:** Digital Intermediaries in the hotel market Online Travel Agencies (OTAs) Accommodation sharing sites

National Hotel Performance Forecasts					
	H1 2014 Observed*	H2 2014 forecast	Calendar year 2015 forecast	Calendar year 2016 forecast	Average forecast growth (Jul 2014–Dec 2016) forecast
<b>Room occupancy</b>	86.1%	87.4%	87.9%	88.7%	<b>1.2% p.a.</b>
Trend % growth	4.8%	3.0%	0.5%	1.0%	
<b>Room rate</b>	\$190.6	\$194.2	\$203.1	\$212.9	<b>4.5% p.a.</b>
Trend % growth	4.1%	3.9%	4.6%	4.8%	
<b>RevPAR</b>	\$164.2	\$169.8	\$178.4	\$188.8	<b>5.8% p.a.</b>
Trend % growth	9.1%	7.0%	5.1%	5.8%	

Source: Deloitte Access Economics. \*The June month of H1 2014 is forecast. All growth figures are annualised. Rates are exclusive of GST.

# Key report Hobart

## Sample market report

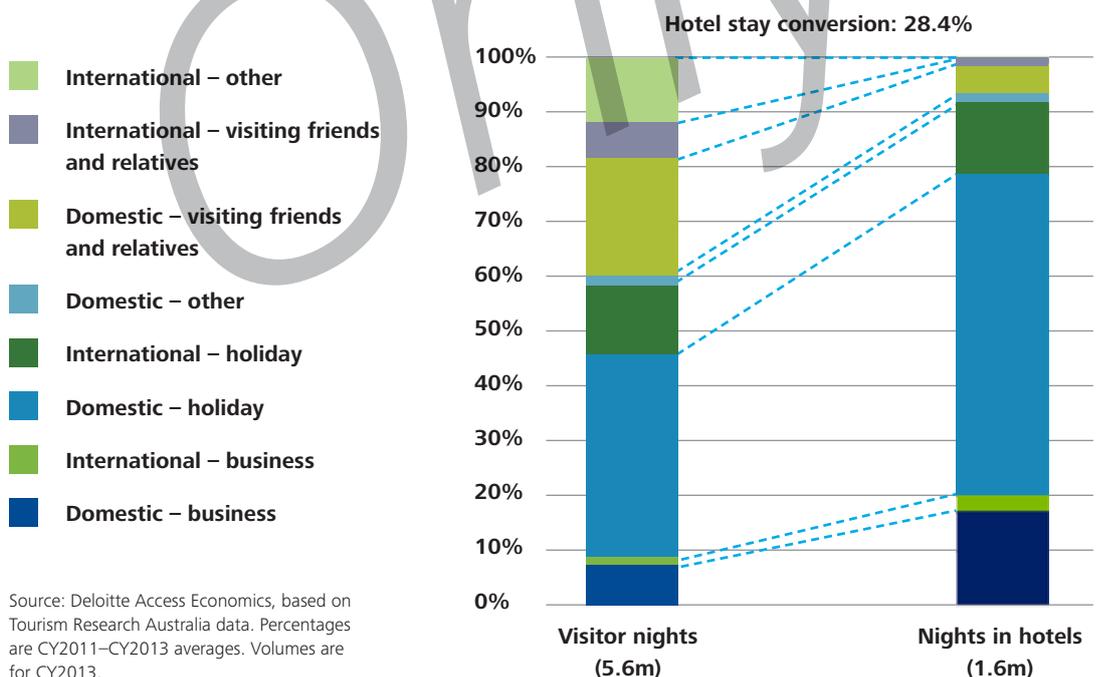
The Hobart hotel market has sustained the growth kick-started in the first half of 2013, with another x percentage points added to average occupancy over the first half of 2014. Importantly, the associated rate growth has been higher than previous, trend room rates grew by x% annualised since Q4 2013. RevPAR grew by a remarkable x% annualised over the first half of the year, just shy of Sydney's growth over the same period.

To the extent that Hobart has been able to build growth in the Domestic holiday market, one which is mature in terms of overall nights growth, this has driven occupancies. There is perhaps more scope to further build nights growth in the international segments of the market, as international nights and arrivals grow around the country.

Supply pipeline announcements have been relatively few, although in recent weeks a new project has been announced. While the development is still in early stages, if realised it would provide additional stock in the higher graded segments of the city's accommodation market.

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Chart 3.1: Hotel Market Composition sample

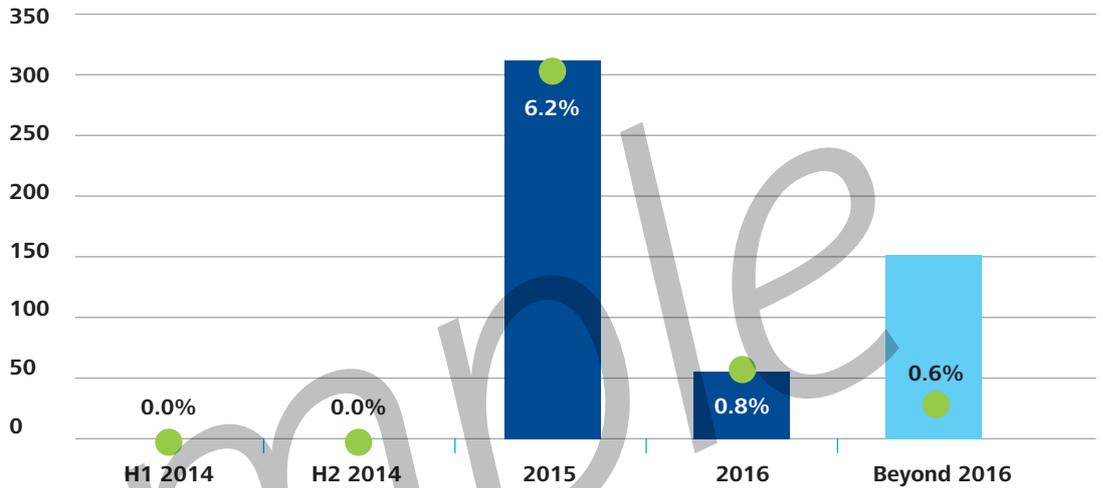


# Key report Hobart

- **Highly likely/  
certain**
- **Not confirmed**
- **Approved/  
still ongoing**
- **Expected total  
(% of stock)**

Source: Deloitte Access Economics.

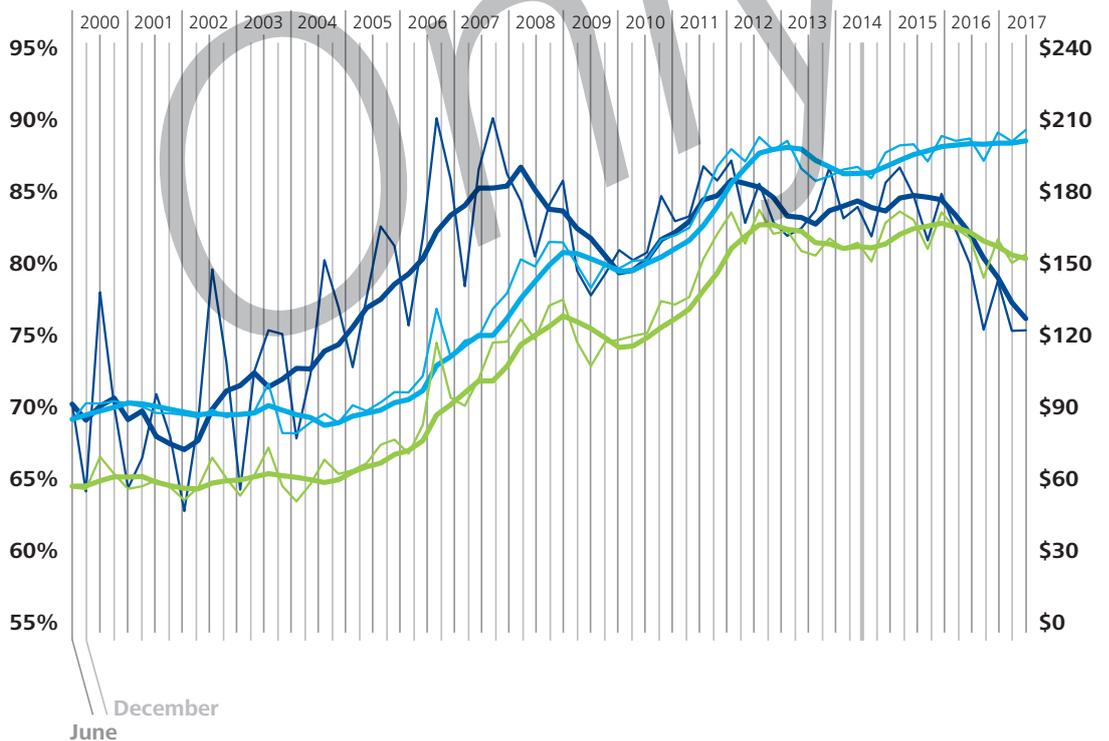
Chart 3.2: Hotel Market Pipeline sample



- **Room occ%  
trend (LHS)**
- **Room rate  
trend (RHS)**
- **RevPAR  
trend (RHS)**

Source: Deloitte Access Economics based on: ABS Small Area Accommodation data and STR Global

Chart 3.3: Hotel Outlook sample



# Key report Hobart

Chart 3.2: Hotel Performance Forecasts sample

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Detailed three-year forecasts are provided for hotel market performance against room rates, RevPAR and occupancy.

*Tourism and Hotel Market Outlook* provides in-depth analysis of recent trends and their underlying drivers, across the domestic and international tourism sectors and ten of the country's major hotel markets (including all capital cities).

Against the backdrop of Deloitte Access Economics' latest economic forecasts, projections are provided for domestic and international tourism over the next three years. Building on projected travel demand and utilising our in-house registry of short stay accommodation projects, detailed three-year forecasts are provided for hotel market performance against room rates, RevPAR and occupancy. Data and forecasts are accompanied by detailed commentary of market drivers and performance determinants.

While our forecasts are based on a forecasting methodology and a hotel market model developed over 15 years, *Tourism and Hotel Market Outlook* is designed for a general audience. To discuss how this capability can be tailored to a bespoke market or market segment, please contact us (contact details overleaf).

# Contact us

For further information on how we can support your business needs, please contact one of our Travel, Hospitality and Leisure specialists



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## Limitation of our work

### *General use restriction*

This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose of providing an outlook on hotel industry performance in Australia. You should not refer to or use our name or the advice for any other purpose.

Deloitte is recognised as one of the leading global advisors to the Tourism, Hospitality and Leisure industry, with a practice of more than 2,000 professionals. In Australia, our multidisciplinary group of industry specialists have a deep knowledge of the market issues and business challenges faced by the industry.

## Your industry, our expertise

Our dedicated practice provides a wide range of services to financiers, property owners, investment fund managers, private investors, developers, operators, government departments, professional and business groups and tourism intermediaries. We offer a full range of services to address key industry issues associated with economic conditions, regulatory change, competition, emerging market sectors, technological advancements, mergers & acquisitions, and changing needs of investors.

Deloitte Access Economics specialises in providing economic modelling and public policy advice to the tourism industry, with extensive experience in forecasting and projections, econometric analysis, economic impact studies across both government and the private sector.