REPORT

STUDY: Visitor Accommodation Supply Study

PREPARED FOR: NSW Trade and Investment

DATE: November 2014

HUNTER REGION

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1 Executive Summary

1.1 Introduction

JLL’s Hotels & Hospitality Group was engaged by NSW Trade and Investment to undertake the NSW Visitor Accommodation Supply Plan.

The Plan is a priority under the NSW Visitor Economy Industry Action Plan and the NSW Economic Development Framework to be delivered in 2014.

The aim of the Plan is to provide updated, sound data on the supply and demand of visitor accommodation and evidence-based, practical recommendations for Government and Industry action. The Plan aims to support a positive planning and investment outlook and encourage a sustainable level of visitor accommodation rooms in NSW for the visitor economy. The NSW Plan will include three supply and demand studies:

- Greater Sydney (excludes Sydney City but includes the Blue Mountains) which will focus on factors that influence the provision and development of visitor accommodation, as well as evolving trends and characteristics of visitor accommodation, including hotels, motels, serviced apartments and backpacker hostels; and

- Two regional NSW locations which will also focus on factors that influence the provision and development of visitor accommodation, as well as evolving trends and characteristics of visitor accommodation, including hotels/resorts, motels, serviced apartments, backpacker hostels, camps/caravan parks and holiday rentals.

A key component of this work is to understand recent industry performance trends and barriers to investment/development in New South Wales.

1.2 Information Relied Upon

Statistics pertaining to the supply, demand and performance of the Hunter Region accommodation markets have been sourced from the Australian Bureau of Statistics’ (ABS) Survey of Tourist Accommodation (STA), Tourism Research Australia’s National and International Visitor Surveys and STR Global as follows:

- The Hunter Regions includes Barrington Tops, Upper Hunter, Hunter Valley, Maitland, Lake Macquarie, Newcastle, and Port Stephens however not all data sources currently or historically have reflected the current region in its entirety. We have therefore combined regions where able to permit analysis of the Hunter Region overall;

- The Survey of Tourist Accommodation is conducted on an annual basis and data is available from 1998 to June 2013 for hotels, motels, guesthouses and serviced apartments (HMGSA). We note there have been a number of changes to statistical boundaries and reporting regions within this timeframe and therefore some breaks in the time series exist;

- The Survey of Tourist Accommodation expanded scope was conducted on a quarterly basis between 2005 and 2010 for backpacker hostels, camping and caravan parks for the Hunter Region and the sub-regions and for the holiday rentals market for Port Stephens, subject to data availability;
The National and International visitor surveys are conducted on a quarterly basis and data in the current format is available from 2005 to June 2014. We have relied upon calendar year data to 2013 for our assessment of visitor night demand in the Hunter Region accommodation segments;

- Five year trend reports have been purchased from STR Global for a basket of hotels, serviced apartments, motels and guesthouses (where available) to provide an indication of recent trading performance trends in Newcastle and the Hunter Valley sub-regions; and

- Holiday rentals data has been provided by www.stayz.com.au for the current supply of properties in the Hunter Region which are currently listed for rent as well as their advertised rates and capacities.

1.3 Hunter Region Accommodation Profile

The Hunter is the umbrella destination which is made up of seven distinct regions – Barrington Tops, Upper Hunter, Hunter Valley, Maitland, Lake Macquarie, Newcastle, and Port Stephens. The destination has strong natural and cultural assets and its improving infrastructure support both interstate and international air access growth, cruise growth and the ability to attract major sports and business events.

Overall our analysis found that there are 19,962 accommodation units in the Hunter region comprising hotel, motel and serviced apartment rooms, hostel beds, camp sites and cabins and holiday rental bedrooms. The accommodation market is weighted towards the camping and caravan segment accounting for 59.1% of accommodation units, including both camp sites and cabins. For the purposes of this analysis we have excluded on-site vans which we have assumed to be more likely to be rented by long term residents. Holiday rentals and HMGSA are the next largest segments with these accommodation types accounting for 32.3% and 29.0% of accommodation units respectively. The backpacker segment is very small by comparison comprising only 1.5% of accommodation units.

The Hunter Region accommodation market comprises a series of micro-markets with differing supply and demand characteristics for each. Changes in market conditions can therefore become magnified at the local level. For this reason, we have segmented the Hunter Region into four sub-regions as advised by stakeholders.
namely, Hunter Valley, Newcastle, Lake Macquarie & Port Stephens to allow for better analysis of current market trends. Key trends include:

- Hunter Valley (includes Barrington Tops, Maitland, Upper Hunter and Wine Country) dominates accommodation supply accounting for 41.1% (8,209) of the total accommodation units in the Hunter Region;

- This is followed by Port Stephens (6,933 units or 34.7%) but with considerably smaller accommodation markets in Newcastle (2,703 units or 13.5%) and Lake Macquarie (2,117 units or 10.6%);

- As a major regional city, the accommodation profile in Newcastle is quite distinct from the other three sub-regions with a greater reliance on HMGSA rooms, accounting for 83.8% of the total accommodation supply. This compares to 25.8% in the Hunter Valley, 17.3% in Port Stephens and 9.3% in Lake Macquarie;

- Port Stephens is also similarly distinct given its reliance on the holiday rental segment which accounts for 52.6% of the total accommodation supply. This compares to 25.8% in the Hunter Valley, 18.6% in Lake Macquarie and 10.6% in Newcastle;

- Lake Macquarie accommodation supply is reliant on the camping and caravan segment, thought to reflect access issues from being located around the Lake as well as the populous spread. The camping and caravan segment accounts for 72.1% of total accommodation units. This compares to 47.8% in Hunter Valley (albeit with a high proportion located in Barrington Tops), 28.7% in Port Stephens and none in Newcastle; and

- With few backpacker hostels overall, they are most prominent in Newcastle, accounting for 5.5% of accommodation units and reflecting the backpacker segment's preference to stay in close proximity to nightlife precincts.

![Profile of the Accommodation Market](image-url)
1.4 Visitor Night Demand

According to Tourism Research Australia, the majority of visitor nights spent in the Hunter Region are spent in the home of a friend or relative with this accommodation accounting for 41.9% of the total visitor nights spent in the region in 2013. This compares to 22.8% in HMGSA, 18.0% in a rented house or flat, 11.7% in camping/caravan and 0.7% in a backpacker hostel.

- The rented house / apartment market has recorded the strongest growth over the past eight years with growth averaging 2.5% per annum, in part of a function of growth in the supply base, but also greater consumer acceptance of this product. Growth has been strongest in the international segment, increasing on average by 4.5% per annum. This compares to growth of 1.0% per annum in the domestic segment.

- Visitor nights in all other accommodation types have declined over the eight year period.

If we exclude the proportion of nights spent in the home of a friend or relative, the distribution of visitor nights is broadly in line with the accommodation profile albeit with some variations as follows:

- Camping / caravan – 59.1% of accommodation units but 20.1% of visitor nights;
- Holiday rentals – 32.3% of accommodation units but 31.1% of visitor nights;
- HMGSA – 29.0% of accommodation units but 39.2% of visitor nights; and
- Backpacker hostels – 1.5% of accommodation units but 1.2% of visitor nights.

The higher proportion of visitor nights for HMGSA when compared to accommodation supply (and lower proportion for camping / caravan) indicates that these properties trade at higher occupancy levels, notwithstanding differences in room density and unit size.

1.4.1 Visitor Profile

A total of 4.6 million visitor nights were spent in the Hunter Region (all accommodation types) in 2013 which represented the fourth highest year between 2005 and 2013 and with growth having averaged 1.7% per annum. Key trends include:

- The domestic segment dominates accounting for 78.7% of all visitor nights spent in paid accommodation in 2013 and having averaged 77.9% over the past eight years. Domestic visitors are predominantly sourced from Sydney (49.8%) and regional NSW (30.7%) with visitation from regional NSW recording modest growth over the past eight years.

- Asia and Europe are the largest international source regions accounting for around 9.7% and 8.1% of total visitor nights in 2013. Continental Europe and China dominate.

- Leisure visitors (holiday and VFR) dominate accounting for 72.3% of visitor nights in 2013. Growth is being underpinned by the domestic business and VFR segments, as well as international holiday and education albeit with varied trends across the region.

We have segmented the Hunter Region into three sub-regions to allow for better analysis of the trends within the visitor economy. Sub-regions include Newcastle, Port Stephens and the remainder i.e. Hunter Valley and Lake Macquarie. A summary of visitation trends across the four accommodation types is summarised in the following tables.
1.4.1.1 Newcastle

The table highlights how market trends in Newcastle’s accommodation sector are skewed considerably by the holiday rentals segment which has a high international component notably students from Asia. Asian visitors accounted for 49.2% of nights in holiday rentals in Newcastle in 2013. Notwithstanding, it also highlights the diversified demand base with only a low proportion of visitor nights being for the purpose of holiday/leisure in both the holiday rental and HMGSA segment with a greater proportion of business nights in HMGSA and education & employment nights in holiday rentals. Domestic visitors in HMGSA are predominantly sourced from regional NSW and Sydney.

### Newcastle – Historical Visitor Night Demand

<table>
<thead>
<tr>
<th>Accommodation</th>
<th>Avg PPN Domestic</th>
<th>Growth 2008 to 2013</th>
<th>Holiday Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>International</td>
<td>Total</td>
</tr>
<tr>
<td>Backpacker Hostel</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Camping &amp; Caravan</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>HMGSA</td>
<td>88.4%</td>
<td>-3.9%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Holiday Rentals</td>
<td>13.5%</td>
<td>38.1%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Newcastle</td>
<td>53.6%</td>
<td>-2.3%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Source: JLL

1.4.1.2 Port Stephens

The accommodation market in Port Stephens is highly reliant on the domestic market with international visitor nights having declined over the past eight years across all types of accommodation. This indicates that the destination is failing to connect traditional and emerging sources of inbound demand. An over-reliance on the domestic holiday segment has also resulted in very low growth overall for the Port Stephens accommodation market since 2005.

### Port Stephens – Historical Visitor Night Demand

<table>
<thead>
<tr>
<th>Accommodation</th>
<th>Avg PPN Domestic</th>
<th>Growth 2008 to 2013</th>
<th>Holiday Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>International</td>
<td>Total</td>
</tr>
<tr>
<td>Backpacker Hostel</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Camping &amp; Caravan</td>
<td>97.3%</td>
<td>0.8%</td>
<td>2.5%</td>
</tr>
<tr>
<td>HMGSA</td>
<td>94.9%</td>
<td>0.7%</td>
<td>-7.8%</td>
</tr>
<tr>
<td>Holiday Rentals</td>
<td>97.4%</td>
<td>-0.4%</td>
<td>-19.7%</td>
</tr>
<tr>
<td>Port Stephens</td>
<td>95.9%</td>
<td>0.3%</td>
<td>-8.4%</td>
</tr>
</tbody>
</table>

Source: JLL

1.4.1.3 Remainder

The accommodation market in the remainder of the region (i.e. Lake Macquarie and Hunter Valley) is more diversified but international visitors are favouring the holiday rentals segment with very strong growth in recent years. The HMGSA segment has also experienced growth but at a slightly lower rate. The HMGSA segment has recorded strong growth in domestic visitor nights thought to reflect the growth in resources business demand in
the Hunter Valley. This has similarly benefited the holiday rental market. Similar to Port Stephens, however, an over-reliance on the domestic holiday segment has resulted in visitor nights declining in the camping and caravan segment.

**Remainder – Historical Visitor Night Demand**

<table>
<thead>
<tr>
<th>Accommodation</th>
<th>Avg PPN Domestic</th>
<th>Growth 2008 to 2013</th>
<th>Holiday Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>International</td>
<td>Total</td>
</tr>
<tr>
<td>Backpacker Hostel</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Camping &amp; Caravan</td>
<td>95.0%</td>
<td>-1.9%</td>
<td>-4.9%</td>
</tr>
<tr>
<td>HMGSA</td>
<td>94.4%</td>
<td>9.4%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Holiday Rentals</td>
<td>62.3%</td>
<td>8.0%</td>
<td>27.3%</td>
</tr>
<tr>
<td>Remainder</td>
<td>85.0%</td>
<td>6.5%</td>
<td>12.6%</td>
</tr>
</tbody>
</table>

Source: JLL

1.5 **Trading Performance Trends**

Our review of accommodation performance trends for the Hunter Region predominantly pertains to the HMGSA segment as there is a greater availability of information which permits a performance comparison across the sub-regions.

1.5.1 **HMGSA**

According to the ABS, there were 144 establishments with 5,399 rooms at the end of June 2013 in the Hunter Region. Accommodation rooms are fairly widespread with notable clusters in Newcastle, Port Stephens, Hunter Valley, Maitland and Lake Macquarie.

Over the ten years to 2012, Hunter Region’s accommodation market recorded modest RevPAR growth increasing on average by 3.8% per annum. Higher room rates have been the primary driver with ADR increasing 2.8% per annum, up from $110 in 2002 to $145 in 2012.

Hotel room supply has recorded modest growth increasing on average by 2.2% per annum with increases most evident in 2008 and with the addition of net 588 rooms over the ten year period. More recently, HMGSA has declined with consecutive annual declines recorded between 2010 and 2012. This in part reflects the higher returns available from alternate use, notably residential, which has resulted in some establishments closing for conversion, as well as apartments being moved out of short term letting pools for serviced apartments. Demand has increased at a slightly lower rate averaging 3.2% per annum, underpinned by the domestic VFR and business segments, as well as international holiday demand. Accordingly occupancy levels have increased, up from 54.1% in 2002 to 59.9% in 2012 to be at the highest level ever recorded.

Growth slowed considerably during the first six months of 2013 with RevPAR reducing 9.2% year-on-year as demand has softened and in spite of further reductions in room night supply. Occupancy levels reduced markedly as a result, declining to 54.8% compared to 61.4% during the preceding six months. ADR growth was still achieved in spite of this, increasing 1.8% year-on-year to $146 and thought to reflect shifts in the visitor profile in some sub-markets.
1.5.2 Sub-Region Performance Comparison

A comparison of trading performance between the Hunter Region, Newcastle, Lake Macquarie, Port Stephens, Maitland and Hunter Valley Wine Country is provided in the table following. Notably, this highlights the premium which is afforded to Newcastle and the Hunter Valley’s HMGSA accommodation market with both higher annual occupancies and ADR evident in Newcastle and higher ADR in the Wine Country. This is thought to reflect the quality of accommodation in these markets, visitor profile and relative proximity to Sydney.

### Hunter Region – Historical Performance Trends by Precinct 2002 to 2012

<table>
<thead>
<tr>
<th>Grade</th>
<th>Rooms</th>
<th>Occ %</th>
<th>ADR</th>
<th>RevPAR</th>
<th>Occ %</th>
<th>ADR</th>
<th>RevPAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newcastle</td>
<td>921</td>
<td>71.5%</td>
<td>$149</td>
<td>$106</td>
<td>1.4%</td>
<td>4.2%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Lake Macquarie</td>
<td>190</td>
<td>46.8%</td>
<td>$125</td>
<td>$59</td>
<td>-0.6%</td>
<td>0.8%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Port Stephens</td>
<td>1,073</td>
<td>56.6%</td>
<td>$140</td>
<td>$79</td>
<td>0.8%</td>
<td>2.8%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Maitland</td>
<td>241</td>
<td>70.6%</td>
<td>$124</td>
<td>$71</td>
<td>0.9%</td>
<td>3.6%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Wine Country</td>
<td>550</td>
<td>60.7%</td>
<td>$149</td>
<td>$90</td>
<td>2.0%</td>
<td>0.2%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Hunter Region</td>
<td>6,392</td>
<td>54.8%</td>
<td>$146</td>
<td>$80</td>
<td>1.0%</td>
<td>2.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Regional NSW</td>
<td>37,379</td>
<td>54.0%</td>
<td>$121</td>
<td>$65</td>
<td>0.8%</td>
<td>3.4%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Source: ABS, JLL

1.5.3 Alternative Accommodation Types

Performance statistics for the other segments have been sourced from the Australian Bureau of Statistics between 2006 and 2009 and indexed by reference to the same period for the HMGSA as shown in the following table. We note that holiday lettings data is only available for Port Stephens and we have therefore compared to the HMGSA sector in that market only.
An oversupply of apartment stock in Port Stephens (and very few houses) has resulted in the holiday rental market trading at lower occupancies and rates than for hotels, which have a broader demand base. This is in spite of there being few upscale properties within Port Stephens. Overall the camping and caravan segment trades at higher site occupancies than the HMGSA segment across the region but with considerably lower rates given the high proportion of sites. A comparison of cabin rates would be more comparable to the achieved rates for hotel rooms.

### Hunter Region – Performance Comparison 2006 to 2009

<table>
<thead>
<tr>
<th>Market</th>
<th>June 2010</th>
<th>Average Index to HMGSA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estb.</td>
<td>Units</td>
</tr>
<tr>
<td>Backpacker Hostel</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Camping &amp; Caravan</td>
<td>52</td>
<td>7,614</td>
</tr>
<tr>
<td>Holiday Rentals *</td>
<td>1,217</td>
<td>8,066</td>
</tr>
<tr>
<td>HMGSA</td>
<td>148</td>
<td>6,924</td>
</tr>
</tbody>
</table>

Source: ABS, JLL. Note: * Compared to Port Stephens only

### 1.6 Visitor Night Demand Forecast

Visitor nights in the Hunter Region’s accommodation segment (all product types excluding home of friend or relative) are expected to grow by 4.4% per annum to reach 7.0 million by 2023. Key trends include:

- The international segment is expected to provide 57% of the additional 2.5 million visitor nights over the period whereas the domestic segment will contribute a further 43%;

- Growth will primarily be underpinned by the international segment with strong growth from emerging Asia. This reflects the strong growth in Asia Pacific tourism demand which is projected and Australia’s proximity to this market. International visitor nights in accommodation are projected to grow at an average rate of 9.6% per annum. Asia will dominate by 2023 accounting for almost half of all international visitor nights in the region, albeit with a high proportion of this demand being education or employment related; and

- Growth in domestic visitor nights will be more muted by comparison, increasing on average by 2.6% per annum and projected to reach 4.7 million visitor nights by 2023. The holiday and business segments will continue to dominate, accounting for around 60% and 23% of domestic visitor night demand by 2023. Growth will be strongest in the business segment at 6.9% per annum, whereas holiday/leisure visitor nights will grow at around 1.4% per annum. This reflects the changing economic profile of the Hunter region with significant ongoing investment in infrastructure.

### 1.6.1 Sector Comparison

Visitor night demand forecasts have been further segmented across the various accommodation types and a summary provided in the table which follows. We note that forecasting at the micro-level is inherently more risky, particularly the flow of visitor night demand between the accommodation types given their inter-relationship and the potential for flows to change in accordance with the development of new product, changing consumer preferences, alternative accommodation forms (e.g. student housing) or legislative changes. This is therefore only intended as a guide.
Overall it is anticipated that the holiday rentals segment will continue to increase its share of visitor night demand in the Hunter Region over the next ten years given consumers’ current and anticipated acceptance of this accommodation type. Holiday rentals vary in their appeal to visitor segments across the region for example with this accommodation type used by holidaymakers in Port Stephens and the Hunter Valley, education visitors in Newcastle and long-stay workers in the mining areas.

### Hunter Region – Visitor Night Demand Forecasts

<table>
<thead>
<tr>
<th>Accommodation</th>
<th>PPN 2013</th>
<th>Domestic</th>
<th>International</th>
<th>Total</th>
<th>PPN 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backpacker Hostel</td>
<td>0.7%</td>
<td>n/a</td>
<td>n/a</td>
<td>11.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Camping &amp; Caravan</td>
<td>17.1%</td>
<td>1.2%</td>
<td>7.4%</td>
<td>1.5%</td>
<td>12.8%</td>
</tr>
<tr>
<td>HMGSA</td>
<td>45.8%</td>
<td>3.0%</td>
<td>11.0%</td>
<td>3.6%</td>
<td>42.5%</td>
</tr>
<tr>
<td>Holiday Rentals</td>
<td>29.0%</td>
<td>2.6%</td>
<td>10.4%</td>
<td>5.8%</td>
<td>33.2%</td>
</tr>
<tr>
<td>Hunter Region</td>
<td>100.0%</td>
<td>2.6%</td>
<td>9.6%</td>
<td>4.4%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: JLL

1.6.2 Geographic Comparison

Visitor night demand forecasts have also been segmented across the key geographies within the Hunter Region and a summary provided in the table which follows. Similar to the above, we note that forecasting at the micro-level is inherently more risky and particularly the flow of visitor night demand between the destinations given their inter-relationship and the potential development of infrastructure, which may have a material impact on the chosen destination.

### Hunter Region – Visitor Night Demand Forecasts

<table>
<thead>
<tr>
<th>Accommodation</th>
<th>PPN 2013</th>
<th>Domestic</th>
<th>International</th>
<th>Total</th>
<th>PPN 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newcastle</td>
<td>24.5%</td>
<td>5.1%</td>
<td>11.0%</td>
<td>7.6%</td>
<td>33.2%</td>
</tr>
<tr>
<td>Port Stephens</td>
<td>37.6%</td>
<td>0.1%</td>
<td>12.0%</td>
<td>0.4%</td>
<td>25.3%</td>
</tr>
<tr>
<td>Balance</td>
<td>37.8%</td>
<td>4.1%</td>
<td>8.1%</td>
<td>5.4%</td>
<td>41.5%</td>
</tr>
<tr>
<td>Hunter Region</td>
<td>100.0%</td>
<td>2.6%</td>
<td>9.6%</td>
<td>4.4%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: JLL

Overall it is anticipated that Newcastle will continue to grow in prominence as the economic centre of the region resulting in an increased demand for accommodation across a variety of segments, notably the business, meetings and education segments and underpinned by significant investments in infrastructure. Leisure travel is also expected to remain robust with the development of the sporting and cruise segments. The challenge for the Hunter Region will be the dispersal of demand out of Newcastle to other destinations, particularly with the opportunity presented by the expansion of the airport.

On the basis of current expectations Port Stephens’ accommodation market is expected to continue to face challenges with an over-reliance on the domestic holiday segment, competition from alternative long-stay destinations and a shortening of the average length of stay. A depth of holiday rental apartments (and very few houses) could also pose a problem with many of these developments now aging and with few providing the modern amenities which visitors increasingly seek for example wifi or cable television.
1.7 HMGSA Accommodation Market Forecast

JLL’s HMGSA accommodation market forecasts represent the most likely outcome given past trends, current information and the impact of policy and industry changes. Supply, demand and pricing forecasts are developed using an iterative process based on econometric and time series models and an assessment of past relationships, noting that output variables are inextricably linked and that changes in one can have a material impact on the others particularly over a long horizon.

JLL is aware of one accommodation projects which recently opened in the Hunter Region, namely Remington Motor Inn (54 rooms, February 2014) and representing an increase of 1.0% on the existing stock. We are aware of a further two accommodation projects comprising 173 rooms which are under construction due for completion over the next two years, as well as two proposed projects with 81 rooms where construction is expected to commence in the short term. Whilst construction projects are both located in Newcastle, proposed projects are both located in the Upper Hunter Region in Muswellbrook.

We are also aware of a further 11 mooted projects. Mooted projects include those where a Development Application (DA) for accommodation rooms has recently been submitted or is under review, although there is no guarantee that such projects will progress. This differs to proposed projects where the DA has been approved and JLL has determined that construction is imminent.

We think it unlikely that all projects will proceed given the challenges of supporting hotel development feasibility, competition from alternate uses (notably residential) and with a number of projects having already progressed in areas where trading performance has been identified as strong and/or new infrastructure has been developed (e.g. Airport Precinct, Upper Hunter). Ultimately micro market dynamics will likely determine which projects progress.

### Hunter – Summary of Known HMGSA Projects

<table>
<thead>
<tr>
<th>Subregion</th>
<th>Recently Completed</th>
<th>Under Construction</th>
<th>Proposed</th>
<th>Mooted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newcastle</td>
<td>Nil</td>
<td>173</td>
<td>Nil</td>
<td>387</td>
<td>560</td>
</tr>
<tr>
<td>Port Stephens</td>
<td>Nil</td>
<td>Nil</td>
<td>81</td>
<td>123</td>
<td>258</td>
</tr>
<tr>
<td>Balance</td>
<td>54</td>
<td>Nil</td>
<td>81</td>
<td>132</td>
<td>258</td>
</tr>
<tr>
<td>Total Rooms</td>
<td>54</td>
<td>173</td>
<td>81</td>
<td>894</td>
<td>1,202</td>
</tr>
</tbody>
</table>

Source: Industry Sources, JLL

Our forecasts assume that a further 650 rooms of assumed or unanticipated supply will be developed over the period to 2031. This has regard of the fact that despite our best efforts we do not have complete visibility of the market as outlined in the Methodology in Appendix Two as well as a range of inter-related assumptions. These include the stage in the property and hotel market cycles, infrastructure investment, development feasibility and competing alternate uses. Development is expected to be predominantly in Newcastle.

Historically, the Hunter Region’s HMGSA accommodation market has recorded real RevPAR growth averaging 0.1% per annum over the past 12 years (2002 to 2013). Supply has been the major influence on the level of volatility with increases averaging 1.8% per annum, albeit with some shifts in reporting boundaries which has impacted the supply base. Demand has been much more stable, generally demonstrating consistent and reliable growth patterns, increasing on average by 2.3% per annum but with three consecutive years of decline between
2010 and 2012. Room rates have declined slightly in real terms (2013$), reducing from $145 in 2002 to an estimated $143 in 2013.

Going forward we expect the market to build towards a peak in 2015 before moderating over the following two years as new supply comes on line. This would result in a hotel market cycle of seven years. The level of real growth on the upswing is forecast to be 23.5% which is in line with the previous cycle. The reduction in real RevPAR over the downturn is however expected to be lower with improving demand prospects across the region with the expansion of the airport, investments in port infrastructure and continued demand from the resources segment.

Supply increases are expected to remain broadly in check given the viability challenges of hotel development feasibility but some projects will progress in close proximity to demand generators. Higher returns from competing alternate land uses e.g. residential apartments is also expected to result in competition for sites. The Hunter Region's HMGSA accommodation supply is expected to increase on average by 1.0% per annum to 2031 with the addition of around 1,141 rooms. Short term supply is forecast to increase on average by 1.3% per annum to 2022 with the addition of around 686 rooms with new supply largely limited to known projects.

The probability of all existing mooted and new projects advancing is low as feasibility hurdles will become more challenging as construction and proposed projects advance. Operating performance within the Hunter Region varies significantly with the feasibility of any individual project having a greater regard to the immediate location. Viability can therefore increase significantly if a property is well-located to tourism demand generators and in some instances this could even make accommodation product the highest and best use of land.

Demand growth is forecast to increase on average by 1.6% per annum to 2031 as domestic and international tourism markets remain strong, albeit with ongoing competition from alternate accommodation types, notably rented house /apartment market particularly for long-stay corporate demand. Demand growth is expected to outpace supply increases through the early forecast period and occupancy levels will increase, reaching historic highs by 2022.
As occupancy levels reach the market ceiling over the next couple of years, ADR growth will increase. ADR is forecast to increase on average by 3.1% per annum to 2031 which is slightly above the 2.6% per annum between 2002 and 2013 and reflects the generally improved market conditions which are anticipated over this time. Focused marketing to specific segments and the use of dynamic pricing may see rates increase at a higher rate than in the past as accommodation market responsiveness continues to improve. RevPAR growth in the Hunter Region is forecast to average 3.6% per annum to 2031 with nominal RevPAR increasing from an estimated $83 in 2013 to $158 in 2031.
2 Hotel and Tourism Market

Statistics pertaining to the supply, demand and performance of the Hunter Region’s accommodation market have been sourced from the Australian Bureau of Statistics’ (ABS) Survey of Tourist Accommodation (STA), Tourism Research Australia’s National and International Visitor Surveys and STR Global as follows:

- The Survey of Tourist Accommodation is conducted on an annual basis and data is available from 1998 to June 2013 for the Hunter tourism region and Port Stephens local government area which we have combined to form the Hunter Region. We note there have been a number of changes to statistical boundaries and reporting regions within this timeframe and therefore some breaks in the time series exist;

- The National and International visitor surveys are conducted on a quarterly basis and data in the current format is available from 2005 to June 2014 for the Hunter Region. We have relied upon calendar year data to 2013; and

- Five year trend reports have been purchased from STR Global for a basket of hotels, serviced apartments, motels and guesthouses for Newcastle and the Hunter Valley to provide an indication of trading performance trends over the past year.

2.1 Profile of the Accommodation Market

Our analysis of the Hunter Region’s HMGSA (hotels, motels, guesthouses and serviced apartments) accommodation market has identified 113 establishments with 5,784 rooms including both AAA rated and self-rated hotels. This represents around 8.4% of the total HMGSA supply in New South Wales or 16.1% of supply in regional NSW (excludes Sydney Tourism Region) as shown in the chart following.

![Hunter Region HMGSA Comparison to Regional NSW](chart.png)

Source: ABS, JLL
2.1.1 Segment Analysis

An appropriate brand and correct positioning are some of the key drivers of success in the hotel industry. Hotel owners may need to reposition when a hotel asset has lost effectiveness in serving its market due to obsolescence or as market dynamics shift in accordance with the changing city landscape.

Hotels are the most common accommodation type in the Hunter Region (2,684 rooms or 46.4% of total room supply) with two thirds of rooms in the upscale category. Motels comprise the second largest segment with 2,022 rooms or 35.0% of the total supply. Three quarters of motels rooms are in the midscale category. There are considerably fewer apartment rooms, accounting for only 16.4% of total supply. Hotels are the most diverse with a broad spread of rooms across all categories. The only 5-star property is the self-rated Chateau Elan at the Vintage in the Hunter Valley.

Hunter Region HMGSA Supply

<table>
<thead>
<tr>
<th>Accommodation Rooms by Type &amp; Star Rating – 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-star</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>Motel</td>
</tr>
<tr>
<td>Hotel</td>
</tr>
<tr>
<td>Apartment</td>
</tr>
<tr>
<td>Guesthouse</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Percentage</td>
</tr>
</tbody>
</table>

Source: STR Global Census Database, JLL

2.1.2 Geographic Analysis

The majority of HMGSA rooms in the Hunter Region are located in Newcastle (2,266 rooms or 39.2% of total supply) and the Hunter valley (2,119 rooms or 36.6%) with fewer rooms in Port Stephens (1,202 rooms or 20.8%) and only a small number on Lake Macquarie (197 rooms or 3.4%). The Hunter Valley has the most diverse accommodation market with properties of all grades represented, whereas Newcastle and Port Stephens have properties of all grades except 5-star.

Hunter Region HMGSA Supply

<table>
<thead>
<tr>
<th>Accommodation Rooms by Precinct &amp; Star Rating – 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-star &amp; below</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Hunter Valley</td>
</tr>
<tr>
<td>Lake Macquarie</td>
</tr>
<tr>
<td>Newcastle</td>
</tr>
<tr>
<td>Port Stephens</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: STR Global Census Database, JLL

NSW Accommodation Supply Study – Part Two
November 2014
2.2 Visitor Night Demand

Data pertaining to the historical demand profile in the paid accommodation segment (includes hotels, motels, guesthouses and serviced apartments, HMGSA) has been sourced from Tourism Research Australia’s National and International Visitor surveys and a profile provided for the Hunter Region for the eight years between 2005 and 2013 (latest full year data available).

2.2.1 Newcastle

Visitor nights in Newcastle’s HMGSA segment recorded the second lowest year of the eight-year period in 2013 and with growth having declined at an average rate of 3.7% per annum. A total of 0.6 million visitor nights were spent in Newcastle in 2013. Total visitor nights peaked in 2011 at 1.0 million before declining over the next two years.

The domestic segment dominates accounting for 89.8% of all visitor nights spent in Newcastle in 2013 and having averaged 88.4% over the past eight years. Domestic visitor nights also peaked in 2011 at 0.9 million and a level which was well above the long term average of 0.7 million. Domestic visitors are predominantly sourced from regional NSW (39.4%) and Sydney (36.1%) with Victoria and Queensland accounting for a further 10% of nights respectively in 2013. Nights from regional NSW have recorded growth over the past eight years.

Asia is the largest international source region accounting for around 2.9% of total visitor nights in 2013. New Zealand accounts for a further 2.5% of total visitor nights, whereas Europe and North America each account for 2.2% of the total respectively.

Analysis of the purpose of visit highlights that the decline in visitation is being underpinned by the domestic business and VFR segments with visitor nights reducing by 2.9% and 3.0% per annum respectively over the eight year period. This has been partially offset by growth in the international business segment. Overall business visitors accounted for 34.5% of total visitor nights in 2013 and having averaged 38.6% over the eight year period.
It is worth noting that visitor nights do not equate to occupied room nights given the room density factor and the proportion of corporate room nights is therefore more likely to be in the order 65-75%.

The MICE segment is poorly represented accounting for only 1.3% of nights in 2013 and having averaged 1.7% over the past eight years. We identified 11,738sqm of meeting space in Newcastle in the HMGSA segment.

![Newcastle HMGSA Visitor Night Demand Profile by Purpose of Visit](image)

Source: Tourism Research Australia, JLL

### 2.2.2 Port Stephens

Visitor nights in Port Stephens HMGSA segment recorded the fourth lowest year of the eight-year period in 2013 and with growth having averaged 0.3% per annum. A total of 0.6 million visitor nights spent were spent in Port Stephens in 2013. Total visitor nights in HMGSA peaked in 2007 at 0.7 million nights.

The domestic segment dominates accounting for 96.7% of all visitor nights spent in paid accommodation in 2013 and having averaged 94.9% over the past eight years. Domestic visitors are predominantly sourced from Sydney (62.5%), regional NSW (17.0%) and Victoria (8.7%). Visitation from Sydney has recorded only marginal growth over the eight year period.

Asia and Europe are the largest international source regions accounting for 1.0% of total visitor nights in 2013 respectively.
Analysis of the purpose of visit highlights that growth, albeit marginal, is being underpinned by the domestic holiday segment with growth in visitor nights averaging 0.5% per annum over the eight year period. The domestic holiday segment accounted for three quarters of total visitor nights in 2013 and is therefore of particular importance for Port Stephens.

The MICE segment is very small, reflecting the distance to Sydney with the drive time above the preferred two hours to attract this segment. There are also only limited meeting facilities in the Port Stephens area with the market geared more towards holidaymakers.
2.2.3 Hunter Region (excluding Newcastle & Port Stephens)

Visitor nights in remainder of the Hunter Region HMGSA segment recorded the third highest year of the eight-year period in 2013 and with growth having averaged 9.2% per annum. A total of 0.9 million visitor nights were spent in the area in 2013. A notable step change is evident from 2010, reflecting an increase in business visitation particularly within the Maitland region in accordance with the growth in coal production. Total visitor nights in HMGSA peaked in 2010 and 2011 at 1.0 million nights.

The domestic segment dominates accounting for 96.4% of all visitor nights spent in paid accommodation in 2013 and having averaged 94.4% over the past eight years. Domestic visitors are predominantly sourced from Sydney (47.4%), regional NSW (31.3%) and Queensland (10.8%). All markets have recorded growth over the eight year period. Europe is the largest international source regions accounting for 1.6% of total visitor nights in 2013 respectively and having averaged 2.7% over the eight year period.

Analysis of the purpose of visit highlights that growth is being underpinned by the domestic VFR and business segments with growth in visitor nights averaging 12.5% and 9.6% per annum respectively over the eight year period. The leisure segment (includes holiday and VFR travel) dominates accounting for 64.4% of visitor nights in 2013. This compares to 21.4% for the business segment. It is worth noting that visitor nights do not equate to occupied room nights given the room density factor and the proportion of corporate room nights is therefore more likely to be in the order 50%.

The MICE segment accounted for a further 8.4% of visitor nights in 2013 but having only averaged 2.7% over the past eight years. We identified approximately 38,659sqm of meeting space at hotels in the Hunter Valley region. Major providers include Cypress Lakes Resort by Oaks Hotels & Resorts, Crowne Plaza Hunter Valley and Sebel Kirkton Park Hunter Valley.
2.3 Trading Performance Trends

According to the ABS, there were 144 establishments with 5,399 rooms at the end of June 2013 in the Hunter Region. Accommodation rooms are fairly widespread with notable clusters in Newcastle, Port Stephens, Hunter Valley, Maitland and Lake Macquarie.

Over the ten years to 2012, Hunter Region’s accommodation market recorded modest RevPAR growth increasing on average by 3.8% per annum. Higher room rates have been the primary driver with ADR increasing 2.8% per annum, up from $110 in 2002 to $145 in 2012.
Hotel room supply has recorded modest growth increasing on average by 2.2% per annum with increases most evident in 2008 and with the addition of net 588 rooms over the ten year period. More recently, HMGSA has declined with consecutive annual declines recorded between 2010 and 2012. This in part reflects the higher returns available from alternate use, notably residential, which has resulted in some hotels closing for conversion, as well as apartments being moved out letting pools. Demand has increased at a slightly lower rate averaging 3.2% per annum, underpinned by the domestic VFR and business segments, as well as international holiday demand. Accordingly occupancy levels have increased, up from 54.1% in 2002 to 59.9% in 2012 to be at the highest level ever recorded.

Growth has slowed considerably during the first six months of 2013 with RevPAR reducing 9.2% year-on-year as demand has softened and in spite of further reductions in room night supply. Occupancy levels have reduced markedly, declining to 54.8% compared to 61.4% during the preceding six months. ADR growth was achieved in spite of this, increasing 1.8% year-on-year to $146 and thought to reflect the shift in the visitor profile.

### Hunter Region Historical Trading Performance 2002 to 2012

<table>
<thead>
<tr>
<th></th>
<th>RNA (000's)</th>
<th>% Change</th>
<th>RNO (000's)</th>
<th>% Change</th>
<th>Occ %</th>
<th>% Change</th>
<th>ADR A$</th>
<th>% Change</th>
<th>RevPAR A$</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>1,716</td>
<td>3.5%</td>
<td>929</td>
<td>3.8%</td>
<td>54.1%</td>
<td>0.3%</td>
<td>$110</td>
<td>6.1%</td>
<td>$60</td>
<td>6.5%</td>
</tr>
<tr>
<td>2003</td>
<td>1,775</td>
<td>4.1%</td>
<td>964</td>
<td>0.9%</td>
<td>52.7%</td>
<td>-3.1%</td>
<td>$117</td>
<td>6.1%</td>
<td>$63</td>
<td>1.8%</td>
</tr>
<tr>
<td>2004</td>
<td>1,848</td>
<td>6.8%</td>
<td>1,039</td>
<td>6.8%</td>
<td>55.2%</td>
<td>4.9%</td>
<td>$112</td>
<td>-8.8%</td>
<td>$62</td>
<td>-4.3%</td>
</tr>
<tr>
<td>2005</td>
<td>1,881</td>
<td>6.1%</td>
<td>1,096</td>
<td>5.5%</td>
<td>54.9%</td>
<td>-0.6%</td>
<td>$120</td>
<td>7.5%</td>
<td>$66</td>
<td>6.9%</td>
</tr>
<tr>
<td>2006</td>
<td>1,995</td>
<td>-0.2%</td>
<td>1,120</td>
<td>2.2%</td>
<td>56.2%</td>
<td>2.3%</td>
<td>$130</td>
<td>8.5%</td>
<td>$73</td>
<td>11.0%</td>
</tr>
<tr>
<td>2007</td>
<td>1,992</td>
<td>23.6%</td>
<td>1,120</td>
<td>2.2%</td>
<td>56.2%</td>
<td>2.3%</td>
<td>$130</td>
<td>8.5%</td>
<td>$73</td>
<td>11.0%</td>
</tr>
<tr>
<td>2008</td>
<td>2,462</td>
<td>6.2%</td>
<td>1,374</td>
<td>1.1%</td>
<td>52.6%</td>
<td>-4.8%</td>
<td>$136</td>
<td>8.0%</td>
<td>$72</td>
<td>2.8%</td>
</tr>
<tr>
<td>2009</td>
<td>2,614</td>
<td>-6.4%</td>
<td>1,323</td>
<td>-3.8%</td>
<td>54.1%</td>
<td>2.8%</td>
<td>$134</td>
<td>-1.6%</td>
<td>$73</td>
<td>1.2%</td>
</tr>
<tr>
<td>2010</td>
<td>2,446</td>
<td>-7.7%</td>
<td>1,297</td>
<td>-1.9%</td>
<td>57.5%</td>
<td>6.2%</td>
<td>$132</td>
<td>-1.7%</td>
<td>$76</td>
<td>4.4%</td>
</tr>
<tr>
<td>2011</td>
<td>2,257</td>
<td>-5.6%</td>
<td>1,278</td>
<td>-1.5%</td>
<td>59.9%</td>
<td>4.3%</td>
<td>$145</td>
<td>9.8%</td>
<td>$87</td>
<td>14.5%</td>
</tr>
<tr>
<td><strong>CAAG 2002 - 2012</strong></td>
<td><strong>2.2%</strong></td>
<td><strong>3.2%</strong></td>
<td><strong>1.0%</strong></td>
<td><strong>2.8%</strong></td>
<td><strong>3.8%</strong></td>
<td><strong>Source ABS, JLL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2.3.1 Sub-Region Performance Comparison

A comparison of trading performance between the Hunter Region, Newcastle, Maitland, Hunter Valley, Lake Macquarie and Port Stephens is provided in the charts following.

Comparison of the near term historical trading performance (2008 to 2012) highlights how Newcastle’s RevPAR has traded on average at an index of 1.29 compared to the Hunter Region, reflecting both the concentration and diversity of room night demand. The RevPAR index was highest in 2008 but has moderated over the past four years to 1.23 in 2012. Hunter Valley Wine Country also trades at a RevPAR premium, having averaged 1.04 over the past five years. This compares to an average of 0.91 in Maitland, 0.90 in Port Stephens and 0.75 in Lake Macquarie:

- Occupancy levels in Newcastle and Maitland are higher than for the Hunter Region with the index averaging 1.26 and 1.20 respectively over five years to 2012 and reflective of the higher proportion of corporate demand in these two markets. However, whilst the occupancy premium for Maitland has
remained fairly constant in Maitland, it has declined in Newcastle with stronger growth evident in other sub-markets in recent years. Occupancies in Port Stephens, the Hunter Valley, and Lake Macquarie all trade at a discount with an average occupancy index of 0.95, 0.88 and 0.87 respectively. Hunter Valley recorded a notable improvement in the index in 2012 to 1.01, whereas Lake Macquarie declined to 0.78. Port Stephens has remained largely constant over the five period; and

- ADR in the Hunter Valley and to a lesser extent Newcastle are higher than for the Hunter Region overall with the ADR index averaging 1.18 and 1.03 respectively over five years to 2012. Contrary to the above, the ADR premium for Hunter Valley has moderated over the five period to reach 1.03. ADR in Port Stephens, Lake Macquarie and Maitland are below the overall market, averaging 0.95, 0.86 and 0.76 respectively. This reflects the dominance of lower end motel stock in Lake Macquarie and Maitland in particular.

### Hunter Region HMGSA Performance Comparison 2008 to 2012

![Graph showing Occupancy, Average Daily Rate, and RevPAR for Hunter Region](image)

- **Occupancy**
  - New Hunter Tourism Region
  - Port Stephens
  - Newcastle
  - Maitland
  - Lake Macquarie

- **Average Daily Rate**
  - New Hunter Tourism Region
  - Port Stephens
  - Newcastle
  - Maitland
  - Lake Macquarie

- **RevPAR**
  - New Hunter Tourism Region
  - Port Stephens
  - Newcastle
  - Maitland
  - Lake Macquarie

Source: ABS, JLL

### 2.3.2 Near Term Performance Trends - Newcastle

To provide an assessment of near term trading performance, we have purchased a five year trend report from STR Global for a basket of properties in the Northern Rivers tourism region. The basket of 13 properties comprises 1,038 rooms in Newcastle and includes the majority of branded competitive supply.

Over the five years to 2013, HMGSA in Newcastle recorded RevPAR growth increasing on average by 0.7% per annum with consecutive gains recorded between 2010 and 2012 before declining in 2013. The market has returned to growth during the first seven months of 2014, increasing 4.8% year-on-year to $111.
Occupancy levels have recorded a marginal decline over the five year period, reducing at an average rate of 0.2% per annum. Occupancy levels peaked in 2012 at 74.7% before declining over the following year. Slight growth has been recorded during the first seven months of 2014 with occupancies increasing 1.0% to 72.7%.

ADR has recorded slight growth over the five year period, increasing on average by 1.0% per annum. ADR peaked in 2011 at $153 before declining over the next two years. Growth has been achieved during the first seven months of 2014, increasing 3.7% year-on-year to $153.

2.3.3 Peaks & Troughs

Nominal RevPAR (moving annual average) in Newcastle is currently on an upward trend having troughed in November 2013 at $108 with monthly gains evident over the past nine months. RevPAR over the year to July 2014 at $111 is 4.5% below than the September-2012 high of $115. Occupancy levels averaged 73.3% over the year to July 2014, whereas room rates averaged $154. Occupancy levels are 2.8% below the February 2013-high and room rates are 2.0% below the October 2012-high.
2.3.4 Seasonality

Analysis of the monthly occupancy levels highlights the seasonality which exists within the Newcastle HMGSA market with occupancy levels typically ranging between 65% and 85% each year. Higher annual occupancy levels in 2011 and 2012 were driven by more months throughout the year achieving occupancy levels above 75%; however, this has moderated again over the past 18 months. Occupancy levels in Newcastle were above 75% for five months in 2011, six months in 2012 but only four months in 2013.
Analysis of the daily occupancy levels over the past three years shows how occupancy levels in Newcastle typically peak on a Saturday, Wednesday and Tuesday when demand from the leisure and corporate segment is highest. Daily occupancy levels for the year ending July 2014 are on average nought to two percentage points higher over the weekend but nought to three percentage points lower early in the working week. This highlights a reduction in corporate demand thought to reflect the softening in the resource segment.

<table>
<thead>
<tr>
<th>Newcastle Daily Occupancy Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>Jul 11 - Jun 12</td>
</tr>
<tr>
<td>Jul 12 - Jun 13</td>
</tr>
<tr>
<td>Jul 13 - Jun 14</td>
</tr>
</tbody>
</table>

Analysis of the daily ADR trends over the past three years shows how room rates in Newcastle typically peak on a Saturday when demand from the leisure segment is highest. ADR is also fairly high midweek when corporate demand is highest. Daily ADR for the year ending July 2014 is on average up nought to four percent over the weekend, reflective of the improving demand during this period. Offsetting that is slightly lower rates early in the week.

<table>
<thead>
<tr>
<th>Newcastle Daily ADR Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>Aug 11 - Jul 12</td>
</tr>
<tr>
<td>Aug 12 - Jul 13</td>
</tr>
<tr>
<td>Aug 13 - Jul 14</td>
</tr>
</tbody>
</table>

2.3.5 Near Term Performance Trends – Hunter Valley

To provide an assessment of near term trading performance, we have purchased a five year trend report from STR Global for a basket of properties in Hunter Valley. The basket of eight properties comprises 856 rooms in Hunter Valley and includes the majority of branded competitive supply.

Over the five years to 2013, HMGSA in Hunter Valley recorded a slight RevPAR decline with growth reducing at an average rate of 1.2% per annum with notable declines evident in 2009 and 2010. RevPAR in 2013 at $101 was still 5.7% lower than the 2008-high with operators advising that the MICE segment, in particular, was still well-below pre-crisis levels. The market has recorded stronger growth during the first seven months of 2014 with RevPAR increasing 10.2% year-on-year to $106.

Occupancy levels have declined over the five year period, reducing at an average rate of 2.2% per annum and having averaged less than 50% for four of the six years. This highlights the adverse trading conditions which have been evident in Hunter Valley over the past five years with operators under increasing financial pressure. Occupancy levels improved marginally in 2013 to average 52.0% and have recorded further growth over the first seven months of 2014, up 3.0% to 51.2% however remain well below historic levels.

ADR has recorded slight growth over the five year period, increasing on average by 1.0% per annum. ADR peaked in 2011 at $201 before declining over the next two year. Strong growth has been achieved during the first seven months of 2014, increasing 7.0% year-on-year to $206 and thought to reflect the tentative signs of recovery in the MICE segment.
2.3.6 Peaks & Troughs

Nominal RevPAR (moving annual average) in Hunter Valley is therefore trending upwards having troughed in November 2013 at $108 with monthly gains evident over the past nine months. RevPAR over the year to July 2014 at $111 is 4.5% below than the September-2012 high of $115. Occupancy levels averaged 73.3% over the year to July 2014, whereas room rates averaged $154. Occupancy levels are 2.8% below the February 2013-high and room rates are 2.0% below the October 2012-high. Both are trending upwards again.

Source: STR Global, JLL
2.3.7 Seasonality

Analysis of the monthly occupancy levels highlights the low occupancy levels which persist throughout the year in Hunter valley’s HMGSA market with occupancy levels typically ranging between 45% and 60% each year and with few notable spikes. Higher annual occupancy levels in 2008 were driven by more months throughout the year achieving occupancy levels above 60% however this has not occurred over the past five years which highlights the current severity of trading conditions.

Analysis of the daily occupancy levels over the past three years shows the high degree of variability throughout the week with occupancy levels ranging between 40% and 80%. Occupancy levels typically peak on a Saturday and Friday when demand from the leisure is highest. A positive is that daily occupancy levels for the year ending July 2014 are on average nought to five percentage points higher than the year prior albeit with growth most notable on a Friday, Saturday and Sunday.

Analysis of the daily ADR trends reflects the aforementioned occupancy trends with room rates in Hunter Valley highest on a Friday, Saturday and Sunday over the past three years but with considerably lower rates during the working week. Daily ADR for the year ending July 2014 is on average up one to five percent higher each day, reflective of the improving demand during this period with the strongest growth evident at the weekend.
### Hunter Valley Daily ADR Trends

<table>
<thead>
<tr>
<th></th>
<th>Sun</th>
<th>Mon</th>
<th>Tue</th>
<th>Wed</th>
<th>Thu</th>
<th>Fri</th>
<th>Sat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 11 - Jul 12</td>
<td>178.9</td>
<td>160.0</td>
<td>162.8</td>
<td>164.7</td>
<td>167.2</td>
<td>231.7</td>
<td>245.4</td>
</tr>
<tr>
<td>Aug 12 - Jul 13</td>
<td>175.6</td>
<td>160.7</td>
<td>159.9</td>
<td>163.2</td>
<td>168.5</td>
<td>227.8</td>
<td>244.1</td>
</tr>
<tr>
<td>Aug 13 - Jul 14</td>
<td>185.2</td>
<td>162.4</td>
<td>167.5</td>
<td>167.8</td>
<td>171.8</td>
<td>235.0</td>
<td>255.5</td>
</tr>
</tbody>
</table>
3 Camping/Caravan Segment

Statistics pertaining to the supply, demand and performance of the Hunter Region’s camping and caravan market have been sourced from the Australian Bureau of Statistics’ (ABS) Survey of Tourist Accommodation (STA) expanded scope and Tourism Research Australia’s National and International Visitor Surveys as follows:

- The Survey of Tourist Accommodation expanded scope was conducted on an annual basis between January 2006 and June 2010 and date provided for caravan parks with 40 or more powered sites before funding for this project ceased. Caravan parks provide either short-term or long-term accommodation. If a caravan park has the majority of sites occupied by paying guests who have stayed continuously for two months or more during the survey period, the caravan park is classified as long-term. Prior to this data was collected every three years; and

- The National and International visitor surveys are conducted on a quarterly basis and data in the current format is available from 2005 to June 2014. We have relied upon calendar year data to 2013.

3.1 Profile of the Camping and Caravan Market

Our analysis of the Hunter Region camping and caravan market has identified 34 establishments although we have been unable to determine the exact supply of camp sites and cabins. We note that according to the ABS there were 52 establishments with 7,614 sites/cabins in the Hunter Region at the end of June 2010 and assume that the supply today is broadly similar.

Over the four years to 2010 there was a slight shift in the product offering with an increase in the number of on-site vans at the expense of powered sites and thought to reflect the growth in resource company demand for contract workers at this time. On site vans, whilst included, are assumed to be predominantly permanent residential and therefore not contributors to the overall visitor economy. Powered sites dominate accommodation supply accounting for 52% of supply. This is followed cabins (20.0%) and unpowered sites (5.5%).

Excluding Newcastle, supply is fairly consistent across the three sub-regions albeit with a higher proportion of cabins in Lake Macquarie and on-site vans in Hunter Valley and Port Stephens. This is thought to reflect the leisure orientation of Lake Macquarie parks with few long-term residents when compared to Hunter Valley and Port Stephens.
JLL’s review of 2014 supply identified 34 establishments, the majority of which are located in Port Stephens (12 establishments). This compares to 11 establishments in Hunter Valley and nine establishments in Lake Macquarie. We also identified two parks in Newcastle as shown in the following table.

This table also includes an indication of current average site and cabin rates (by season) and highlights how Lake Macquarie achieves a premium with advertised site and cabin rates between 8.3% and 42.5% higher than for the region overall. As would be expected the premium is highest during the peak season at 33.5% for a camp site and 42.5% for a cabin. This is thought to reflect the high proportion of waterfront properties in Lake Macquarie. More information with respect to achieved rates is provided in Section 2.3.
3.2 Visitor Night Demand

Data pertaining to the historical demand profile in the camping and caravan sector has been sourced from Tourism Research Australia’s National and International Visitor surveys and a profile provided for the Northern Rivers region for the eight years between 2005 and 2013 (latest full year data available).

We have divided the Hunter Region into two sub-regions to allow for better analysis of the trends within the HMGSA segment. Sub-regions include Port Stephens and Hunter region excluding Port Stephens and Newcastle. We note that there are only two caravan and camping establishments in Newcastle.

3.2.1 Port Stephens

Visitor nights in Port Stephens camping and caravan segment recorded the second highest year of the eight-year period in 2013 and with growth having averaged 0.9% per annum. A total of 0.6 million visitor nights were spent in the region in 2013. Total visitor nights in peaked in 2007 at 0.6 million nights.

The domestic segment dominates accounting for 97.8% of all visitor nights spent in 2013 and having averaged 97.3% over the past eight years. Domestic visitors are predominantly sourced from regional NSW (57.4%) and Sydney (37.2%) but with only visitation from regional NSW having recorded growth over the past eight years whereas New South Wales has declined. Europe is the largest international source region accounting for 1.4% of total visitor nights in 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Visitor Nights in Camping &amp; Caravan</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>600</td>
</tr>
<tr>
<td>2006</td>
<td>600</td>
</tr>
<tr>
<td>2007</td>
<td>600</td>
</tr>
<tr>
<td>2008</td>
<td>600</td>
</tr>
<tr>
<td>2009</td>
<td>500</td>
</tr>
<tr>
<td>2010</td>
<td>400</td>
</tr>
<tr>
<td>2011</td>
<td>300</td>
</tr>
<tr>
<td>2012</td>
<td>200</td>
</tr>
<tr>
<td>2013</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Tourism Research Australia, JLL

Analysis of the purpose of visit highlights that growth is being underpinned by domestic VFR albeit offset by a decline in domestic holiday travel. Overall the leisure segment accounted for 99.2% of total visitor nights in 2013.
3.2.2 Hunter excluding Port Stephens & Newcastle

Visitor nights in the Hunter Region’s (excluding Port Stephens & Newcastle) camping and caravan segment recorded the third lowest year of the eight-year period in 2013 and with growth having declined at an average rate of 2.0% per annum. A total of 0.2 million visitor nights were spent in the region in 2013. Total visitor nights peaked in 2012 at 0.4 million before declining over the next year.
The domestic segment dominates accounting for 98.0% of all visitor nights spent in 2013 and having averaged 95.0% over the past eight years. Domestic visitors are predominantly sourced from regional NSW (57.1%), Sydney (19.2%) and Queensland (19.2%). Growth has been strongest for visitors from regional NSW whereas other segments have declined.

Analysis of the purpose of visit highlights how the region is underpinned by the domestic holiday segment with these visitors accounting 82% of total visitor nights in 2013. Visitor night demand has declined at an average rate of 1.6% per annum.

![Graph showing visitor night demand profile by purpose of visit.](source: Tourism Research Australia, JLL)

### 3.3 Trading Performance Trends

According to the ABS, there were 52 camping and caravan establishments in the Hunter Region representing 7,614 sites at the end of June 2010. Data is only available for calendar years 2006 to 2009 for the overall operation i.e. income derived from the combination of on-site vans, powered/unpowered sites and cabins.

Over the four years to 2009, the Hunter Region camping and caravan segment recorded strong RevPAS growth increasing on average by 6.3% per annum. Higher occupancies were the primary driver with occupancies increasing 4.2% per annum, up from 65.4% in 2006 to 74.1% in 2009.

Site supply reduced over the four year period, declining at an average rate of 0.6% per annum with the closure of two establishments in 2008. Over the four year period, the number of on-site vans and cabins both increased, with the shift thought to be driven by the need for accommodation by miners as the resource sector boomed. Demand also increased as average rate of 3.6% per annum over the four year period, resulting in occupancy levels increasing as mentioned above. Against this strong backdrop, only modest growth in ADR was achieved increasing on average by 1.9% per annum, up from $19.30 in 2006 to $20.44 in 2009. The camping and caravan segment continued to record growth during the first six months of 2010 with RevPAS increasing 3.4% driven by a combination of occupancy and site rate gains.
3.3.1 Sub-region Performance Comparison

A comparison of trading performance between the Hunter Region, Hunter Valley, Lake Macquarie and Port Stephens is provided in the charts following. This highlights how the three regions broadly trade in line albeit with slightly lower rates evident in Lake Macquarie. Port Stephens and Hunter Valley’s RevPAS have traded on average at an index of 1.05 and 1.04 respectively compared to the Hunter Region. This compares to an average RevPAR Index of 0.85 in Lake Macquarie and is in spite this sub-market achieving an occupancy premium averaging 1.02 over the four years to 2009.
Hunter Valley Camping and Caravan
Performance Comparison

Occupancy

Average Daily Rate

RevPAS

Source: ABS, JLL
4 Backpacker/Hostel Segment

Statistics pertaining to the supply, demand and performance of the Hunter Region backpacker hostel market have been sourced from Tourism Research Australia’s National and International Visitor Surveys. This was conducted on a quarterly basis and data in the current format is available from 2005 to June 2014. We have relied upon calendar year data to 2013.

We note that given the small size of the backpacker hostel market in the Hunter Region data pertaining to the supply, demand and performance of the segment is not available from the Australian Bureau of Statistics and is therefore excluded for this segment.

4.1 Profile of the Backpacker/Hostel Market

Our analysis of the Hunter Region backpacker/hostel market identified seven establishments although we have been unable to determine the exact supply of beds. We note that the ABS accounted for six backpacker establishments in the Hunter Region at the end of June 2010 but did not state the number of beds. Backpacker/hostel establishments are thinly spread across the region with three properties each in Newcastle and Hunter Valley and two properties in Port Stephens as shown in the table following which also includes low, medium and high advertised rates for dorms and private rooms.

<table>
<thead>
<tr>
<th>Hunter Region Backpacker/Hostel Competitive Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishments by Subregion &amp; Advertised Rates 2014</td>
</tr>
<tr>
<td>Dorm Rate $</td>
</tr>
<tr>
<td>Estb.</td>
</tr>
<tr>
<td>Port Stephens</td>
</tr>
<tr>
<td>Hunter Valley</td>
</tr>
<tr>
<td>Newcastle</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Hostelworld, JLL

4.2 Visitor Night Demand

Data pertaining to the historical demand profile in the backpacker/hostel segment has been sourced from Tourism Research Australia’s National and International Visitor surveys and a profile provided for the Hunter Region for the eight years between 2005 and 2013 (latest full year data available).

As outlined in Section 1.4, the backpacker hostel segment accounts for only 0.7% of visitor nights spent in the Hunter Region. Our analysis of visitor night demand for the backpacker segment therefore pertains to the whole region (dominated by Newcastle). As there is not sufficient demand in sub-markets for the analysis to be meaningful we advise a degree of caution with respect to the overall trends given the very small size of the market.

Visitor nights in the Hunter Region’s backpacker hostel segment recorded the second lowest year of the eight-year period in 2013 and with growth having declined at an average rate of 8.1% per annum. A total of 0.06 million visitor nights were spent in the Hunter Region in 2013. Total visitor nights peaked in 2006 at 0.2 million.
The international segment dominates accounting for 90.3% of all visitor nights in 2013 and having averaged 80.7% over the past eight years. International visitor nights peaked in 2009 at 0.15 million. Europe is the largest international source region accounting for around 76.9% of total visitor nights in 2013. Continental Europe dominates at 66.0% of all visitor nights in 2013. North America accounts for a further 5.9% of total visitor nights whereas Asia and New Zealand account for 4.1% and 0.8% of the total respectively.

Analysis of the purpose of visit highlights how the decline in visitation is from the reduction in international holiday travellers with growth in visitor nights reducing by 1.7% per annum over the eight year period. The international leisure segment accounted for 78.0% of visitor nights in 2013.
5 Holiday Rentals

Statistics pertaining to the supply, demand and performance of the Hunter Region holiday rental market have been sourced from Stayz online travel agency, Australian Bureau of Statistics expanded scope and Tourism Research Australia’s National and International Visitor Surveys as follows:

- The National and International visitor surveys are conducted on a quarterly basis and data in the current format is available from 2005 to June 2014. We have relied upon calendar year data to 2013;

- The Survey of Tourist Accommodation expanded scope was conducted on an annual basis between January 2005 and June 2010 and included data for holiday flats, units and houses (excluding time-share) which are operated by owners, managers or real estate agents who have sole letting rights to at least 15 flats, units or houses for short-term letting. These flats, units or houses are self-contained do not offer breakfast for guests. Data for holiday flats units or houses include short-term owner operators as well as paying guest occupation; and

- Stayz online travel agency has provided a snapshot of holiday rental supply as at September 2014 including number of establishments, bedrooms, total capacity and average nightly rate. We thank them for their support of this project.

5.1 Profile of the Holiday Rentals Market

Our analysis of the Hunter Region holiday rentals market identified 1,919 establishments with 6,438 rooms and an overall capacity of 14,558 persons. This represents an average property size of 3.4 rooms which can accommodate 7.6 persons per night. This compares to 110 HMGSA establishments with 5,784 rooms and a total capacity of 11,568 persons, assuming a room density of two persons.

Port Stephens dominates accounting for 56.6% of the total room supply and 57.1% of total capacity. This compares to 32.8% of total rooms and 34.4% of total capacity in Hunter Valley. The Lake Macquarie and Newcastle holiday rentals markets are considerably smaller with less than 10% of the overall room supply respectively. On the basis of advertised rates (which we understand are similar to achieved rates, with discounts of up to 10% only ever applied), it would appear that the Hunter Valley holiday rentals segment attracts a slight rate premium but considerably lower than that which is achieved in the HMGSA segment as shown below.

<table>
<thead>
<tr>
<th>Hunter Region Holiday Rentals Supply</th>
<th>September 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estb.</td>
<td>Rooms</td>
</tr>
<tr>
<td>Hunter Valley</td>
<td>433</td>
</tr>
<tr>
<td>Lake Macquarie</td>
<td>132</td>
</tr>
<tr>
<td>Newcastle</td>
<td>63</td>
</tr>
<tr>
<td>Port Stephens</td>
<td>1,291</td>
</tr>
<tr>
<td>Total</td>
<td>1,919</td>
</tr>
</tbody>
</table>

Source Stayz, JLL
5.2 Visitor Night Demand

Data pertaining to the historical demand profile in the holiday rentals has been sourced from Tourism Research Australia’s National and International Visitor surveys and a profile provided for the Hunter Region for the eight years between 2005 and 2013 (latest full year data available).

We have segmented the Hunter Region into three sub-regions to allow for better analysis of the trends within the HMGSA segment. Sub-regions include Newcastle, Port Stephens and Hunter Region excluding Newcastle and Port Stephens which for the HMGSA segment is dominated by Hunter Valley Wine Country.

5.2.1 Hunter Region (excluding Port Stephens & Newcastle)

Visitor nights in the Hunter Region’s (excluding Port Stephens & Newcastle) holiday rentals segment recorded the fourth highest year of the eight-year period in 2013 and with growth having increased at an average rate of 14.7% per annum. A total of 0.3 million visitor nights were spent in the region’s holiday rentals accommodation in 2013. Total visitor nights peaked in 2012 at 0.9 million nights before reducing sharply over the following year.

The domestic segment dominates accounting for on average 62.3% of all visitor nights over the past eight years. Domestic visitor nights also peaked in 2009 at 0.6 million and a level which was above the long term average of 0.2 million although growth has been strongest in the international segment albeit from a lower base. Domestic visitors are predominantly sourced from Sydney (81.5%) and have recorded growth averaging 8.7% per annum over the past eight years.

Europe and Asia are the largest international source regions accounting for around 23.0% and 14.6% of total visitor nights in 2013. Continental Europe and other Asia dominate. North America accounted for a further 14.5% of nights in 2013.

Analysis of the purpose of visit highlights that the growth in visitation is being underpinned by the international holiday and employment segments with visitor nights increasing by 56.3% and 37.5% per annum respectively.
over the eight year period. Domestic demand has also grown across all segments. Overall leisure visitors accounted for 69.9% of total visitor nights in 2013, slightly above the long term average of 61.5%.

5.2.2 Port Stephens

Visitor nights in Port Stephens holiday rentals segment recorded the fourth highest year of the eight-year period in 2013 but with growth having declined at an average rate of 0.8% per annum. A total of 0.6 million visitor nights spent were spent in the region’s holiday rentals in 2013, well below the peak of 0.8 million in 2008.

The domestic segment dominates accounting for 99.2% of all visitor nights spent in 2013 and having averaged 97.4% over the past eight years. Domestic visitors are predominantly sourced from Sydney (78.4%) and regional NSW (12.4%). Visitation from Sydney has recorded little change over the period where as visitation from regional NSW has declined. Europe is the largest international source region accounting for a marginal 0.6% of total visitor nights in 2013 and having averaged 0.9% over the past eight years.
Analysis of the purpose of visit highlights that the decline is attributable to a reduction in visitor nights from the domestic holiday segment with visitor nights reducing at an average rate of 1.4% per annum over the eight year period. We understand that this reflects a considerable reduction in the length of stay with few domestic holidaymakers now booking for two week stays. We were advised that long weekend and one week stays now dominate which represents a major shift for the Port Stephens rental market.
5.2.1 Newcastle

Visitor nights in Newcastle’s holiday rentals segment recorded the third highest year of the eight-year period in 2013 and with growth having averaged 4.9% per annum. A total of 0.8 million visitor nights spent were spent in Newcastle holiday rentals in 2013, well below the 2012 peak of 1.0 million.

The international segment dominates accounting for 82.5% of all visitor nights spent in 2013 and having averaged 86.5% over the past eight years. Asia is the largest international source region accounting for 49.2% of total visitor nights in 2013 and having averaged 47.4% over the past eight years. China and other Asia dominate. A further 26.5% of visitor nights were sourced from Europe in 2013. This compares to 3.6% from North America and 0.1% from New Zealand. Domestic visitors are quite varied but dominated by visitors from Victoria, Queensland, Sydney and regional NSW.

Analysis of the purpose of visit highlights that growth is being underpinned by the international holiday segment although the international employment segment dominates. Overall the employment and education segments accounted for 67.0% of visitor nights in 2013 and having averaged 78.0% over the past eight years.
5.3 Trading Performance Trends

Data pertaining to the performance of the holiday lettings segment in the Hunter Region is available from the Australian Bureau of Statistics for the Port Stephens market for between 2006 and 2010 and a summary of which follows.

5.3.1 Port Stephens

According to the ABS, there were 1,217 holiday lettings with 8,066 beds in Port Stephens at the end of June 2010. Over the four years to 2009, the Port Stephens holiday lettings segment strong growth in Revenue Per Available Unit (RevPAU) increasing on average by 14.2% per annum.

### Port Stephens Holiday Lettings Historical Performance 2006 to 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>UNA (000's)</th>
<th>% Change</th>
<th>UNO (000's)</th>
<th>% Change</th>
<th>Occ %</th>
<th>% Change</th>
<th>Unit Rate A$</th>
<th>% Change</th>
<th>RevPAU A$</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>476</td>
<td></td>
<td>155</td>
<td></td>
<td>32.5%</td>
<td></td>
<td>$94.9</td>
<td></td>
<td>$30.9</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>514</td>
<td>8.1%</td>
<td>151</td>
<td>-2.6%</td>
<td>29.3%</td>
<td>-9.9%</td>
<td>$108.9</td>
<td>14.7%</td>
<td>$31.9</td>
<td>3.4%</td>
</tr>
<tr>
<td>2008</td>
<td>487</td>
<td>-5.2%</td>
<td>169</td>
<td>11.8%</td>
<td>34.6%</td>
<td>17.9%</td>
<td>$121.2</td>
<td>11.2%</td>
<td>$41.9</td>
<td>31.2%</td>
</tr>
<tr>
<td>2009</td>
<td>401</td>
<td>-17.7%</td>
<td>170</td>
<td>1.0%</td>
<td>42.4%</td>
<td>22.7%</td>
<td>$108.3</td>
<td>-10.6%</td>
<td>$46.0</td>
<td>9.7%</td>
</tr>
<tr>
<td>CAAG 2006 - 2009</td>
<td>-5.5%</td>
<td></td>
<td>3.2%</td>
<td></td>
<td>9.2%</td>
<td></td>
<td>4.5%</td>
<td></td>
<td>14.2%</td>
<td></td>
</tr>
</tbody>
</table>

Unit supply declined markedly during this time, reducing on average by 5.5% per annum whereas unit demand increased with growth of 3.2% per annum. This resulted in occupancy levels increasing from 32.5% in 2006 to 42.4% in 2009. This is also thought to reflect the decline in Australian heading offshore during this time. Unit
rates also increased with growth averaging 4.5% per annum, up from $95 in 2006 to $108 in 2009, but with a notable decline evident in 2009.

Port Stephens holiday lettings market continued to record decline during the first six months of 2010 with RevPAU declining 7.4% as supply increased markedly. Unit demand was unable to keep pace and occupancies declined once again to average 42.2% for the six months. Despite this unit rates increased, up 11.9% to $126.
6 Projected Accommodation Demand

Over the decades, tourism has experienced continued growth and deepening diversification to become one of the fastest growing economic sectors in the world. Modern tourism is closely linked to development and encompasses a growing number of new destinations and is a driver for socio-economic progress. It is therefore highly competitive.

Investment in the development of hard tourism infrastructure (demand generators) which is appealing to target markets will help to diversify New South Wales’ tourism offering and likely spur new accommodation development.

This Section of the report outlines our expectations for visitor night and room night demand to 2030 whilst highlighting some of the factors and global trends which will underpin and shape the future demand profile in the Hunter Region.

6.1 Airport Infrastructure

As a remote destination, Australian tourism is heavily dependent on the maintenance of affordable and accessible inbound air services whereas regional destinations are dependent on the provision of affordable domestic services which can direct visitor flows from the major centres into regional towns. The Northern Rivers Tourism Region is accessible from two main airports; Gold Coast International to the north and Ballina Airport. Improvements to the Pacific Highway are also improving access via road.

6.1.1 Newcastle Airport

Newcastle (Williamstown) Airport is the primary airport servicing the Hunter Region and Port Stephens, and is located 25 kilometres north of the Newcastle CBD. The airport is jointly owned by the Newcastle City Council and Port Stephens Council and shares the runway with RAAF Base Williamstown. Approximately 170 flights depart Newcastle every week, with the airport contributing in the order of $633.5 million to the local economy annually.

Newcastle Airport recorded approximately 1.2 million passengers in 2013/14, of which all were domestic passengers. This illustrates growth of 14.8% per annum over the previous 10 years, with annual passenger movements of approximately 300,000 in 2003/04. Despite these significant increases over the ten year period, a decline of 0.3% per annum was recorded over the past three years, albeit with some improvement over the year to June 2014 increasing 1.9%. We note that while all passenger totals over the past 10 years were domestic, international flights occurred in 2001/02 and 2002/03 however these proportionately accounted for 4.0% and 1.0% of passenger numbers in total.

Direct return flights exist between Newcastle and Melbourne, Gold Coast, Brisbane, Sydney, and Ballina/Byron Bay, whilst the airlines that operate these routes are Jetstar, Qantaslink, Regional Express and Virgin Australia.
Recent airline changes that have recently impacted Newcastle Airport are as follows:

- Additional Jetstar services on the Newcastle – Gold Coast route in 2013; and
- Increased Virgin Australia services on the Newcastle – Brisbane route in 2013.

Newcastle airport is currently undergoing a major expansion plan totalling nearly $80.0 million that will take it to an international airport standard. Construction work is underway with the initial targeted completion of early 2015 (in time to accommodate the Asian Football Cup fixtures to be held in Newcastle) pushed back to late 2015.

This major expansion plan will involve doubling the airport’s terminal size, streamlining the surrounding road network to ease congestion, and the construction of a new plaza as well as permanent facilities for international flights. When complete, Newcastle Airport will be able to cater for up to 5 million passengers each year.

6.2 Road Infrastructure

The Hunter Region has traditionally been a drive market, attracting visitors from Sydney metropolitan and regional NSW. Improvements to road infrastructure aimed at improving accessibility to Northern New South Wales by reducing travel times and ensuring safer travel therefore have the potential to drive additional visitation to the Hunter Region. One project has recently been completed, whereas another major works program is ongoing. These include:

6.2.1 Hunter Expressway

Construction of the Hunter Expressway was completed in late 2013 linking the F3 Freeway near Seahampton and the New England Highway, west of Branxton. This $1.7 billion project was one of the biggest road infrastructure projects to be built in the Hunter and provides an east-west connection between Newcastle and the Lower Hunter, reducing travel times.
6.2.2 Pacific Highway

Since 1996, the Australian and NSW governments have been jointly upgrading the Pacific Highway between Hexham (15 kilometres west of Newcastle) and the Queensland Border to comprise a four lane divided road, with an anticipated completion of 2020. Currently 397 kilometres of roadways have been upgraded and with a further 64 kilometres being built and the remainder prepared for construction.

The project is to be completed over three stages as follows and as shown in the following map:

- **Stage One** - construction of a dual carriageway between Hexham and Port Macquarie, which was completed in line with the opening of the Buladehlah bypass in June 2013, as well as between Ballina and the Queensland Border which has been largely completed with the exception of a small link between Tintenbar and Ewingsdale, due to open in H1 2015. This stage also saw the completion and opening of a section between Raleigh and north of Woolgoolga in June 2014;

- **Stage 2** - comprises the link between Port Macquarie and Coffs Harbour, with major work due to commence late 2014 in line with the anticipated completion of the Kempsey bypass; and

- **Stage 3** - the final stage will see the completion of the dual carriageway between Woolgoolga and Ballina, which has been approved by both the NSW and Australian governments.
6.3 Cruise Infrastructure

Cruise Hunter is a division of the Port of Newcastle which helps with every facet of a cruise ship visit - from pre-planning, port and shore operations, to tourism liaison. The priority wharf for docking cruise ships is called the Channel Berth, located at Dyke Point. Newcastle is currently scheduled to receive ten cruise ships in FY15 with approximately 20,000 passengers. Most ships are scheduled to dock for one day and therefore are not expected to derive significant additional visitor night demand except for passengers join or departing in Newcastle. This may change over the coming years as cruising grows in popularity.

6.4 Destination Management Plan

The Destination Management Plan (DMP) for the Hunter Visitor Economy is the first DMP for the whole destination and draws on the Regional DMPs prepared by many of the regions within the Hunter. It provides a first step in better managing a sustainable and competitive visitor economy in the destination. The DMP provides a vision and direction for the next three years and looks at what is needed for the Hunter to achieve the State target of doubling of visitor expenditure by 2020 through management, development and promotion of its unique assets.

The Hunter is the umbrella destination which is made up of seven distinct regions – Barrington Tops, Upper Hunter, Hunter Valley, Maitland, Lake Macquarie, Newcastle, and Port Stephens. The destination has strong natural and cultural assets and its improving infrastructure support both interstate and international air access growth, cruise growth and the ability to attract major sports and business events.

The DMP recognises that the destination has lost market share over the past five years and needs to reverse that trend through a focus on measurable results. It suggests that this should include a move away from whole of destination marketing to a more targeted regional approach and a focus on markets where collectively the destination has strengths.

The primary growth opportunities identified in the DMP are in the travel for purpose segments (as opposed to traditional leisure markets) where experiences lead the messaging and the regions can lead with their strong brands. The regions either collectively or individually will continue to target leisure segments with a focus on Sydney short-breaks, regional NSW and the fly-drive market (supported by growing air access), while the destination as a whole looks to leverage the suite of experiences offered in:

- Food and Wine (regional flavours)
- Sporting and Business Events
- Nature-based
- Visiting Friends & Relatives

Key international markets (long-haul drive and short-break from Sydney) present emerging opportunities for the regions as do drive holidays. For the destination as a whole, secondary target market segments include cruise, military, education and leisure events.

6.4.1 Major Events

Major events held annually in the Hunter Region include:

- Hunter Valley Wine Festival – held in October at Crowne Plaza Hunter Valley, over 40 Hunter Valley food and wine producers showcase their offerings;
- Rolling Green – an inaugural event to be held at the Bimbadgen Estate in the Hunter Valley, the festival will be headlined by internationally renowned band The Black Keys on 15 April 2015; and

- Jimmy Barnes “A Day on the Green Tour” – a celebration of Jimmy Barnes’ 30th anniversary as an artist, the tour will play at wineries around the country including the Bimbadgen Estate on 8 November 2015. The concert will be supported by The Living End as well as other prominent bands.

Newcastle is also home to two professional sporting teams including the Newcastle Knights (rugby league) and Newcastle Jets (football), both teams play at the WIN Sports and Entertainment Centre. The venue also regularly holds fixtures throughout the year that help drive tourism to the region. The complex additionally stages concerts, exhibitions, conferences, dinners and other events.

Sports tourism in Newcastle is also expected to get a further boost in 2015 when it plays host to four matches in the Asian Football Cup including two group fixtures, as well as a semi-final and the third pace playoff. The tournament will be broadcast to 80 countries and 2.5 billion people.

6.5 Resource Demand

The Port of Newcastle is the largest bulk shipping port on the east coast of Australia and the world’s leading coal export port. It handles more than 40 commodities and 4,600 ship movements per annum. There is more than 200 hectares of vacant port land available for development, with significant deep water access. The resource sector has become an important driver for the city in recent years.

According to the BREE (Bureau of Resources and Energy Economics) April 2014 report, 2013 total expenditure, including minerals and petroleum exploration decreased by 8% relative to 2012 to a total of AUD7.1 billion. Commodity market and general economic conditions defined by lower commodity prices have precipitated a decline in exploration activity when compared to the height of the mining boom. Despite higher expenditure on petroleum exploration, this was offset by a substantial decline in minerals exploration expenditure. The report also noted that multiple established companies have curtailed exploration activities to save costs, in parallel to aspiring producers indicating difficulty in arranging finance for exploration products.
New South Wales currently has six projects at the committed stage, with the Hunter Valley accounting for one of these projects, being the recently approved Ashton South East Project. The project will comprise a new open cut pit with an extraction rate of up to 3.6Mtpa ROM (mega tonnes per annum of run of mine). The project was initially denied by the Planning Assessment Commission but was recently approved on appeal.

The Upper Hunter also saw the completion of the Ravensworth North (Stage 1) project at a cost of AUD1.4 billion and will result in a production capacity of 8 million tonnes per annum. Mining of thermal and semi soft coal will occur.

The Hunter Valley Corridor Capacity Strategy is an annual ten year plan which seeks to outline how the region can accommodate increased infrastructure demands from the growth in mining projects. Currently, over AUD1 billion is committed to predominantly improving rail infrastructure within the region for all mines interlinked to a common rail passage to Newcastle. The current strategy provides for an increase in total transportation of coal to Newcastle of 277Mtpa by 2023, with current contracted levels to increase by 22.8 mega tonnes (from 168.7 to 191.5 mega tonnes) by 2017.

6.5.1 Recent Legislative Changes

China recently announced that it will ban the sale and import of "dirty" coal. Coal with sulphur content of more than three per cent and ash content of more than 40 per cent will no longer be permitted as of January 1 2015, according to a notice posted in September on the website of China's National Development and Reform Commission (NDRC). Importing coal with greater than 16 percent ash & 3 percent sulphur to Yangtze River Delta near Shanghai & the Pearl River Delta near Hong Kong will become illegal in addition to very similar restrictions already in place in Beijing-Tianjin, whereas overall coal import volumes will be reduced by 50mn tonnes per annum. The Chinese government reportedly made the move "in an effort to improve air quality in its major cities", but the policy change could have repercussions for key exporters including Australia.

Australia exports an estimated 194mn tonnes of thermal coal per annum, with 49mn tonnes per annum to China. According to the Bureau of Resource Economics, as much as 25mn tonnes of Australian coal exported to China could be affected. Wood Mackenzie (mining consultancy firm) predicts that new regulations could affect as much as 40mn tonnes of Australian shipments worth close to US$3bn (AUD3.35bn).

Contrary to popular belief, Japan is actually Australia’s largest importer of coal with strong and improving markets in Korea and India. BREE also stated that currently one third of Australian coal exporters were losing money due to the downturn in global coal prices. Washing coal to bring it to ‘acceptable’ levels would cost $3/tonne (or 4%). Whilst the likely impact on the Hunter Region is difficult to quantify, it is known that 25% of coal currently exported to China goes through Newcastle. Volumes YTD February in FY14 are already 25% lower than the market peak in FY13, reducing from 142.6mn tonnes to 106.2mn tonnes. Currently there are 21,986 miners in New South Wales.

6.6 Tourism Infrastructure Developments

Fundamental to hotel development is a complete and comprehensive understanding of the site location process as accommodation is a location-driven business. Hotel siting consists of identifying appropriate market(s) for accommodation development, analysing demand generators within each market to select trade areas that will optimise occupancy potential; and selecting a specific location which provides the greatest possible visibility and accessibility for potential guests. Brand selection and positioning of product relative to industry segmentation have a direct bearing on location strategies.
The location paradigm for accommodation site selection is directly dependent on the proximity of accommodation demand generators located within a one- to five-kilometre radius of a proposed facility as commercial and leisure travellers typically have a reason for traveling to, and the need to stay overnight at accommodation in a given area. Major commercial centres, universities, retail complexes, hospitals, airports, and resort/tourist destinations are all examples of the typical room night generators. In determining location, investors consider not only the existing room base, but also emerging growth markets from those businesses, facilities, or other factors that will draw travellers into the area and result in additional demand for hotel rooms.

Key industries in Newcastle include coal, manufacturing, transport and logistics (including shipping), education and administration. The University of Newcastle is considered in the top 5% universities globally. The planned expansion to include a Newcastle city campus will assist in change of inner city profile and attract a growing number of international students. The region offers a range of vocational and tertiary training facilities including a TAFE with state of the art facilities which currently host 5,000 students.

As well as the proposed investment in port and transport infrastructure, there are few tourism infrastructure projects which have recently been completed or are under construction or proposed in the Hunter Region which will increase the appeal of the area as a tourist destination for leisure, education and business visitors. A summary of major infrastructure projects is provided in the table following.

<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>WIN Stadium</td>
<td>An $80 million upgrade was completed in 2011 that included a new Western WIN Stadium Grandstand increasing the venue’s capacity to 33,000 and adding state of the art corporate, media and event facilities.</td>
</tr>
<tr>
<td>Pacific Highway Upgrade</td>
<td>Upgrading the Pacific Highway between Hexham (15 kilometres west of Newcastle) and the Queensland Border to comprise a four lane divided road, with an anticipated completion of 2020.</td>
</tr>
<tr>
<td>Hunter Expressway</td>
<td>Construction of the Hunter Expressway was completed in late 2013 linking the F3 Freeway near Seahampton and the New England Highway, west of Branxton.</td>
</tr>
<tr>
<td>Newcastle Airport Expansion</td>
<td>Newcastle Airport is currently undergoing a major expansion plan that will take it to an international airport standard by early 2015, doubling the airport’s terminal size to cater for up to 5 million passengers each year.</td>
</tr>
<tr>
<td>Mayfield Development – Port of Newcastle</td>
<td>Port of Newcastle is seeking to develop the Mayfield Development Site for port related activities in order to accommodate a diverse range of cargo handling infrastructure and the promotion of trade. The site will initially be developed for bulk liquids. A multi-purpose cargo facility focused around bulk materials and general cargo has been identified as a future opportunity. The Concept Plan was approved by the NSW Department of Planning and Infrastructure in March 2014.</td>
</tr>
<tr>
<td>Newcastle University City Campus</td>
<td>Located on the corner of Auckland and Hunter streets in the Newcastle CBD, the NeW Space city campus will comprise more than 10,000 sqm of useable floor space over 10 levels. Early works construction will commence in April 2014 and scheduled for completion in late 2016.</td>
</tr>
<tr>
<td>Crowne Plaza Hunter Valley</td>
<td>Construction of the AU$4 million Crowne Plaza Hunter Valley conference centre is underway, due for completion by the end of 2014. With the conference centre will come an upgrade to the existing exhibition space at the hotel to a combined</td>
</tr>
</tbody>
</table>
### Project Description

2,012sqm of pre-meeting and exhibition space, installation of a new large-scale commercial kitchen and establishment of a permanent marquee on the grounds.

Crowne Plaza Hunter Valley will also become the centre of operations for the Schwartz Family’s Sydney Brewing Company, with a 300 square metre brewery, micro distillery and cellar door due to be established as part of the hotel’s main complex. Within the next two years a larger, purpose-built craft brewery and distillery will be established on 41 hectares of newly-acquired adjacent land.

| Proposed Walking trail | Proposed establishment of a walking trail from Anna Bay to Tomaree Headland |

Source: Industry Sources, JLL

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### 6.7 Projected Visitor Night Demand

Visitor nights in the Hunter Region’s accommodation segment (all product types excluding home of friend or relative) are expected to grow by 4.4% per annum to reach 7.0 million by 2023. The international segment is expected to provide 57% of the additional 2.5 million visitor nights over this period whereas the domestic segment will contribute a further 43%.

Growth will primarily be underpinned by the international segment with strong growth from emerging Asia. This reflects the strong growth in Asia Pacific tourism demand which is projected and Australia’s proximity to this market. International visitor nights in accommodation are projected to grow at an average rate of 9.6% per annum. Asia will dominate by 2023 accounting for almost half of all international visitor nights in the region albeit with a high proportion of this demand education or employment related.

### Hunter Region – All Accommodation

#### Projected Visitor Night Demand by Origin of Guest

![Projected Visitor Night Demand by Origin of Guest](image)

Source: Tourism Research Australia, JLL
Growth in the traditional markets (North America, UK, Europe, Japan and New Zealand) will be slower by comparison but still robust. This is due to improved economic outlook in some of the key inbound visitor source markets including New Zealand, the United Kingdom, as well as the more positive outlook for inbound aviation capacity to Australia.

The rate of economic growth in developing and newly emerging Middle Eastern and South East Asian nations will also drive changes in the sources of international visitation. Similar to the current robust demand of the Chinese middle class, greater income growth in these countries will drive international visitor numbers to the in the medium to long term.

Growth in domestic visitor nights will be more muted by comparison to the international segment, increasing on average by 2.6% per annum and projected to reach 4.7 million visitor nights by 2023. The holiday and business segments will continue to dominate, accounting for around 60% and 23% of domestic visitor night demand by 2023, albeit with varied trends across the region. Growth will be strongest in the business segment at 6.9% per annum, whereas holiday/leisure visitor nights will grow at around 1.4% per annum. This reflects the changing economic profile of the Hunter Region with significant ongoing investment in infrastructure and an assumed level of buoyancy within the resources segment. Forecasts do not make any allowance to market conditions following the recent legislative changes with respect to laws governing China’s coal imports.

### Hunter Region – All Accommodation

#### Projected Domestic Visitor Night Demand by Purpose of Visit

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Holiday/Leisure</th>
<th>Domestic VFR</th>
<th>Domestic Business</th>
<th>Domestic Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2,500</td>
<td>1,000</td>
<td>1,000</td>
<td>500</td>
</tr>
<tr>
<td>2011</td>
<td>2,600</td>
<td>1,100</td>
<td>1,100</td>
<td>600</td>
</tr>
<tr>
<td>2012</td>
<td>2,700</td>
<td>1,200</td>
<td>1,200</td>
<td>700</td>
</tr>
<tr>
<td>2013E</td>
<td>2,800</td>
<td>1,300</td>
<td>1,300</td>
<td>800</td>
</tr>
<tr>
<td>2014F</td>
<td>2,900</td>
<td>1,400</td>
<td>1,400</td>
<td>900</td>
</tr>
<tr>
<td>2015F</td>
<td>3,000</td>
<td>1,500</td>
<td>1,500</td>
<td>1,000</td>
</tr>
<tr>
<td>2016F</td>
<td>3,100</td>
<td>1,600</td>
<td>1,600</td>
<td>1,100</td>
</tr>
<tr>
<td>2017F</td>
<td>3,200</td>
<td>1,700</td>
<td>1,700</td>
<td>1,200</td>
</tr>
<tr>
<td>2018F</td>
<td>3,300</td>
<td>1,800</td>
<td>1,800</td>
<td>1,300</td>
</tr>
<tr>
<td>2019F</td>
<td>3,400</td>
<td>1,900</td>
<td>1,900</td>
<td>1,400</td>
</tr>
<tr>
<td>2020F</td>
<td>3,500</td>
<td>2,000</td>
<td>2,000</td>
<td>1,500</td>
</tr>
<tr>
<td>2021F</td>
<td>3,600</td>
<td>2,100</td>
<td>2,100</td>
<td>1,600</td>
</tr>
<tr>
<td>2022F</td>
<td>3,700</td>
<td>2,200</td>
<td>2,200</td>
<td>1,700</td>
</tr>
<tr>
<td>2023F</td>
<td>3,800</td>
<td>2,300</td>
<td>2,300</td>
<td>1,800</td>
</tr>
</tbody>
</table>

Source: Tourism Research Australia, JLL

#### 6.7.1 Sector Comparison

Visitor night demand forecasts have been further segmented across the various accommodation types and a summary provided in the table which follows. We note that forecasting at the micro-level is inherently more risky, particularly the flow of visitor night demand between the accommodation types given their inter-relationship and the potential for flows to change in accordance with the development of new product, changing consumer preferences, alternative accommodation forms (e.g. student housing) or legislative changes. This is therefore only intended as a guide.
Overall it is anticipated that holiday rentals will continue to increase its share of visitor night demand in the Hunter Region over the next ten years given consumers’ current and anticipated acceptance of this accommodation type. Holiday rentals vary in their appeal across the region with this accommodation type used by holidaymakers in Port Stephens and the Hunter Valley for example, education visitors in Newcastle and long-stay workers in the mining areas. Broader consumer acceptance with the advent of the sharing economy and growth in Online Travel Agencies (OTA’s) will also underpin future growth. Holiday rentals have proved popular with both the domestic market and emerging travellers from Asia, particularly the Millennials and we expect this to continue to grow over the forecast period. Whilst not thought likely at this time, we note any change to legislation governing the supply and use of holiday rental accommodation could result in a very different outlook for this segment.

### Hunter Region – Visitor Night Demand Forecasts

<table>
<thead>
<tr>
<th>Accommodation</th>
<th>PPN 2013</th>
<th>Domestic</th>
<th>International</th>
<th>Total</th>
<th>PPN 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backpacker Hostel</td>
<td>0.7%</td>
<td>n/a</td>
<td>n/a</td>
<td>11.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Camping &amp; Caravan</td>
<td>17.1%</td>
<td>1.2%</td>
<td>7.4%</td>
<td>1.5%</td>
<td>12.8%</td>
</tr>
<tr>
<td>HMGSA</td>
<td>45.8%</td>
<td>3.0%</td>
<td>11.0%</td>
<td>3.6%</td>
<td>42.5%</td>
</tr>
<tr>
<td>Holiday Rentals</td>
<td>29.0%</td>
<td>2.6%</td>
<td>10.4%</td>
<td>5.8%</td>
<td>33.2%</td>
</tr>
<tr>
<td>Hunter Region</td>
<td>100.0%</td>
<td>2.6%</td>
<td>9.6%</td>
<td>4.4%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: JLL

Growth inbound segments have shown a considerably lower propensity to camp or stay in caravan parks with this accommodation offering, where used, preferred by North American and European visitors. Growth in the camping and caravan segment is therefore expected to be predominantly domestic, notably the leisure and VFR segments, which will result in lower growth overall. Less reliance on the business segment will result in lower growth overall with this expected to be one of the primary drivers for the region, albeit varied across the destinations.

#### 6.7.2 Geographic Comparison

Visitor night demand forecasts have been further segmented across the key geographies within the Hunter Region and a summary provided in the table which follows. Similar to the above, we note that forecasting at the micro-level is inherently more risky and particularly the flow of visitor night demand between the destinations given their inter-relationship and the potential development of infrastructure which may have a material impact on the chosen destination.

Overall it is anticipated that Newcastle will continue to grow in prominence as the economic centre of the region resulting in an increased demand for accommodation across a variety of segments, notably the business, meetings and education segments and underpinned by significant investments in infrastructure. Leisure travel is also expected to remain robust with the development of the sporting and cruise segments. The challenge for the Hunter Region will be the dispersal of demand out of Newcastle to other destinations, particularly with the opportunity presented by the expansion of the airport.

On the basis of current expectations Port Stephens’ accommodation market is expected to continue to face challenges with an over-reliance on the domestic holiday segment, competition from alternative long-stay destinations and a shortening of the average length of stay. A depth of holiday rental apartments (and very few
houses) could also pose a problem with many of these developments now aging and many not providing the modern amenities which visitors increasingly seek for example wifi or cable television. Apartment owners should also be encouraged to more actively participate in the marketing and promotion of the destination if they are to maximise their investment.

**Hunter Region – Visitor Night Demand Forecasts**

<table>
<thead>
<tr>
<th>Accommodation</th>
<th>PPN 2013</th>
<th>Domestic</th>
<th>International</th>
<th>Total</th>
<th>PPN 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newcastle</td>
<td>24.5%</td>
<td>5.1%</td>
<td>11.0%</td>
<td>7.6%</td>
<td>33.2%</td>
</tr>
<tr>
<td>Port Stephens</td>
<td>37.6%</td>
<td>0.1%</td>
<td>12.0%</td>
<td>0.4%</td>
<td>25.3%</td>
</tr>
<tr>
<td>Balance</td>
<td>37.8%</td>
<td>4.1%</td>
<td>8.1%</td>
<td>5.4%</td>
<td>41.5%</td>
</tr>
<tr>
<td>Hunter Region</td>
<td>100.0%</td>
<td>2.6%</td>
<td>9.6%</td>
<td>4.4%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: JLL
7 Accommodation Market Forecast

This Section outlines our accommodation market forecasts for the Hunter Region. However with limited information available on which to base projections for the non-HMGSA accommodation segments, we have limited our analysis for these to demand projections as outlined in Section 5.7.

JLL’s HMGSA accommodation market forecasts represent the most likely outcome given past trends, current information and the impact of policy and industry changes. Supply, demand and pricing forecasts are developed using an iterative process based on econometric and time series models and an assessment of past relationships, noting that output variables are inextricably linked and that changes in one can have a material impact on the others particularly over a long horizon.

7.1 Projected Accommodation Supply

The hotel development process is multi-dimensional; driven by a combination of market dynamics (supply, demand and the potential performance of the asset), land and development costs, and selection of the appropriate type of facility and brand under which the hotel will operate. No one aspect of development can be considered in isolation and regard needs to be given to the other aspects. Of further significance is that the various participants in a typical hotel investment/development project do not usually have the same goals or interests. Most - with the exception of the owner - are geared toward up-front fees, short-term benefits, and maximising annual fees based on total revenue rather than toward the profitability of the asset.

As outlined in the Methodology in Appendix Two, JLL tracks accommodation projects as they are mooted, proposed, under construction, completed or taken out of the market with projects graded in accordance with their current stage in the development process and our opinion about the likelihood that they will progress. An element of unanticipated supply is also included which recognises that we do not have complete visibility of all near term development projects and gives regard to development feasibility and hotel and property market cycle trends over the longer term.

7.1.1 Known Projects

JLL is aware of one accommodation projects which recently opened in the Hunter Region, namely Remington Motor Inn (54 rooms, February 2014) and representing an increase of 1.0% on the existing stock.

We are aware of a further two accommodation projects comprising 173 rooms which are under construction due for completion over the next two years, as well as two proposed projects with 81 rooms where construction is expected to commence in the short term. Whilst construction projects are both located in Newcastle, proposed projects are both located in the Upper Hunter Region in Muswellbrook.
We are also aware of a further 11 mooted projects. Mooted projects include those where a Development Application (DA) for accommodation rooms has recently been submitted or is under review, although there is no guarantee that such projects will progress. This differs to proposed projects where the DA has been approved and JLL has determined that construction is imminent.

We think it unlikely that all projects will proceed given the prevailing lack of hotel development feasibility, competition from alternate uses, notably residential and with a number of projects having already progressed in areas where trading performance has been identified as strong and/or new infrastructure has been developed (e.g. Airport Precinct, Upper Hunter). Ultimately micro market dynamics will determine which projects progress.

JLL analysis of Australia’s accommodation market over the past twenty has shown that around 40-50% of proposed accommodation rooms actually progress to completion. This reflects the underlying principle that the starting point for the accommodation development decision is the fundamentals i.e. supply, demand and pricing dynamics in any given market but that the ultimate driver will be the extent to which an investor can underwrite the upside for example by being the newest product in the market or by gaining a competitive advantage from being located in close proximity to a new demand generator.

7.1.2 Unanticipated Supply

Our forecasts assume that a further 650 rooms of assumed or unanticipated supply will be developed over the period to 2031. This takes regard of the fact that despite our best efforts we do not have complete visibility of the market as outlined in the Methodology in Appendix Two as well as a range of inter-related assumptions. These include stage in the property and hotel market cycles, infrastructure investment, development feasibility and competing alternate uses. Development is expected to be predominantly in Newcastle.

7.1.3 Alternative Accommodation Types

We are not aware of any mooted backpacker hostels in the Hunter Region but have identified two mooted cabin developments which would result in the addition of 26 cabins. Both of these projects are located in Singleton.

Identifying future growth in the holiday rentals segment is understandably more complex. From our discussions with stakeholders and agents, we have been advised that there has been very little change in the overall stock levels over the past five years and we have therefore assumed that this stock would remain broadly consistent allowing for the development of new stock and withdrawal of older stock from letting pools for use as permanent residential accommodation. We note that some owners have a propensity to let apartments for semi-permanent six month rentals during the lower demand winter months in Port Stephens for example.
7.2 HMGSA Projections to 2031

Historically, the Hunter Region’s HMGSA accommodation market has recorded real RevPAR growth averaging 0.1% per annum over the past 12 years (2002 to 2013E). Supply has been the major influence on the level of volatility with increases averaging 1.8% per annum, albeit with some shifts in reporting boundaries which has impacted the supply base. Demand has been much more stable, generally demonstrating consistent and reliable growth patterns, increasing on average by 2.3% per annum but with three consecutive years of decline between 2010 and 2012. Room rates have declined slightly in real terms (2013$), reducing from $145 in 2002 to an estimated $143 in 2013.

Going forward we expect the market to build towards a peak in 2015 before moderating over the next two years as new supply comes on line. This would result in a hotel market cycle of seven years. The level of real growth on the upswing is forecast to be 23.5% which is in line with the previous cycle. The reduction in real RevPAR over the downturn is however expected to be lower with improving demand prospects across the region with the expansion of the airport, investments in port infrastructure and continued demand from the resources segment.

Supply increases are expected to remain broadly in check given a general even lack of hotel development feasibility but some projects will progress in close proximity to demand generators. Higher returns from competing alternate land uses e.g. residential apartments is also expected to result in competition for sites. The Hunter Region’s HMGSA accommodation supply is expected to increase on average by 1.0% per annum to 2031 with the addition of around 1,141 rooms. Short term supply is forecast to increase on average by 1.3% per annum to 2022 with the addition of around 686 rooms with new supply largely limited to known projects.

The probability of all existing mooted and new projects advancing is low as feasibility hurdles will become more challenging as construction and proposed projects advance. Operating performance within the Hunter Region varies significantly with the feasibility of any individual project having a greater regard to the immediate location. Viability can therefore increase significantly if a property is well-located to tourism demand generators and in some instances this could even make accommodation product highest and best use.

Source: ABS, JLL
Demand growth is forecast to increase on average by 1.6% per annum to 2031 as domestic and international tourism markets remain strong, albeit with ongoing competition from alternate accommodation types, notably rented house/apartment market particularly long-stay corporate demand. Demand growth is expected to outpace supply increases through the early forecast period and occupancy levels will increase, reaching historic highs by 2022. As occupancy levels reach the market ceiling over the next couple of years, ADR growth will increase. ADR is forecast to increase on average by 3.1% per annum to 2031 which is slightly above the 2.6% per annum between 2002 and 2013 and reflects the generally improved market conditions which are anticipated over this time. Focused marketing to specific segments and the use of dynamic pricing may see rates increase at a higher rate than in the past as accommodation market responsiveness improves. RevPAR growth in the Hunter Region is forecast to average 3.6% per annum to 2031 with nominal RevPAR increasing from an estimated $83 in 2013 to $158 in 2031.

### Hunter Region HMGSA Accommodation Market, Actual and Forecast Performance 2008 to 2031F

<table>
<thead>
<tr>
<th>Actual</th>
<th>RNA (000's)</th>
<th>% Change</th>
<th>RNO (000's)</th>
<th>% Change</th>
<th>Occ %</th>
<th>% Change</th>
<th>ADR A$</th>
<th>% Change</th>
<th>RevPAR A$</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2,462</td>
<td>23.6%</td>
<td>1,360</td>
<td>21.5%</td>
<td>55.2%</td>
<td>-31.1%</td>
<td>$126</td>
<td>-3.1%</td>
<td>$70</td>
<td>4.1%</td>
</tr>
<tr>
<td>2009</td>
<td>2,614</td>
<td>6.2%</td>
<td>1,374</td>
<td>1.1%</td>
<td>52.6%</td>
<td>-4.8%</td>
<td>$136</td>
<td>8.0%</td>
<td>$72</td>
<td>-4.2%</td>
</tr>
<tr>
<td>2010</td>
<td>2,446</td>
<td>-6.4%</td>
<td>1,323</td>
<td>-3.8%</td>
<td>54.1%</td>
<td>2.8%</td>
<td>$118</td>
<td>-13.2%</td>
<td>$64</td>
<td>0.1%</td>
</tr>
<tr>
<td>2011</td>
<td>2,257</td>
<td>-7.7%</td>
<td>1,297</td>
<td>-1.9%</td>
<td>57.5%</td>
<td>6.2%</td>
<td>$121</td>
<td>2.0%</td>
<td>$69</td>
<td>6.6%</td>
</tr>
<tr>
<td>2012</td>
<td>2,132</td>
<td>-5.6%</td>
<td>1,276</td>
<td>-1.5%</td>
<td>59.9%</td>
<td>-4.3%</td>
<td>$128</td>
<td>6.2%</td>
<td>$77</td>
<td>8.0%</td>
</tr>
<tr>
<td>2013</td>
<td>2,098</td>
<td>-1.8%</td>
<td>1,192</td>
<td>2.0%</td>
<td>58.8%</td>
<td>-5.3%</td>
<td>$146</td>
<td>14.0%</td>
<td>$83</td>
<td>-1.1%</td>
</tr>
</tbody>
</table>

### CAAG 2008 – 2013

<table>
<thead>
<tr>
<th>Actual</th>
<th>RNA (000's)</th>
<th>% Change</th>
<th>RNO (000's)</th>
<th>% Change</th>
<th>Occ %</th>
<th>% Change</th>
<th>ADR A$</th>
<th>% Change</th>
<th>RevPAR A$</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 – 2030</td>
<td>1.0%</td>
<td>1.6%</td>
<td>0.6%</td>
<td>3.1%</td>
<td>3.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013 – 2022</td>
<td>1.3%</td>
<td>1.8%</td>
<td>0.5%</td>
<td>3.5%</td>
<td>4.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021 – 2030</td>
<td>1.0%</td>
<td>1.6%</td>
<td>0.6%</td>
<td>3.1%</td>
<td>3.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ABS, JLL
7.3 Sub-Market Comparison

For the purposes of this Study, we have also produced accommodation market forecasts by sub-region to assist with guiding planning policy. We note however that micro market forecasts are inherently more uncertain given the greater complexities and inter-relationships which exist at a more granular level, as well as the assumptions we have made about the future performance of the market.

RevPAR growth across the various sub-markets is expected to be broadly aligned over the period to 2031 albeit highest in Newcastle and Hunter Valley with growth expected to average 3.2% and 3.9% per annum respectively. Growth in Newcastle will be held back by supply increases occurring early in the forecast period, against a fairly small base and therefore the impact will be magnified, albeit supported by significant investment in infrastructure. Market conditions in Port Stephens and Hunter Valley are less supportive of new accommodation development although we note that a few projects are underway or planned in each. On the whole hotel development remains challenging given the relatively low RevPAR when compared to Newcastle for example.

<table>
<thead>
<tr>
<th>Subregion</th>
<th>2013 Rooms</th>
<th>2030 Rooms</th>
<th>2013 RevPAR</th>
<th>2030 RevPAR</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newcastle</td>
<td>923</td>
<td>1,347</td>
<td>$105</td>
<td>$185</td>
<td>3.2%</td>
</tr>
<tr>
<td>Port Stephens</td>
<td>1,120</td>
<td>1,413</td>
<td>$76</td>
<td>$129</td>
<td>3.0%</td>
</tr>
<tr>
<td>Balance</td>
<td>3,704</td>
<td>4,055</td>
<td>$80</td>
<td>$159</td>
<td>3.9%</td>
</tr>
<tr>
<td>Total</td>
<td>5,747</td>
<td>6,888</td>
<td>$83</td>
<td>$158</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

Source: Industry Sources, JLL
Appendix One – Glossary of Terms

- ABS – Australian Bureau of Statistics
- ADR – Average Daily Rate
- BPI – Building Price Index
- CAAG – Compound Annual Average Growth
- DA – Development Approval
- FF&E – Furniture, Fixtures & Equipment
- GFA – Gross Floor Area
- GFC – Global Financial Crises
- GOI – Gross Operating Income
- GOP – Gross Operating Profit
- GST – Goods & Services Tax
- HMGSA – Hotels, motels, guesthouses and serviced apartments
- HNWI – High Net Worth Individual
- HVI – Hotel Valuation Index
- ICCA – International Congress and Convention Association
- IRR – Internal Rate of Return
- IVS – International Visitor Survey
- JLL – Jones Lang LaSalle
- LCC – Low Cost Carrier
- LPT / REIT – Listed Property Trust or Real Estate Investment Trust
- LVR – Loan to Value Ratio
- NVS – National Visitor Survey
- NYC – New York City
- OS&E – Operating Supplies & Equipment
- PAR – Per Available Room
- POR – Per Occupied Room
- PPN – Proportion
- RNA – Room Nights Available
- RNO – Room Nights Occupied
- RevPAR – Revenue per Available Room
- RevPAS – Revenue per Available Site
- RevPAB – Revenue per Available Bed
- RevPAC – Revenue per Available Cabin
- TFC – Tourism Forecasting Council
- Trophy Assets - a particularly valuable, important or rare hotel asset e.g. Park Hyatt Sydney
- TRA – Tourism Research Australia
- SWF – Sovereign Wealth Fund
- VFR – Visiting Friends and Relatives
- Yield – Income return on an investment
Appendix Two - Forecast Methodology

Jones Lang LaSalle’s accommodation market forecasts represent the most likely outcome given past trends, current information and the impact of policy and industry changes. Supply, demand and pricing forecasts are developed using an iterative process based on econometric and time series models and an assessment of past relationships, noting that output variables are inextricably linked and that changes in one can have a material impact on the others particularly over a long horizon.

Accommodation Room Night Demand

The first iteration for projecting accommodation room night demand involves the creation of a base forecast using Tourism Research Australia’s ten year visitor night forecasts. Tourism Research Australia (TRA) produces semi-annual ten year forecasts for domestic and international visitor nights for Australia as well as the proportion of visitor nights expected to be spent in Hotels Motels Guesthouses and Serviced Apartments (HMGSA).

Historically, TRA has produced forecasts for international visitor nights to Australia by inbound source market and domestic visitor nights to each state and state capital by motivation to travel. TRA estimates activity and expenditure using a combination of econometric and time series models based on aviation capacity, price, income and seasonality as well as significant events affecting source markets. For the purposes of this analysis, we have used Tourism Research Australia’s TFC Forecasts 2013 Edition 1 which provides an estimation of visitor night demand to 2022.

Historical performance data for Sydney’s paid accommodation (hotels, motels, guesthouses and serviced apartments) is obtained from Tourism Research Australia’s TRA online database, sourced from the quarterly National and International Visitor Surveys.

Combining these forecasts and applying these growth rates to historical performance, Jones Lang LaSalle projects visitor nights in HMGSA (hotels, motels, guesthouses and serviced apartments) and forecasts accommodation room night demand through the application of a room density figure, calculated as visitor nights divided by room nights occupied.

The second iteration involves an interrogative review by senior hotel advisors across a range of business lines, and the application of qualitative adjustments with regard to factors including, but not limited to:

- Investment in local tourism demand generators – an estimation is made as to the likely impact of major new tourism infrastructure (either under construction or planned) which has the potential to attract new or additional sources of visitor night demand or redistribute demand across the region;

- Occupancy ceiling – an assumption is made (by reference to historical performance) with respect to the annual average occupancy ceiling which takes account of monthly and weekly seasonality patterns at which point a proportion of room night demand is likely to become frustrated and turn away. For example corporate travellers only require accommodation demand Monday to Thursday. International leisure travellers want to visit Australia during the summer months and are unlikely to change travel plans to visit during June even if offered at a significantly lower price;

- Room density factor - whilst aggregated visitor nights (Tourism Research Australia) and room nights occupied (Australian Bureau of Statistics) are highly correlated, growth rates can sometimes appear askew which can be partly explained by apparent changes in room density. A comparison of historical
visitor nights and room nights occupied in Australia suggests that room density has declined over the past decade from 2.30 persons in 2002 to 1.86 persons in 2012 which reflects structural shifts in the accommodation demand profile with a greater reliance on the domestic corporate segment in recent years. We have typically used the short-run average in our accommodation demand forecasts, whilst also giving regard to the general long term trend;

- Supply induced demand – a proportion of additional room night demand will be stimulated by the development of new accommodation product, although not sufficient to warrant new development in the first instance. A qualitative assumptions is made with respect to the likely level of supply induced demand given the prevailing market conditions at that time and nature of the product which is being developed; and

- Tactical marketing - the most recent downturn highlights the extent to which additional demand can be stimulated through the use of tactical marketing and promotions by hoteliers and air carriers during low periods of demand in key tourist destinations.

The final iteration involves a comparative review by research and advisory business heads across Australia's major accommodation markets. These senior advisors conduct frequent consultative interactions with a wide range of hotel industry market participants in order to achieve a balanced consensus view of future expectations for Australia's major accommodation markets.

For the purposes of this project, we have also been asked to project accommodation room night demand to 2030. With limited information sources available upon which to draw, we have adopted the long term historical growth rate for our base forecast and made qualitative adjustments to that base in accordance with the above factors.

**Accommodation Room Night Supply**

The first iteration for projecting accommodation room night supply involves as assessment of accommodation room night supply having regard to known projects at that time. JLL tracks accommodation projects as they are mooted, proposed, under construction, completed or taken out of the market. We obtain information from press, local councils, Cordells construction database, Cityscope, tourism organisations, hotel operators and developers, as well as from local Jones Lang LaSalle's offices. Where the proposed number of rooms has not been made publically available or where our investigations have not been able to confirm the proposed room count, Jones Lang LaSalle will estimate the likely number of rooms.

Serviced Apartment projects include our current best estimate of the number of apartments which will be included in rental letting pools and offered for short term accommodation stays. Furthermore, some projects originally approved as residential apartments can occasionally evolve to become serviced apartment projects and in light of these factors, this is therefore subject to change.

Accommodation projects are graded in accordance with their current stage in the development process and our opinion about the likelihood that they will progress owing to factors such as the quality of the sponsor and/or project (e.g. mixed use or government mandated), as well as the current and projected trading conditions in the local accommodation market at that time. Broadly we categorise projects into four stages including:

- Site speculation – aware a site has been bought and a hotel development is being considered;
- Mooted - include those where a Development Application (DA) for accommodation rooms has recently been submitted or is under review. We note that there is no guarantee that these projects will progress;

- Proposed - projects where the DA has been approved and Jones Lang LaSalle expects construction to commence within two years;

- Under construction – projects where site works or full construction have commenced; and

- Recently opened.

Typically we only include proposed projects (and above) in our five year forecasts, as well as an element of unanticipated supply which accepts that despite our best efforts we do not have complete visibility of all development projects which are being considered at any one time. For the purposes of this project given the longer forecast horizon, we have also included mooted and speculated projects in our analysis.

The second iteration involves an interrogative review by senior hotel advisors across a range of business lines, and the application of qualitative adjustments with regard to factors including, but not limited to:

- Hotel and property market cycles - forecasts have been made with regard to our expectations about the length and point in the hotel cycle as well as the impact of or trends within alternate core property segments;

- Development feasibility - the hotel industry is cyclical and investment strategy aligned to the various stages in the cycle. RevPAR (Revenue per Available Room) - as an indicator of profitability – can act as a signal for when new hotel development might become feasible. The calculation of a RevPAR development trigger is used to pinpoint at which time new hotel development might become feasible in accordance with the methodology outlined in Appendix Three. This also takes regard of the potential for office conversions;

- Differing owner motivations - supply increases will occur even when development is apparently not feasible and the accommodation development trigger has not been met. The range of input variables and differing expectations about market-wide and site specific future trading performance, as well as investment hurdles and other contributing factors can result in some developments progressing outside of the typical development cycle. This can become more pronounced when significant investment in tourism infrastructure or events occurs;

- Conversion to alternate uses - when hotel trading performance comes under pressure or other property sectors perform well (most notably the residential sector) it is likely that developers will acquire hotel assets for total or part conversion to an alternate use. Pinpointing the likely time that this may occur is complex and thus we have not included an estimation of likely closures in our forecasts other than for those projects which are already known; and

- Liquidity surge - a surge in liquidity (debt or equity, real or perceived) can impact investment hurdles and may lead to an increase in development activity. Examples over the past twenty years in Australia include hotel development which occurred across Australia in the late 1980s, with significant investment by Asian investors and more recently a change to planning legislation to permit strata-titled development.
The final iteration involves a comparative review by research and advisory business heads across Australia’s major accommodation markets. These senior advisors conduct frequent consultative interactions with a wide range of hotel industry market participants in order to achieve a balanced consensus view.

For the purposes of this project, we have also been asked to project accommodation room night demand to 2030. With limited information sources available upon which to draw, we have adopted the long term historical growth rate for our base forecast and made qualitative adjustments to that base in accordance with the above factors.

**Pricing (Average Daily Rates)**

The first iteration for projecting pricing involves a forecast of average daily rates having regard to the historical relationship between occupancy and ADR, typically lagged by one year. Accommodation markets in Australia have typically exhibited greater downward price elasticity, particularly when faced with significant increases in room supply. Over the past decade, the correlation between movements in occupancy and ADR has increased with the advent of online technology and sophisticated distribution systems. This has resulted in lower levels of reliance of contracted business and operators have become better at yielding in accordance with fluctuations in room night demand.

The second iteration involves an interrogative review by senior hotel advisors across a range of business lines, and applying qualitative adjustments with regard to factors outlined throughout this report for example market mix, infrastructure development and the grade and scale of new and competing accommodation supply, as well as consultation with a wide range of hotel industry market participants in order to achieve a balanced consensus view.

**Risks to the Forecast**

There are many factors influencing the accuracy of accommodation trading performance forecasts. Forecast models use historical information to estimate past relationships between the dependent variable (supply & demand) and explanatory variables (e.g. average daily rates). Such relationships may not hold in the future. Further, external shocks to the industry can disrupt these relationships in the short term or lead to structural change. Risks include:

- **Structural change** – forecasting from an uncertain base is inherently risky. The extent to which the global financial crisis and economic slowdown has resulted in a structural break remains to be seen and will only become evident over the next few years. For example historical travel trends and investment drivers may undergo a permanent shift, impacting the extent to which historical time-series and data can be relied upon. Moreover predicting the point in the future at which growth will start to flatten is also inherently difficult whereas economic models tend to assume by their very nature that growth will continue into eternity.

- **Demand or economic shocks** – the Australian economy has suffered a number of recessions or downturns over the past forty years which have occurred around every eight years. The tourism industry has also experienced a series of demand shocks over the past ten years ranging from terrorist attacks to bird flu, impacting global or domestic demand. Predicting the timing of such events is understandably complex particularly over the long term. Our forecasts have not made any such allowance but past experience would indicate that one major shock is likely to occur within the ten year forecast period. This has been reflected in the CAAG i.e. through the use of smoothing in latter parts of the forecast.