



**Preston**  
*Rowe*  
Paterson

®  
International Property Consultants

# Sydney *Impact* Report

## Hotel & Leisure Market

### About This Report

Preston Rowe Paterson prepare research reports covering the main markets within which we operate in each of our capital cities and major regional locations. This Hotels & Leisure Market research report provides analysis and detail of economic factors which impact the New South Wales tourism regions.

Within this report we have analysed sales over the second half of the year 2014 in the various New South Wales tourism regions of; Sydney, Hunter, Snowy Mountains and Blue Mountains.

To compile the research report we have considered the most recently available statistics from known sources. Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them. Where possible we consider short term movement in the statistics by looking at daily published data in the financial press. Where this shows notable fluctuation, when compared to the formal published numbers we have commented accordingly.

### Second Half 2014 Update

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### Market Observations

Preston Rowe Paterson Research had observed that almost all significant hotel sales were sold for double and triple digits in six months to December 2014. Most investment activity in the second half of 2014 occurred within the Sydney tourism region.

According to DNSW, the hotels and leisure industry had experienced a yearly increase of 3.6% in domestic overnight visitors and a 6.6% growth in international overnight visitors to regional NSW, year ending to September 2014. There is an expectation of further potential growth in the NSW tourism regions and positive hotels performance indicators.

The Sydney hotels and leisure market's performance was relatively strong in comparison to other tourism regions. Local and foreign investors were particularly interested in metropolitan hotel and pubs that are close to the CBD.

One of the factors contributing to the growth in the hotels sector was the trend of a lower Australian dollar against the US dollar. The purchasing power of foreign investors and tourists have risen in the second half of 2014. The relatively higher cost for overseas travel has also increased domestic travels within Australia.

According to STR Global, the Sydney tourism environment is improving based on a yearly analysis of average daily rate and revenue per available room. In comparison to December 2013, the December 2014 results showed growth in Sydney hotels indicating a 1% decrease in occupancy rates, 1.45% growth on average daily rate and 0.37% increase in revenue per available room. The tourism market in the metropolitan region is expected to grow in 2015.

Other factors that may have led to strong hotel and leisure property demand in the second half of 2014 were the unchanging low cash rate, scarcity of A Grade hotel/leisure stocks in the current market and the tightening of supply.

More than half of the observed sales in six months to December 2014 were pub investments. The market's appetite for pubs was strong in the second half of 2014 with many buyers securing iconic and well placed pubs.

The new hotel developments are focussed mainly in Sydney metropolitan area. These hotels under construction are Barangaroo by Crown, Sofitel Darling Harbour and the Sheraton Hotel in Darling Harbour. Hotel group Accor is said to develop a Pullman brand hotel next to the Sydney Airport with 229 rooms that is forecasted to open in May 2016.



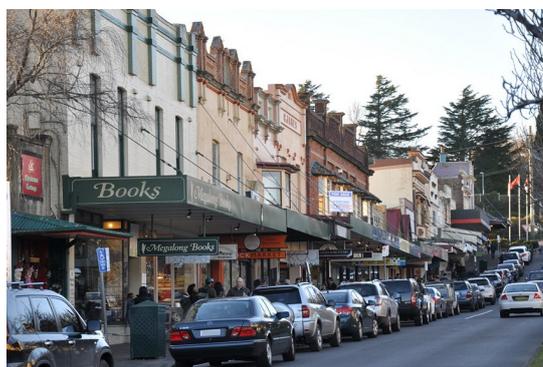
Artist impression: Sofitel Darling Harbour

Regional hotel and leisure market in NSW remained relatively stable. The regional hotel/leisure market attractiveness is often limited by smaller populations and pedestrian traffic, lower socio-economic backgrounds, increases in operating costs and reliance on regional tourism.

The Hunter Valley and Blue Mountains tourism regions did not receive as much attention from investors as the Sydney tourism region. Both regions experienced modest growth and investment sales. The Hunter region received the majority of attention from pub investors and Blue Mountains was more notable to accommodation investors.

The Snowy Mountains had remained reasonably slow with the majority of investors being owner occupiers. There has been no observed market movement in the region.

Taking into account of the observation on current sales and hotels occupancy rates as at December 2014, the hotels and leisure property outlook is forecasted grow in 2015. The Sydney tourism region is expected to grow in attractiveness to investors, tighten supply for quality hotel and subsequently increase revenue per available room. Regional NSW is most likely to remain steady with similar level of property investment and tourism activity in 2015.



## Hotel & Leisure Market - Key Indicators

### Australian Tourism Industry

According to the Australian Bureau of Statistics, the Australian tourism industry has recovered by a small margin. The overall room occupancy rate in hotels, motels and serviced apartments with 15 or more rooms across Australia is 64.2% and takings from accommodation is \$2.258 billion as at June quarter 2014.

In the year to June 2014, the ACT remains the strongest state in Australian tourism with a quarterly average seasonally adjusted occupancy rate of 67.2%. VIC and NSW followed closely with an average quarterly occupancy rate of 67% and 65.6% respectively. TAS recorded the lowest occupancy rate at 57.8%.

The state with the highest takings from accommodations in the year to June 2014 was NSW which recorded a quarterly average of \$737.3 million. QLD and VIC followed with a quarterly takings average of \$543.85 million and \$451.35 million respectively.

Despite having the highest quarterly average occupancy rate, ACT recorded similar takings results as TAS to \$53.89 million and \$53.56 million respectively.

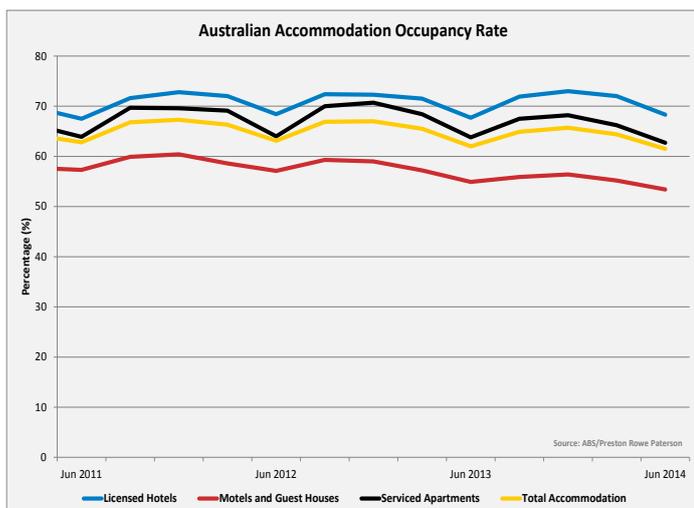


Chart 1 – Australian Accommodation Occupancy Rate - Source - ABS/ Preston Rowe Paterson

The Australian room occupancy breakdown had shown that the largest fall in the June quarter 2014 was in the serviced apartment with 15 or more rooms which fell by 5.3%. Growth in annual occupancy rate to June 2014 was observed in the licensed hotels with 15 or more rooms which increased by 0.89%.

Similar to the previous years, there is a trend where March and June quarters will experience a steady decrease in room occupation and recover in September and December quarters due to higher seasonal demands.



### Sydney Hotel Performance

According to STR Global monthly statistical report, the all Sydney hotels demand had fallen by 100% to a relatively stable demand over the December quarter 2014. However, there was a 100% growth over the quarter as hotel supply increased from 0.5% to 1%.

However, over the December quarter there were recorded declines of 3.73% in occupancy rates to 80%, a 20% growth in average daily rate (ADR) to \$223.15 and a 15.51% increase in revenue per available room (RevPAR) to \$178.46.

Although there is an observed decline in the occupancy, Sydney hotels closed off the year 2014 on a positive performance due to a high growth in RevPAR driven by the increase of the ADR. The Sydney metropolitan areas maintained a positive trend for the 5th year in a row and the RevPAR is expected to grow in 2015.

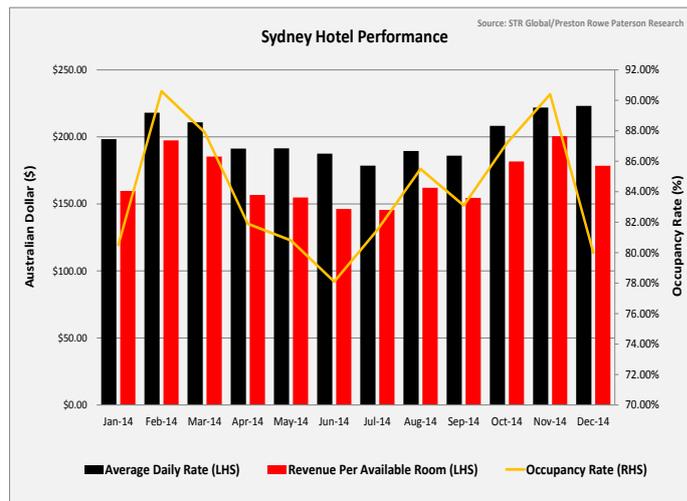


Chart 2 – Sydney Hotel Performance - Source STR Global/Preston Rowe Paterson

## Hotel & Leisure Property Market

Data and information from the Property Council of Australia/ANZ: Property Industry Confidence Survey December Quarter 2014 has been analysed to derive at the following findings; Hotel capital values is expected to grow strongly in all states and territories except NT.

The NSW hotel capital 12-month growth expectations index showed that there had been growth in expectations between the September and December quarter 2014 of 3.3 index points to an approximate index value of 14.

Hotels construction activity in Australia is expected to grow through to the March quarter 2015. According to the PCA/ANZ confidence survey, the 12-month sentiment to hotel construction activity expectations had increased by 35.8% in index between December 2013 and December 2014.

According to the Property Council of Australia/IPD Australia index, the Australian hotel annualised returns was 12%, which was an increase of 350 basis points over the December quarter 2014. The capital returns showed that there is an improved investor demand and growing occupancy rate over the year to December 2014.



### Sydney Tourism Region

The Sydney tourism region is bounded by the suburbs of Campbelltown, Palm Beach, Penrith, Picton, Richmond, Waterfall and Wiseman Ferry. However, for the purpose of this research report, Preston Rowe Paterson Research will focus on hotels and leisure properties in the Sydney metropolitan areas.

According to Destination NSW (DNSW), the Sydney tourism region had received 31.6 million visitors and accounted for 39.01% of NSW tourism market share in the year ending to September 2014. Domestic and international visitors had spent approximately \$14,614 million on day trips and overnight stays in the Sydney region.

### Tourist Accommodation

The Sydney CBD tourism region recorded the highest volume of tourists and longest stay than the regional NSW tourism regions.

In the year ending to September 2014, the Sydney tourism region had received nearly 8.5 million domestic overnight visitors with an average length of stay of 2.7 days and nearly 3 million international overnight visitors with 21.5 days of average length of stay.

Domestic visitors spent nearly 23.4 million nights in the Sydney region and international visitors spent nearly 63.4 million nights, up 10.5% and 6% respectively in comparison to year ending September 2013.

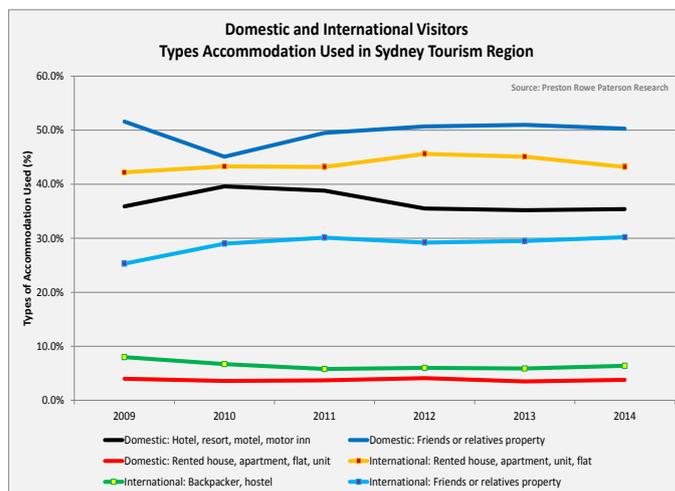


Chart 3—Sydney Tourism Region Types of Accommodation Used —Source Destination NSW

Domestic visitors' favoured overnight accommodation in the Sydney tourism region was 'friends or relatives properties' which amounted to 50.3% share of accommodation, followed by 17.2% for 'hotel or motor inn below 4 stars' overnight stay and 14.7% prefer a 'luxury hotel or resort 4 or 5 star'. Only 3.8% of domestic visitors prefer to rent a 'house, apartment, flat or unit' for their overnight stay.

Approximately 43.2% of international visitors stayed at a rented 'house, apartment, flat or unit', 30.2% stayed at a 'friends or relatives property' and 6.4% chose to stay overnight in Sydney at a 'backpacker or hostel' during their short term visit.

The graph above showed that visitors preferences to accommodation types in the Sydney tourism region has remained relatively unchanged since 2011. International visitors are observed to favour rented property and friends or relatives property during their stay.

*Data collected from the DNSW accommodation breakdown in year end to September 2014 is based on the length of overnight stays visitors spend in the particular type of accommodation. The figures are not based on the number of visitors staying at the particular type of accommodation.*

## Hotel Sales

The following table displays reported major hotel sales transactions which occurred over six months to December 2014. Preston Rowe Paterson Research includes hotels that are classified as CBD business hotels, metropolitan hotel and resort hotels.

| Name  | ADDRESS  | STARS       | SALE PRICE    | SALE DATE | VENDOR                                   | PURCHASER                            | NO. ROOMS | REVENUE PER AVAILABLE ROOM |
|---|--|-------------|---------------|-----------|--|--------------------------------------|-----------|----------------------------|
| BreakFree on Clarence (formerly City Hotel) | 193 Clarence Street, Sydney NSW 2000                     | 3.5         | \$21,000,000  | Sep-14    | City Hotel Enterprise Pty Ltd            | Elanore Investors Group              | 52        | \$403,846.15               |
| Astoria Hotel                               | 9 Darlinghurst Rd, Potts Point NSW 2011                  | undisclosed | \$6,300,000   | Sep-14    | Undisclosed                              | Theo Onisforou                       | 51        | \$123,529.41               |
| CWA Residential Club                        | 11-13 Greenknowe Ave, Elizabeth Bay NSW 2011             | undisclosed | \$18,400,000  | Sep-14    | Country Women's Association              | Foreign developer                    | 51        | \$360,784.31               |
| Hotel Bondi                                 | 178 Campbell Street, Bondi Beach NSW 2026                | undisclosed | \$43,000,000  | Oct-14    | Hotel Bondi Pty Ltd                      | Balloge Investments Pty              | 37        | \$1,162,162.16             |
| Adina Apartment Hotel                       | 55 Shelley St, Sydney NSW 2000                           | 4.5         | \$48,938,000  | Oct-14    | Toga Group                               | Toga Hotel Holdings Unit Trust       | 114       | \$429,280.70               |
| Quest Mascot                                | 108-114 Robey St, Mascot NSW 2020                        | 4           | \$24,000,000  | Oct-14    | Quest Mascot Property Pty Ltd            | Ascott REIT Seven Pty Ltd            | 91        | \$263,736.26               |
| Novotel Brighton Beach                      | The Grand Pd Cnr Princess St, Brighton Le Sands NSW 2216 | 4.5         | \$100,000,000 | Nov-14    | Brookfield Asset Management              | Oscars Hotels Group                  | 296       | \$337,837.84               |
| Sheraton On The Park                        | 145-171 Elizabeth St, Sydney NSW 2000                    | 5           | \$463,000,000 | Nov-14    | Starwood Hotels & Resorts Worldwide Inc. | Sunshine Insurance Group Corporation | 557       | \$831,238.78               |
| Diamant Hotel                               | 2-14 Kings Cross Road, Potts Point NSW 2011              | 4           | \$23,200,000  | Dec-14    | 8Hotels                                  | TEE Land                             | 76        | \$305,263.16               |
| Holiday Inn Sydney Airport                  | O'Riordan Street, Mascot NSW 2020                        | 4           | \$53,000,000  | Dec-14    | Jerry Schwartz                           | Foreign investor                     | 250       | \$212,000.00               |

Table 1 - Sydney Tourism Region Hotel Sales Transactions - Source Preston Rowe Paterson Research/CPM

The most significant transaction in NSW and Sydney tourism region hotels market over six months to December 2014 was the **Sheraton on the Park** on **145-171 Elizabeth Street** near Hyde Park.

The Sheraton hotel was sold for **\$463 million** in November 2014 to Sunshine Insurance Group Corporation, at a **revenue per available room of \$831,218.78**. Starwood will continue to operate the hotel as a Sheraton under a long-term management contract. The 5 star hotel comprise of 557 guest rooms and suites, bar, 2 lounges, restaurant, 18 meeting rooms for up to 900 guests, business centre, day spa, health club and pool.



Another major sale was the sale of **Novotel Brighton Beach** located on The Grand Parade corner Princess Street in Brighton Le-Sands, 7km south of the Sydney CBD. Brookfield Asset Management sold the hotel to Bill Gravanis' Oscars Hotel Group for **\$100 million** in

November 2014 at a **revenue per available room of \$337,837.84**. The hotel is expected to settle in March 2015.



The 4.5 star hotel features 296 guest rooms and suites, restaurant, bar, 2 conference rooms, 11 meeting rooms for up to 600 guests, day spa, gym room, tennis court and pool.



### Other Accommodation Sales

Preston Rowe Paterson Research includes accommodations that are classified as bed & breakfast, caravan parks, guesthouses and motels.



The only recorded sale of a major transaction in the 'other accommodation' category was the sale of the **Australian Backpackers** hostel located in **132 Bourke Street, Woolloomooloo**. Red Star International bought the vacant premises for **\$3.7 million** in August 2014 at a **revenue per available room rate of \$160,869.57**.

The backpackers accommodation comprise of 23 rooms with approval for 84 beds, shared facilities, recreation rooms and an undercover rooftop terrace area. The property has the potential to be converted into a hotel or residential units.

### Leisure Property Sales

The following table displays reported major 'leisure property' sales transactions which occurred over six months to December 2014. Preston Rowe Paterson Research includes properties that are classified as clubs, nightclubs, golf courses and marinas.

| Name                      | ADDRESS   | SALE PRICE   | SALE DATE | VENDOR                              | PURCHASER                               | AREA (SQM)  | TYPE        |
|---------------------------|---|--------------|-----------|-------------------------------------|---|-------------|-------------|
| Marsden Park Golf Academy | 1220 Richmond Road, Marsden Park NSW 2765         | \$20,000,000 | Jul-14    | Byung Yool Chung and Soo Jung Chung | Stockland Development Pty Ltd           | 101,400     | Golf course |
| Manly Beach Club Hotel    | 36-38 South-Steigne, Manly NSW 2095               | \$8,950,000  | Aug-14    | Elmerino Investments Pty            | Undisclosed                             | 2,358       | Club        |
| Kirribilli Club           | 11-21 Harbourview Crescent, Lavender Bay NSW 2061 | \$15,500,000 | Sep-14    | Kirribilli Ex-service Club Ltd      | New South Wales Harness Racing Club Ltd | 1,834       | Club        |
| The Rugby Club            | 31a Pitt Street, Sydney NSW 2000                  | \$21,000,000 | Sep-14    | Rugby Club Ltd                      | AXF Group and Ever Bright Group         | Undisclosed | Club        |

Table 2 - Sydney Tourism Region Leisure Property Sales Transactions - Source Preston Rowe Paterson Research/



One of the most significant transaction in the Sydney tourism region 'leisure property' market over six months to December 2014 was the **Kirribilli Club** located on **11 Harbourview Crescent, Lavender Bay**.

The property is an Ex-Services Club which was sold on a 25-year leaseback deal to the NSW Harness Racing Club for **\$15.5 million** to repay its \$9 million debt. The near-new building has waterfront views of Lavender Bay and features café and restaurant, 2 bars, sports lounge, function rooms for up to 450 guests and 65 underground car spaces.

## Pub Sales

The following table displays reported major pub sales transactions which occurred over six months to December 2014.

| Name                                   | ADDRESS  | SALE PRICE   | SALE DATE | VENDOR                                  | PURCHASER                             | AREA (SQM)  |
|--|--|--------------|-----------|---|---------------------------------------|-------------|
| Rose & Crown Hotel                     | 11 Victoria Rd, Parramatta NSW 2150              | \$13,000,000 | Aug-14    | TWL Hotels                              | Private investor                      | 1,126       |
| Mona Vale Hotel                        | 2 Park Street, Mona Vale NSW 2103                | \$21,200,000 | Sep-14    | Fernwood Group                          | Fraser Short and Laundry family       | 5000        |
| Northies Cronulla Hotel                | Kingsway, Cronulla NSW 2230                      | \$33,800,000 | Sep-14    | Fernwood Group                          | Fraser Short and Laundry family       | Undisclosed |
| Waterworks Hotel                       | 1102 Botany Road, Botany NSW 2019                | \$8,250,000  | Sep-14    | Goff, Goff, Goff and Dodd               | Lantern Hotel Group                   | 902         |
| Royal Hotel                            | 68 Blaxland Road, Top Ryde NSW 2112              | \$18,500,000 | Sep-14    | Beukent Pty Ltd, Casse Pty Ltd, Stewart | Gallagher Hotel Management            | 847         |
| The Imperial Hotel                     | 196 Menangle Street, Picton NSW 2571             | \$2,160,000  | Sep-14    | R & C Graham Holdings Pty Ltd           | Kingswater Pty Ltd                    | 6,406       |
| The Crest Hotel Sylvania               | 114 Princess Hwy, Sylvania NSW 2224              | \$19,000,000 | Sep-14    | Reserve Hotel Group                     | ISPT                                  | 3,744       |
| Vegas Hotel                            | 222 Prospect Hwy, Seven Hills NSW 2147           | \$25,120,000 | Sep-14    | Tobana Pty Ltd                          | Lesday Pty Ltd                        | 3,944       |
| The Balmain                            | 72 Mullens St, Balmain NSW 2041                  | \$5,800,000  | Sep-14    | Trubolt Pty Ltd                         | Balmain Hotel Property Pty Ltd        | 734         |
| Grand Hotel                            | 484 Princes Highway, Rockdale NSW 2216           | \$25,000,000 | Nov-14    | Goff family                             | Private investor                      | 626         |
| Padstow Park Hotel                     | 31 Howard Rd, Padstow NSW 2211                   | \$14,000,000 | Nov-14    | ColesGroup Property Developments Ltd    | Padstow Hotel Project Pty Ltd         | 2,723       |
| White Cockatoo Hotel                   | 30 Terminus St, Petersham NSW 2049               | \$4,500,000  | Nov-14    | Private investors                       | Blueroom Capital Pty Ltd              | 698         |
| Cock and Bull Hotel (aka. Grand Hotel) | 89 Ebley Street, Bondi Junction NSW 2022         | \$20,000,000 | Dec-14    | Undisclosed                             | Iris Capital                          | 1663        |
| Grumpy's Hotel                         | 590 New Canterbury Road, Hurlstone Park NSW 2193 | \$11,000,000 | Dec-14    | Undisclosed                             | Iris Capital                          | 1222        |
| The Lucky Australian Hotel             | 81 Forrester Road, St Marys NSW 2760             | \$5,300,000  | Dec-14    | Pelathon Management Group               | Middle Head Ventures Holdings Pty Ltd | 6076        |
| Golden Sheaf Hotel                     | 429 New South Head Road, Double Bay NSW 2028     | \$41,000,000 | Dec-14    | Solotel Group                           | Private investor                      | 1669        |

Table 3 - Sydney Tourism Region Hotel Sales Transactions - Source Preston Rowe Paterson Research/CPM

The most significant transactions in Sydney tourism region pub market over six months to December 2014 was the iconic **Golden Sheaf Hotel** at **429 New South Head Road, Double Bay**. The hotel was sold off by Solotel Group for **\$41 million** in December 2014. The pub was sold on a long term, triple net lease-back with a fixed annual rental growth reflecting a 6.5% yield.

The three storey pub comprise of a restaurant, beer garden and 30 gaming machines. The property sits on a 1,669 sqm site with future development potential.



## Hunter Tourism Region

The Hunter tourism region includes Barrington Tops, Hunter Valley, Lake Macquarie, Newcastle and Singleton.

According to DNSW, the Hunter tourist region had received 8.77 million visitors and accounted for 10.8% of the NSW market share in the year ending to September 2014. Domestic and international visitors had spent approximately \$2,162 million on day trips and overnight stays in the Hunter region.

### Tourist Accommodation

In the year ending to September 2014, the Hunter tourism region had received nearly 2.9 million domestic overnight visitors with an average length of stay of 2.8 days and 141,600 international overnight visitors with 17.3 days of average length of stay.

The Hunter tourism region's attractiveness has increased in the year ending September 2014 as the number of visitors and overnight stay increased in comparison to the previous year. Domestic visitors spent 8.1 million nights over the year to September 2014, growth of 1.1%. International visitors had increased the number of nights in the region by 11.4% to 2.5 million nights.

International visitors preferred to stay at a rented 'house, apartment, unit or flat' and at 'friends and relatives properties' at 42.8% and 35.6% of accommodation share respectively. Only 3.5% of international visitors stayed at 'hotel or motor inn below 4 star' during their visit to the Hunter region.

*Data collected from the DNSW accommodation breakdown in year end to September 2014 is based on the length of overnight stays visitors spend in the particular type of accommodation. The figures are not based on the number of visitors staying at the particular type of accommodation.*



### Other Accommodation Sale

Preston Rowe Paterson Research includes accommodations that are classified as bed & breakfast, caravan parks, guesthouses and motels.

87 Hanbury Street, Mayfield NSW 2304

The **Hanbury Lodge** was purchased by 87 Hanbury Pty Ltd for \$1.45 million. Lebron Pty Ltd sold the motel in August 2014. The property is a two storey, brick building on a 735 sqm lot. It features 16 rooms, fully equipped kitchen, common laundry areas on both levels, barbeque area and 7 off the street secure car spaces.

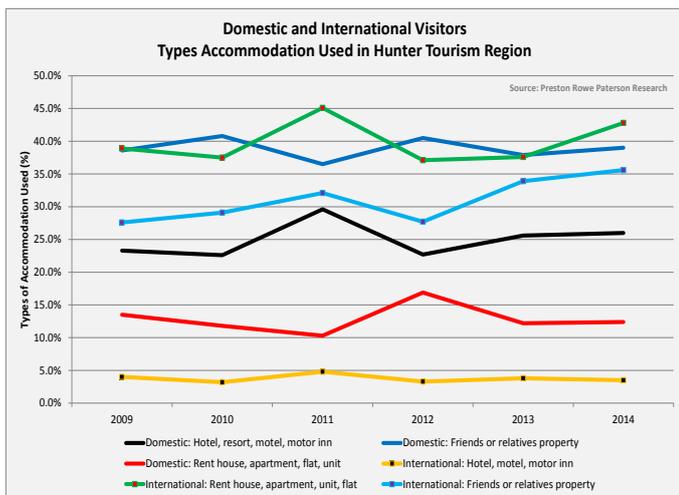


Chart 4 —Hunter Tourism Types of Accommodation Used — Source - Destination NSW

The graph above shows that the largest movement in the past year end to September was attributed to international visitors increased preference to stay at a rented property and friends or relatives property. On the other hand, domestic visitors choices of accommodation had remained relatively stable.

39% of domestic visitors to the Hunter region stayed at 'friends or relatives properties', 12.6% preferred to stay at a 'hotel or motor inn below 4 star' and 13.4% stayed at 'luxury hotel or resort 4 or 5 star' whereas 12.4% stayed at a rented 'house, apartment, unit or flat'.



## Pub Sales

The following table displays reported major pub sales transactions which occurred over six months to December 2014.

| Name                  | ADDRESS                               | SALE PRICE  | SALE DATE | VENDOR           | PURCHASER              | AREA (SQM) | RATE PER SQM |
|-----------------------|---------------------------------------|-------------|-----------|------------------|------------------------|------------|--------------|
| Sydney Junction Hotel | 8 Beaumont St, Hamilton NSW 2303      | \$3,400,000 | Jul-14    | Hotel SJ Pty Ltd | S.J.H Hamilton Pty Ltd | 1,983      | \$1,714.57   |
| The Exchange Hotel    | 125 Denison Street, Hamilton NSW 2303 | \$9,250,000 | Sep-14    | Antaw, Smith     | Lantern Hotel Group    | 961        | \$9,625.39   |

Table 4 - Hunter Tourism Region Investment Sales Transactions - Source Preston Rowe Paterson Research/CPM

The most significant transaction in the Hunter tourism region pub market over six months to December 2014 was **The Exchange Hotel** on **125 Denison Street, Hamilton** close to the Newcastle CBD.

The pub was purchased by Lantern Hotel Group for **\$9.25 million** in September 2014. The pub is also recognised as the Beaumont Exchange Hotel. The property comprise of a bottle shop, bar, lounge, restaurant and 19 gaming machines.



## Snowy Mountains Tourism Region

The Snowy Mountains tourism region includes Cooma, Jindabyne, Mount Kosciuszko, Perisher, Thredbo, Tumbarumba and Tumut.

According to DNSW, the Snowy Mountains tourist region had received 1.2 million visitors and accounted for 1.5% of the NSW market share in the year ending to September 2014. Domestic and international visitors had spent approximately \$580 million on day trips and overnight stays in the Snowy Mountains region. Total visitor spending has fallen by 8.3% in comparison to year end September 2013.

### Tourist Accommodation

In the year ending to September 2014, the Snowy Mountains tourism region had received nearly 675,000 domestic overnight visitors with an average length of stay of 3.6 days and 19,300 international overnight visitors with 12.5 days of average length of stay.

Domestic visitors had spent approximately 2.4 million nights in the Snowy Mountains region in year end to September 2014. The overall number of domestic visitors and nights stayed in the Snowy Mountains region has decreased by 5.6% and 4.8% respectively.

Although the number of international visitors has decreased by 6.4%, the average length of stay has increased by 76.1%. As a result, international visitors had spent 240.8 thousand nights in the region compared to 147.2 thousand nights recorded in year end to September 2013.

Approximately 20.4% of domestic visitors to the Snowy Mountains region prefer to stay at a 'friends or relatives properties'. 21.8% of visitors stayed at 'hotel or motor inn below 4 star' and 16.6% stayed in a 'caravan or camping near road or private property'.

The most popular accommodation for international visitors was 'rented house, apartment, unit or flat' at 31%, followed by staying at 'friends or relatives properties' at 27.1%. 14.5% stayed at 'other non-commercial properties' in the Snowy Mountains region.

*Data collected from the DNSW accommodation breakdown in year end to September 2014 is based on the length of overnight stays visitors spend in the particular type of accommodation. The figures are not based on the number of visitors staying at the particular type of accommodation. International visitors usage of types of accommodation are statistically unreliable for year ending September 2014.*



Preston Rowe Paterson Research did not observe any hotel and leisure property sales in the Snowy Mountains tourism region in the second half of 2014.

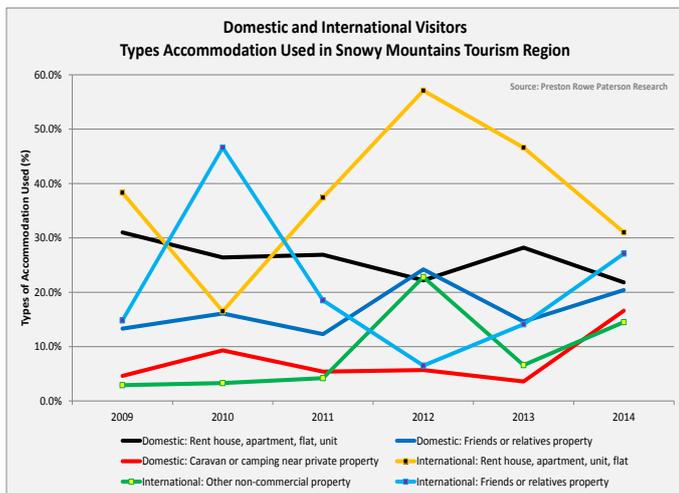


Chart 5— Snowy Mountains Tourism Region Types of Accommodation Used —Source Destination NSW

## Blue Mountains Tourism Region

The Blue Mountains tourism region includes Katoomba, Leura, Lithgow, Megalong Valley and Springwood.

According to DNSW, the Blue Mountains tourist region had received 3.1 million visitors and accounted for 3.86% of the NSW market share in the year ending to September 2014. Domestic and international visitors had spent approximately \$482 million on day trips and overnight stays in the Blue Mountains region. Total visitor spending has fallen by 11.5% in comparison to year end September 2013.

### Tourist Accommodation

In the year ending to September 2014, the Blue Mountains tourism region had received 773,000 domestic overnight visitors with an average length of stay of 2.2 days and 85,400 international overnight visitors with 4.8 days of average length of stay.

Domestic visitors spent nearly 1.7 million nights in the Sydney region and international visitors spent nearly 409,800 nights, down 8.5 % and 4.7% respectively in comparison to year ending September 2013.

33.7% of domestic visitors to the Blue Mountains stayed at 'friends or relatives properties', 15.9% in 'hotel or motor inn below 4 star' and 6.2% in 'Luxury hotel or resort 4 or 5 star'. 14.6% of visitors rented a 'house, apartment, unit or flat' during their stay.

The most popular type of accommodation for international visitors to the Blue Mountains region was staying at 'friends or relatives properties' amounting to 21.5% of accommodation share. 15.8% stayed at a 'rented house, apartment, unit or flat' and 12.7% resided at 'hotel or motor inn below 4 star'.



The most significant transaction in the Blue Mountains tourism region other accommodations market over six months to December 2014 was **The Cecil Guesthouse on 108 Katoomba Street, Katoomba.**



The traditional guesthouse was sold on vacant possession for **\$1.8 million** to Anglican Retirement at a **revenue per available room of \$81,818.18**. The property comprise of 22 rooms, restaurant and a detached 4 bedroom managers residence. It sits on a 3,330 sqm site with an opportunity for future development.

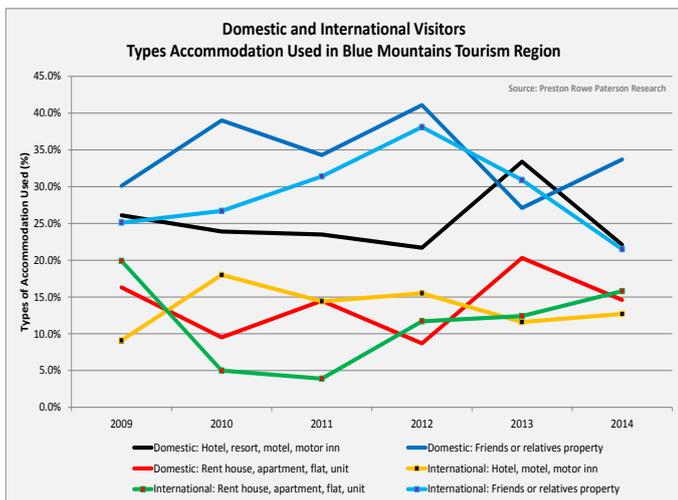


Chart 6— Blue Mountains Tourism Region Types of Accommodation Used —Source Destination NSW

Data collected from the DNSW accommodation breakdown in year end to September 2014 is based on the length of overnight stays visitors spend in the particular type of accommodation. The figures below are not based on the number of visitors staying at the particular type of accommodation.

### Other Accommodation Sales

The following table displays reported major 'other accommodation' sales transactions which occurred over six months to December 2014. Preston Rowe Paterson Research includes accommodations that are classified as bed & breakfast, caravan parks, guesthouses and motels.

| Name                                | ADDRESS  | SALE PRICE  | SALE DATE | VENDOR            | PURCHASER           | AREA (SQM) | NO. ROOMS | REVENUE PER AVAILABLE ROOM |
|-------------------------------------|--|-------------|-----------|-------------------|---------------------|------------|-----------|----------------------------|
| The Cecil Guesthouse                | 108 Katoomba Street, Katoomba NSW 2780         | \$1,800,000 | Jul-14    | Raxigi Pty Ltd    | Anglican Retirement | 3,321      | 22        | \$81,818.18                |
| Norwood Mountain Lodge              | 209 Great Western Highway, Blackheath NSW 2785 | \$875,000   | Aug-14    | Morton and Morton | Bales and Bales     | 2,220      | 7         | \$125,000                  |
| High Mountains Motor Inn & Cottages | 193 Great Western Highway, Blackheath NSW 2785 | \$895,000   | Aug-14    | Sugoroi Pty Ltd   | Dening Zhou Manag   | 3667       | 23        | \$38,913.04                |

Table 5 - Blue Mountains Tourism Region Investment Sales Transactions - Source Preston Rowe Paterson Research/CPM

## Economic Fundamentals

### GDP

GDP figures for the December quarter are not available until the 4th March 2015 however Preston Rowe Paterson Research over the September 2014 quarter revealed that the Australian economy recorded growth of 0.3% seasonally adjusted which reflected growth of 2.7% seasonally adjusted over the twelve months to September 2013.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Financial and insurance services which increased by 0.2%, Mining and Information media and telecommunications each increased by 0.1% to the increase in GDP.

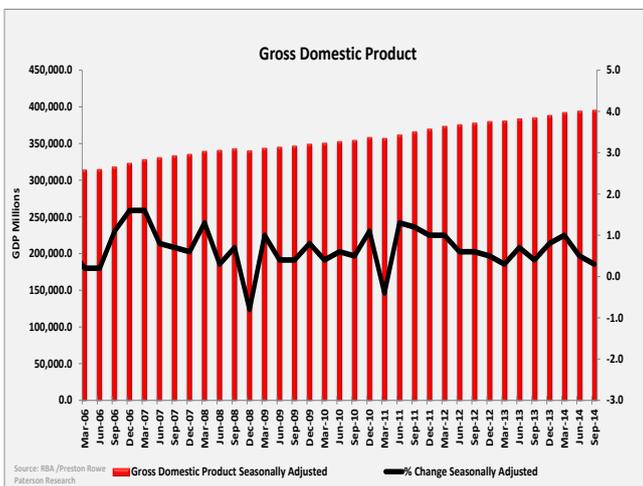


Chart 7 – Gross Domestic Product (GDP) – Source ABS

### Labour force

Over the month to December 2014, the number of unemployed people decreased by 16,220 from 775,377 in November to 759,156 in December which is a 2.09% decrease. In comparison to December 2013, the number of unemployed people has increased by 40,135 which reflected an annual increase of 5.58%. The unemployment rate as at December 2014 is 6.1%.

The number of unemployed seeking full time employment recorded an increase over the month of December by 6,048 to 551,459 persons, reflecting a growth of 1.11%. The number of unemployed seeking part time employment recorded a decrease over the month by 22,269 to 207,697 persons, reflecting a growth of 2%.

New South Wales experienced a large absolute decrease in seasonally adjusted employment by 3,700 persons to 3.633 million persons. The unemployment status in New South Wales over the December Quarter decrease by 0.1% to 5.9%.

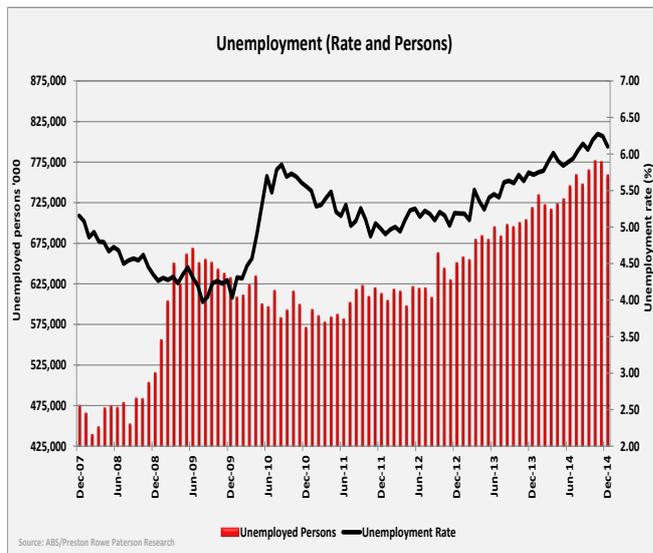


Chart 8 – Unemployment – Source ABS

### Interest Rates

As at the date of publishing, the official Cash Rate over the December quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for December 2014, released 2nd December 2014 explained that;

*"In Australia, most data are consistent with moderate growth in the economy. Resources sector investment spending is starting to decline significantly, while some other areas of private demand are seeing expansion, at varying rates. Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend for the next several quarters."*

The media release also stated that inflation is as expected to be consistent with its 2%-3% target over the next two years. The cash rate has remained unchanged since September 2013.

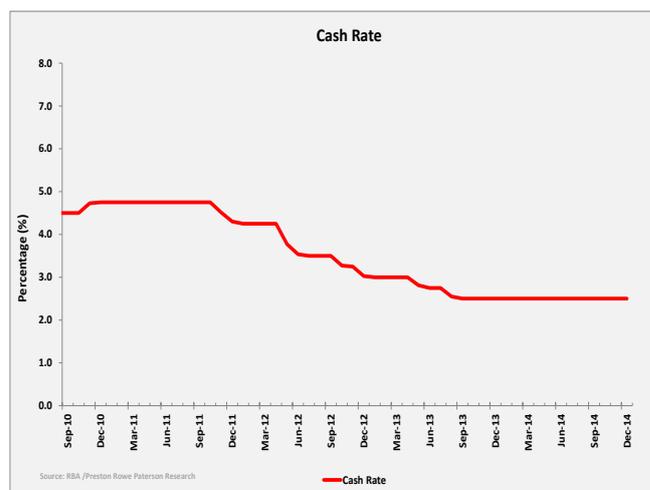


Chart 9 – Cash Rate – Source RBA



## Bond Market

### 10 Year Bond & 90 Day Bill Rate

In the twelve months to December 2014, the 10 Year Bond Rate has decreased by 128 basis points to 2.96%. Conversely, the 90 Day Bill Rate increased by 14 basis points to 2.75%.

Over the December 2014 quarter, 10 Year Government Bonds recorded a decline of 59 basis points from 3.55%. The 90 Day Bill Rate recorded a steady increase over the December quarter of 9 basis points. Year on year analysis has revealed that the 90 Day Bill Rate has increased by 147 basis points since December 2013.

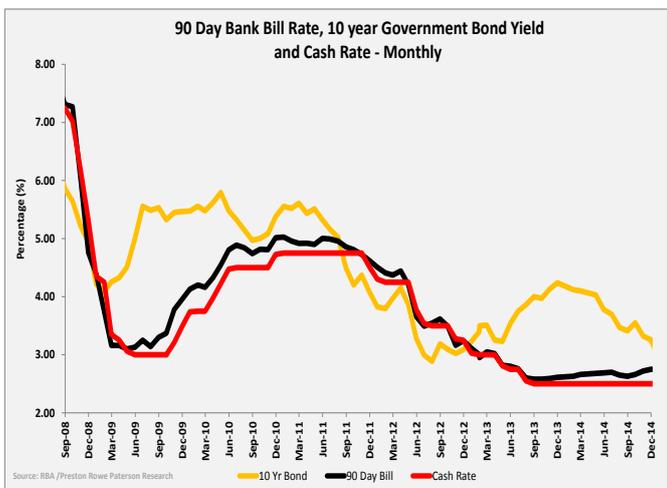


Chart 10 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of 10 Year Government Bonds has revealed an increase of 30 basis points over the month of December 2014 with the 10 year bond rate currently at 2.96%. 90 day bill rates experienced no changes in the December month, remaining at 2.75%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 4 basis points.

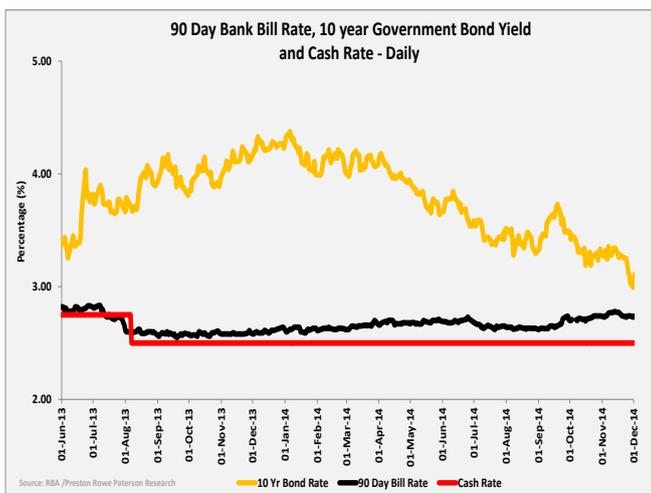


Chart 11 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

## CPI

According to the Australian Bureau of Statistics (September 2014), the Australia's All Groups CPI increased by 0.5% over the September quarter from 105.9 to 106.4. The annual CPI change to September 2014 recorded a growth of 2.3%.

The most significant price rises over the September quarter were for fruit (+14.7%), and property rates and changes (6.3%). The greatest price fall over the quarter was attributed to electricity (-5.1%) and automotive fuel (-2.5%).

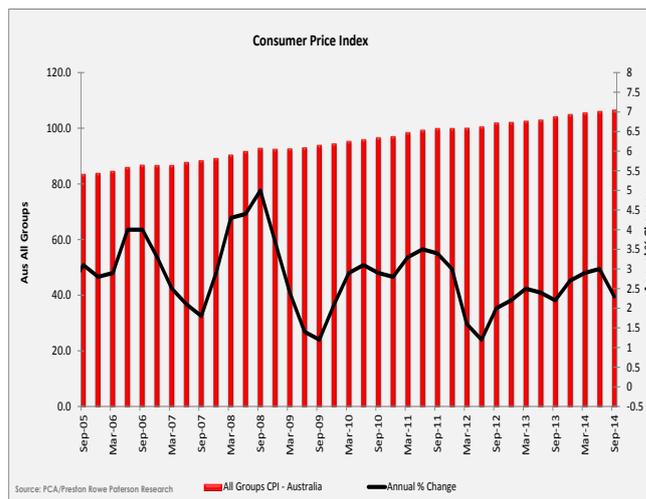


Chart 12– Consumer Price Index—Source—ABS

## Exchange Rates & Equity Markets

### Australian Exchange Rates

Over the December quarter 2014, the Australian Dollar fell significantly against the US Dollar, decreasing from \$0.8752 in September to \$0.8202 in December. Over twelve months to December, the Australian dollar has decreased by 8.34% from \$0.8948 US.

The Australian Dollar exchange rates against the UK currency fell 6.3% and Euro at 2.1% respectively in the December quarter. The Australian Dollar rose by 2.4% against the Japanese Yen. In 12 months to December 2014, the Australian Dollar fell against the British Pound by 8.34% to £0.5271. The Australian Dollar experienced an annual increase against the Euro of 4.02% €0.6898 and the Yen of 4.35% to ¥98.04.

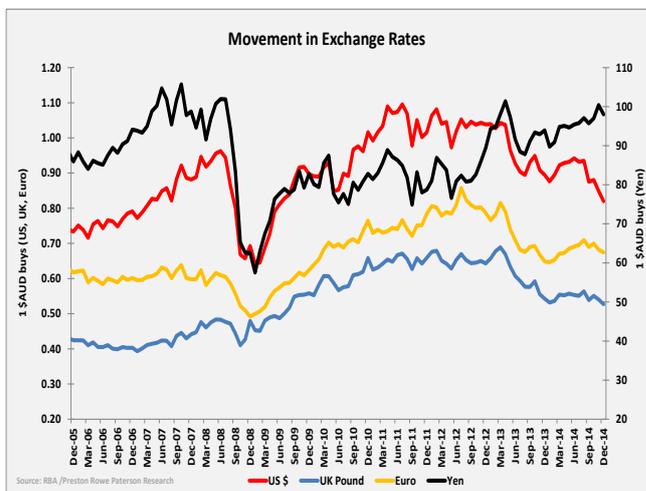


Chart 13 – Movement in Exchange Rates – Source RBA



## Our Research

At Preston Rowe Paterson, we pride ourselves on the research which we prepare in the market sectors within which we operate. These include Commercial, Retail, Industrial, Hotel & Leisure and Residential property markets as well as infrastructure, capital and plant and machinery markets

### We have *property covered*

- Investment
- Development
- Asset
- Corporate Real Estate
- Mortgage
- Government
- Insurance
- Occupancy
- Sustainability
- Research
- Real Estate Investment Valuation
- Real Estate Development Valuation
- Property Consultancy and Advisory
- Transaction Advisory
- Property and Asset Management
- Listed Fund, Property Trust, Super Fund and Syndicate Advisors
- Plant & Machinery Valuation
- General and Insurance Valuation
- Economic and Property Market Research

### We have all *real estate types covered*

We regularly provide valuation, property and asset management, consultancy and leasing services for all types of real estate including:

- CBD and Metropolitan commercial office buildings
- Retail shopping centres and shops
- Industrial, office/warehouses and factories
- Business parks
- Hotels (accommodation) and resorts
- Hotels (pubs), motels and caravan parks
- Residential development projects
- Residential dwellings (individual houses and apartments/units)
- Rural properties
- Special purpose properties such as: nursing homes; private hospitals, service stations, oil terminals and refineries, theatre complexes; etc.
- Infrastructure including airports and port facilities

## We have all types of *plant & machinery covered*

We regularly undertake valuations of all forms of plant, machinery, furniture, fittings and equipment including:

- Mining & earth moving equipment/road plant
- Office fit outs, equipment & furniture
- Agricultural machinery & equipment
- Heavy, light commercial & passenger vehicles
- Industrial manufacturing equipment
- Wineries and processing plants
- Special purpose plant, machinery & equipment
- Extractive industries, land fills and resource based enterprises
- Hotel furniture, fittings & equipment

## We have all *client profiles covered*

Preston Rowe Paterson acts for an array of clients with all types of real estate, plant, machinery and equipment interests such as:

- Accountants
- Banks, finance companies and lending institutions
- Commercial and Residential non bank lenders
- Co-operatives
- Developers
- Finance and mortgage brokers
- Hotel owners and operators
- Institutional investors
- Insurance brokers and companies
- Investment advisors
- Lessors and lessees
- Listed and private companies corporations
- Listed Property Trusts
- Local, State and Federal Government Departments and Agencies
- Mining companies
- Mortgage trusts
- Overseas clients
- Private investors
- Property Syndication Managers
- Rural landholders
- Self managed super funds
- Solicitors and barristers
- Sovereign wealth funds
- Stock brokers
- Trustee and Custodial companies



### **We have all *locations* covered**

From our capital city and regional office locations we serve our client's needs throughout Australia. Globally, we operate directly or via our relationship offices for special purpose real estate asset classes, infrastructure and plant & machinery.

### **We have your *needs* covered**

Our clients seek our property (real estate, infrastructure, plant and machinery) services for a multitude of reasons including:

- Acquisitions & Disposals
- Alternative use & highest and best use analysis
- Asset Management
- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- Compulsory acquisition and resumption
- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
- Insurance valuations (replacement & reinstatement costs)
- Leasing vacant space within managed properties
- Listed property trust & investment fund valuations & re-valuations
- Litigation support
- Marketing & development strategies
- Mortgage valuations
- Property Management
- Property syndicate valuations and re-valuations
- Rating and taxing objections
- Receivership, Insolvency and liquidation valuations and support/advice
- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning



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**Preston Rowe Paterson NSW Pty Ltd**

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