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MONITOR 2015

May 2015

An aerial photograph of a city skyline featuring three prominent, modern skyscrapers with faceted, crystalline glass facades. The buildings are set against a backdrop of a city with residential areas and greenery. In the foreground, a sandy beach with people is visible.

TOURISM
INVESTMENT
MONITOR 2015

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Cover image: An artist's impression of the Wanda Ridong Jewel development on the Gold Coast. *Photo: Supplied.*

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FOREWORD

The fourth in a series, *Tourism Investment Monitor 2015* estimates the number and total value of large-scale projects in Australia's tourism investment pipeline in 2014. Results in this year's *Monitor* reflect a consistent methodology used in previous editions of the report and provide benchmarks for growth comparisons.

THE 2014 PIPELINE

- There were **168 projects** in 2014—up by a net 29 projects from 2013
- They were valued at **\$53.7 billion**—up \$4.3 billion (or 8.7 per cent)
 - ▶ Aviation projects accounted for the majority of the pipeline—**\$31.3 billion** (mainly in new aircraft orders)
 - ▶ Arts, recreation and business services infrastructure projects were valued at **\$13.9 billion**
 - ▶ Accommodation projects were valued at **\$8.5 billion**—providing a potential 15,915 new rooms to accommodation supply.

Solid growth in both the volume and value of projects in the pipeline this year indicates continued investor appetite for tourism investment projects.

Strong growth also occurred in mixed-use developments in this year's *Monitor*, with 69 mixed-use developments (up by a net 28 projects), valued at around \$33.6 billion (up \$11.9 billion or 55 per cent). These developments have the potential to generate a total of around 18,315 new rooms.

It is important to have a rising number of viable projects entering and progressing through the pipeline in order to deliver new and improved infrastructure to the industry. This year's *Monitor* reveals project progression improved compared to last year, with a greater number of new projects entering the pipeline, more projects progressing through the pipeline, and a consistent number of project completions.

Improving the available tourism infrastructure through increased investment will support the Australian tourism industry's continued growth and its significant contribution to the national economy. Currently, the industry is worth \$43.4 billion in Gross Domestic Product (GDP), provides jobs for 534,000 persons, and contributes \$27.2 billion to total exports, making inbound tourism Australia's largest services export industry.

Increasing activity in the tourism infrastructure investment space will also place the Australian tourism industry in a good position to attain its goals set under Tourism 2020. Specific targets of Tourism 2020 include: growing overnight visitor expenditure to between \$115 billion and \$140 billion; growing accommodation supply by up to an additional 20,000 rooms in Australia's ten major accommodation markets; growing international aviation capacity by between 40 and 50 per cent; growing domestic aviation capacity by between 23 and 30 per cent; and growing the tourism labour force by an additional 56,000 people to fill tourism industry vacancies.

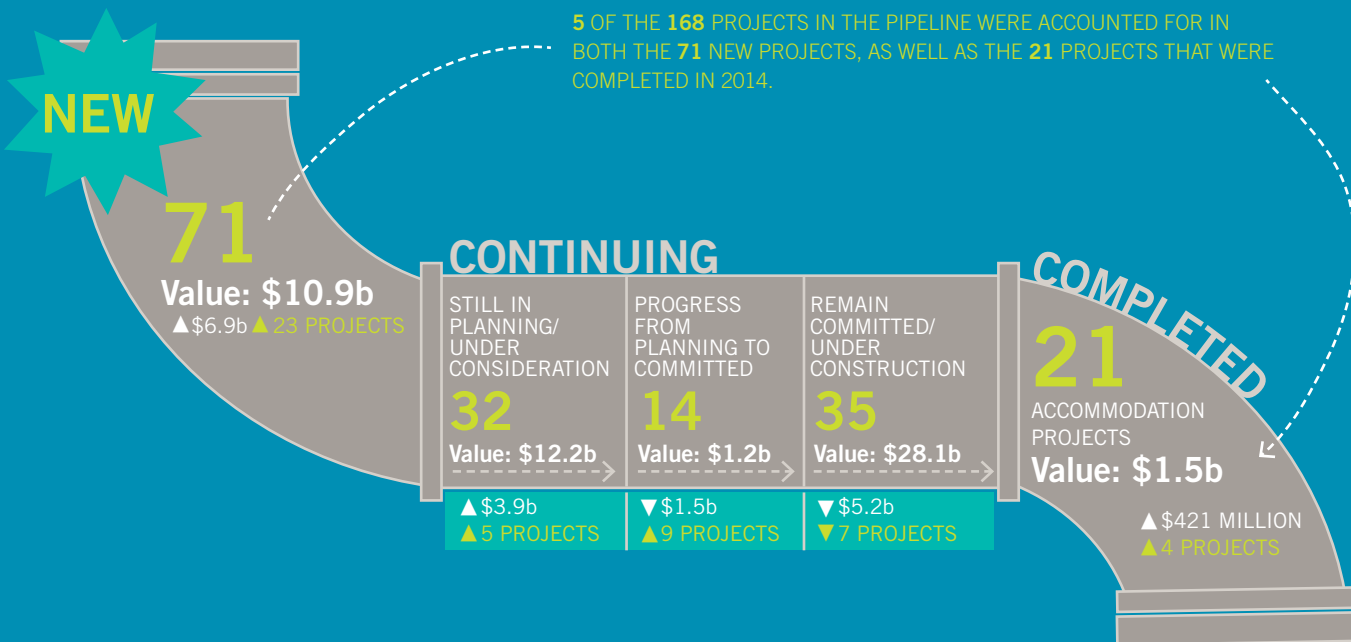
Spiro Kavadias
Acting Assistant General Manager
Tourism Research Australia



AUSTRALIAN TOURISM INVESTMENT PIPELINE 2014

\$53.7b } **168 PROJECTS^A**
 TOTAL VALUE OF PIPELINE ▲ \$4.3b ▲ 29 PROJECTS

5 OF THE 168 PROJECTS IN THE PIPELINE WERE ACCOUNTED FOR IN BOTH THE 71 NEW PROJECTS, AS WELL AS THE 21 PROJECTS THAT WERE COMPLETED IN 2014.



AVIATION INFRASTRUCTURE & FLEET

\$31.3b ▼ \$1.8b **13 PROJECTS & 182 FLEET ORDERS^B**



INFRASTRUCTURE PROJECTS **\$10.9b ▲ \$4.1b**
 + FLEET INVESTMENT **\$20.4b ▼ \$5.9b**



ARTS, RECREATION & BUSINESS SERVICES

\$13.9b ▲ \$5.0b **57 PROJECTS**



AVIATION PROJECTS
Value: \$640 MILLION



ACCOMMODATION

\$8.5b ▲ \$1.1b **88 PROJECTS**
15,915 ROOMS ▲ 3,890 ROOMS



ARTS, RECREATION & BUSINESS SERVICES PROJECTS
Value: \$936 MILLION

Notes: All changes are as compared to 2013. Go to tra.gov.au for the full report and information on how projects are classified & accounted for.
 A) The size and value of the total tourism investment pipeline includes 21 accommodation projects worth \$1.5 billion that were completed in 2014. The total pipeline does not account for the remaining 10 aviation and arts, recreation and business services projects worth \$1.6 billion that were also completed in 2014. This is due to benchmarking the progress of the Tourism 2020 accommodation rooms target.
 B) The 182 aircraft fleet currently on order in the pipeline are spread across 10 separate orders by Australian airlines.

THE TOURISM INVESTMENT ENVIRONMENT

RECENT ECONOMIC TRENDS

2014 saw Australia's 23rd consecutive year of economic growth (ABS, 2015). Through the calendar year the economy grew by 2.7 per cent—marginally below the long-run average growth (2.8 per cent). Economic growth was stimulated by increased household consumption (up 2.5 per cent), exports of goods and services (up 6.7 per cent), dwelling investment (up 7.9 per cent), and non-dwelling new building construction (up 3.8 per cent). However, resource investment continued to decline, particularly in new engineering construction (down 11.6 per cent), and machinery and equipment (down 3.8 per cent).

Between end-December 2013 and end-December 2014, the Australian dollar depreciated by 8.3 per cent against the US dollar to US\$0.82—its lowest level since mid-2009—which was a depreciation of 3.5 per cent on a trade-weighted (TWI) basis (RBA, 2015). Market experts predict the Australian dollar will continue to fall to around US\$0.75 (its historical average) in 2015 before settling nearer US\$0.80 by 2017 (DAE, 2015). The depreciation in the Australian dollar has improved Australia's price competitiveness for international investment and is welcome news for Australian exports, including inbound visitor arrivals. However, exchange rate volatility has increased hedging costs which may deter some previously active investor groups.

Interest rates are now at 2.0 per cent—their lowest rate on record—after the Reserve Bank of Australia's tenth cut to the cash rate since November 2010 (RBA, 2015). Coupled with a sharp fall in petrol prices to a six year low (down 50 per cent), this has prompted growth in household spending and returned consumer confidence to levels last seen in January 2014. However, ongoing unease around employment security remains, and likely soft growth in incomes suggests that the impact of improved consumer confidence on spending could be muted going forward (Westpac, 2015). For the business sector, generally low business confidence could influence future investment decisions, although the construction and retail sectors remain the most confident sectors (NAB, 2015).

INDUSTRY AND INVESTOR SENTIMENT

The Australian investment environment continues to be one of the most attractive globally (Austrade, 2015; World Bank, 2014; JLL, 2014). Australia has one of the world's strongest and most efficient regulatory environments, and is rated among the most business-friendly economies. Australia is also ranked:

- third in the world for real estate transparency, behind the United Kingdom and the United States
- tenth in the world for ease of doing business, and fourth when compared to economies with a similar or larger population
- fourth in the world for ability to access credit
- seventh in the world for ease of starting a business.

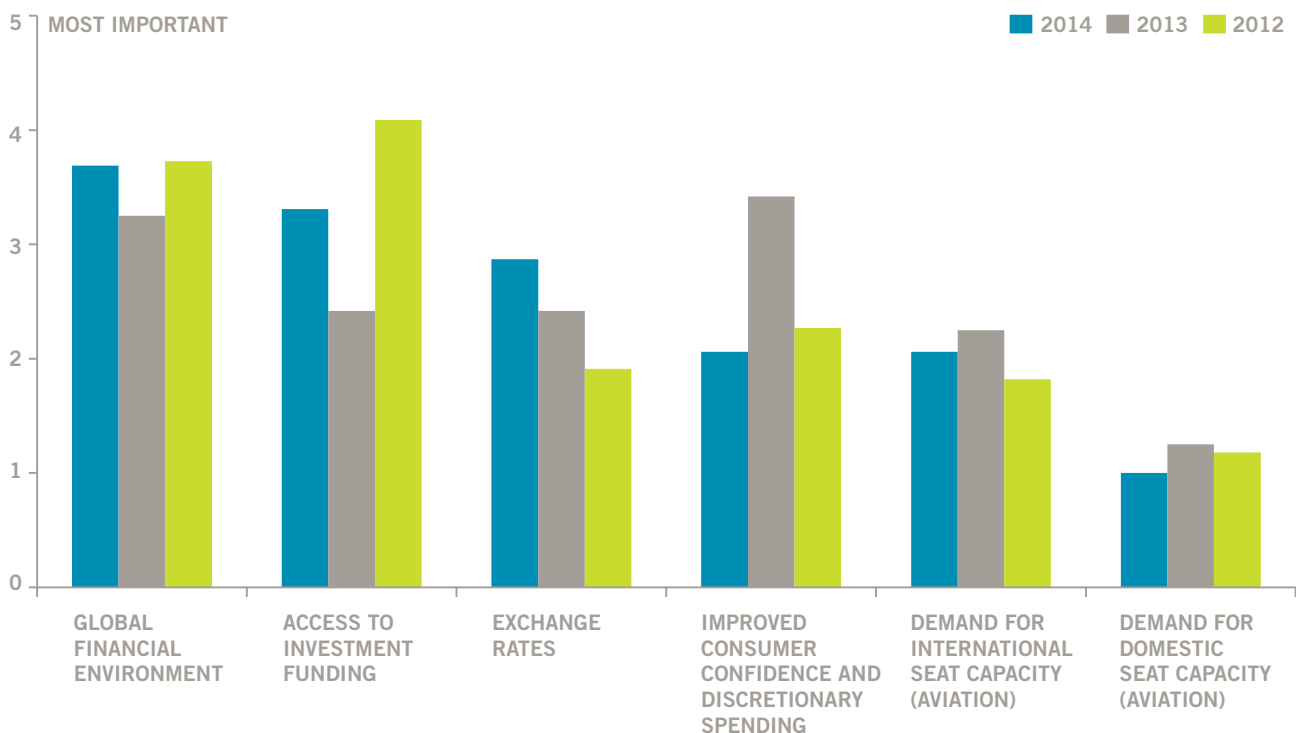
Industry sentiment toward investment in the Australian tourism industry remains positive. TTF's *Tourism Industry Sentiment Survey* reveals that perceptions of *Capacity to make major investments* and *Capacity to refurbish existing product* within the tourism industry continues to be at higher levels than in 2010 (TTF, 2015). However, the survey also identified that industry has concerns about potential impediments to the industry's performance, including the effect of the *Exchange rate depreciation* and *Shortage of skilled labour* on the tourism industry generally; *Adequacy of airport transport links* on the business tourism sector; *Quality and frequency of major events*, *Lack of attractions* and *Inadequate room supply* on the leisure tourism sector (TTF, 2015).

These results are also reflected in TRA's *Tourism Investment Sentiment Survey*¹, which showed that sentiment towards investment in the aviation infrastructure, accommodation, and arts and recreation sectors is optimistic:

- Appetite for accommodation investment is *Very optimistic* over the next 12 months and *Optimistic* over the next two to five years—an improvement in the short to medium term on last year's survey.
- The appeal of arts and recreation investment over the next 12 months and the next two to five years is improved, with fewer respondents stating they were *Neutral* towards investment in the sector and expectations becoming more *Optimistic*.
- Expectations for aviation infrastructure have moderated (compared to 2013 results), for both the next 12 months and the next two to five years, but remain largely optimistic.

This year's survey from TRA also showed the importance attached to global and local financial factors in underpinning future tourism investment. The *Global financial environment* was considered the most crucial factor over the next 12 months and the next two to five years, followed by *Access to investment funding*. There is also growing concern regarding the exchange rate and its impact on tourism investment performance—the only factor that has continued to increase in importance each year since 2012 (Figure 1).

FIGURE 1 IMPORTANCE OF FACTORS IN UNDERPINNING POTENTIAL TOURISM INVESTMENT IN THE NEXT 12 MONTHS



¹ The *Tourism Investment Sentiment Survey* has been conducted annually by TRA since 2012 to provide context to the tourism investment environment. The survey measures expectations for tourism-related investment in the next 12 months, and the next two to five years from a select group of industry and government tourism-related investment experts. Around 35 experts were invited to participate in the survey in 2014, and 16 responses were received.

Source: TRA, *Tourism Investment Sentiment Survey 2015*

WHAT DOES THE FUTURE HOLD FOR AUSTRALIA'S TOURISM INDUSTRY?

Investment in the Australian tourism industry remains attractive for both domestic and foreign investors, with continued growth in tourism's contribution to national income and employment. Adding extra weight to the industry's attractiveness to investors is the strong growth in demand for Australian tourism services from both international and domestic visitors.

TOURISM INDUSTRY PERFORMANCE

The Australian tourism industry continued to perform well in 2014, with strong growth in demand for tourism services and solid economic performance.

ECONOMIC CONTRIBUTION

- Direct tourism GDP contributed \$43.4 billion (2.7 per cent) to total GDP.
- Tourism directly employed 534,000 persons—contributing 4.6 per cent of total employment.
- Inbound tourism contributed \$27.2 billion (8.2 per cent) to total exports (ABS, 2014b) and is Australia's largest services export industry.

INTERNATIONAL VISITOR ARRIVALS AND EXPENDITURE

- International visitor arrivals broke another record, reaching 6.8 million arrivals in the year ending September 2014—an increase of 7.5 per cent compared to the same period in 2013 (ABS, 2014a).

- ▶ International visitors spent a record 220.6 million nights in Australia—up 3.1 per cent compared to the year ending September 2013—representing an average length of stay of 35.2 nights per trip in Australia. Nights spent in hotels, motels and serviced apartments grew 8.8 per cent to the highest level since the year ending September 2008 (TRA, 2014a).
- ▶ Arrivals were driven by leisure travel (holiday and visiting friends and relatives – VFR)—holiday arrivals were up 9.8 per cent and VFR was up 13.4 per cent, compared to the same period in 2013 (ABS, 2014a).
- ▶ China remained a strong source of growth in arrivals—up 10.5 per cent to 789,300 arrivals (ABS, 2014a).
- ▶ Very strong growth in arrivals from Malaysia (up 24 per cent), India (up 14.6 per cent) and Singapore (up 14.4 per cent) was assisted by intense growth in aviation capacity out of these countries, particularly low cost carriers and new flights from Air India (ABS, 2014a).
- ▶ Over the period 2012–13 to 2022–23, international arrivals are forecast to increase 4.5 per cent per year to 9.6 million (TRA, 2014b).
- ▶ Over half of the additional 3.4 million arrivals to 2022–23 are expected to come from Australia's top five inbound markets (New Zealand, China, UK, US and Singapore), while China is expected to contribute nearly one-quarter (24 per cent) of total growth.
- International visitor spending reached \$30.7 billion—up 8.6 per cent compared to the year ending September 2013 (TRA, 2014a).
 - ▶ Over the period 2012–13 to 2022–23, total international visitor expenditure is forecast to increase by 1.6 per cent per year to \$119 billion (TRA, 2014b).

DOMESTIC OVERNIGHT TRIPS AND EXPENDITURE

- Domestic overnight trips reached 81.4 million for the first time on record in 2014—an increase of 7.4 per cent compared to 2013 (TRA, 2015).
 - ▶ Domestic visitors spent a record 308.9 million nights travelling in Australia—up 9.3 per cent compared to 2013—representing an average length of stay of 2.8 nights per trip. Nights spent in hotels, motels and serviced apartments grew at a slower rate of 4.0 per cent, but still reached the highest level since December 2008 (TRA, 2015).
 - ▶ Overnight trips were underpinned by a continuing trend to visit friends and relatives (VFR), with trips for this purpose up 11.3 per cent compared to 2013 (TRA, 2015).
 - ▶ Over the period 2012–13 to 2022–23, domestic overnight trips are forecast to increase 1.3 per cent per year to 85.4 million.
- Domestic overnight spending reached a record high of \$54.4 billion—up 5.7 per cent compared to 2013 (TRA, 2015).
 - ▶ Over the period 2012–13 to 2022–23, total domestic overnight visitor expenditure is forecast to increase by 0.4 per cent per year to \$55.3 billion (TRA, 2014b).

AVIATION

- Inbound aviation capacities increased, with solid growth in the number of international seats available (up 4.8 per cent in 2014).
- Increased capacity out of India, Malaysia and Indonesia continued to drive overall inbound capacity growth in 2014. Capacity growth was also achieved out of the United Arab Emirates (UAE), Singapore, New Zealand and Hong Kong.
- Capacity from the UK, Korea, Japan and China decreased over the same period, although growth out of hubs servicing European and Asian markets (e.g. Malaysia, Singapore and the UAE) could be assisting capacity growth out of these markets to Australia.
- Although capacity declined out of China, a quick turnaround is expected. China and Australia recently signed an air services agreement which will facilitate a significant increase in capacity in the years ahead.
- Domestically, the number of domestic seats available declined marginally (down 0.4 per cent in 2014); however, this was offset by marginal growth in domestic available seat kilometres (up 0.5 per cent in 2014) (BITRE, 2015a, 2015b).
- Domestically, capacity growth continues to be focused on leisure-based routes, with the strongest increases on routes between Ayers Rock-Sydney, Hamilton Island-Sydney, and Adelaide-Gold Coast in 2014.
- Routes in and out of northern Australia have also seen strong domestic capacity growth, particularly Brisbane-Darwin and Darwin-Perth.



ACCOMMODATION

A total of 4,204 accommodation establishments provided 229,646 rooms to accommodation supply in 2013–14, down by 33 establishments (or 0.8 per cent) and 418 rooms (or 0.2 per cent) when compared to 2012–13 (ABS, 2014c). The majority of these declines were in regional Australia, with 29 fewer accommodation establishments delivering 761 fewer rooms in the regions.

The accommodation sector saw declines in both revenue per available room (RevPAR) and occupancies nationally in 2013–14 (ABS, 2014c). On average, there was:

- muted growth in supply (rooms nights available, up 0.2 per cent) and falling demand (room nights occupied, down 1.6 per cent) which resulted in a lower occupancy rate nationally of 64.1 per cent
 - declines in most capital city occupancies, although Sydney, Melbourne and Adelaide recorded marginal growth.
- Across the capital cities²:
- Melbourne experienced stronger growth in demand for rooms in the city, which has been driven by growth in the convention market following the closure of the Sydney Convention and Exhibition Centre in late 2013. Rate growth is expected to remain strong, with few new hotels expected to be completed in the short term.
 - Sydney saw accommodation demand in the city outpace supply in 2013–14, which delivered marginal growth in occupancies in the city, but solid RevPAR growth through the year.
 - Adelaide experienced a flat market with slightly stronger demand that helped to push up occupancies through the year, and corresponding growth in RevPAR. The completion of the Adelaide Oval refurbishment and the Victoria Square redevelopment in early 2014 supported a successful calendar of events in the city through the year.
 - Brisbane was host to international government delegations for the G20 meeting in November 2014, which temporarily increased activity in the market. However, this also resulted in reduced corporate demand from domestic government and mining sectors, which has seen occupancies decline through the year.
 - Perth saw flat results in both accommodation demand and supply, which resulted in a modest fall in occupancy and a rate correction from softening demand in the resources segment.

² Sources: Savills, 2014; CBRE, 2014; Colliers, 2014; ABS, 2014



KEY TOURISM INDUSTRIES – INVESTMENT AND SUPPLY

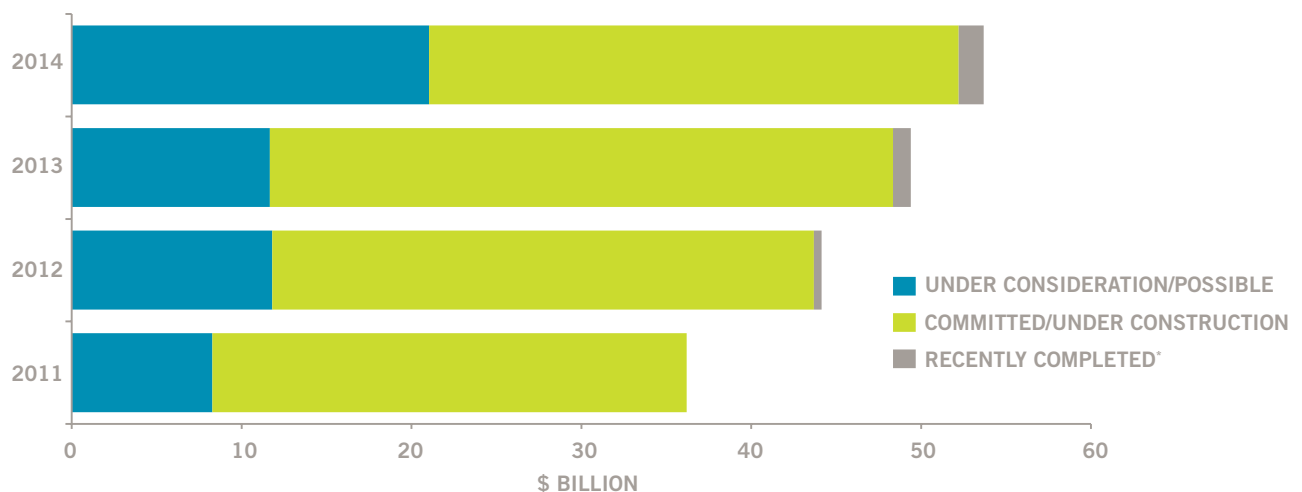
TOTAL INVESTMENT PIPELINE \$53.7b ▲\$4.3b (8.7%)		
AVIATION \$31.3b ▼\$1.8b	ARTS, RECREATION & BUSINESS \$13.9b ▲\$5.0b	ACCOMMODATION \$8.5b ▲\$1.1b

Investment in the Australian tourism industry supports infrastructure growth and facilitates the industry to deliver improved services to visitors. Measuring the tourism investment pipeline identifies not only the size and value of total investment—the ‘stock’—but also the size, value, and progress of projects within and between each of the phases of the investment pipeline. These phases include *Under consideration/possible*, *Committed/under construction*, and *Recently completed* and together they represent the ‘flow’ of projects through the pipeline. The *Tourism Investment Monitor* includes major investments valued at \$20 million or more that will impact on supply. It does not claim to account for all tourism investments and is not designed to be an exhaustive list of current or potential development projects³.

The size and value of the tourism investment pipeline continued to grow in 2014, with a total of 168 projects worth \$53.7 billion in the 2014 pipeline—a net increase of \$4.3 billion (or 8.7 per cent) in value and 29 projects from 2013 (Figure 2). New project activity was significant, with 71 new projects valued at \$10.9 billion entering the pipeline, compared to 48 new projects valued at \$4.1 billion in 2013.

Since the first *Monitor* in 2011, the value of the tourism investment pipeline has grown by \$17.5 billion. Compared to 2011, the *Committed/under construction* phase was worth an additional \$3.3 billion in 2014, and the *Under consideration/possible* phase was worth an additional \$12.8 billion. Capital markets were fairly constrained in 2011 as a result of slow recovery from the Global Financial Crisis (GFC). Consequently, some of the growth since 2011 could be as a result of improved market conditions post-GFC, which saw constrained capital markets and high levels of global uncertainty.

FIGURE 2: TOURISM INVESTMENT PIPELINE PROGRESS, 2011–2014



³ For more information about how the tourism investment pipeline is constructed and measured, and how projects are classified and included, please see the Tourism Investment Monitor methodology at tra.gov.au.

* ‘Recently completed’ only for the accommodation sector, due to benchmarking of the progress of the Tourism 2020 accommodation rooms target.
Source: Brisbane Marketing; CAPA; DAE; JLL; STR Global; TRA

In 2014, the pipeline included:

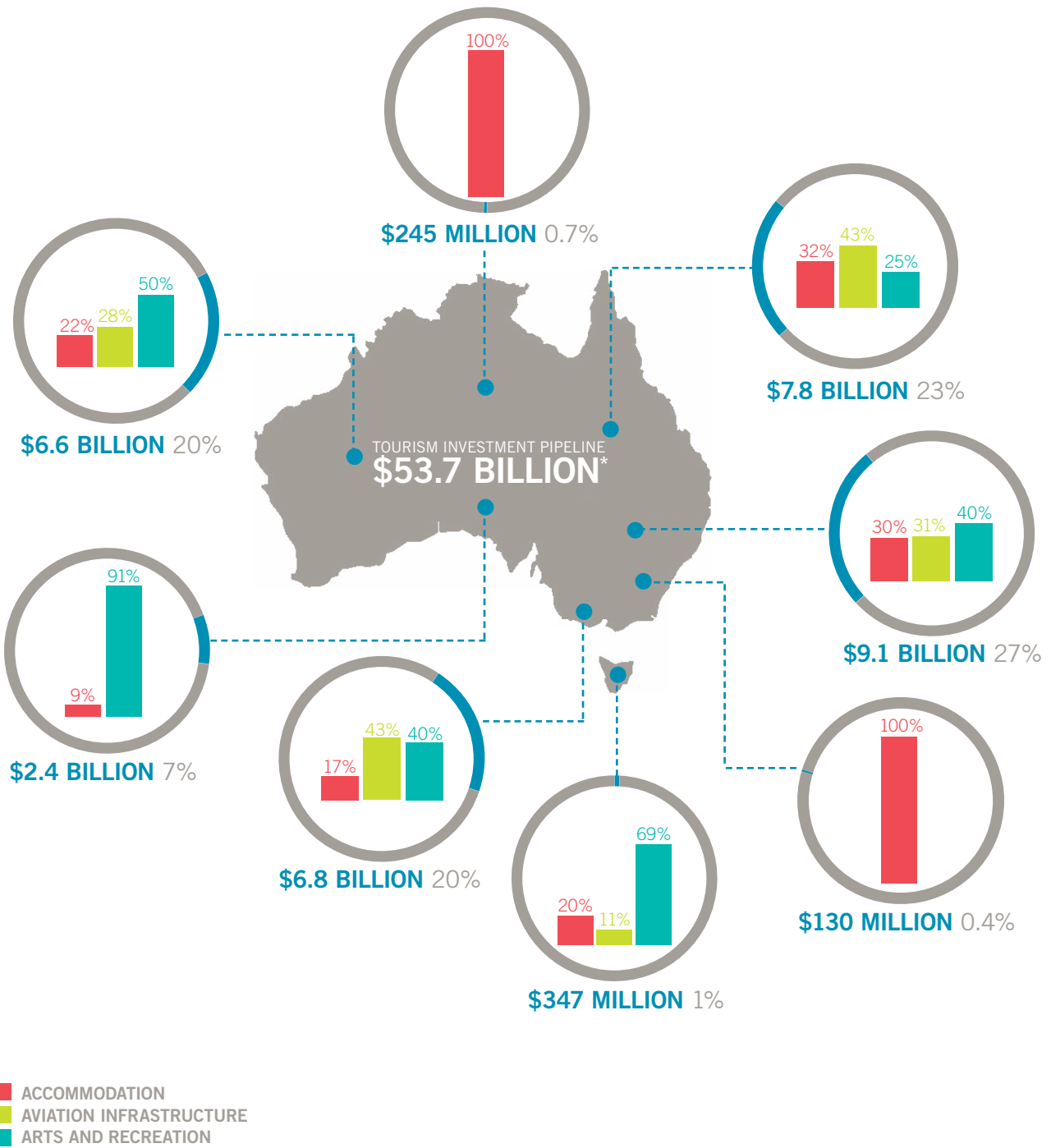
- \$31.3 billion in aviation investment (down \$1.8 billion)
 - ▶ included 13 airport infrastructure projects valued at \$10.9 billion (a net increase of \$4.1 billion) and \$20.4 billion in aircraft (fleet) investment (a net fall of \$5.9 billion)
- \$13.9 billion in arts, recreation and business services (up \$5.0 billion in value)
 - ▶ included 57 infrastructure investment projects (a net increase of 14 projects)
- \$8.5 billion in accommodation investment (up \$1.1 billion in value)
 - ▶ potentially amounts to 15,915 expected new rooms from 88 accommodation projects (net growth of 14 projects and 3,890 rooms).

Almost two-thirds (100 projects, or 63 per cent) of non-fleet projects in the tourism investment pipeline in 2014 (valued at \$23.6 billion) were located in New South Wales, Victoria and Queensland (Figure 3).

- Aviation infrastructure projects were concentrated in the main airport hub states:
 - ▶ Queensland (four projects valued at \$3.4 billion)
 - ▶ Victoria (three projects valued at \$2.9 billion)
 - ▶ New South Wales (two projects valued at \$2.8 billion)
 - ▶ Western Australia (three projects valued at \$1.9 billion).
- Arts, recreation and business services infrastructure projects were concentrated in:
 - ▶ New South Wales (13 projects valued at \$3.6 billion)
 - ▶ Western Australia (12 projects valued at \$3.3 billion)
 - ▶ Victoria (nine projects valued at \$2.7 billion).
- Accommodation projects were concentrated in:
 - ▶ New South Wales (22 projects valued at \$2.7 billion)
 - ▶ Queensland (27 projects valued at \$2.5 billion)
 - ▶ Western Australia (14 projects valued at \$1.5 billion)
 - ▶ Victoria (11 projects valued at \$1.2 billion).



FIGURE 3: TOURISM INVESTMENT PIPELINE – VALUE OF INVESTMENT BY SECTOR AND STATE/ TERRITORY, 2014



*Includes \$20.4 billion in fleet expansion not allocated to states/territories.
 Source: Brisbane Marketing; CAPA; DAE; JLL; STR Global; TRA

AVIATION

INFRASTRUCTURE

\$10.9b ▲\$4.1b

FLEET

\$20.4b ▼\$5.9b

TOTAL

\$31.3b ▼\$1.8b

Investment in aviation is critical to increasing Australia's share of global visitors, facilitating visitors' ease of access to destinations in and around Australia, and encouraging regional dispersal. Where excess demand exists, investment in aviation fleet by airlines can assist to transport a greater number of visitors. Meanwhile, investment in aviation infrastructure (including new and upgraded airports, runways and terminals) provides the physical infrastructure to facilitate growth in airlines' services and opens up new destinations for visitors.

THE 2014 AVIATION INVESTMENT PIPELINE

The aviation investment pipeline in 2014 included 13 airport infrastructure projects and orders for 182 aircraft, with a total value of \$31.3 billion. Compared with 2013, the aviation pipeline shrank by a modest \$1.8 billion (Figure 4). Given the large size of most aviation investment projects, investment in these types of projects is generally cyclical in nature. While a number of new aviation infrastructure projects contributed \$4.1 billion to investment, this could not offset the \$5.9 billion fall in the value of fleet investment in 2014. The decline in fleet investment was mainly a result of the delivery of 18 aircraft that were not counter-balanced by any new orders in 2014.

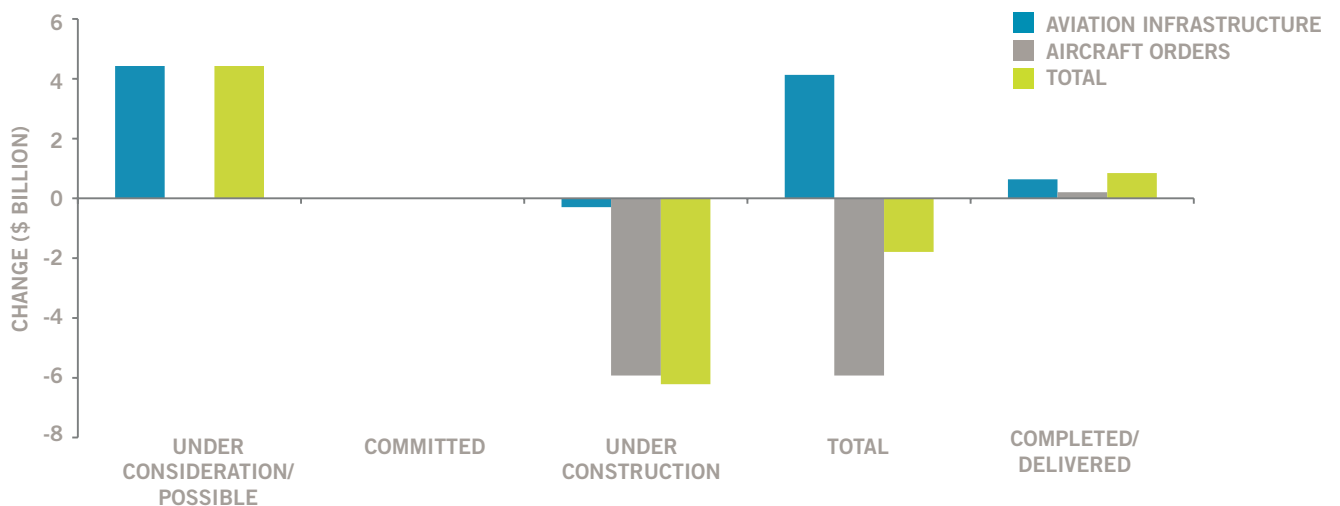
AVIATION INFRASTRUCTURE INVESTMENT

The aviation infrastructure investment pipeline was worth \$10.9 billion in 2014 across 13 projects. Pipeline development was led by two new projects in Sydney, valued at \$2.8 billion:

- \$2.5 billion—Western Sydney Airport at Badgerys Creek—*Possible*
- \$300 million—Sydney Airport upgrade of T1 and T2/T3 precincts—*Under construction*.

Pipeline progression in 2014 was limited to the Brisbane Airport international terminal redevelopment (valued at \$45 million) entering the *Under construction* phase of the pipeline from the *Under consideration* phase. Given most aviation infrastructure projects are announced as part of airport master plans requiring Australian government and state government approvals (due to the scale and safety implications of these projects), long approval timelines are typical. The majority of projects underway are not expected to reach completion before 2020.

FIGURE 4: CHANGE IN AVIATION INVESTMENT, 2014 COMPARED TO 2013



During 2014, three aviation infrastructure projects valued at \$640 million reached completion and exited the 2014 pipeline, helping improve access to areas outside of the major Australian gateway cities:

- \$480 million—Canberra Airport's 'AirVolution', which includes a new passenger terminal, runway extension and building upgrades
- \$100 million—Brisbane West Wellcamp Airport in Toowoomba
- \$60 million—Darwin International Airport upgrades.

As at December 2014, every state and territory across Australia, except South Australia, was either undertaking airport infrastructure projects or has had projects completed in the last 12 to 18 months. Although there are currently no airport infrastructure projects in the pipeline for South Australia, the South Australian government has recently approved the Adelaide Airport Master Plan, which includes \$1 billion of aviation infrastructure development over the next five years.

AIRCRAFT INVESTMENT

The value of aircraft under consideration, on order or under construction amounted to around \$20.4 billion in 2014⁴. Qantas Group accounted for around \$13.6 billion and Virgin Australia \$6.7 billion of the total fleet orders. While a proportion of this investment will result in increased capacities on domestic and inbound routes, airlines may also redistribute new aircraft onto outbound routes as demand requires.

In 2014, there were 18 aircraft delivered worth over \$2.0 billion, compared to 20 aircraft delivered in 2013. These aircraft deliveries included a further five Boeing 787 Dreamliner aircraft for operation by Jetstar on a number of international routes, allowing the airline to increase its inbound capacity.

Qantas also announced in 2014 that the delivery of an additional eight Airbus A380s that were on order would be deferred until 2017⁵.

Qantas and Virgin Australia have options to purchase up to 54 additional Boeing 787 Dreamliner aircraft not included in this analysis⁶. However, Qantas has also announced that it has deferred the delivery of its share (50 aircraft) of these options from 2016 to 2017. If these options from both Qantas and Virgin Australia were to be exercised, TRA estimates this additional investment would be worth around \$10.6 billion.

⁴ This estimate does not differentiate between aircraft that are either owned outright or leased by the airline. It is common practice by airlines to operate aircraft using a 'sale and leaseback arrangement'.

⁵ Qantas announced in February 2014 that the eight remaining A380 orders will be deferred, with an 'ongoing review of delivery dates to meet potential future requirements.' See: www.qantas.com.au

⁶ Fleet options are not included directly in the tourism investment pipeline, as this type of aircraft order can be highly subject to change.

ARTS, RECREATION AND BUSINESS SERVICES INFRASTRUCTURE

CONSIDERED/POSSIBLE

\$8.2b ▲\$4.6b

COMMITTED/CONSTRUCTION

\$5.7b ▲\$430m

TOTAL

\$13.9b ▲\$5.0b

Investment in arts, recreation and business services infrastructure is critical in attracting visitors to a destination, providing a quality experience for visitors travelling in Australia, extending visitors' length of stay in a region, and encouraging repeat visitation. Arts, recreation and business services infrastructure is broad ranging and can relate to attractions, conferences and exhibitions, entertainment (including gaming), indoor and outdoor recreation, and information interpretation.

In 2013–14:

- domestic and international visitors consumed \$5.6 billion of arts and recreation services, and \$1.7 billion in tourism GVA was generated (worth 4.2 per cent of total tourism GVA) (ABS, 2014b)
- business events in Australia directly generated \$28.0 billion in direct expenditure, and \$13.5 billion in direct value added (BECA, 2015).

THE 2014 ARTS, RECREATION AND BUSINESS SERVICES INFRASTRUCTURE INVESTMENT PIPELINE

The arts, recreation and business services infrastructure investment pipeline included 57 projects worth \$13.9 billion in 2014—a net increase of 13 projects and \$5.0 billion in value compared to 2013 (Figure 5).

Investor interest in the arts, recreation and business services sector was particularly strong, with 22 new projects valued at \$3.5 billion entering the pipeline in 2014. Seventeen of these new projects were in the 'Under consideration/possible' phase, including:

- \$1.2 billion—Perth waterfront opera house in Elizabeth Quay
- \$500 million—Penrith Stadium redevelopment
- \$338 million—Melbourne Park redevelopment, Stage 2.

Pipeline progression was fair in 2014—six projects valued at \$839 million progressing from the *Under consideration/possible* phase of the pipeline to the *Committed* or *Under construction* phase. In addition, no projects exited the pipeline prematurely in 2014.

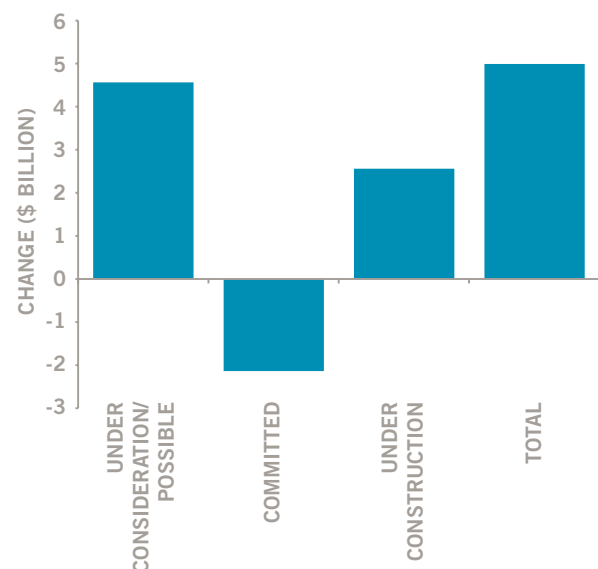
Projects that progressed during 2014 included:

- \$500 million—Cronulla Sharks home ground redevelopment (including new residential and upgrades to existing club and stadium facilities), New South Wales—*Under construction*
- \$100 million—Royal Hobart Showground redevelopment, Tasmania—*Under construction*
- \$100 million—Aquatic and recreational facility at Cockburn Central West, Western Australia—*Committed*.

Pipeline progression was further complemented by the completion of seven projects (valued at \$936 million) in 2014, including the following:

- \$570 million—Adelaide Oval refurbishment and grandstand enlargement, South Australia
- \$198 million—Sydney Cricket Ground upgrades, including replacement of the Bradman, Messenger and Noble stands, New South Wales
- \$45 million—development of the Shrine of Remembrance at the Victoria War Memorial.

FIGURE 5: CHANGE IN ARTS, RECREATION AND BUSINESS SERVICES INFRASTRUCTURE INVESTMENT, 2014 COMPARED TO 2013



ACCOMMODATION

VALUE

\$8.5b ▲ \$1.1b

ROOMS

15,915 ▲ 3,890

TRANSACTIONS

\$2.8b ▲ 39%

The accommodation sector forms the essential infrastructure of the Australian tourism industry to service the accommodation demands from visitors when travelling in the country. The sector contributes significantly to the Australian economy. In 2013–14:

- \$13.2 billion of accommodation services were consumed by domestic and international visitors, generating \$7.0 billion in tourism GVA (or 18 per cent of total tourism GVA) (ABS, 2014b).

THE 2014 ACCOMMODATION INVESTMENT PIPELINE

The accommodation investment pipeline in 2014, compared to 2013:

- included 88 projects—net growth of 14 projects
- was valued at \$8.5 billion—net growth of \$1.1 billion
- potentially added 15,915 new rooms to supply—net growth of 3,890 rooms (Figure 6).

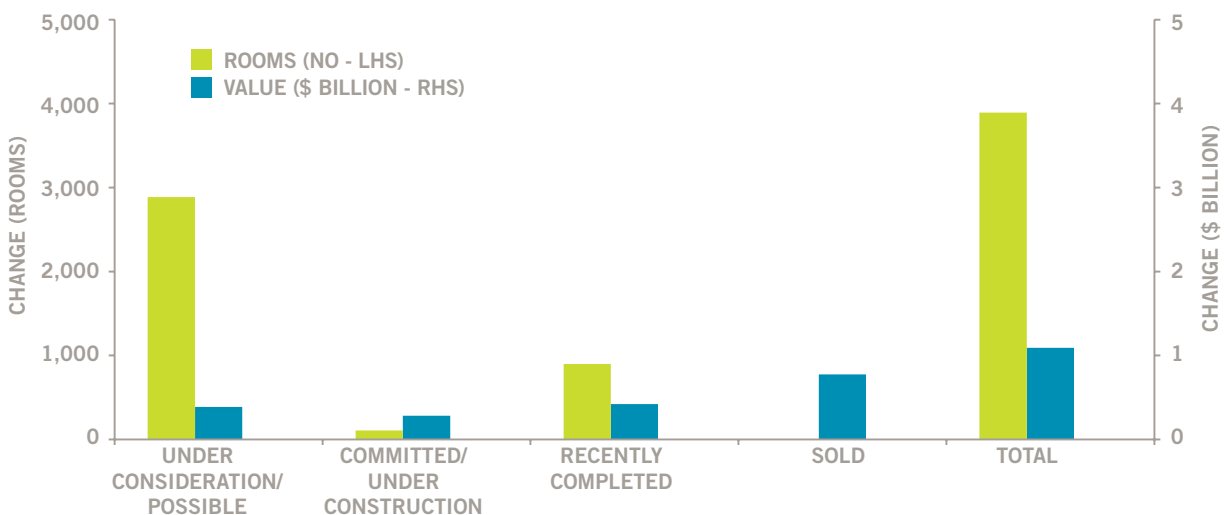
Accommodation investment pipeline development was strong in 2014, with 47 new projects (valued at \$4.6 billion) accounting for 9,030 new rooms entering the pipeline. Around \$2.9 billion of this new investment is at the *Under consideration/possible phase*⁷, where more than 40 per cent is linked to five major projects, including:

- \$252 million/300 rooms—Department of Lands and Department of Education sandstone buildings redevelopment, Sydney
- \$250 million/320 rooms—Four Points by Sheraton Melbourne Docklands
- \$250 million/300 rooms—Sea Pearl Hotel, Gold Coast.

Throughout 2014, 21 accommodation projects (valued at \$1.5 billion) were completed, delivering over 3,000 new rooms to supply. Six of these projects (valued at \$900 million) delivered almost half of these new rooms, including:

- \$65 million/311 rooms—Ibis Adelaide
- \$120 million/301 rooms—Elan Soho Suites, Darwin
- \$178 million/200 rooms—Wyndham on William, Melbourne.

FIGURE 6: CHANGE IN ACCOMMODATION INVESTMENT, 2014 COMPARED TO 2013



Source: Brisbane Marketing, DAE; JLL; STR Global; TRA

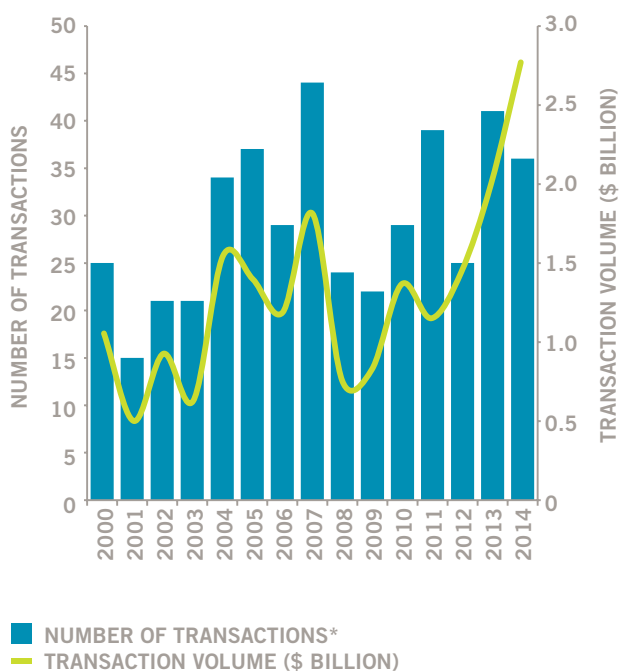
⁷ The value of new activity in the *Possible/under consideration* phase only includes the value of new projects in the 2014 pipeline that were not previously included in the 2013 pipeline. This change is different to the overall change in the value of projects in the *Possible/under consideration* phase—up \$388 million—as the overall change in value also takes into account projects that have progressed out of this phase and into the *Committed/under construction* phase, or have exited the pipeline completely as a result of project completion or the project being abandoned.

An additional nine projects exited the accommodation investment pipeline prematurely due to being abandoned, deferred or deleted. They equated to 12 per cent of accommodation projects in the pipeline, and were valued at \$827 million. This was similar in scale to the 2013 pipeline, which also saw nine projects exit prior to completion (or 13 per cent of accommodation projects in the 2013 pipeline), valued at \$459 million.

The current rate of growth in new activity is an indicator of strong investor appetite for accommodation projects. While Australia's sound economic fundamentals remain good reasons for investors to continue to invest in Australian accommodation projects, it is also promising that projects in the 2014 pipeline appear to be progressing through to completion in greater numbers than in 2013. Of the 27 accommodation projects (valued at \$3.3 billion) that were in the *Under consideration/possible* phase in 2013, seven (valued at \$272 million) have progressed into the *Committed/under construction* phase in 2014 compared with two the previous year. These projects included the following hotels:

- \$90 million/368 rooms—Ibis Brisbane
- \$50 million/191 rooms—Vibe Hotel Canberra.

FIGURE 7: TRANSACTION VOLUMES AND NUMBER OF TRANSACTIONS, 2000 TO 2014



* Transactions valued at \$5 million and above Source: CBRE; Colliers; JLL; Savills; TRA

ACCOMMODATION INDUSTRY TRANSACTIONS

The transfer of ownership (or flow of funds) of accommodation infrastructure is an important component of accommodation sector investment, as transaction activity can be a useful lead indicator of future investor demand.

After a record year in 2013 for the number and value of hotel transactions, 2014 continued to break records. TRA estimates hotel transactions totalled \$2.8 billion across 34 existing major asset transfers (Figure 7). While a significant number of transactions were for properties within Sydney and surrounds, sales were achieved across most states and territories, except South Australia and Tasmania.

Hotel transactions across Australia attracted significant international interest, particularly out of Asia. Australia's strong fundamentals, maturity and transparency, together with the freehold nature of many major assets and their locations in key Australian cities, continue to attract Asian investors. Almost all asset transactions over \$50 million were made by Asian investors, with domestic investors focused more on assets below \$40 million (CBRE, 2015).

Major transactions included:

- \$463 million—Sheraton on the Park Sydney to Sunshine Insurance Group (China)
 - ▶ This is the first commercial property acquisition by a Chinese insurance group, and sets a new record for the largest single hotel asset sale in Australia.
- \$201 million—Sofitel Sydney Wentworth to Frasers Property Group (Singapore)
 - ▶ This transaction is reported as being used as a seed asset for a new real estate investment trust.
- \$135 million—Park Hyatt Melbourne to Fu Wah International Group (China)
 - ▶ This is the group's first significant hotel asset transaction in Australia.
- \$135 million—Oaks on Lonsdale Melbourne (\$70 million), 1888 Hotel Sydney (\$33 million), and Blue Hotel Sydney (\$32 million) to Ovolo Group (Hong Kong)
 - ▶ These acquisitions are part of an aggressive brand expansion strategy across Australia.

OPPORTUNITIES

Last year's *Monitor* identified one major opportunity and one major issue for the tourism investment pipeline—growth in mixed-use development and the significant opportunity this presents; and the issue of a 'blocked' pipeline. This year's *Monitor* reports that mixed-use developments are continuing their solid growth, with three times as many projects progressing in 2014 as in 2013.

GROWTH IN MIXED-USE DEVELOPMENT

Mixed-use developments are becoming increasingly important, with stand-alone hotel development still difficult to quantify unless located in close proximity to a unique demand generator. The benefits of mixed-use developments include:

- generating higher yields, spreading risk, and promoting synergies between complementary tenants
- enabling hotel developers to diversify their income streams and be less reliant on the provision of accommodation rooms
- attracting potential purchasers from a wider variety of market sectors
- reinvigorating existing buildings and precincts through the inclusion of a hotel.

Growth in this type of development can increase the volume and value of accommodation investment, if there is sufficient demand. However, like any new development, there is no certainty that all of the identified mixed-use developments will progress to completion or continue to include an accommodation component, as feasibility and future returns are constantly re-assessed by investors.

Considered separately, this year's *Monitor* identifies 69 mixed-use developments valued at around \$33.6 billion with the potential to generate a total of around 18,315 new rooms⁸.

Compared to 2013, the net number of mixed-use developments has increased by 28 projects—a net increase of \$11.9 billion in value (up 55 per cent), and 9,710 new rooms (up 113 per cent) (Figure 8).

These increases were driven by very strong growth in new activity in the mixed-use space in 2014, with these developments often favoured by Asian developers, many of whom are developing multiple assets across Australia. A total of 33⁹ new projects were identified (valued at \$8.7 billion) with the potential to deliver 5,130 new rooms to supply. In addition to this strong growth in new activity, only three projects (valued at \$1.1 billion) were either abandoned prior to completion or no longer included a hotel component in 2014.

In 2014:

- five mixed-use projects were completed—valued at \$1.3 billion
- three mixed-use projects exited prematurely prior to completion, either because they were abandoned or the project was redefined to no longer include a hotel component—valued at \$1.1 billion
- eight mixed-use projects progressed from the Under consideration/possible phase through to the *Committed/under construction* phase—valued at \$3.6 billion.

At the state and territory level, Queensland again featured heavily in the mixed-use space, with 23 projects worth \$19.3 billion in the pipeline that could deliver almost 12,000 rooms to the state. This can be partly attributed to the previous Queensland Government's Integrated Resort Development Expression of Interest (EOI) process, with three new associated gaming licences launched in October 2013. The state government's ongoing facilitation of investment in the Brisbane and Gold Coast metropolitan areas (including a moratorium on infrastructure charges for new four and five-star hotel developments in Brisbane) is also assisting to increase accommodation capacity in time for a number of high profile international meetings, events and the 2018 Commonwealth Games.

Other states with large-scale mixed-use developments on the table include:

- Victoria—more than 2,700 rooms across 12 projects, valued at \$5.4 billion
- Western Australia—more than 1,000 rooms across 7 projects, valued at \$3.5 billion
- New South Wales—more than 1,280 rooms across 11 projects, valued at \$3.0 billion.

⁸ TRA has excluded mixed-use developments from the accommodation investment pipeline due to the difficulties in ascertaining the tourism industry components (such as valuing room stock in a mixed residential/non-residential project), as well as the long lead times involved in these types of large scale projects gaining approval for development and then undergoing construction. This methodology has been applied consistently in previous editions, and allows a benchmark comparison to data in 2012. For more detailed information on the methodology behind developing the tourism investment pipeline, see tra.gov.au.

⁹ In addition to the 33 new mixed-use projects, three accommodation projects were also redefined as mixed-use projects in 2014.

SCARCITY OF PRIME LAND IS FUELING MIXED-USE DEVELOPMENT

The substantial growth in mixed-use development is partly due to scarcity of land in CBD areas. As a consequence, these developments are increasingly occurring on obsolete or under-utilised buildings and sites. Following is the current mixed-use activity in the major capital cities:

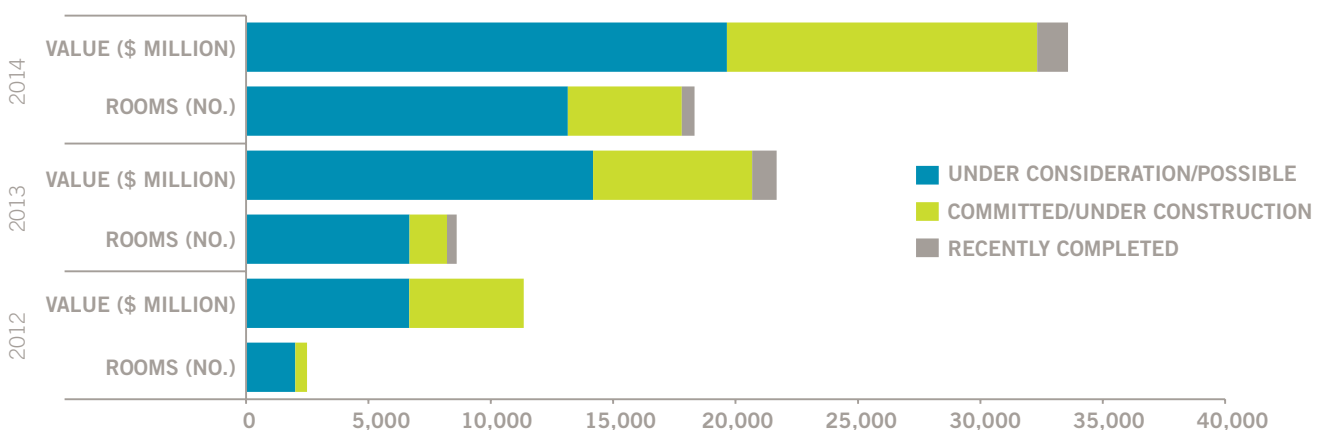
- Sydney—mixed-use developments have more than doubled, with 10 mixed-use projects identified, up from four projects in 2013
 - ▶ developments include the \$309 million V by Crown landmark luxury residential and resort-style hotel development in Parramatta
- Brisbane—eight mixed-use projects
 - ▶ includes the \$1.3 billion ‘Bon Bon’ tower redevelopment on Mary Street, which will be a mix of commercial, residential and retail, with around 850 residential apartments and a 5-star, 400-room hotel
- Melbourne—ten mixed-use projects
 - ▶ includes the Altus mixed-use project in the Docklands area, which will incorporate a 231-room Parkroyal hotel and a 37-level residential tower
- Perth—six mixed-use projects
 - ▶ includes the \$1.6 billion Elizabeth Quay development, which will incorporate a mixed-use commercial precinct with residential accommodation and a 204-room Ritz-Carlton hotel.

INTEREST FROM ASIAN INVESTORS IS INCREASING

Substantial attention from Asian investors in 2014 has been another driver of the significant growth in mixed-use development. Mixed-use developments are a particularly attractive proposition to Chinese and South East Asian investors, who are more familiar than domestic investors with these types of projects. Examples of mixed-use projects led by Asian investors include:

- \$8.15 billion—Aquis Great Barrier Reef at Yorkey’s Knob in Queensland (an integrated resort mega-development), 7,500 rooms across 9 hotels
 - ▶ Aquis—China
- \$970 million—Jewel development on the Gold Coast
 - ▶ Wanda Commercial Properties and Ridong Group—China
- \$1 billion —Upper West Side residential and hotel development in Melbourne (includes a Ritz-Carlton)
 - ▶ Far East Consortium—Hong Kong
- \$800 million—George Street Brisbane development across three towers including a 5-star luxury hotel
 - ▶ Shayher Group and Bao Jia Development joint venture—Taiwan
- \$550 million—Brookwater Golf & Spa Resort at First Residence in Springfield, Queensland (the largest foreign investment resort in Australia)
 - ▶ Dusit International, Maxsen Capital Hong Kong, World Group UK, and Brookwater joint venture—Thailand/Hong Kong/UK/Australia.

FIGURE 8: MIXED-USE INVESTMENT, 2012 TO 2014



IMPROVEMENT IN PROJECT PROGRESS THROUGH THE PIPELINE

Results in this year's *Monitor* indicate that project progress from the planning stages of the pipeline through to approval and construction improved in 2014. Three times as many projects progressed in 2014 (14 valued at \$1.2 billion compared to just five in 2013) (Figure 9). This result may have been influenced by strong capital inflows putting pressure on project values, which improved the feasibility of tourism infrastructure projects. Further, there would also be a consequent improvement in developer/investor confidence in progressing these types of projects.

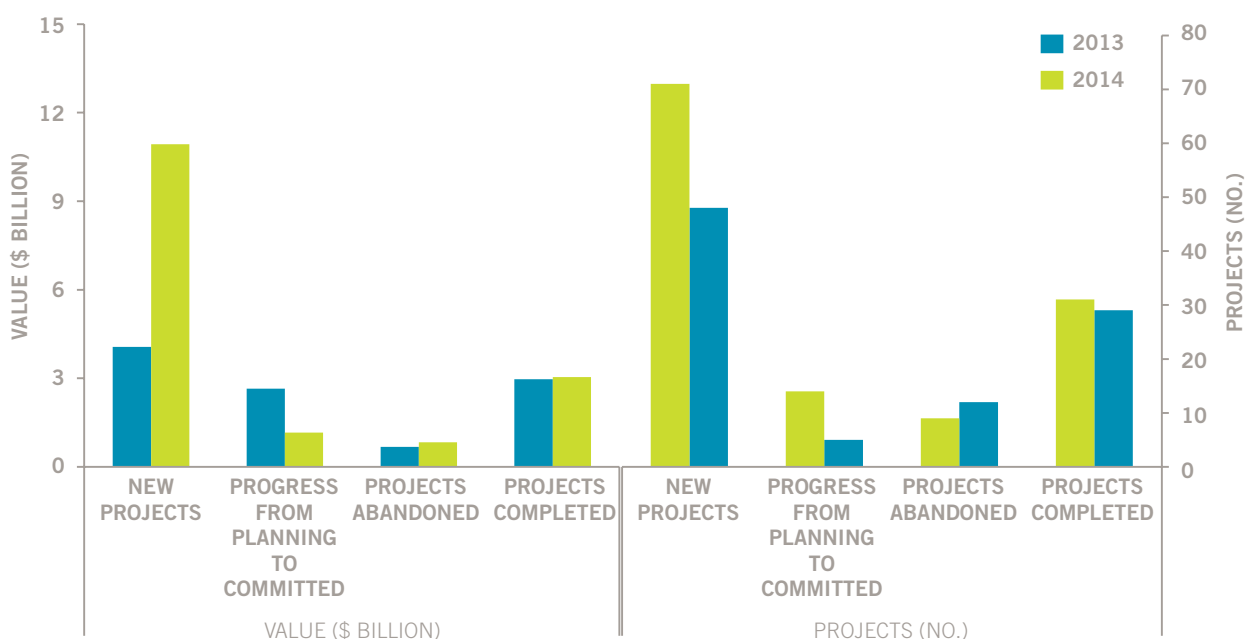
Projects that progressed in 2014 were spread across each of the three sectors, including:

- \$45 million—Brisbane airport international terminal redevelopment—Aviation infrastructure—*Under consideration to Under construction*
- \$500 million—Cronulla Sharks home ground redevelopment—Arts, recreation and business services—*Under consideration to Under construction*
- \$90 million—Ibis Brisbane—Accommodation—*Proposed to Under construction*.

There was also significant growth in the volume—and consequently the value—of new projects entering the pipeline in 2014. In fact, new projects increased by 48 per cent in 2014, which equated to 71 new projects valued at \$10.9 billion, compared to 48 new projects valued at \$4.1 billion in 2013. In addition, fewer projects were abandoned prematurely in 2014—only nine projects exited the pipeline prior to completion in 2014, down from 12 projects in 2013.

Mitigating delays experienced through planning approval processes can help to ensure that viable projects have the best chance of progressing through the pipeline to completion. The risk of projects being shelved will be greater if projects are left in the planning stages for long periods of time, particularly when feasibility concerns exist or the process for project approval is lengthy and onerous (JLL, 2013). Accommodation projects need to continue to push through the investment pipeline to construction and completion; only then will new and revitalised infrastructure be delivered to accommodate the growing number of visitors, enabling Australia to remain competitive in the global visitor economy.

FIGURE 9: PIPELINE PROGRESS, BY VALUE AND VOLUME, 2014 COMPARED TO 2013



CONCLUSION

Australia's tourism investment pipeline continued to grow in 2014, boosted not only by investors' continued confidence in the Australian tourism industry and the opportunities it presents, but also by the current development cycle. With 168 projects valued at \$53.7 billion in 2014, the pipeline grew by a net total of \$4.3 billion in value, and 29 projects. Growth in the order of \$5.0 billion for arts, recreation and business services projects and \$1.1 billion for accommodation projects offset the \$1.8 billion fall in value of the aviation pipeline in 2014.

2014 also saw strong growth in the net number and value of mixed-use accommodation projects, with an additional 28 new projects (valued at \$11.9 billion) taking the amount of identified mixed-use developments to 69 projects (valued at \$33.6 billion). This was up from 41 projects valued at \$21.7 billion in 2013. Growth in this type of investment is good news for the Australian tourism industry, as it can deliver increased potential for new room supply. However, like all projects, the scope and size of some of these mixed-use projects may change over time and deliver fewer rooms to accommodation supply than originally anticipated. Mixed-use projects are receiving increasing attention from investors, and continued monitoring of these types of projects will be beneficial.

Project progression through the tourism investment pipeline picked up pace in 2014. Strong growth in new activity was clearly visible, with the entrance of 71 new projects into the pipeline offsetting the exit of 40 projects. Good progress was made in the completion of 31 projects, delivering 3,000 new accommodation rooms, three new and upgraded aviation facilities, and seven arts, recreation and business services facilities. Further, the number of projects to progress from the planning stages into approval and construction tripled compared to 2013, with 14 projects valued at \$1.2 billion now either *Committed* or *Under construction*.

Increased activity in the tourism investment pipeline will assist the Australian tourism industry to reach its *Tourism 2020* targets, but the activity needs to be consistent with tourism demand as well as current development cycles. 2014 saw increased activity from foreign investors, particularly from Asia, which will further assist the industry to grow and improve the tourism infrastructure needed to accommodate and attract more visitors to Australia. Increasing supply and improving the quality of Australia's tourism product offering will ensure the industry remains globally competitive.

