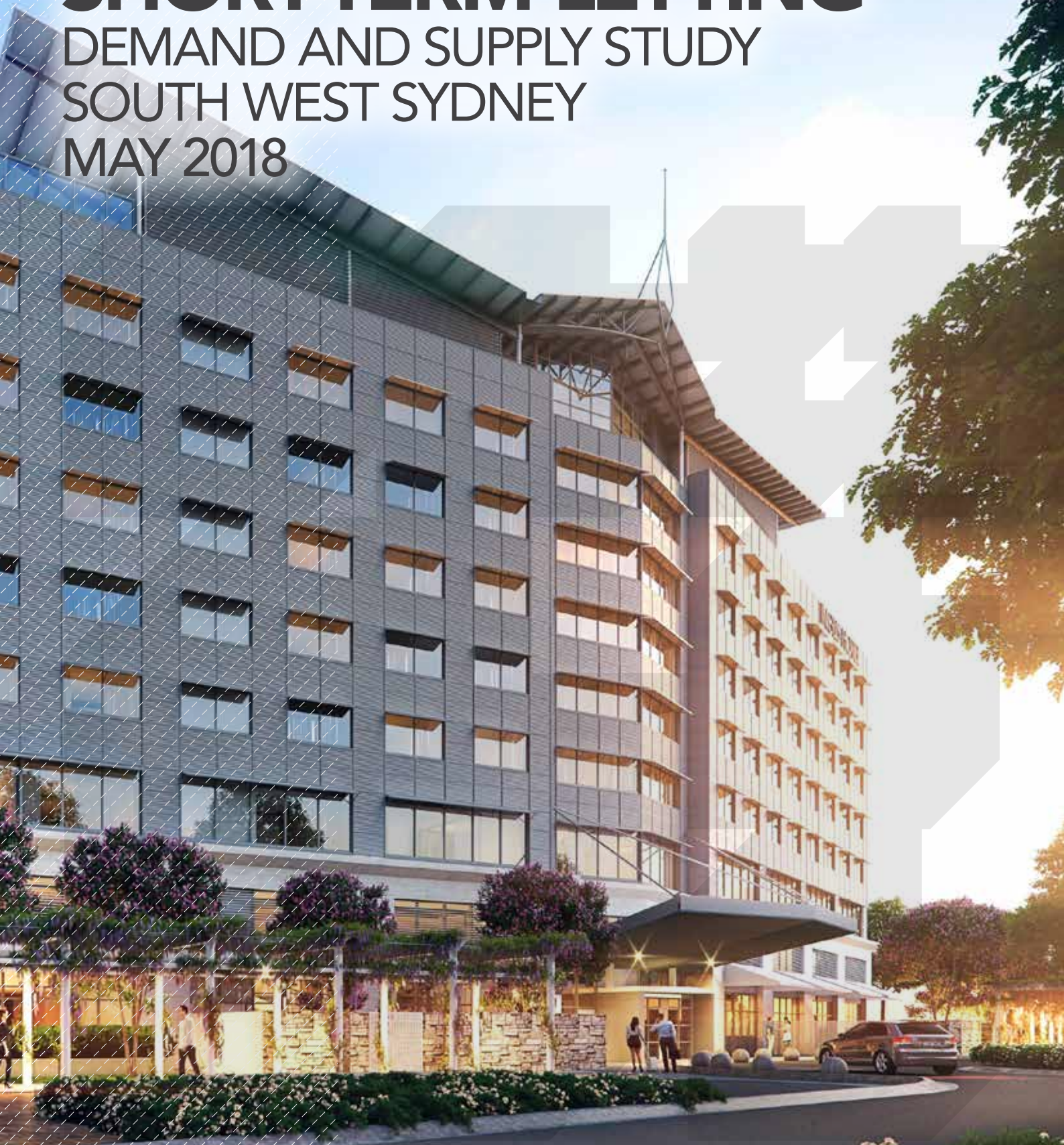


# HOTEL AND SHORT-TERM LETTING

DEMAND AND SUPPLY STUDY  
SOUTH WEST SYDNEY  
MAY 2018



LIVERPOOL  
CITY  
COUNCIL



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Executive Summary

Summary of Facts South West Sydney Accommodation Market

No of Hotels	21	No. of guestrooms	1,869	Occupancy 2017	75.3%	ARR 2017	\$137.86	RevPAR growth in 2017	2.4%	Proposed New Hotels and Additions	8	Potential Supply Increase	48%
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Client Details

<b>Instructing Party</b>	<b>Reliant Parties</b>	Liverpool City Council
Ms Samantha Strachan Small Business Officer City Economy Liverpool City Council 33 Moore Street Liverpool NSW 2170	<b>Purpose of Report</b>	To assist Liverpool City Council to better plan for future hotel demand growth in its Local Government Area.

1 EXECUTIVE SUMMARY

Colliers International have been engaged by Liverpool City Council to build on a 2014 hotel study and provide independent advice on hotel and short-term holiday letting trends in Liverpool and the broader South West Sydney Region as well as provide comment on the nature and extent of future demand in the next 10 years. Council aims to help attract the development of new hotel accommodation in Liverpool LGA and to also understand the impact, and rise of popularity, of other short term holiday letting operators, such as AirBnB.

In compiling this report we have focussed on the following requested areas:

- We have made comment on current and future accommodation demand generators in the region.
- We have provided an overview of existing accommodation in South West Sydney together with future proposed accommodation in the region. This includes comment on potential gap analysis as well as the requested overview on the Penrith Market due to its potential to service the new Western Sydney Airport.
- We have provided an overview of current market occupancy and average daily rates in the South West Sydney Region together with Colliers forecasts for occupancy and rate.
- We have made comment on current and future trends in the Australian marketplace in relation to hotel property investment with observations on current barriers and potential opportunities for attracting new hotel investment into Liverpool and the South West Sydney Region. This also includes Colliers view on potential developers and operators for the region.
- We have provided research on the rise and popularity of short term holiday letting and how this may impact Liverpool and the hotel industry taking into account the recent NSW Government Options Paper and Media Release of 5 June 2018.

## Executive Summary

The bulk of this report was prepared between March and May 2018 by Michael Thomson, National Director, Valuation & Advisory Services and Denise Kirk, Hotels Analyst at Colliers International. Our research includes reference to the following information sources:

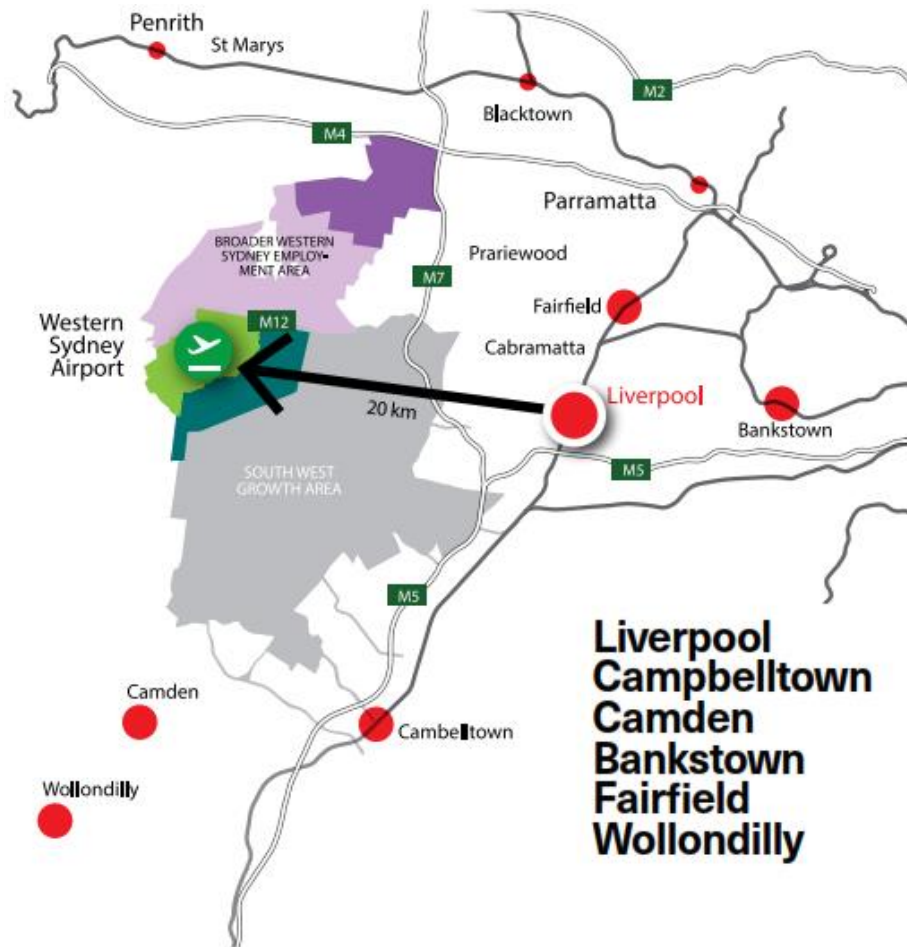
- Interviews of owners and operators of hotels in South West Sydney plus potential developers of new hotel supply.
- STR trading data based on the principal hotels operating in Liverpool, Fairfield, Bankstown and Campbelltown Council areas.
- Cordells data on proposed future hotel supply in South West Sydney.
- International Visitors Survey and National Visitors Survey data.
- JLL Liverpool Hotel Study May 2014.
- Liverpool Industrial Employment Lands Study (Knight Frank June 2016).
- Liverpool City Draft Destination Management Plan Strategic Directions June 2016.
- Liverpool City Draft Destination Management Plan 2016 to 2023.
- Liverpool the Gateway to Sydney's Aerotropolis (November 2017) (PWC).
- South Western Sydney Local Health District Strategic Plan 2018 -2021.

## 1.1 SOUTH WEST SYDNEY LOCATION, ECONOMY AND INFRASTRUCTURE

South West Sydney covers an area of 6,243km<sup>2</sup> across the local Government Areas of the former Bankstown (now part of Canterbury-Bankstown), Fairfield, Liverpool, Campbelltown, Camden, Wollondilly and Wingecarribee. In 2016, there were 966,450 people living in South West Sydney, making up 12% of the NSW population. Over the next 15 years the population is expected to increase by 318,150, resulting in a projected future population of 1,284,600. The workforce is also expected to increase in South West Sydney as development commences on major infrastructure projects such as the Western Sydney Airport.

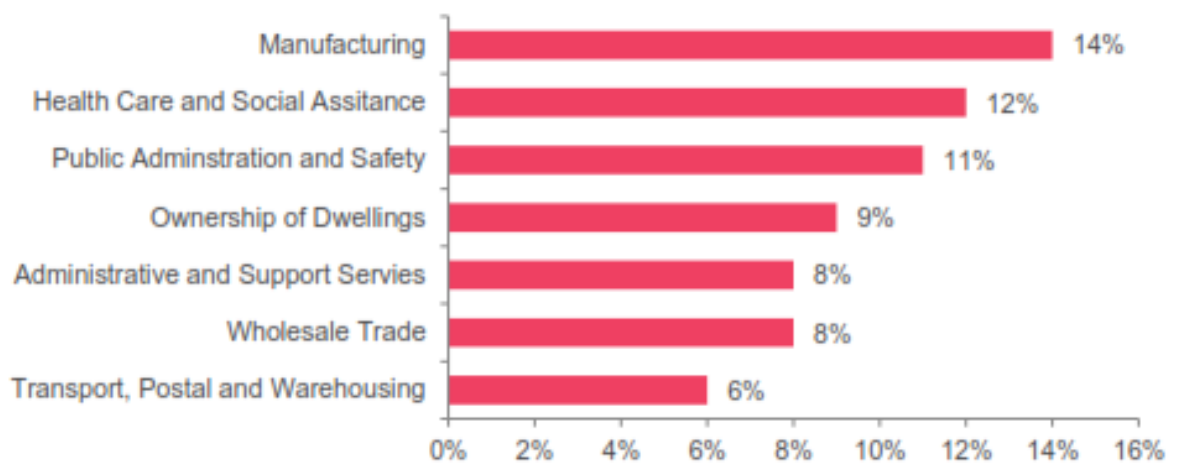
Liverpool is located approximately 35 kilometres from the Sydney CBD and 26 kilometres from Sydney International Airport and 18.2 kilometres from the proposed Western Sydney Airport. Liverpool LGA is an important commercial centre in NSW, with a \$9.2 billion-dollar economy, and accounts for 1.8% of the NSW economy.

Executive Summary



The following graph shows the composition of the main industries in Liverpool LGA highlighting the strong focus on the Manufacturing, Healthcare and Public Administration industries.

**Industry composition (GVA, FY15)**



Source: Reimagining... the Liverpool Health, Education, Research and Innovation Precinct, August 2017

## Executive Summary

The next 10 years will bring even further growth with the revitalisation and transformation of the City Centre, major residential development along the Georges River corridor, the opening of Stage 1 of Western Sydney Airport, and the progressive development of business parks in the South West Growth corridor.

In the most recent federal budget (May 2017) it was announced that the Federal Government would contribute funds to the Western Sydney Airport in the Liverpool LGA. In terms of timeframe for the project earth moving works have already commenced on the 1,800-hectare site and Western Sydney Airport is projected to be operational from 2026.

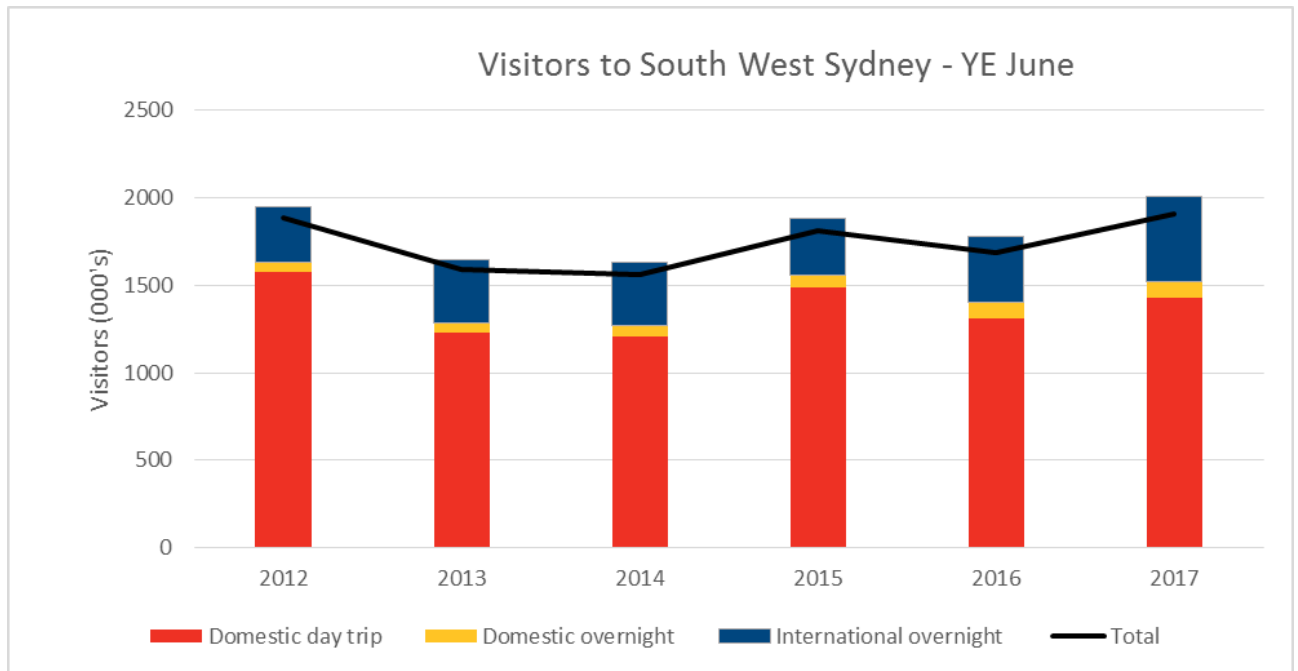
When the airport is operational in 2026, the forecast annual number of passengers is 5 million, increasing to an estimated 37 million by 2050 (Source: Australian Government Western Sydney Airport: Airport Plan December 2016). We note from the Airport Plan that the volume and profile of passengers that the Airport is expected to serve will evolve over time and it is expected that in the early years, around 80% of passenger demand at the Airport would be for domestic travel. Domestic demand is likely to be focussed on capital city services, including Melbourne, Brisbane and Perth, as well as the Gold Coast and will predominantly cater for the leisure market and shift over time with an increasing share of domestic and international business travellers coming through the airport. Qantas has also indicated their intention to use the Airport as a new base for Jetstar – however the timing and details around this are not yet available. The key benefit of this airport in Western Sydney will be the fact that it will be curfew free, unlike the existing Kingsford Smith Airport, providing Western Sydney Airport with a competitive advantage for International Business.

Shortly after the Western Sydney Airport was announced, the Federal and State governments launched the \$3.6 billion Western Sydney Infrastructure Programme. Through the construction of over 61,000km of new and upgraded roads, the plan will significantly increase connectivity between Western Sydney Airport and neighbouring areas in the South West, including Liverpool. The WestConnex motorway scheme, which is currently under construction and forecast to be completed by 2023, will enhance vital links between West and Central Sydney. Spanning 33,000km, the new road network will reduce driving time between Liverpool and Central Sydney.

## 1.2 VISITATION TRENDS TO SOUTH WEST SYDNEY

Tourism in South West Sydney has generally been increasing over the past ten years with growth in visitation increasing at an average rate of 3.6% per annum. Domestic day trippers accounted for 75% of visitors in FY17, with most visitors not choosing to stay overnight in the area.

Executive Summary



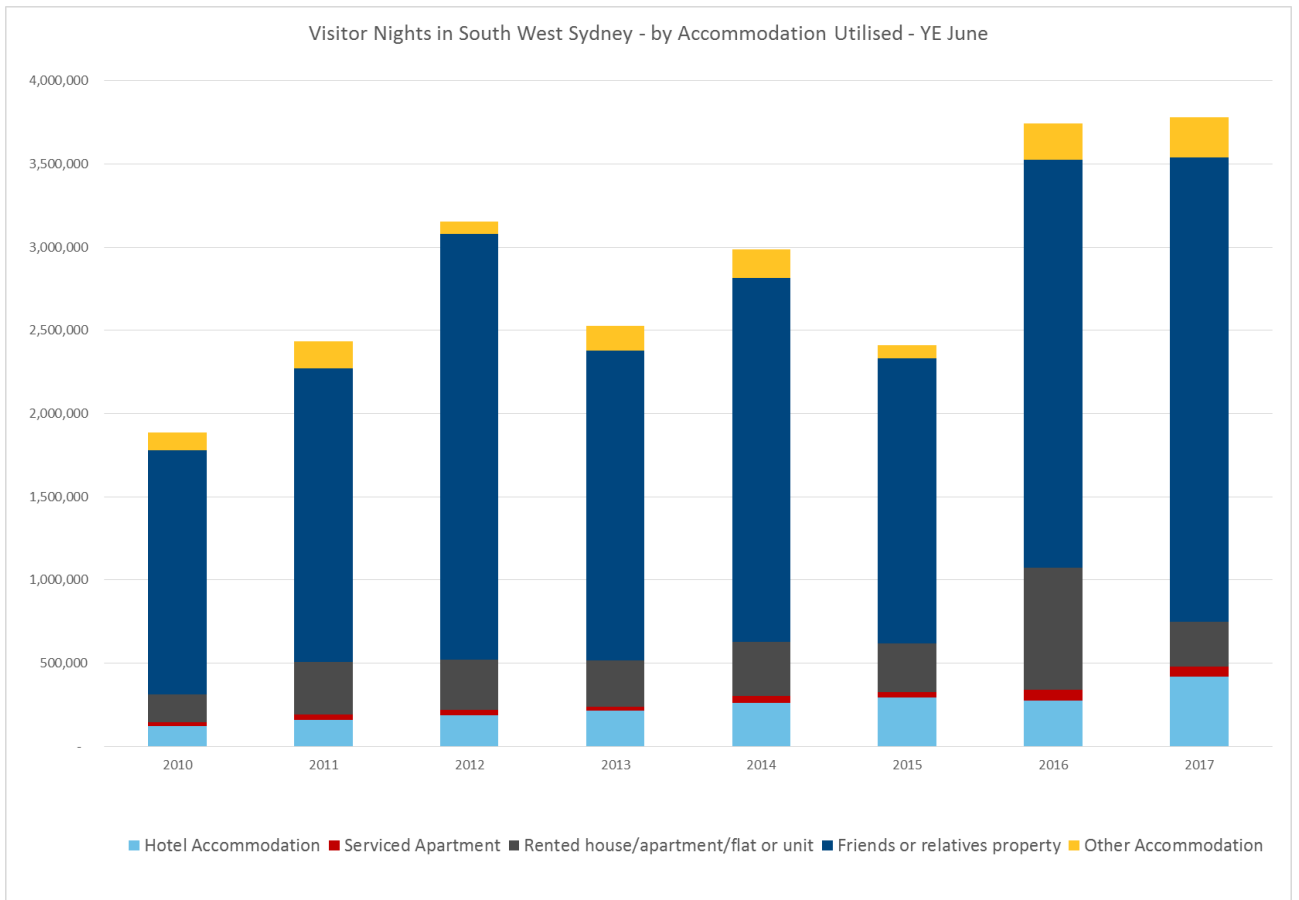
Source: Tourism Research Australia/Colliers International

Growth in overnight stays has been strong, increasing on average by 10.2% per annum over the past ten years with growth in both the domestic and international segments. The international segment experienced growth of 11.1% per annum and accounted for 67% of nights spent in South West Sydney in FY17, reflective of the higher average length of stay.

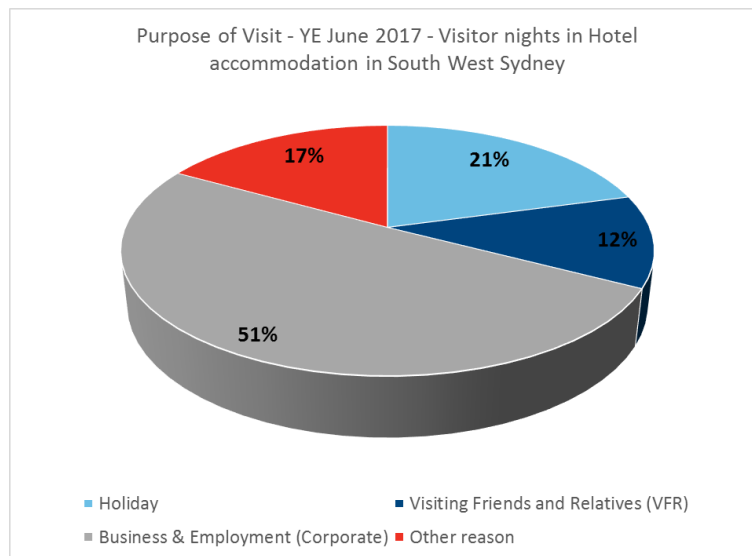
International visitors typically stay in South West Sydney for 27 nights compared to 2 nights for domestic visitors. However, international visitors currently prefer to stay with friends and relatives, and only a small portion of these visitors stay in hotels.

We highlight that most (73%) of nights spent in the region are spent in the homes of friends and relatives.

Executive Summary

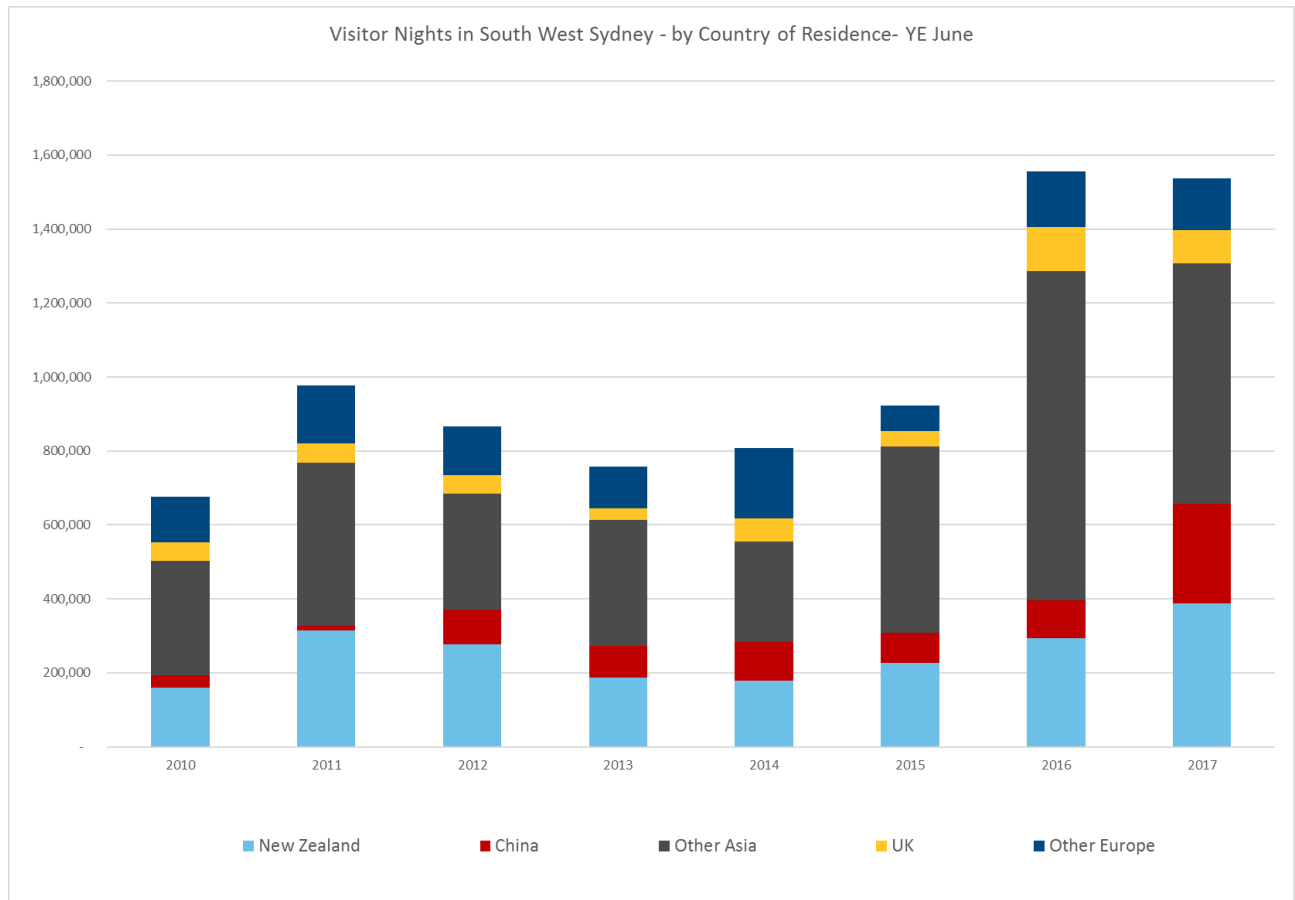


The following pie graph shows the market segmentation of visitor nights in hotels in 2017. We highlight that the corporate segment is currently the largest segment accounting for over 50% of visitor nights, followed by holiday, and visiting friends and relatives.





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The above chart highlights the growth in international visitor nights to South West Sydney since 2010, particularly from Asian markets, including a recent surge in visitor nights from China.

We highlight however that the Chinese visitor nights in particular are predominantly spent in the homes of friends and relatives i.e. 84% or 226,500 nights. The number of Chinese visitor nights spent in hotels in year ending June 2017 was 11,670 representing just 4% of total visitor nights.

### 1.3 DEMAND GENERATORS FOR ACCOMMODATION PROPERTIES IN SOUTH WEST SYDNEY

#### Commercial/ Office Space

Research by Colliers International has revealed that the Liverpool CBD has circa 60,000m<sup>2</sup> of commercial stock at present. By comparison Parramatta has circa 705,000m<sup>2</sup> (i.e. 11.8 times more commercial stock), which is a useful indicator of business activity and helps explain the larger number of hotels in the latter market.

#### Educational Facilities

Western Sydney University (WSU) – is Australia’s principal university in South West and Western Sydney with over 45,000 students studying in the region. WSU is ranked amongst the top 3% of universities in the world.

### Executive Summary

University of New South Wales (UNSW) – UNSW is heavily invested in the Liverpool area through the South Western Sydney Clinical School (SWSCS) at Liverpool Hospital and investment in the research infrastructure in the Ingham Institute.

TAFE NSW – in Liverpool TAFE has facilities based in Liverpool CBD and Miller. The Liverpool campus includes the historic Francis Greenway building adjacent to Liverpool Hospital.

University of Wollongong (UOW) – The South West Sydney campus opened in Liverpool in 2017. Current courses are operating from a campus within the Liverpool Administration Council building. The campus will expand into the Civic Place development from 2022, with the student population expected to grow to 7,000 students by 2030.

Educational facilities in the area have the potential to boost conference, meeting, and business-related travel from travelling lecturers and professionals as well as family members visiting students.

### Industrial/Business Parks

Our verbal enquiries of local management of existing hotels in the area, confirm that industrial parks create significant demand for hotel accommodation, especially Monday to Thursday. Hoteliers have also noted that the new intermodal facility at Moorebank should further stimulate hotel demand.

Some of the key industrial parks in the area include the:

- Moorebank Business & Industry Park;
- Nexus Industry Park;
- Warwick Farm Industrial Area;
- Casula Industrial Area; and
- Ingleburn Industrial Estate.

### Liverpool Hospital and other medical facilities

There are more than 15,000 health and knowledge workers already in the Liverpool LGA, which equates to 20% of workers.

### Visiting Friends and Relatives in South West Sydney

Over the past 10 years, population growth across the City of Liverpool has outperformed the Sydney average, increasing by 26.0 percent compared to 16.6 percent. This has significantly added to the demand for real estate in the area, equating to nearly 4,500 new residents per year.

### Leisure Demand and Attractions

Liverpool and the South West Sydney Region provides greater affordability than Sydney City and is popular with international tour groups who use the area as a base to explore broader Sydney. Our verbal enquiries of hotel operators in the region highlight that some have a large component of this market, however it is generally acknowledged to be a lower yielding sector.

We also note that the area has the following existing and proposed leisure facilities:

- Aquatopia Water Park at Prairiewood;
- Casula Powerhouse Arts Centre;

**Executive Summary**

- Warwick Farm Racecourse;
- Cultural festivals – including the annual Cabramatta Moon Festival - a South East Asian cultural celebration attracting around 90,000 people every September. Other cultural festivals in Liverpool include Eat Your Heart Out, Australia Day and New Year’s Eve.
- Fairfield Showground which holds events throughout the year.

**1.4 EXISTING ACCOMMODATION IN SOUTH WEST SYDNEY REGION, PROPOSED NEW SUPPLY AND COMMENT ON GAP ANALYSIS**

We have identified nine (9) significant accommodation properties in the Liverpool and Fairfield LGAs, with, six (6) in Bankstown and six (6) in Campbelltown. These twenty one (21) properties combined make up the majority of the South West Sydney accommodation market and provide a total of 1,869 rooms.

**Liverpool and Fairfield**

Name	Address	Suburb	Postcode	LGA	No. of Rooms	Star Rating
<b>Liverpool &amp; Fairfield</b>						
The William Inglis M Gallery by Sofitel	155 Governor Macquarie Drive	Warwick Farm	2170	Liverpool	144	5.0
Quest Liverpool	39 Scott Street	Liverpool	2170	Liverpool	88	4.5
Holiday Inn Warwick Farm	355 Hume Highway	Warwick Farm	2170	Liverpool	146	4.0
Mercure Sydney Liverpool	424-458 Hoxton Park Road	Liverpool	2170	Liverpool	192	4.0
Country Comfort Hunts Liverpool	2415 Camden Valley Way	Casula	2170	Liverpool	140	3.5
El Toro Motor Inn	6 Homepride Avenue	Warwick Farm	2170	Liverpool	51	3.0
Ibis Budget Casula	437 Hume Highway	Casula	2170	Liverpool	74	3.0
Ramada Hotel & Suites Cabramatta	161 Hume Highway	Cabramatta	2166	Fairfield	81	3.0
Best Western Casula Motor Inn	Corner Hume Highway & York Street	Casula	2170	Liverpool	30	3.0
<b>Total</b>					<b>946</b>	

### Executive Summary

Having provided an overview of the current significant accommodation in the Liverpool and Fairfield LGAs we have gone on to provide an overview of our understanding of additional proposed supply potentially entering the market based on the Cordell's database.

Name	Address	Suburb	Postcode	LGA	Stage	No. of Rooms	Star Rating
<b>Liverpool &amp; Fairfield</b>							
Northumberland Street Serviced Apartments	203-209 Northumberland Street	Liverpool	2170	Liverpool	Development Application	20	N/A
Edmondson Park Town Centre	Henderson Road & Soldiers Parade	Edmondson Park	2174	Liverpool	Tenders for Design contract	150	N/A
Ramada Cabramatta expansion	161 Hume Highway	Cabramatta	2166	Fairfield	Development Application	19	3.0
APX Hotels Apartments	Wetherill Park	Fairfield	2164	Fairfield	Development Application	155	N/A
Novotel Cabra Vale Diggers	1 Bartley Street, Canley Vale	Cabramatta	2166	Fairfield	Proposed Development	120	4.0
<b>Total</b>						<b>464</b>	

If all developments progress this will represent an approximate 49% increase in supply over the next five years on top of the Quest opening in 2015, a further 88 rooms and 10 function rooms added to the Mercure Liverpool in late 2017 and the William Inglis opening in January 2018. If we include the Mercure expansion and William Inglis as new supply rather than as part of the established market then the percentage increase changes to a 65% increase. While we are not aware of any firm development approval at the date of compiling this report we have also assumed in our supply and demand projections for the overall region the possibility of a Medi-hotel at Liverpool Hospital.

### Bankstown Accommodation

Name	Address	Suburb	Postcode	LGA	No. of Rooms	Star Rating
<b>Bankstown</b>						
Rydges Bankstown (Bass Hill)	874 Hume Highway	Bass Hill	2197	Bankstown	120	4.0
Travelodge Hotel Bankstown Sydney	8 Greenfield Parade	Bankstown	2200	Bankstown	162	3.0
Bankstown Motel 10	217 Hume Highway	Greenacre	2190	Bankstown	30	4.0
Gardenia Motor Inn	850 Hume Highway	Bass Hill	2197	Bankstown	42	4.0
Gardenvue Hotel	471 Chapel Rd	Bankstown	2200	Bankstown	60	4.0
Sleep Express Motel	97 Hume Highway	Chullora	2190	Bankstown	88	3.0
<b>Total</b>					<b>502</b>	

### Executive Summary

In respect to potential future supply based on the Cordells database we are aware of the following proposal only:

Name	Address	Suburb	Postcode	LGA	Stage	No. of Rooms	Star Rating
<b>Bankstown</b>							
Mercure Bankstown RSL Hotel	23-29 Marion Street	Bankstown	2200	Bankstown	Development Approval	250	N/A
<b>Total</b>						<b>250</b>	

We understand this is a mixed use development featuring 500 apartments with a new club premises including a dining and retail hub and construction to commence in 2019. The hotel will be built above the Club as part of the Stage Two development of the site. We understand the hotel will be operated via a franchise agreement from Accor under their midscale Mercure brand. This addition on its own reflects a 50% increase in supply.

### Campbelltown Accommodation

Name	Address	Suburb	Postcode	LGA	No. of Rooms	Star Rating
<b>Campbelltown</b>						
Quest Campbelltown	1 Rennie Road	Woodbine	2560	Campbelltown	81	4.0
Ibis Budget Campbelltown	3 Rennie Road	Campbelltown	2560	Campbelltown	72	2.0
Rydges Campbelltown	15 Old Menangle Road	Campbelltown	2560	Campbelltown	116	4.0
Maclin Lodge Motel	38 Queen Street	Campbelltown	2560	Campbelltown	85	3.5
The Hermitage Motel Campbelltown	5 Grange Road	Campbelltown	2560	Campbelltown	36	4.0
Campbelltown Colonial Motor Inn	20 Queen Street	Campbelltown	2560	Campbelltown	31	3.5
<b>Total</b>					<b>421</b>	

In respect to potential future supply based on the Cordells database we are aware of the following proposals:

Name	Address	Suburb	Postcode	LGA	Stage	No. of Rooms	Star Rating
<b>Campbelltown</b>							
Rydges Campbelltown	15 Old Menangle Road	Campbelltown	2560	Campbelltown	Commenced Construction	38	4.0
Grange Road Serviced Apartments	6 Grange Road	Leumeah	2560	Campbelltown	Development Approval	139	N/A
<b>Total</b>						<b>177</b>	

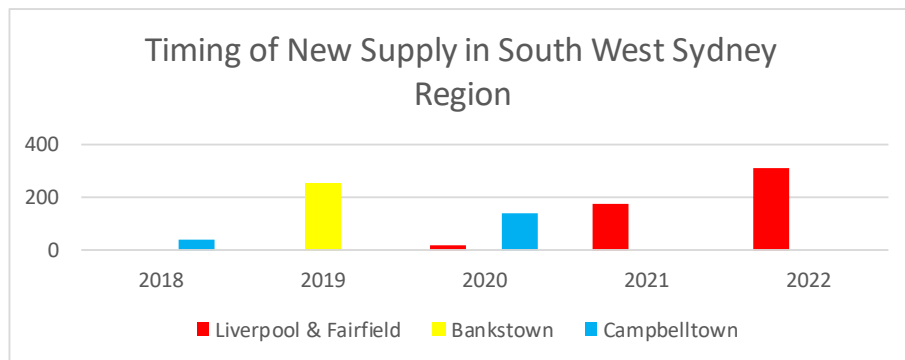
If both developments progress this will represent an approximate 42% increase in supply over the next two years.



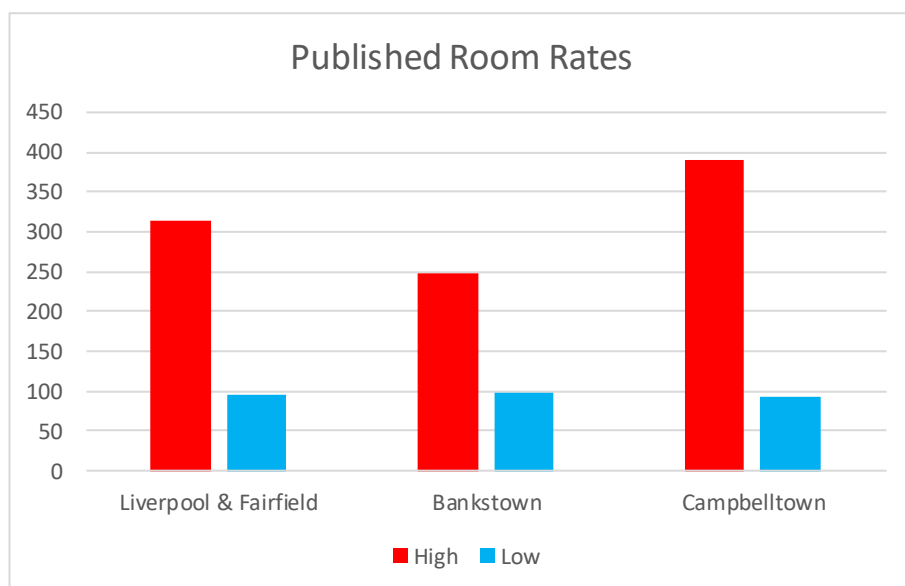
Executive Summary

### 1.5 PROPOSED NEW SUPPLY AND POTENTIAL ACCOMMODATION GAPS

To summarise in the South West Region of Sydney we have calculated there are currently 21 significant accommodation facilities providing 1,869 rooms or 682,185 room nights available. According to the Cordells database there are 8 development proposals including extensions to existing hotels and brand new developments with the potential to add a further 891 rooms and serviced apartments (325,215 room nights available) or an approximate 48% increase to stock. The timing of this supply is graphically shown below:



There is a wide price range across the existing stock from entry level economy style, limited service two star hotels, motels, serviced apartments and now a five-star rated hotel with the opening of the new William Inglis in January 2018. The majority of accommodation falls within the mid-market categories of three and four-star accommodation which is to be expected for a Sydney Suburban location. Based on the range of accommodation types and our analysis of the price range there do not appear to be any obvious gaps in the accommodation offering in Liverpool and South West Sydney with healthy levels of proposed new supply in the pipeline. The following graph illustrates the wide quoted price range of the main hotels located in South West Sydney which is a good benchmark of the large range of accommodation available.



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To put the potential increase in supply of 48% in perspective we have compared this statistic to Sydney City where Colliers Research suggests of the existing inventory of 25,147 rooms there could be a possible 24% increase in supply or 6,065 rooms to be added if we add all the rooms under construction and with development approval. This increases to 8,758 rooms or a 35% increase in supply if we include all the mooted supply. However clearly South West Sydney’s hotel market is much smaller and therefore any quoted percentage increase is very sensitive to even small adjustments to assumptions around potential supply increases.

### Penrith

We have also been asked to provide a brief overview of existing product and potential new supply in the Penrith Area due to its proximity to the new Western Sydney Airport.

Name	Address	Suburb	Postcode	LGA	No. of Rooms	Star Rating
<b>Penrith</b>						
Penrith Valley Inn	1 Memorial Avenue	Penrith	2750	Penrith	38	3.5
Mercure Penrith	Panther Place	Penrith	2750	Penrith	222	4.0
Astina Serviced Apartments - Parkside	18-20 Dent Street	Penrith	2750	Penrith	30	-
Astina Serviced Apartments - Central	9 Lethbridge Street	Penrith	2750	Penrith	32	-
Quality Inn Penrith	261 Mulgoa Road	Penrith	2750	Penrith	55	3.5
Value Suites Penrith	1-9 Lamrock Street	Emu Plains	2750	Penrith	43	3.5
<b>Total</b>					<b>420</b>	
<b>New Supply</b>						<b>Stage</b>
Nepean Health Precinct Kingswood	11-13 Barber Avenue	Kingswood	2747	Penrith	87	Development Approval
Penrith Panthers Serviced Apartments	73-83 Mulgoa Road	Penrith	2750	Penrith	143	Development Approval
Woodriff Street Serviced Apartments	21-25 Woodriff Street	Penrith	2750	Penrith	58	Development Application
Hargrave Street Serviced Apartments	10-12 Hargrave Street	Kingswood	2747	Penrith	80	Development Application
<b>Total</b>					<b>368</b>	

In respect to new supply we are aware of four proposed developments with the potential to add a further 368 rooms (156,585 room nights available) which reflects a potential 88% increase in supply.

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## 1.6 CURRENT OVERVIEW OF OCCUPANCY & AVERAGE DAILY RATES FOR SOUTH WEST SYDNEY

As highlighted in the previous section of this report, accommodation properties in Liverpool also compete with the broader South West Sydney market including the suburbs of Fairfield, Campbelltown and Bankstown and hence we have provided below the average performance of twelve of the key properties within these areas. The following analysis is based on actual performance with the data compiled by STR Global Ltd.

### South West Sydney STR (Sample of 12 properties)

Year	Occupancy		ARR		RevPAR	
	(%)	% Chg.	(\$)	% Chg.	(\$)	% Chg.
2012 (10 properties)	67.9%	-	121.35	-	82.38	-
2013 (10 properties)	69.2%	2.0%	120.84	-0.4%	83.66	1.5%
2014 (10 properties)	75.5%	9.1%	122.76	1.6%	92.72	10.8%
2015 (11 properties)	75.9%	0.5%	126.67	3.2%	96.16	3.7%
2016 (11 properties)	78.3%	3.1%	129.75	2.4%	101.58	5.6%
2017 (11 properties)	78.9%	0.7%	135.89	4.7%	107.18	5.5%
2018 YTD February (12 properties)	68.7%	-	138.34	-	94.98	-
5 year Compound Average Annual Growth (2012-2017)						
	3.05%		2.29%		5.40%	

Source: STR Data/ Colliers

Over the past five years occupancy has shown steady growth increasing from 67.9% in 2012 to 78.3% in 2017 demonstrating compound annual growth of 3.05%. We only have limited trading for 2018 for the first two months however this indicates a slip in occupancy at 60.4% for January 2018 in comparison to 68% for January 2017 and 77.8% for February 2018 in comparison to February 2017 at 83.3%. This is possibly due to the impact of new supply coming into the market including the William Inglis in January 2018 adding 144 rooms and the expansion of the Mercure at the Liverpool Catholic Club adding a further 88 rooms in late 2017. Average Room Rates were relatively flat between 2012 and 2014 but started to show stronger growth between 2015 and 2017 reflecting compound annual growth of 2.29% which is not dissimilar to long term inflationary growth. In comparison Sydney City over the same period (sample of 101 properties) showed average rate growth of 5.2% increasing from \$203.73 to \$260.50 with occupancy between 84.4% and 88.6%. These statistics help demonstrate the significant performance differential between South West Sydney and Sydney CBD, and provides a challenge to the economic viability of new hotel development.

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## 1.7 FORECAST OCCUPANCY AND ROOM RATES FOR SOUTH WEST SYDNEY

The following is a summary of the total existing accommodation supply and proposed hotel supply and timing of these projects as included in our forecast model and forms the basis of our supply projections:

Supply Detail	Number of Rooms	Proposed Opening
Existing Hotel Supply in South West Sydney	1,725	Dec-17
The William Inglis – M Gallery by Sofitel	144	Jan-18
Rydges Cambelltown expansion	38	Aug-18
Ramada expansion	19	Jan-20
Grange Road Serviced Apartments Leumeah	139	Jan-24
Mercure Bankstown RSL Hotel	250	Dec-22
APX Hotel Apartments Fairfield	155	Sept-21
Northumberland St Development	20	Dec-21
Edmondson Park Town Centre Development	150	Aug-22
Assumed hotel development at Liverpool Hospital	80	Jan-23
Proposed Novotel at Cabra Vale Diggers	120	Dec-23
Assumed budget style hotel Sydney West Airport	150	Jan-26
Proposed Misc. new hotel supply at Sydney West Airport	200	Jan-27

In forecasting demand, we have firstly considered the overall visitation forecasts for the Sydney Tourism Region by Tourism Research Australia (which includes South West Sydney as one of the areas within the Region). These projections are useful as they break down visitation forecasts by each market segment. It is evident that total visitation nights to all of the Sydney Tourism Region are anticipated to grow by approximately 6.6% in 2017-18 and 5.7% in 2018-19 and then 4.8% in the longer term.

Business visitors are projected to grow at over 3% per annum through to 2026-27. This is a good indication of potential growth of corporate demand as it is reasonable to assume that these business visitors would be utilising hotels in Sydney. Leisure visitors are forecast to grow at 9.3% in 2017-18, then 5.7% in 2018-19 and thereafter approximately 5% annually until 2026-27. We would anticipate that some of these visitors would stay in Sydney hotels; however, some will stay in other forms of accommodation including hostels, backpackers, caravan parks etc.

In developing our forecasts of demand for South West Sydney for the next 10 years we have taken the above forecasts per market segment by Tourism Research Australia, but refined them for South West Sydney based on the following:

- Historic growth trends in accommodation performance in South West Sydney in regards to occupancy levels, average room rates and RevPAR levels from STR data;
- We have assumed that some of the new hotel supply will attract new demand into the area. For example the new William Inglis Hotel.

**Executive Summary**

- The South West Sydney population is forecast to grow at a faster rate than Sydney overall (almost double the rate) and therefore it is reasonable to assume that the Visiting Friends and Relatives segment would grow at a faster rate than the overall averages for the Sydney Tourism Region.
- South West Sydney should continue to capture overflow demand from Sydney CBD. In addition, certain types of guests e.g. International Tour Groups are likely to stay in South West Sydney instead of Sydney City properties due to the lower room rates in the area.
- We have assumed increased overall demand for the area’s hotels once the Western Sydney Airport is operational in 2026.
- We anticipate that there will be further projected corporate demand growth in the area due to the continued growth in industrial parks and particularly from the Moorebank Intermodal facility anticipated to be operational in 2020.
- We have also considered other Hotel Industry forecasters such as Dransfield Hotels and Resorts which anticipates overall average annual demand growth in Sydney between 2018 and 2026 to be 4.8%.

In developing our forecasts of room rates for the area for the next 10 years for South West Sydney specifically we have considered the following:

- The historic compound average annual growth rates in average room rates for the past five years for the South West Sydney at 2.29%.
- We note feedback from local hotel operators that already in the first few months of 2018, room rates and occupancy have come under some pressure due to new supply which is substantiated by the STR data.
- Feedback from hotel general managers in the area which indicate that 3-4% room rate growth over the next few years is anticipated.

The following is our forecast of occupancy levels and average room rates over the next 10 years in South West Sydney:

Calendar Year	Historic				Projections									
	Jan-14	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19	Jan-20	Jan-21	Jan-22	Jan-23	Jan-24	Jan-25	Jan-26	Jan-27
	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
			ABS		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Occupancy (Limited)</b>														
Occupancy	75.5%	75.9%	78.3%	78.9%	75.5%	78.1%	80.0%	81.5%	80.1%	77.7%	76.7%	79.8%	79.2%	78.2%
Percentage Change		0.5%	3.2%	0.8%	-4.4%	3.5%	2.5%	1.8%	-1.7%	-3.0%	-1.3%	4.1%	-0.8%	-1.3%
<b>Average Room Rate</b>														
Average Room Rate	122.76	126.67	129.75	135.89	138.61	143.46	148.48	153.68	159.06	164.62	170.38	176.35	184.28	192.58
Percentage Change		3.2%	2.4%	4.7%	2.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	4.5%	4.5%
<b>RevPAR</b>														
RevPAR	92.68	96.14	101.59	107.22	104.59	112.00	118.81	125.21	127.36	127.86	130.61	140.79	145.93	150.58
Percentage Change		3.7%	5.7%	5.5%	-2.5%	7.1%	6.1%	5.4%	1.7%	0.4%	2.2%	7.8%	3.7%	3.2%
<b>Inflation</b>														
CPI	-	-	-	-	2.00%	2.20%	2.30%	2.40%	2.40%	2.30%	2.20%	2.40%	2.50%	2.40%



## Executive Summary

We note the following:

- Occupancy levels are anticipated to soften for 2018 predominantly as a result of recent increases in new supply;
- 2019, 2020 and 2021 are likely to experience growth in demand, particularly in 2020 as the Moorebank Intermodal facility is fully operational and more tenants are committed to the precinct;
- 2022-2025 - despite underlying growth in demand for hotels in the area, the slight projected dip in occupancy levels is as a result of new supply coming on line. It is our opinion with the market being relatively small that it will continue to be sensitive to new hotel supply and;
- 2026 & 2027 it is anticipated that Western Sydney Airport will be operational with predominantly freight and domestic passenger movements with a projected 5 million passenger movements bringing new demand into the area.

## 1.8 CURRENT AND FUTURE TRENDS IN AUSTRALIAN HOTEL PROPERTY INVESTMENT

In 2017 Colliers International recorded 48 sales with a total value of \$2.11 billion. Whilst moderating, volumes remain well above the long-term average of \$1.25 billion. In 2017, Victoria topped the nation with 43% of total hotel sales by value, compared with 22% in NSW.

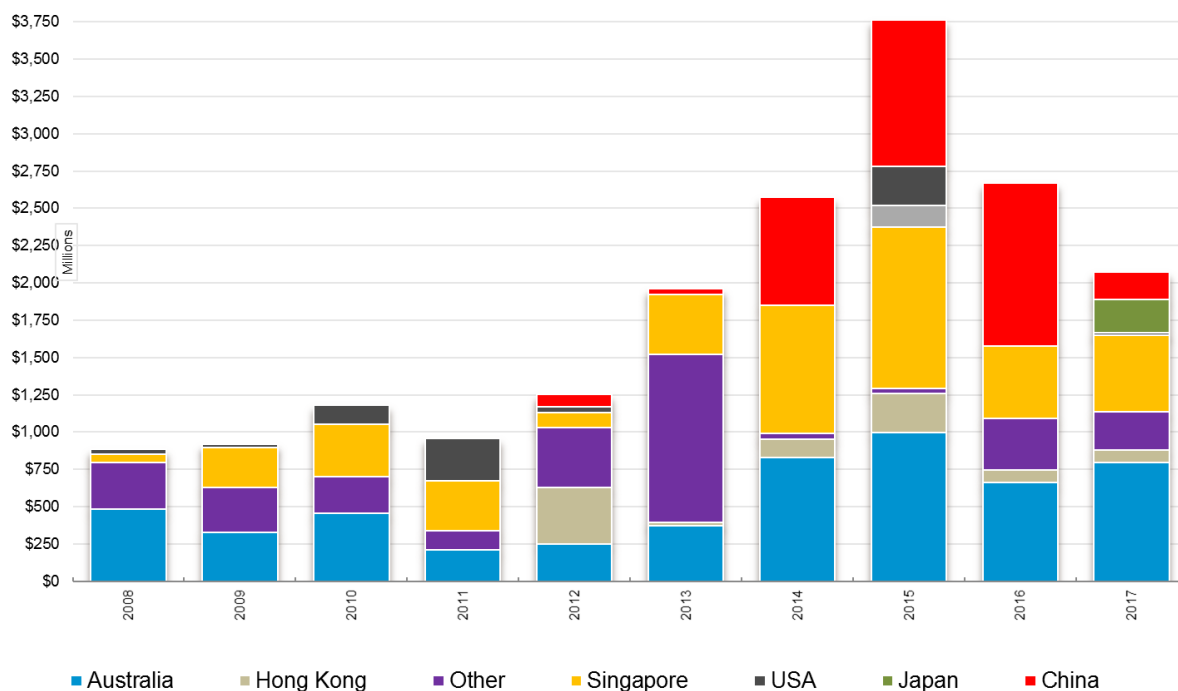
2017 saw significant activity in relation to new turnkey developments with hotel development deals totalling \$394 million. The limited level of existing inventory being offered in the market is pushing investors into the development and turnkey space. Key development transactions included the W Melbourne, Four Points by Sheraton Central Park Sydney and Quest Penrith.

Offshore capital continued to dominate in 2017, accounting for 62% of the total sales value but with notable broadening of the capital base with purchasers from Japan, Singapore, USA, Hong Kong, Vietnam, Germany and the UAE. Chinese investors dropped from 40% of total sales in 2016 to just 9% in 2017, as restrictions on outbound capital slowed activity. Strong growth in Australian tourism is attracting more diverse investors to the sector after the domination from China and Singapore between 2014 and 2016.

A diagram outlining the origin of purchasers of hotel and serviced apartment properties over the past 10 years is provided overleaf:

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Origin of Hotel Purchasers by Value (>\$5 million)



Source: Colliers International

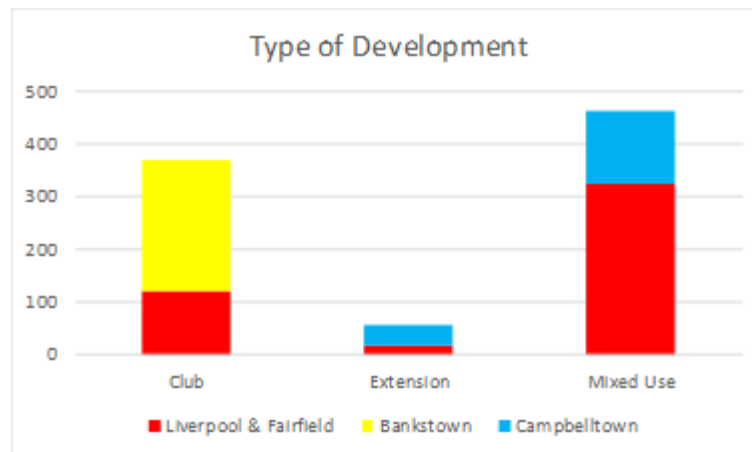
Suburban and Regional Hotel Investors

While the trend for the source of investors for hotel assets in the State Capitals continues to be dominated by overseas buyers, suburban locations have typically continued to appeal more to domestic buyers.

Trends in New Supply

Across Australia we are currently seeing a major increase in supply across all State Capitals and this has spread into suburban and metropolitan areas with Sydney’s Airport Precinct and Parramatta being good examples of this. Faced with limited second hand stock in the market we are seeing investors purchasing these new hotels on a turnkey basis. In commenting on trends in investment in new supply we have analysed the potential new supply coming into the South West Sydney Region. The following graph shows that the types of hotel development in the South West Sydney Region clearly breaks down into three categories, extension of existing facilities being the smallest, followed by additions to existing Club facilities and the largest category being part of mixed use developments. New stand-alone hotel developments appear to be relatively rare.

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**1.9 POTENTIAL OPPORTUNITIES AND BARRIERS FOR ATTRACTING NEW HOTEL INVESTMENT INTO LIVERPOOL AND SOUTH WEST SYDNEY.**

In respect to potential opportunities for new supply, we have commented in Section Three of this report that currently the market includes a good cross section of accommodation especially with the recent addition of the five star William Inglis Hotel. Furthermore the pipelines of potential further supply of approximately 48% over the next five years suggests there is limited opportunity for additional new supply (assuming it is all built) over this time horizon. In respect to when the new Western Sydney Airport is constructed we would expect to see more supply enter the market at this time with passengers wanting the convenience of accommodation ideally within walking distance of the terminal buildings or say within a one to two kilometre distance rather than Liverpool City Centre which is approximately 18.2 kms away.

One of the main demand generators for the region is Liverpool Hospital and it is possible that there could be an opportunity for a Medi Hotel Facility next to the Hospital, although this market is still in its infancy in Australia. The region is largely a Monday to Thursday corporate destination with anecdotal evidence suggesting corporate clients are largely generated from the surrounding Industrial Parks. The more that is done to help grow these Industrial Parks the more this corporate demand for accommodation will grow.

The main barrier to new hotel investment into Liverpool and the South West Region is typically that it is hard to make new hotel development economically feasible because of the high cost of land and development costs and competing demands for that land such as residential. This is not a problem which is unique to South West Sydney. An illustration of this, is if we look at Sydney City where the highest room rates and occupancy levels in the country can be achieved. The Sofitel at Darling Harbour which opened in October 2017, was the first five star hotel to open post the Sydney Olympics in 2000.

It is worth noting that in respect to new supply proposed for the region, this is being dominated by Club Premises which can have a significant cash flow from gaming helping to subsidise development. Secondly as part of mixed use developments where a developer may be able to achieve a more beneficial planning outcome if a hotel is included. This is because Councils rightly see hotel construction providing employment opportunities and helping to stimulate economic activity and can be subsidised by more profitable development such as residential. If a luxury brand can be attracted to a mixed-use development this can also have the added benefit of raising the prestige of the development with the potential of charging a premium for the residential component.

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Anecdotal evidence suggests other potential barriers to the South West Sydney are that it is not a leisure destination and therefore hotel brands targeting the leisure market are unlikely to be attracted. It is also one of the lower socio-economic regions of Sydney and this has an impact on the room rates that are achievable in the region and therefore market values. Market values are a product of the hotel's cash flow which comes back to the issue of economic feasibility.

A further barrier to new hotel construction is not only the economic viability but also the challenge of financing. Our enquiries of a major lender in this market is that they would not typically lend above fifty percent of the construction costs. This therefore requires the developer to seek alternative financing options such as ideally having significant equity behind them or mezzanine finance which can be expensive.

In respect to future trends, the establishment of the new William Inglis Hotel should help to raise the accommodation profile of the region and we would anticipate the region will continue to develop and grow as indicated by the pipeline of supply. The construction phase of the Western Sydney Airport will bring new accommodation demand into the region and once opened should change the dynamics of the regional market with more International demand for accommodation in close proximity to the Airport. It should also be emphasised that South West Sydney does not operate in isolation from the Sydney CBD. Anecdotal evidence confirms that when the City is full surplus business is pushed out to suburban locations like the South West. Conversely if the market softens in the Sydney CBD then this is also felt in South West Sydney. The general view is that the supply pipeline for the Sydney CBD is relatively benign and likely to peak around 2021 which could have an impact on South West Sydney at this time.

## 1.10 POTENTIAL DEVELOPERS FOR SOUTH WEST SYDNEY

We have been asked to identify potential hotel developers for the Region and would firstly comment that we are only aware of a few specialist hotel developers which most likely comes down to the aforementioned economic challenges in comparison to say residential development which allows off the plan sales or commercial where pre-commitment to space can be achieved. In comparison hotel operators typically manage hotels under management agreements and take a fee based on a percentage of turnover and profit rather than a lease structure where future income can be guaranteed. Operators may build strong relationships with specific developers over time so another way of arriving at a list of potential new entrants could be to approach the main Hotel Management Companies who are looking for brand representation in the region. Having made this observation we have compiled the following short list for guidance purposes which we would emphasise should not be considered as an exhaustive list:

- Pro Invest which is a relatively unique entity in the hotel market as they are both a developer and operator of hotels. We understand they currently operate three Holiday Inn Express hotels with another four in the pipe line. The developments are backed by private equity, closed end funds with the hotels operated under franchise agreements from the InterContinental Hotel Group. The Holiday Inn Express is a mid-market economy brand which is new to Australia with the first property opening in Macquarie Park, New South Wales in March 2016. In April 2018 Pro Invest secured their latest site which is close to Sydney Airport and the brand would naturally lend itself to the new Western Sydney Airport.

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- Accor, while they are not developers they are experienced operators in the region with strong relationships with developers. They currently manage the following hotels in the region: the newly opened William Inglis at Warwick Farm, the expanded Mercure at Liverpool Catholic Club and the Ibis Budget Hotels at Casula and Campbelltown. They are also associated with managing the proposed Novotel at Cabra Vale Diggers Club and Mercure at Bankstown RSL. They have one of the strongest stable of brands in Australia, an International Loyalty Club and the ability to offer brands across the whole market. Their recent acquisition of Mantra provides them with serviced apartment brands as well as traditional hotels.
- Event Hospitality and Entertainment are owners and developers of hotels with their brands including Rydges, Atura and QT. They currently operate Rydges hotels at Bankstown and Campbelltown and are developers as well as operators.
- Meriton, a developer traditionally more associated with the residential market has now created a significant presence in the serviced apartment market and lists 16 serviced apartment properties (including stratum) in residential towers in the Sydney Region alone, as well as a national representation.
- Quest are not generally developers but have been very successful in rolling out their properties across the country and currently boast representation in over 150 locations including Liverpool and Campbelltown. Similar to Accor they have strong relationships with the development community. Typically they provide developers with the security of a lease as well as up front design input and will on sell the lease once the development has been completed and also enter into a franchise relationship with the lessee.
- Doma, this is a smaller developer and operator based in Canberra which is keen to roll out its Little National brand. They currently own and operate five hotels and have secured sites in Sydney on Clarence Street, plus Newcastle, to build further supply.
- TFE Hotels which is a joint venture between Far East Hospitality and the Toga Group and operate 71 properties in Australia, New Zealand and Europe. TFE brands include the Medina Apartment Hotels (5), the Vibe Hotels (8) and Travelodge hotels (18), the Adina Apartment hotels (28) and the Rendezvous Hotels (10) and two hotels in the TFE Collection in Canberra and Brisbane. As well as being operators they are active developers and currently manage the Travelodge Hotel in Bankstown.



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### 1.11 SOURCES OF CAPITAL FOR HOTEL INVESTMENT

We are not experts on sources of capital for hotel investment but are happy to make some top level comment. Financing for property essentially comprises both debt and equity sources. This can be sourced either domestically or overseas, and with the profile of buyers of major hotels in Australia dominated by International buyers many will source their finance from their country of origin rather than domestically. Having identified equity as being sourced both domestically and overseas it can then be broken down further into public equity and private equity. The former is generally shares in a public company and the latter is capital which is not listed on a public exchange. We note for example that the Pro Invest model is financed by private equity. In respect to debt this usually takes the form of a first mortgage and possibly mezzanine finance if the investor has limited equity. Lenders will generally look at a loan to value ratio (LVR) and will lend up to a percentage of the total value of the hotel which is typically established by an independent valuer. Our experience is that LVRs typically fall within a range of 55% to 65% of the total value of an established hotel and as commented on previously, new construction lender appetite is generally up to 50% of construction. The developer will then have to finance the remainder through existing equity or by mezzanine finance. In a default situation the first mortgage lender will have the first claim on any proceeds from selling the property and there is therefore a higher risk associated with the mezzanine loan and therefore interest rates charged on mezzanine finance are generally much higher than first mortgage rates.

### 1.12 RISE AND POPULARITY OF SHORT-TERM HOLIDAY LETTING

In this section we detail our investigations into the short term holiday letting market, in particular as it relates to South West Sydney. Short-term holiday letting (STHL) relates to the renting of the whole or part of a private home by its owner to a visitor on a commercial basis. Whilst we acknowledge the recent surge in short term holiday letting overall in major capital cities around Australia, our investigations have revealed that the level of STHL in South West Sydney is not significant.

STHL clearly provides a relatively new form of competition to existing accommodation stock. The popularity of online booking services and the growth of the shared economy has seen STHL expand in Australia and overseas. Per the Parliamentary Inquiry Report, October 2016, a study by BIS Shrapnel estimates STHL contributes \$31.3 billion to the national economy including upwards of 238,000 jobs. Given the size of the economy of NSW, a significant portion of this activity takes place in NSW. NSW (including ACT) represents approximately 35% of holiday rental premises nationally. We note here that the NSW Government recently released an Options Paper for the short-term holiday letting sector with a number of strategies outlined in the Options Paper including greater industry self-regulation, registration or licensing of STHL operators, changes to strata laws and regulation through the planning system.

On 5 June 2018, the New South Wales Government issued a Media Release on their short term letting plan stating their plan will support the sharing economy, providing consumers with more choice while cracking down on bad behaviour. The plan is intended to stamp down on party houses through a mandatory Code of Conduct with hosts or guests who commit two serious breaches of the Code within two years banned for five. It will also include changes to the Strata Schemes Management Act which will allow owners corporations to adopt a by-law with a 75 percent majority preventing short term letting in their block if the host does not live in the unit they are letting out. New state-wide planning rules would also come into force including:

- Allowing short term holiday letting as exempt development 365 days per year when the host is present.

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- When the host is not present a limit will be placed on short term holiday letting of 180 days in Greater Sydney with 365 days allowed in all other areas of New South Wales.
- Councils outside Greater Sydney will have the power to decrease the 365-day threshold to no lower than 180 days per year.
- Certain planning rules will apply to properties on bushfire prone land.

Data from AirDNA highlights that in the Liverpool-Warwick Farm area there are a total of 33 active rentals with 13 of those being entire homes for rent and 17 are private rooms within a larger property where the owner may also be present, and 3 are shared rooms. Overall these rentals are achieving an average daily rate of AUD \$138 and an occupancy level of 71%. We note that the other major short-term holiday letting website is Stayz, and our investigations have revealed that there is only one apartment listed on this website in Liverpool, 18 properties in Casula, one apartment in Bankstown, and no rentals in Campbelltown.

The number of rentals on AirBnB in the Liverpool-Warwick Farm area has increased from just one rental in 2014 to there now being 33 active rentals. However we do not consider this to be a major component of accommodation offering in the area when compared to the hotel market at 946 rooms in the Liverpool Area and 1,869 in the South West Region.

We note that there could be a propensity for owners of apartments to rent out their unit on the short term holiday letting market if they are unable to do so to traditional long term renters. We highlight from a Savills Residential Property report in 2017 that the supply of units in Liverpool nearly doubled in 2013 compared to the previous four years as a number of large-scale developments came to the market. These units have been absorbed and the number of unit sales has fallen in line with long-term averages. This has had a positive impact on the vacancy rate across the city of Liverpool, which has been falling over the past six months from 2.2 percent in January 2016 to 1.5 percent in January 2017. Hence we have limited concern of a flooding of the market with apartments for short term rentals.

Traditionally STHL supply is more associated with the leisure market and leisure destinations rather than more business orientated markets such as Liverpool. This combined with the current size of the local STHL market in comparison to traditional hotel stock makes it a limited competitor threat in our opinion.

## 1.13 DISCLAIMER

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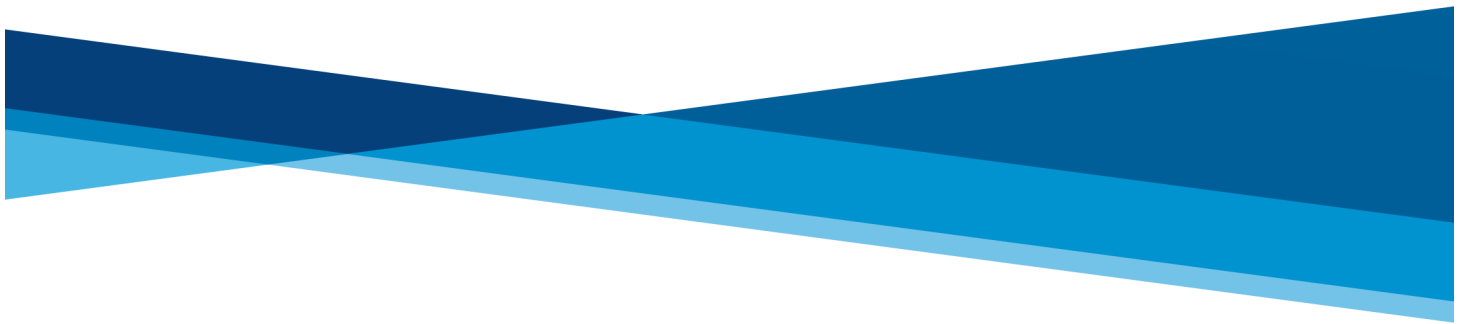
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