

Nigel Dickson
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9 Argyle Place,
Millers Point, NSW, 2000

23 June 2017

Dear Nigel,

Subject: Landmark Square Planning Proposal

Introduction

We understand that One Capital Group Pty Ltd has submitted a planning proposal (PP) for land generally bounded by Forest Road, Durham Street and Roberts Lane (hereafter referred to as the Subject Site) in Hurstville. The PP seeks the rezoning of the land from IN2 Light Industrial to B4 Mixed Use¹.

The Client (One Capital Group Pty Ltd) is proposing a mixed-use development known as Landmark Square which will include the following land uses:

- Residential land uses comprising 440-480 units;
- A 130 room hotel; and
- Retail uses of 6,500sqm.

We understand that additional information has been requested by Hurstville City Council ('Council') including:

- A review the current market conditions and locations of hotel room accommodation across Sydney; and
- A discussion on comparable hotel operations in the St George region and the market demand to support such an operation.

The purpose of our commissioning is to address the above resolution and this letter is our response.

To meet the requirements of Council's request and fully consider the economic implications associated with the proposed rezoning, HillPDA has set out this assessment in the following manner:

- Review of existing hotel conditions and trends in the Sydney Metropolitan;

¹ The Subject Site is currently zoned IN2 with the exception of 53 Forest Road which is zoned R2 Low Density Residential

- A review of historical and future tourism projections for Greater Sydney; and
- A review of hotels in the St George region including occupancy rates.

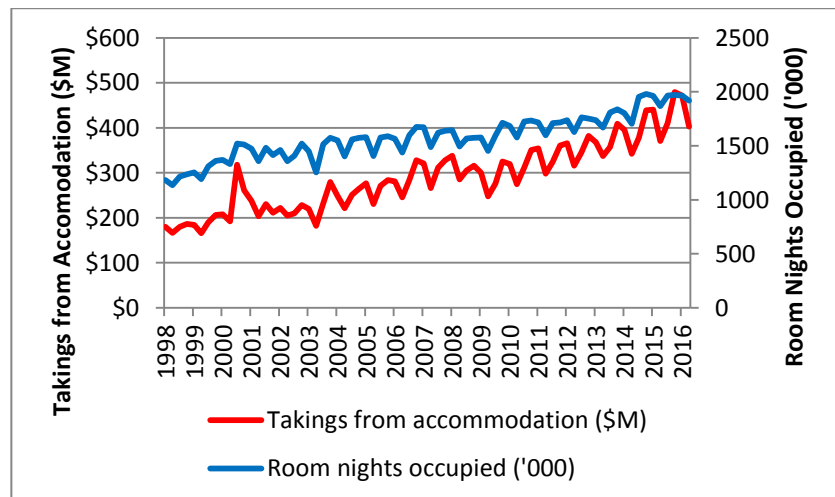
Hotel Conditions and Trends

This next section examines hotel trends and the market for hotel floorspace in Hurstville based on a review of historical and future tourism projections, market intelligence and a demand assessment of hotel floorspace.

The hotel industry is an important sector of the Australian Economy. In 2015-16, total tourism consumption in Australia increased 6.1% (or \$7.5 billion) to \$130b. As a sector, tourism contributes \$53 billion in GDP – that's 3.1% of Australia's total GDP. 4.9% of Australian employees worked (directly) in the tourism industry. Tourism is one of Australia's largest service export earners².

Historical trends suggest that occupied room nights and revenue from accommodation for licenced hotels with over 15 rooms in NSW has steadily increased since 1998, with a peak in 2000 which corresponds to the City of Sydney hosting the Olympics.

Figure 1 - Hotel Occupied Nights and Revenue in NSW Mar 1998 to Jun 2016



Source: : 8635.0 - Tourism Accommodation , Australia, 2016

Sydney remains the strongest performing hotel market across the Asia Pacific region. Strong trading fundamentals, the addition of

² Source: Tourism Satellite Account 2015/16

future tourism generating infrastructure and significant investor appetite provides favourable conditions for the hotel market over the medium to long term³.

2016 Sydney hotel market highlights include:

- Continued strong hotel market demand underpinned by growing inbound visitations (exceeding 3.4 million for the year ending June 2016) and a strong state economy;
- Continued growth in revenue and a further tightening in capitalisation rates. The trend of falling capitalisation rates was first experienced at the luxury end of the market and has recently percolated down to mid-market hotels;
- Limited supply pipeline generates ongoing rental growth. This will be further exacerbated with some hotel supply likely to be withdrawn over the next five years including the 446 room and the compulsory acquisition of the Menzies Hotel due the Metro construction line;
- Slowdown in sales transactions in the Sydney market due to a lack of stock coming on to the market; and
- An ongoing strong appetite from Chinese investors as evident in recent transactions including Zhengtang Group's \$700 million purchase of the Ribbon development in Darling Harbour, Nanshan's purchase of the Pullman Sydney Airport and the \$46 million purchase of the Park Regis Hotel by a Chinese backed private capital group in August 2016⁴.

Australia's hotel market, in particular Sydney, has performed strongly over the last year as demonstrated across the various performance indicators described below, with this trend expected to continue.

Occupancy

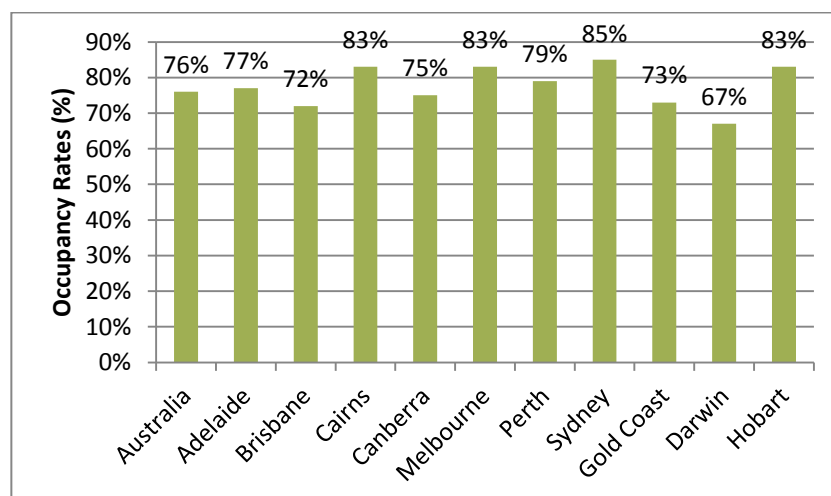
According to data from STR Global, occupancy rates nationally for calendar year 2016 stood at 76% and had increased steadily from 2013. The highest occupancy rate for calendar year 2016 was recorded in Sydney, at 85%⁵.

³ Hotels 2016, Colliers International, 2016

⁴ Hotels 2016, Colliers International, 2016

⁵ STR Global / Savills Research March 2017

Figure 2 - Australian Hotel Occupancy Rates as at December 2016

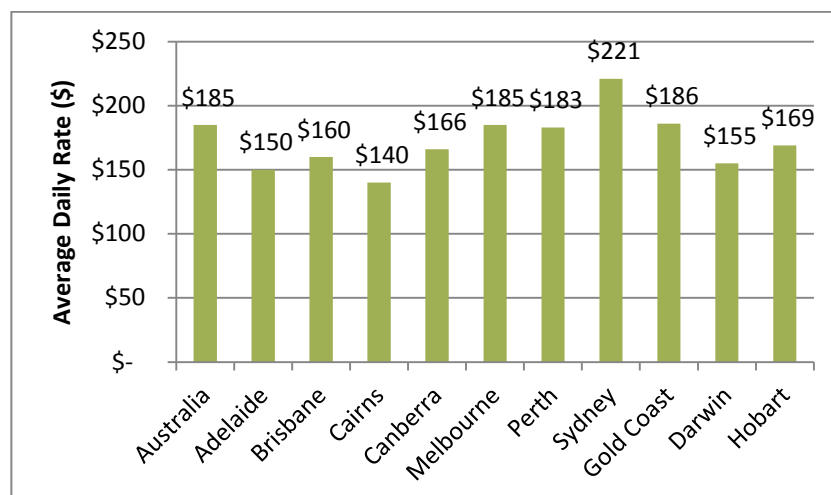


Source: STR Global / Savills Research March 2017

Average daily rates

The Average Daily Rate (ADR) across Australia remained strong through the year at \$185. Sydney had the highest average daily rates, with rates growing by 4.5% to \$221⁶ over the previous year.

Figure 3 - Australian Average Daily Rate as at December 2016



Source: STR Global / Savills Research March 2017

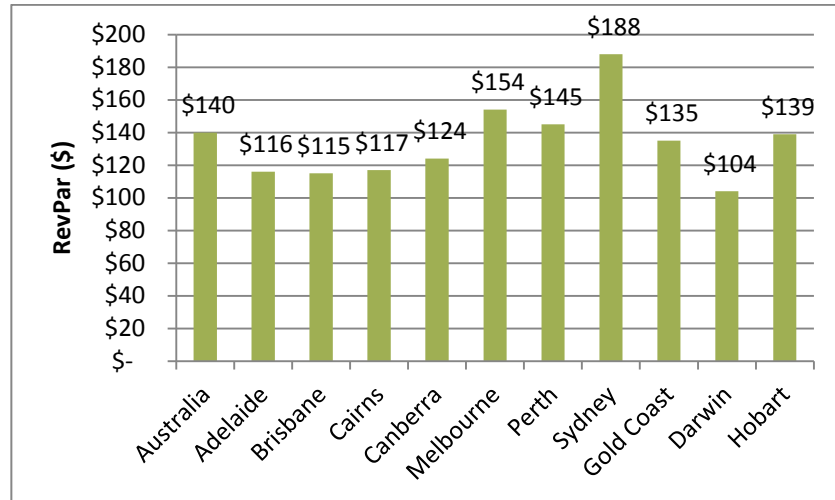
Revenue per Available Room

Revenue per available room in Australia for calendar year 2016 was \$140, which represented a year-on-year growth of 2.2%. Solid growth of 4.4% was recorded in Sydney, lifting revenue per available room to

⁶ STR Global / Savills Research March 2017

\$188⁷ for calendar year 2016.

Figure 4 - RevPar Rate as at March 2015



Source: STR Global / Savills Research March 2017

Hotel Transactions

Nationally, transaction activity in 2016 had exceeded \$2.2 billion at the end of October. Capital cities continued to be the main areas of investor focus. Sydney however saw a reduction in hotel transactions over the first half of 2016⁸.

Hotel Development

Historically there has been limited new hotel development across Australia, particularly in Sydney. Sydney will be the focus in new hotel offerings including Barangaroo (Crown Resorts), Ibis Styles at Town Hall, the Ritz Carlton at The Star, Sofitel Sydney Darling Harbour (Schwartz Family Company) and the current extension of the Four Points by Sheraton Hotel in Darling Harbour⁹.

As of June 2015, Sydney City provided approximately 21,787 rooms. Over the period to 2022, there are approximately 7,100 new rooms proposed and approximately 750 rooms proposed to be withdrawn from the market¹⁰.

Whilst there are several new hotels in the pipeline, there are also older hotels that are being redeveloped to apartments and serviced apartments that will convert to residential apartments upon expiry of

⁷ STR Global / Savills Research March 2017

⁸ Hotels 2016, Colliers International, 2016

⁹ Savills Research Insight Australian Hotels Q1 2015; Cordell Connect; Hotels 2016, Colliers International, 2016

¹⁰ Hotels 2016, Colliers International, 2016

the long term leasehold with the operator. This is why it is important to maintain a healthy supply of new hotels.

Key Findings

Trading environment

Sydney continued to experience high occupancy rates in 2016 (85%) similar to 2014 and 2015 and close to capacity. Average room rates in Sydney were the highest in the country but growth was relatively modest. The general trend has been of improving revenues and a tightening in capitalisation rates.

Future outlook

Sydney's market will benefit from major new transport infrastructure currently under construction and growing inbound visitation. With limited new supply we anticipate the continuance of high occupancy rates and the opportunity for more rate growth.

What does this mean for Landmark Square's Hotel Component?

The strong market performance suggests that there is strong potential for additional hotel facilities in Sydney. The Subject Site would be considered a suitable location given its proximity to the Sydney CBD, accessibility with an express train service, strong amenities and proximity to a major health precinct.

Tourism

The next section reviews historical and future tourism projections. Tourism profiles from the International Visitor Survey (IVS) and National Visitor Survey (NVS) are not available for the Georges River LGA. For this reason we have only considered the Greater Sydney Region (which excludes the Blue Mountains and Central Coast LGAs).

Domestic Overnight Travel¹¹

Sydney had nearly 9.2 million domestic overnight visitors during the year ending December 2016, slightly down from the previous year (1.5%). Domestic visitor nights increased 0.3% to nearly 24.9million, and domestic overnight visitors spent nearly \$6.5 billion in the region.

In calendar year 2016, 'visiting friends and relatives (VFR)' was the largest purpose of visit category for visitors to Sydney accounting for 37.9% of trips, followed by 'business' (29.3%) and 'holiday' (26.0%).

¹¹ National Visitor Survey (NVS), YE Dec 16, Tourism Research Australia (TRA), Destination NSW Travel to Sydney YE Dec 2016

Compared to calendar year 2015, VFR travellers declined by 2.5%, business travellers decreased by 1.5% and while 'holiday' travellers fell by 2.4%.

In terms of accommodation, 16% of domestic overnight visitors stayed in the category of 'luxury hotel or resort, 4 or 5 star' compared to 14% in 'standard hotel or motor inn, below 4 star' for nights in the region (19.3%), demonstrating the importance of luxury hotels in serving domestic overnight visitors.

International Overnight Travel¹²

Sydney had over 3.6 million international overnight visitors during calendar year 2016, an increase of 13.3% from the previous year. Visitors spent over 74.1 million nights in the region, up by 3.2% from the previous year and spent over \$8.6 billion in the region, up by 14.7% from the previous year.

'Holiday' (58.0%) was the largest purpose of visit category for visitors to the region, followed by 'visiting friends and relatives (VFR)' (23.6%) and 'business' (10.3%). Compared to calendar year 2015, visitors who travelled for 'holiday' grew by 15.7%, visitors who travelled to 'VFR' increased by 7.8% and visitors who travelled for 'business' grew by 5.4%.

Tourism Projections

Total visitor nights (including domestic and international tourism) in NSW are forecast to steadily increase at an average annual growth rate of 3.8% to 254,023 nights in 2024-25¹³.

In real terms, total tourism spend is forecast to increase 4.9% to \$123.2 billion in 2016-17; and a further 4.4% to \$128.6 billion in 2017-18. The 10-year average growth rate is forecast at 4.4%, with total visitor spend expected to reach \$166.7 billion by 2024-25¹⁴.

By 2024-25, the top five largest inbound markets in terms of visitor expenditure will be China, New Zealand, the US, the UK, and India. These markets will contribute over three-quarters of growth in inbound visitor expenditure. China alone is forecast to account for 60% of total growth in expenditure¹⁵.

¹² National Visitor Survey (NVS), YE Dec 16, Tourism Research Australia (TRA), Destination NSW Travel to Sydney YE Dec 2016

¹³ State Tourism forecasts 2016 August 2016

¹⁴ Tourism Forecasts, Tourism Research Australia, 2016

¹⁵ 2020 Tourism Industry Potential, Tourism Australia, Nov 2010

Summary of Tourism Projections

The key findings with respect to tourist projections are as follows:

- Tourism to Sydney is expected to steadily increase to 2024/25;
- Moderate growth in domestic tourism is forecast, but international visitor spend will outpace growth in domestic tourism spend; and
- A positive outlook for growth in international visitor arrivals, with China to be the main source of growth.

What does this mean for the Landmark Square Planning Proposal?

The hotel component proposed at Landmark Square will contribute to meeting the demand from the additional tourists forecasted in NSW, with Sydney likely to accommodate the largest proportion of these tourists.

The attributes of Hurstville provide a strong opportunity to capture some of the Sydney hotel market demand. These attributes include:

- Proximity to the Sydney CBD;
- Regular express train services (20 minutes into the City every 15 minutes during peak period);
- Proximity to the St George hospital and health precinct which includes Hurstville Private Hospital, St George Public Hospital and St George Private Hospital;
- A high level of retail offering including a major regional shopping centre being Westfield Hurstville;
- A high cosmopolitan environment with a wide range of restaurants;
- A well-defined “Chinatown”; and
- A far more affordable offering than the vast majority of four star hotels in Sydney CBD.

Hotel Supply

As part of this Assessment we have undertaken an audit of the existing facilities within the locality to better understand gaps and future needs with respect to hotel facilities. For the purposes of this Assessment we have only considered those facilities which fall within the St George region.

Existing Hotels

There is currently a limited supply of hotel facilities within the St George region, with only five facilities provided within 5km from the Subject Site.

Table 1 - Hotel facilities in the St George Region

Facility Name	Address	Distance from Subject Site
Meridian Hotel	220 Forest Rd, Hurstville	700m
Hurstville Ritz Hotel	350 Forest Rd, Hurstville	1.1km
Forest Inn Hotel	467 Forest Rd, Bexley	2.9km
Grand Hotel Rockdale	482-484 Princes Highway, Rockdale	3.4km
Bexley North Hotel	197 Slade Rd-Bexley North	3.9km
Novotel Sydney Brighton Beach	The Grand Parade, Brighton-Le-Sands	5km
Airport Hotel Sydney	185 Princes Hwy, Arncliffe	5km
The Earlwood Hotel	347 Homer St, Earlwood	5.8km
Quality Hotel CKS Sydney Airport	33-35 Levey St, Wolli Creek	6.4km
Mercure Sydney International Airport	20 Levey St, Wolli Creek	6.5km
Rydges Sydney Airport	8 Arrival Court, Mascot	7.6km

Source: HillPDA Research May 2017

Future Supply

Cordell Connect reveals that the future supply outlook remains relatively benign, with the potential for a further four new hotels to be added to supply in the St George region. However it is unlikely all of these hotels will proceed and they are some distance from the Subject Site¹⁶.

Case Studies

The section below reviews existing similar hotels within the St George region to get a better understanding of the operations and the likely demand for hotels in St George.

Novotel Sydney Brighton Beach

This four and half star hotel has been operating for 23 years and is centrally located along The Grand Parade, overlooking Brighton Beach. The hotel provides 296 rooms, with prices ranging anywhere

¹⁶ Cordell

from \$189 for a standard room during off peak season to \$1,200 for a premium room during peak periods¹⁷. Occupancy rates are strong at over 80%¹⁸.

Airport Hotel Sydney

Airport Hotel Sydney opened its doors in 2011 and is located along Princes Highway, Arncliffe. This four star hotel benefits from close proximity to the airport, with the reservation manager indicating the hotel is trading at capacity most nights of year. The hotel provides 56 rooms and is three and half star hotel with prices ranging anywhere from \$89 for a standard room during off peak season to \$1,000 for a premium room during peak periods¹⁹.

Rydges Sydney Airport

This four star hotel has only been operating for 4 years and is located at 8 Arrival Court Mascot adjacent to the airport. The hotel provides 318 rooms, with prices starting from \$200. Since its opening, occupancy rates have remained over 80%²⁰.

Conclusion

The potential for a hotel on the subject site is strong reflecting the following factors:

- Modest growth in domestic tourism;
- Strong growth in international tourism, particularly from China;
- Declining Australian dollar which makes Australia more price competitive for international tourists;
- Strong growth in the number of tourists staying in hotels and hotel night stays across Sydney;
- Strong hotel performance as measured by occupancy rates;
- A rise in room rates and an overall improvement in the feasibility of hotels; and
- Recognition of Hurstville as a viable and more price competitive option to Sydney CBD, but with strong locational attributes including express train services, a major regional Westfield shopping centre and an established Chinatown.

¹⁷ www.novotelbrightonbeach.com.au; discussions with reservations manager on 23.05.17

¹⁸ Interview with reservations manager on 23.05.17

¹⁹ Interview with reservations manager on 23.05.17

²⁰ www.rydges.com; discussions with reservations manager on 23.05.17

Yours Sincerely



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