

Nigel Dickson
Managing Director
Dickson Rothschild
9 Argyle Place,
Millers Point, NSW, 2000

8 March 2016

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 Use.

The Client (One Capital Group Pty Ltd) is proposing a mixed-use development known as Landmark Square which will comprise of three towers ranging from 17 to 18 levels and will include the following land uses:

- Residential land uses comprising 273 units;
- A 150 room hotel;
- Retail uses of 3,150sqm; and
- Childcare of 641sqm.

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;

- 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.

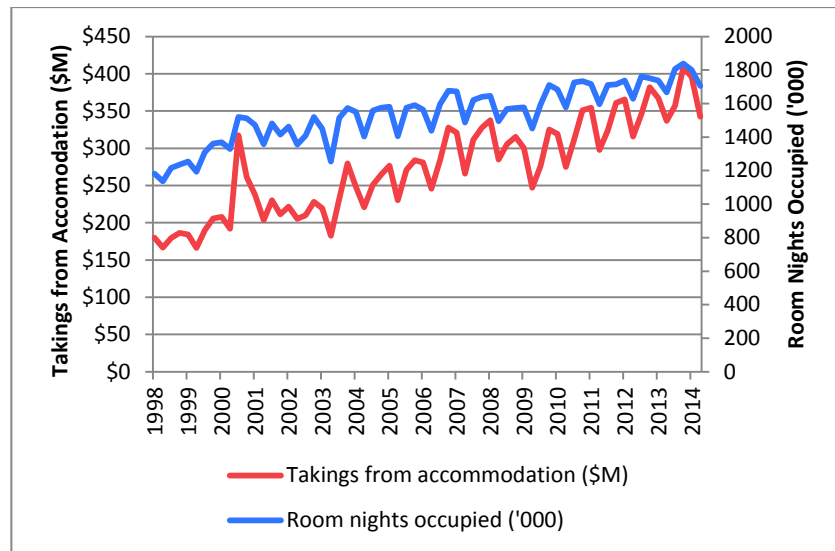
The hotel industry is an important sector of the Australian Economy. Tourism generated \$90 billion in spending in 2011-12. As a sector, tourism contributes \$41 billion in GDP – that's 3.1% of Australia's total GDP¹. 7.9% of Australian employees worked (directly or indirectly) in the tourism industry. Tourism is Australia's largest services export earner².

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.

¹ Source: Tourism Satellite Account 2011/12

² Source: Tourism Satellite Account 2011/12

Figure 1 - Hotel Occupied Nights and Revenue in NSW Mar 1998 to Jun 2014



Source: : 8635.0 - Tourism Accommodation , Australia, 2014

Recent hotel research predicts Sydney will be the strongest performing hotel market in Asia Pacific Region over the next five years due to improved tourism infrastructure and the declining Australian dollar which encourages domestic tourists to travel as well as overseas visitors. There is also the prospect that CBD Sydney and inner city could lose over 1,000 hotel rooms over the next three years to redevelopment and residential conversion³.

The general trend has been improving revenue and a tightening in capitalisation rates, especially at the top end of the market where for the right asset, capitalisation rates have come down⁴.

Suburban hotels with development potential have been viewed positively by local purchasers and more traditional developers; whilst larger city hotels have been sought after by offshore capital. An interesting trend has also been the expansion of domestic food and beverage owners into traditional accommodation hotels⁵.

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

³ City hotel sells for \$21 million, Colliers International, 2015

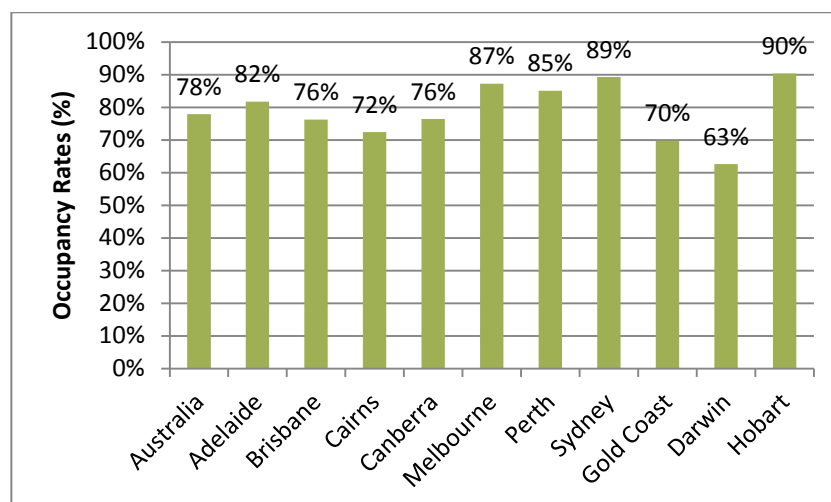
⁴ City hotel sells for \$21 million, Colliers International, 2015

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Occupancy

According to data from STR Global for the year-to-date as at March 2015 occupancy rates for Australia remain strong at 78% and steady increased from 2013 (refer to figure below). The second highest occupancy rate as of March 2015 was maintained in Sydney at a very high level of 89%.

Figure 2 - Australian Hotel Occupancy Rates as at March 2015

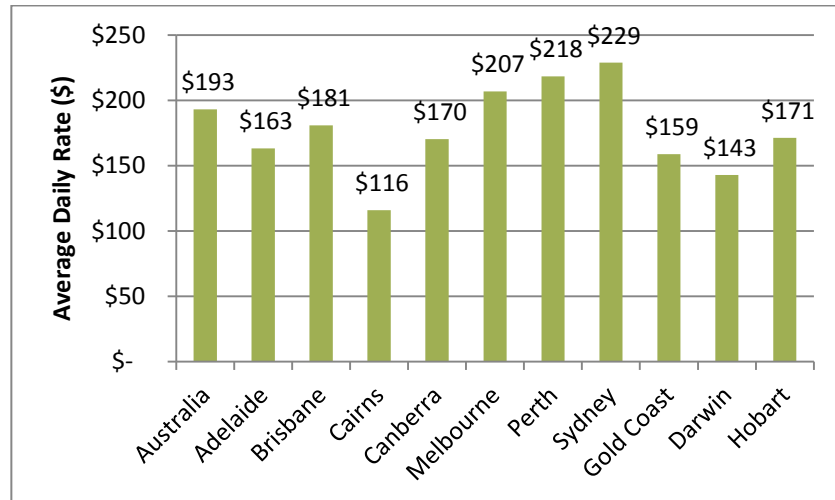


Source: STR Global / Savills Research

Average daily rates

The Average Daily Rate (ADR) across Australia remains strong at \$193, an increase of 4% over the previous year. The strongest growth in average daily rates during the year-to-date March 2015 occurred in Sydney, where rates grew 7% to \$229.

Figure 2 - Australian Average Daily Rate as at March 2015

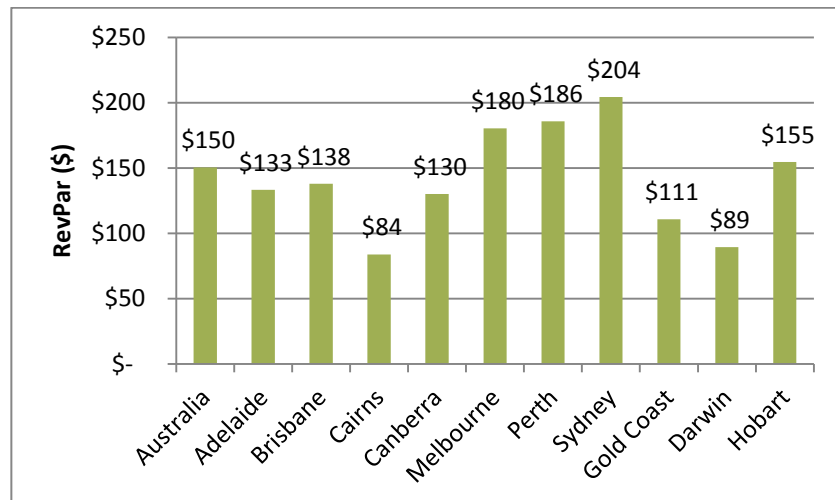


Source: STR Global / Savills Research

Revenue per Available Room

Revenue per Available Room in Australia as at March 2015 was \$150, an increase of 5% percent from the previous year. Solid growth was recorded in Sydney up 8% to \$204.

Figure 3 - RevPar Rate as at March 2015



Source: STR Global / Savills Research

Hotel Transactions

69 sales of hotel assets were recorded throughout Australia over the 12 months to March 2015, which is down from the previous year

(79), and up on the five year average of 53. The 69 properties represented a total value of \$3.0 billion⁶.

The majority of hotel transactions occurred mainly in the 'Metro' regions of Australia in the 12 months to March 2015 with 26 transactions recorded in the 'Metro' regions of Australia, totalling \$2.04 billion over the last 12 months and 43 transactions totalling \$966 million recorded in 'Non-Metro' regions over this period⁷.

In the 12 months to March 2015 the medium passing yield has increased to 7.9%⁸.

Hotel Development

Historically there has been marginal new hotel development across Australia, particularly in Sydney. Sydney will be the focus in new hotel offerings including Barangaroo (Crown Resorts), Sofitel Sydney Darling Harbour (Schwartz Family Company) and the current extension of the Four Points by Sheraton Hotel in Darling Harbour⁹.

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 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 continues to experience high occupancy rates (89%) similar to 2013 and 2014 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 improving revenue and a tightening in capitalisation rates.

Future outlook

Sydney will benefit from major new infrastructure currently under construction in the City and in particular the new Sydney Convention Centre which is due to open in December 2016. With limited new supply we anticipate the continuance of high occupancy rates and the opportunity for more rate growth¹⁰.

⁶ Savills Research Insight Australian Hotels Q1 2015

⁷ Ibid

⁸ Ibid

⁹ Savills Research Insight Australian Hotels Q1 2015; Cordell Connect

¹⁰ Colliers International, Hotels first half 2015, 2015

What does this mean for Landmark Square 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. In addition there is also the prospect that CBD Sydney and inner city could lose over 1,000 hotel rooms over the next three years to redevelopment and residential conversions. As such the Planning Proposal would assist in alleviating the loss of hotels rooms.

Tourism

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

Domestic Overnight Travel¹¹

Sydney had over 8.5 million domestic overnight visitors during the year ending December 2014, an increase of 2.3% from the previous year. Domestic visitor nights increased 5.1% to over 23.4million, and domestic overnight visitors spent nearly \$6.1 billion in the region, up by 0.9% from the previous year.

The increase was driven by growth in business travel and those travelling to visit friends and relatives (VFR). Compared to Year 2013, visitors who travelled for 'VFR' grew by 5.5%, while 'holiday' decreased by 2.6% and 'business' increased by 4.1%.

Almost 20% of domestic overnight visitors used 'standard hotel or motor inn, below 4 star' for nights in the region (19.3%), with a further 15% having stayed at 'luxury hotel or resort, 4 or 5 star' demonstrating the importance of luxury hotels in serving domestic overnight visitors.

International Overnight Travel¹²

Sydney had over 3 million international overnight visitors during the year ending December 2014, an increase of 6.7% from the previous

¹¹ National Visitor Survey (NVS), YE Dec 14, Tourism Research Australia (TRA), Destination NSW Travel to Sydney YE Dec 2014

¹² National Visitor Survey (NVS), YE Dec 14, Tourism Research Australia (TRA), Destination NSW Travel to Sydney YE Dec 2014

year. Visitors spent nearly 63.9 million nights in the region, up by 3.8% from the previous year and spent nearly \$6.4 billion in the region, up by 5.5% from the previous year.

‘Holiday’ (56.0%) was the largest purpose of visit for visitors to the region, followed by ‘visiting friends and relatives (VFR)’ (24.4%) and ‘business’ (12.7%). Compared to YE Dec 13, visitors who travelled for ‘holiday’ grew by 9.2%* and ‘VFR’ increased by 3.6% while ‘business’ grew by 3.5%.

Tourism Projections

Total visitor nights (including domestic and international tourism) in NSW are forecast to steadily increase at an average annual growth rate of 3.6% to 219,659 nights in 2022-23¹³.

Total national tourism expenditure is forecast to grow at 1.6% per annum on average to \$119.1b real terms by 2022–23. Over this period, the share of inbound visitor expenditure is forecast to increase from 29% per cent in 2012/13 to 36% in 2022/23¹⁴.

By 2022/23, about 55% of growth in inbound national visitor expenditure will be driven by international visitors from China, Singapore, United Kingdom, the United States and New Zealand, with China alone accounting for about 40% of the total growth¹⁵.

Summary of Tourism Projections

The key findings of tourist projections are as follows:

- Tourism to Sydney is expected to steadily increase to 2022/23;
- Moderate growth in domestic tourism is forecast, but international visitor spend will outpace growth in domestic tourism spend; and
- A more positive outlook for growth in international visitor arrivals, with China to be the main source of growth; and

What does this mean for Landmark Square Planning Proposal?

The hotel component proposed at the 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. These attributes include:

¹³ State Tourism forecasts 2014 July 2014

¹⁴ 2020 Tourism Industry Potential, Tourism Australia, Nov 2010

¹⁵ 2020 Tourism Industry Potential, Tourism Australia, Nov 2010

- 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 four 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
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 August 2015

Future Supply

Cordell Connect reveals that the future supply outlook remains relatively benign with the exception of the Sydney Airport Precinct, where there is the potential for a further nine hotels to be added to supply. However it is unlikely all of these hotels will proceed and they are some distance from the Subject Site and serve a different purpose¹⁶.

Case Studies

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

Novotel Sydney Brighton Beach

This four and half star hotel has been operating for 21 years and is centrally located along The Grand Parade, overlooking Brighton Beach. The hotel provides 296 rooms, with prices ranging anywhere from \$99 for a standard room during off peak season to \$1,200 for a premium room during peak periods¹⁷. Occupancy rates are strong ranging from 80-90%¹⁸.

¹⁶ Colliers International, Hotels first half 2015, 2015

¹⁷ www.novotelbrightonbeach.com.au; discussions with reservations manager on 19.08.15

¹⁸ Interview with reservations manager on 19.08.15

Airport Hotel Sydney

Airport Hotel Sydney opened its doors in 2011 and is located along Princes Highway, Arncliffe. The 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 \$99 to \$139¹⁹.

Rydges Sydney Airport

This four star hotel has only been operating for 2 years and is located at 8 Arrival Court Mascot adjacent to the airport. The hotel provides 318 rooms, with prices starting from \$220. Since its opening, occupancy rates have remained over 80%²⁰.

Conclusion

The potential for a hotel on the subject site is strong resulting from 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;
- From the above increasing hotel performance as measured by occupancy rates that reaching an all-time high;
- 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 Chinatown.

¹⁹ Interview with reservations manager on 19.08.15

²⁰ www.rydges.com; discussions with reservations manager on 19.08.15

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Adrian Hack', with a large loop on the left and a smaller loop on the right.

ADRIAN HACK

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Principal Urban and Retail Economics

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