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Mr David Read
Design Manager
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Dear David,

Serviced Apartment offering – Norwest Business Park

You have asked us to provide some advice on the merits of the introduction of a modest-sized new serviced apartment offering at 21-23 Lexington Drive Norwest. The serviced apartment offering will be part of a larger mixed-use development containing a significant component of commercial office, plus some complimentary retail amenity. We have been briefed with a copy of the architectural plans for the project, and also some CGI renders.

Location – Norwest Business Park

Norwest Business Park is a purpose-built, world class community offering a range of uses including a concentrated employment node, residential, retail and public open spaces including lakes, waterways and parklands. It benefits from a variety of accessibility options including car, bus and the recently completed Sydney Metro North West rail line.

Norwest is currently home to many high profile multinational corporations including IBM, Schneider, Woolworths, Braun, ResMed, Capital Finance and over 400 companies and businesses with over 20,000 employees.

It also includes four retail centres: Norwest Marketown, Totally Home, Bella Village Retail and Circa Retail.

The Norwest precinct is situated in the Greater Western Sydney (GWS) region. GWS is recognised as an area of growing national importance and has one of the fastest growing populations in Australia.

GWS:

- is home to roughly 1 in every 11 Australians
- has the third largest economy in Australia
- has more than 240,000 local businesses
- encompasses significant areas of national parks, waterways and parklands

The economy of GWS is estimated to be greater than $120 billion annually. This places it as the third highest regional economy in Australia behind only greater Sydney and Melbourne, and higher than the combined economies of South Australia and the Northern Territory.

Despite the considerable economic output and strength of the region, GWS and in particular the Norwest precinct within GWS, is under-supplied with quality hotels.

At present, the only hotel offerings catering to the growing corporate and leisure demand to the Norwest area are:

Hotel	Distance from proposal	Number of rooms
Rydges Norwest (formerly Novotel Norwest)	700m	132
Adina Norwest	650m	106
The Hills Lodge Hotel and Spa	1.1km	97
Quest Castle Hill	1.4km	83
Mercure Rouse Hill	9.1km	78
Quest Bella Vista	2.6km	147

The precinct experiences very strong year round occupancy of 80%, with market-level average daily rates of approximately $200 *(source STR).*

Given the addition of new office to the precinct, there is likely to be a further demand for quality serviced apartment offerings to cater to this growing corporate demand segment. Given the current market performance, the growing corporate demand and relatively low supply in the area, we believe the site could support an additional 100-150 serviced apartment keys. We are aware that there has been a recent development application for 77 serviced apartments at the neighbouring property to the South at 13-19 Lexington Drive. In our view, the nature of the subject proposal at 21-23 Lexington Drive with its integrated mixed use offering, and the size and scale of the commercial office component which will clearly be an "on-site" demand generator, is a superior serviced apartment hotel offering and will not be adversely impacted by the adjoining proposal at 13-19 Lexington Avenue.

The developer has had considerable experience in the delivery of mixed use projects incorporating purpose built serviced apartments, having completed the nearby award winning 22B Brookhollow project which included office, retail and the Adina serviced apartment hotel.

The developer has also delivered other serviced apartment and hotel projects. The design of the serviced apartment offering looks complimentary to the office, and the total room inventory is modest. It will ensure that there is sufficient critical mass for an operator to successfully conduct its business, but small enough to avoid potential adverse consequences from over-supply, even having regard to the proposed adjoining serviced apartment rooms at 13-19 Lexington Drive.

Covid-19

While the hotel industry is currently suffering from the impacts of the Covid-19 pandemic and population isolations, in time this will pass. Over the past two decades, the tourism industry has proven to be both resilient and swift in rebounding to "business as usual". Previous anomalous events have consistently displayed a "V" curve rebound:

- 9/11 Terrorist Attacks & Ansett Airline Collapse (2001)
- Technology Bubble (2001)
- SARS (2003)
- Gulf War II (commencing 2003)
- Indian Ocean Boxing Day Tsunami (2004)
- Swine Influenza Virus (2009)

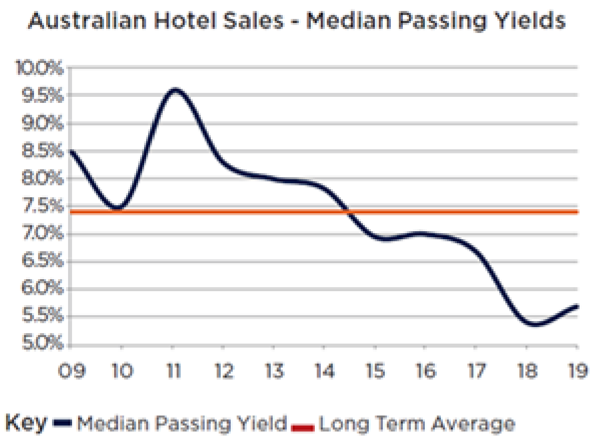
Property investors are sanguine and their capital appetite remains high for investment grade hotel stock.

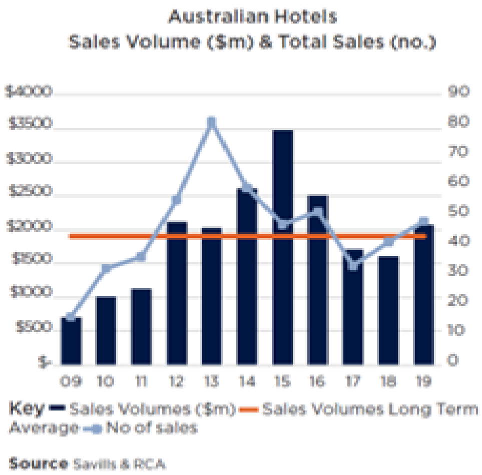
Hotel Transactions and liquidity

The Australian hotel market experienced relatively higher levels of transaction volume and value during the 2014 and 2015 calendar years, peaking at a total transaction value of approximately A$3.5bn and 73 recorded transactions in 2015.

Since then, transaction volume and value has decreased considerably, despite an increasing domestic and global appetite for Australian hotels. In 2019 total hotel transaction value approximated A$2.1bn arising from 48 transactions (compared to A$1.6bn and 41 transactions in CY2018), albeit that some transactions counted in the 2019 total are yet to be completed.

The waning transaction volumes and values have occurred due to a number of significant properties being sold to and held by long term, intergenerational Asian investors who typically do not trade their assets. In addition, slowing volumes exacerbate the problem further creating adverse perceptions of availability of hotel stock to acquire. Investors holding hotels who may otherwise consider a sale are reluctant to sell an asset, for fear that they will not be able to replace it in the market with an alternative property.





Transaction volumes and values have not declined due to a lack of investor interest. Rather, the reduced volumes have resulted in a substantial amount of pent up capital seeking a smaller pool of available assets in a number of extremely tightly held markets around Australia, causing yield compression and “fear of missing out” among active investors.

Domestically, high net worth investors are actively investing in hotels due to the strength of the market and the favourable yields being achieved compared to other asset classes.

In addition, domestic fund managers have raised both domestic and international capital to invest in Australian hotels. Similarly, international investors, including pension funds, fund managers and private equity, attracted to the stability and transparency of the Australian investment market, are seeking high yielding hotel assets.

There remain significant amounts of unsatisfied capital which are uninvested (other than being held in cash), which are not generating returns in a low-yield interest rate environment.

Domestic and international funds are mandated to chase yield, which in a low interest rate environment necessitates increased capital allocations to yield-generating assets, which includes real estate.

In terms of global asset allocations, the Blackrock 2019 Global Institutional Survey (which covered 230 institutional clients, representing over $7 trillion in investible assets) noted the following international trends which will continue the trend of investors seeking exposure to Australian hotels:

- Concern about the economic cycle is reflected in the fact that 51% of clients intend to decrease their allocation to equities.
- A significant portion of institutions intend to increase their exposure to private markets: real assets (+54%), private equity (+47%) and real estate (+40%).
- This continues a multi-year structural trend of clients reallocating risk in search of uncorrelated sources of return.
- Insurers continue to seek alternative sources of income by increasing allocations to illiquid assets and credit strategies; 66% intend to increase allocations to real assets.

More recently the Blackrock 2020 Global Investment Outlook reasserted that “Real estate looks compelling given the neutral outlook on interest rates and has historically offered resilience against inflation”.

In time, the adverse effects relating to the COVID-19 virus will be resolved. Things will return to normal; investor appetite for investment grade hotel assets will continue unabated, and we anticipate a strong “V-shaped” recovery from any downturn caused by these adverse virus impacts.

Hotel investors typically take a long-term view beyond the immediate short-term issues which are inevitably resolved.

We believe from both an operational, amenity and capital perspective, the addition of the serviced apartment component of the project will be well received and successful.

Yours sincerely

Michael Simpson
Managing Director - Hotels
Savills Australia and New Zealand