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Overview

2013 in review

Largely positive economic conditions throughout 2013 contributed to a generally strong year for Australia’s tourism industry.

Domestic tourism

• Growth in overnight travel accelerated. Domestic overnight trips grew by 4.1% over the year to September to reach their highest level since 2000.

• Encouragingly, leisure travel grew 6.6% - its fastest annualised pace since September 2007 and only marginally behind outbound leisure travel, which grew by 7.4%.

• This has led to strong growth in a number of key leisure markets, with holiday visitor nights growing by 20.0% in Tropical North Queensland, by 11.8% in Melbourne and 16.1% in Brisbane, although the impact on Brisbane was largely offset by a decline in corporate travel.

• While corporate trips grew by 3.5%, the pace of growth in corporate travel has slowed considerably over the last two years.

• A 4.8% decline in domestic day trips was driven largely by a decline in corporate travel.

International tourism

• On the international front, growth in international visitor arrivals also continued to accelerate, growing 5.5% over the year to December – the fastest rate of growth over the last three years and well above the average of 3.1% recorded over the last decade.

• Asia continued to provide the engine for growth. Visitor arrivals from China grew by 14.2% over the year to December, while visitors from Malaysia, Singapore, Taiwan and Hong Kong all grew by more than 10%, supported by strong growth in low cost carrier seat capacity. Arrivals from India and Thailand grew by 7.9% and 6.0% respectively

• For Europe as a whole, visitor arrivals grew by 5.5% for the year to December, the fastest annual growth rate since 2004. Visitors from the UK grew by 6.8%, helped by a surge in arrivals in December for the Ashes cricket series. Performance was similarly strong in the US, with arrivals posting 6.2% growth. Japan’s 2012-13 growth was unwound by a 7.1% fall in visitor arrivals, while New Zealand was flat.

Hotel performance

• Strong demand growth coupled with an investment pipeline which has strengthened but remains modest in the near term is seeing hotel occupancies push further into record territory nationally, and across many individual markets.

• In fact, three out of the nation’s eight capital cities achieved 10-year record highs, including the two majors of Sydney and Melbourne.

• At the same time, 2013 saw average room rates and Revenue Per Available Room (RevPAR) also grow faster than long term averages for Sydney, Melbourne, TNQ, Darwin, and Hobart.

• The structural transition underway across the Australian economy was evident in hotel market performance, with Perth and Brisbane continuing to recede from their resource boom highs. Darwin, nevertheless, posted the nation’s fastest room rate growth.

• Growth in international visitors pushed occupancies to their highest level in Sydney with RevPAR growing at a robust 6.7% for the year, while Hobart also grew strongly.
Overview

Macroeconomic developments
Recent developments in the global economy have been largely positive for Australia’s tourism industry:

- The economic recovery is gaining pace in the United States (US) and the United Kingdom (UK) – two of Australia’s most important traditional tourism markets. Positive signs are also emerging throughout mainland Europe.
- The Australian dollar continues to ease, with forecasts pointing to further depreciation over the three-year outlook period.
- Economic growth among key tourism markets throughout Asia has moderated, but the growth outlook remains robust, providing a solid underpinning to international arrival growth.

Locally, the economic outlook remains solid rather than outstanding, however shifts in the nation’s economic growth drivers are contributing to shifts in domestic travel patterns:

- As the Australian economy transitions from a growth phase underpinned by resource sector construction to a more diversified one, travel patterns are gradually shifting away from the big mining states.

Domestic and international tourism
Deloitte Access Economics continues to forecast this momentum building, with international visitor nights forecast to grow at 4.8% and domestic visitor nights at an upwardly revised 2.0%.

- Strong growth in visitor arrivals from Asia’s emerging economies will be supported by an improving outlook from traditional markets in North America and Europe.
- While the impact of the Chinese Tourism Law has meant that our short term forecasts for China have been revised marginally downwards, visitor arrivals are still forecast to grow by 7.5% and visitor nights by 7.1% over the next three years.

- At the same time, and despite a level of buoyancy throughout the latter part of 2013, growth in outbound travel by Australians is forecast to continue to moderate, easing to a range of 3-4% over the next three years, while on the domestic front the baton will be progressively passed from corporate to leisure travel over the next three years.

Hotel performance
The outlook for hotel performance overall is one of demand growing at nearly twice the pace of supply over the next three years and occupancy rates being propelled further into record territory as a result. Nationally, the average occupancy rate is projected to climb from 66.8% to 68.9% over the three years to calendar 2016.

- The longer term investment pipeline remains strong – considerably up on that of two years ago, but broadly stable in net terms over the last 12 months, with 66 projects identified.
- There is, however, considerable variation across markets, with no near term supply growth forecast across several key markets and relatively significant additions across others.
- Nationally, room rates and RevPAR are forecast to continue to grow at above trend rates, at 3.4% p.a. and 4.5% p.a. to December 2016.
- Performance will be led by Hobart and Sydney, with projected RevPAR growth of 5.0% and 4.9% p.a., respectively.
The macroeconomic context

An improving global economic outlook

After a modest 2013, the outlook for the advanced economies is forecast to improve in 2014. The US economy has begun to recover more quickly, while Europe has begun to grow for the first time since 2011.

The US economy grew by 2% over the year to September, with economic activity partly held back by the impact of the ‘sequester’ on government spending. However, the US housing market has grown solidly over the last year. While the prospect of a tapering in the Federal Reserve’s quantitative easing program has the potential to moderate growth in 2014, the Fed is unlikely to risk derailing the recovery in the housing market.

Overall, Deloitte Access Economics forecasts that the US growth rate will improve to 2.5% in 2014 and remain at similar levels in 2015 and 2016.

Across the Atlantic, Europe has begun to show signs of growth. The Eurozone recorded growth of 0.3% in the June quarter and 0.1% in the September quarter. While these growth rates are far from stellar, the last two quarters are the first time the region has recorded positive growth since 2011. Despite these encouraging signs, high levels of structural unemployment and continuing austerity mean that growth in the Eurozone is forecast to remain subdued until 2016 by which point average growth is forecast to recover to 1.8%. However, the emergence of a housing recovery in the UK means that it is expected to return to growth more quickly than the Eurozone with growth expected to rise to 1.9% in 2014 and then 2.2% in 2015.

The Chinese economy has also continued to grow strongly, although at a less rapid rate than in recent years, with growth averaging 7.7% over the year to December 2013. China’s annual growth rate has remained steady over the last six months. However, Deloitte Access Economics forecasts that China’s growth will moderate slightly to 7.2% in 2014 as Chinese cities seek to limit property speculation associated with a housing bubble. Growth is expected to also average 7.2% over the three year period to 2016. As a result, the outlook for China is slightly weaker than it was six months ago.

Growth in the key South East Asian markets is also expected to remain strong over the next three years. Indonesia is expected to grow at an average rate of 6.6% p.a., while Malaysian GDP is also forecast to grow at an average rate of 5% over the next three years. Growth is also forecast to pick up in Singapore and Hong Kong as the global economy starts to recover. Similarly, while growth in India slowed in 2013 as a result of higher interest rates, GDP growth is forecast to progressively recover over the next three years, averaging 5.6% over the three years to December 2016. As a result, South East Asia will continue to be a major driver of inbound tourist arrivals.

Economic activity in Japan improved in 2013 as a result of the country’s monetary stimulus package. While the strategy appears to have assisted growth and provided much needed inflation, Japan continues to face significant hurdles as a result of its ageing population and large government debt. Thus, Deloitte Access Economics forecasts economic growth in Japan to average a modest 1.3% p.a. over the next three years.

The Australian dollar

The recovery of the US economy, a decline in commodity prices and the prospect of the Federal Reserve tapering its quantitative easing program saw the Australian dollar remain below parity with the US dollar through the second half of 2013. At the time of writing, the Australian dollar had fallen to below 90 US cents, with the Trade Weighted Index (TWI) falling from 78 at the start of 2013 to 68 by the end of the year.

As we noted in our last publication, the decline in the Australian dollar is positive news for tourism operators and has helped contribute to the solid growth in international visitor arrivals throughout 2013. An easing of the Australian dollar will only further increase the relative attractiveness of domestic travel for Australians.
As global monetary policy gradually tightens, Deloitte Access Economics forecasts the Australian dollar will continue to ease, depreciating to around US$0.80 by 2017. However, market reaction to future policy announcements is uncertain, and further tightening could meet with considerable volatility in financial markets. Any volatility would likely flow through to the Australian dollar.

The domestic outlook

While the lower Australian dollar will help ease the pressure facing currency-exposed sectors such as tourism, the broader domestic economic outlook is for growth to remain below trend until the end of 2015.

A key driver of the domestic outlook is the decline in resource-related construction as the mining boom winds back, with engineering construction activity forecast to decline by 12.1% in 2014. There is also a looming risk that public spending will decline as the Federal government seeks to address the budget deficit. However, while consumer spending has also remained subdued, housing construction activity is expected to lift in the short term, with building approvals rising 22% over the last year.

At a state level, growth in 2012-13 was again led by Western Australia and Queensland, reflecting the residual strength of resource-related construction. However, as resource related construction declines, Western Australia is likely to drop behind the south eastern states. However, growth in Queensland is expected to remain relatively steady as a result of the State’s strong pipeline of gas investments. NSW is expected to be strongest performer of the south eastern states over the next two years as low interest rates help bolster the financial services sector and construction activity on a number of major transport projects gets underway.

Overall, Deloitte Access Economics expects the Australian economy to grow by 2.6% in 2014 before picking up to 2.8% in 2015 and 3.1% by 2016, a similar outlook to six months ago. While this forecast is slightly stronger than the 2.3% growth recorded over the year to September 2013, growth in 2014 and 2015 is forecast to remain below the longer term trend.
The outlook for Australia’s tourism sector

Deloitte Access Economics forecasts Australia’s tourism industry continuing to build momentum, with international visitor nights forecast to grow at 4.8% and domestic visitor nights at an upwardly revised 2.0% over the next three years.

**Domestic visitors**

Growth in domestic overnight visitor activity accelerated over the June and September quarters, with domestic visitor trips growing 4.1% and visitor nights 2.8% over the year to September 2013.

The continuing growth of domestic overnight trips – now four successive quarters – remains an encouraging sign for tourism operators. As Chart 2.1 shows, after falling by more than 10% following the global financial crisis, domestic visitor activity has progressively recovered. Domestic visitor trips are now at an all-time high, having grown progressively in annual terms since 2009. Visitor nights have also grown over this period, but are still below the levels reached in 2003 and 2004. However, domestic visitor nights are forecast to reach 300 million by the end of 2016.

While domestic visitor activity has improved since 2009, visitor nights and trips per capita have remained relatively steady since 2009, with domestic visitor activity only growing slightly faster than population growth. As Chart 2.2 shows, domestic visitor nights per capita fell from 13.9 nights per person in 2007 to 12.0 nights per person in 2009 and have since risen slowly to 12.4 nights per person in 2013.

While domestic visitor nights per capita are well below the levels prevailing in 2007, total visitor nights have recovered to 2007 levels. The decline in domestic visitor nights per capita has been exactly offset by a progressive increase in outbound visitor nights per capita. These figures suggest that while Australians’ willingness to travel has returned to the levels prevailing before the global financial crisis, changing consumer preferences and the relative strength of the Australian dollar has seen a shift towards overseas destinations.

**In terms of specific visitor segments, the holiday and business sectors grew strongly over the twelve months to September 2013. Holiday visitor trips grew by 6.6% and holiday visitor nights grew by 4.7%, while business visitor trips grew by 3.5% and business visitor nights by 5.9%. The weakest growth was in the visiting friends and relatives (VFR) segment, which saw an increase in visitor trips of 2.5% and an increase in visitor nights of 1.5%.**
The growth in domestic holiday visitor nights is an encouraging sign for the domestic tourism and accommodation industry. Over the next two years, the easing of the Australian dollar is expected to lead to a gradual shift towards domestic leisure travel. As the relative cost of overseas travel slowly rises, the domestic holiday market is projected to become the fastest growing segment in the domestic market.

In our last Outlook we noted that business visitor nights had been generally declining in recent quarters in Brisbane and Perth, consistent with a cooling in resource-related corporate travel. While this trend has continued in Brisbane with business visitor nights falling in both the June and September quarters, business visitor nights grew strongly in Perth over this period and for Queensland as whole, which suggests that the resource-related construction pipeline continued to provide some support for corporate travel in 2013.

However, our longer term outlook for corporate travel is for growth rates to moderate as resource-related construction activity begins to subside. Deloitte Access Economics forecasts that business visitor nights will grow at slightly under 2% p.a. on average over the next three years.

On the whole, the performance of the domestic visitor market in the year to September 2013 varied considerably across states as shown in Chart 2.3. Domestic visitor nights grew by more than 10% in Western Australia and 3.7% in NSW, but were fairly steady in the other states except for Tasmania where they fell by 3.7%.

Domestic leisure travel grew 6.6% over the year to September - its fastest annualised pace since September 2007 and only marginally behind outbound leisure travel, which grew by 7.4%.

The decline in domestic visitor nights in Tasmania was surprising given that domestic visitor trips grew more than 10% and airline seat capacity by more than 16% over the year to September. Moreover, the Tasmanian Visitor Survey found that domestic visitor nights increased by 7% over the year to September. With the outlook for leisure travel improving, Tasmania is projected to be among the fastest growing states for domestic travel over the next few years.

The strong growth in domestic visitor nights in Western Australia was spread evenly across all visitor categories, with business and holiday visitor nights growing by 14% and nights associated with visiting friends growing by 22%. While domestic visitor activity in Western Australia continues to grow at the nation’s fastest pace, as the resource-related construction boom begins to subside, the rate of growth in domestic visitor activity is expected to moderate.

In contrast to domestic visitor nights, domestic day trips declined over the year to September, falling 4.8%. Domestic day trips declined or were steady across all states and territories with the exception of the ACT where domestic day trips grew by 10.5%. This was driven by an extraordinary growth in holiday trips in the June and September quarters. Part of this growth appears to have been attributable to those attending special events and festivals as part of the Centenary of Canberra, both from within and outside the ACT.

Nationally, the decline in domestic day trips was evident across all visitor types, although most pronounced for business travellers. Business day trips fell by 11.8% over the year to September, while VFR trips fell by 2.7% and holiday daytrips fell by 3.3%.

On the whole, the performance of the domestic visitor market in the year to September 2013 varied considerably across states as shown in Chart 2.3. Domestic visitor nights grew by more than 10% in Western Australia and 3.7% in NSW, but were fairly steady in the other states except for Tasmania where they fell by 3.7%.

Chart 2.3: Domestic visitor activity by state

Source: TRA, Deloitte Access Economics.
Outbound travel by Australians

Short term resident departures accelerated in the second half of 2013. Outbound departures grew by 6.3% over the year to November 2013, compared to 5.1% over the 12 months to April 2013. Yet while outbound activity remains strong, monthly growth has stabilised at around 5-7% p.a., well below the double digit figures of 2010 and 2011. As Chart 2.4 illustrates, quarterly growth in outbound resident departures (relative to the same quarter in the previous year) has remained below 10% since June 2012.

Chart 2.4: Short-term resident departures over time

Looking forward, Deloitte Access Economics forecasts domestic visitor nights to grow by an average of 2% p.a. and domestic visitor trips to grow by 1.9% p.a. over the next three years. This outlook is slightly stronger than forecast in our last publication. While we continue to see business trips growing at more moderate rates over the next two years as resource-related construction is wound back and economic growth remains below trend, the considerable easing of the Australian dollar will provide added support for growth in domestic leisure travel.

International visitors

The international visitor market continued to grow strongly in 2013, reflecting both acceleration in Chinese arrivals and a recovery in European markets. International visitor arrivals grew by 5.2% over the year to September 2013 and visitor nights grew by 4.4%.

This trend accelerated in the final three months of 2013, with recently released Overseas Arrivals and Departures data indicating that visitor arrivals grew by 5.5% over the year to December.

Visitor arrivals from China grew by 14.2% over the year to December. Visitors from Malaysia, Singapore, Taiwan and Hong Kong all grew by more than 10%. Arrivals from India and Thailand also grew by 7.9% and 6.0% respectively.

As we noted in our last Outlook, while outbound holiday trips continue to grow faster than domestic holiday trips, the gap between the two has narrowed considerably. Outbound trips grew just 0.8% faster than domestic holiday trips over the year to September. The gap between these two segments is expected to remain relatively narrow over the next three years as the Australian dollar continues to ease.

Looking forward, while the growth in outbound travel appears to have stabilised from the double digit figures recorded in recent years, growth remains relatively strong. In part this reflects the fact that while the Australian dollar has eased, it remains well above its long term average of US$0.75 and overseas travel continues to remain attractive for Australians. However, as the Australian dollar eases further over the next three years, the pace of growth in outbound travel is forecast to moderate to 3%-4% over the next three years.

In terms of market segments, holiday trips continued to be the main driver of growth in outbound activity over the year to November. Outbound holiday trips grew by 7.4%, while outbound trips to visit friends and relatives grew by 4.6%. Outbound business trips were relatively steady over the year to November.
The strong increase in visitors from South East Asia in part reflects the recent expansion of low cost carriers flying out of Kuala Lumpur and Singapore. Malaysia-based Air Asia X expanded its services from Kuala Lumpur to twice daily for Melbourne in October and for Perth and Sydney in November. Similarly, Singapore-based Scoot commenced services from Singapore to Sydney in June 2013 before adding flights to Perth in December.

While the strength of visitor arrival growth from Malaysia and Singapore over the year to September suggests that the expansion of low cost carriers is already having a significant impact, the full effects of this capacity expansion will not be felt until mid-2014. The expansion of low cost carriers is likely to have important implications for destinations such as Melbourne and Perth, which draw a relatively high share of visitors from Singapore and Malaysia. Over the year to September 2013, visitors from Singapore and Malaysia spent 27% and 38% of their visitor nights in Melbourne respectively, compared with 20% for all visitors. They similarly spent 16% and 19% of their nights in Perth respectively compared with 10% for all visitors. For South East Asian visitors, Perth’s relative proximity is a major drawcard.

While growth in visitor arrivals was by far the strongest in Asian markets, reflecting the continued expansion of the Asian middle class, visitor arrivals also grew solidly in a number of European markets. Arrivals from the UK grew by 6.8% (growing by 16.8% in the month of December as the Ashes went into full swing), from Germany by 5.0% and from France by 6.1%.

Visitor arrivals from Italy also grew by 9.5% over the year to December. Visitors from Italy have grown strongly over the last two years, with most of the growth consisting of holiday visitors and those coming for employment purposes. Holiday visitor arrivals from Italy grew by 7% over the year to September, while employment visitors almost doubled over the same period, albeit off a low base.

For Europe as a whole, visitor arrivals grew by 5.5% for the year to December, the fastest annual growth rate since 2007. While the improving outlook for European markets in part reflects an improving economic outlook in the Eurozone, European arrivals have also been facilitated by an expansion of airline capacity to and from Middle Eastern hubs. For example, a codesharing agreement between Air Berlin and Virgin Australia will connect flights from Dusseldorf and Berlin to Abu Dhabi with flights from Abu Dhabi to Sydney, and Emirates has expanded its capacity to include flights from Dubai to Adelaide.

The growth of European visitors is particularly good news for regional destinations, with European visitors spending 37.4% of visitor nights outside Sydney, Melbourne, Brisbane, Adelaide and Perth compared with 28.4% for visitors as a whole. For example, European visitors spent 5.2% of total visitor nights in Tropical North Queensland compared with 3% for visitors as a whole and 2.9% of visitor nights in the Northern Territory compared with 1.8% for visitors as a whole. European visitors are also more likely to stay on the Sunshine Coast, the Whitsundays, Perth and regional areas of South Australia.

Visitor arrivals from the US grew by 6.2% over the year to December, reflecting the accelerating pace of the US recovery. The only major market where arrivals receded was Japan, with Japanese visitor arrivals declining by 7.1%. Arrivals from New Zealand remained stable over the 2013 calendar year.
Across the states, international visitor nights grew solidly in all markets except Western Australia and Tasmania. In the case of Tasmania, international visitor trips rose by 8.5%, but international visitor nights fell. For Western Australia, the key driver of the decline in international visitor nights was a fall in travel to Western Australia for employment purposes, suggesting that the demand for international workers on some of the large resource-related projects has begun to fall. Employment related international visitor nights in Western Australia declined by 16.8% over the year to September. By comparison Western Australia experienced growth in international holiday visitor nights of 12.2% over the year to September and business visitor nights grew by 10.9%.

Chart 2.5: International visitor activity across the states

<table>
<thead>
<tr>
<th>State</th>
<th>Visitor Trips</th>
<th>International Visitor Nights</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>-10%</td>
<td>0%</td>
</tr>
<tr>
<td>VIC</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>QLD</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>SA</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>WA</td>
<td>-5%</td>
<td>-5%</td>
</tr>
<tr>
<td>TAS</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Results for year to September 2013.
Source: ABS OAD, TRA, Deloitte Access Economics.

The Chinese Tourism Law

Looking forward, the introduction of the Chinese Tourism Law is likely to result in a slightly more restrained outlook for Chinese visitor arrivals over the next year. The law, which took effect on the October 1 2013, prohibits tours sold at or below cost; forced purchases as part of tour packages; and breach of contract by tour operators. The law is designed to improve the visitor experience for Chinese travellers and the Australian tourism industry is broadly supportive of the reform.

The short-term impact of the law in Australia has been a surge in visitors from China in the month prior to its introduction and a decline in visitors in the months afterwards, with visitor arrivals falling by 9.4% in November relative to November 2012, partly due to time-shifting of purchases. Visitor arrivals in December grew by 2.8%, indicating that November’s result was likely to have been impacted by time-shifting of purchases, although still suggesting that the law was having an impact on arrivals.
The longer term impact will depend to some degree on how vigorously the law is enforced and how tour operators adapt their behaviour. However, if the law results in a higher quality experience this will in turn result in higher demand over time, including for repeat visits.

The law is also likely to accelerate the trend towards independent travel by increasing the price of package tours. As a result, Deloitte Access Economics is forecasting that while the law will have a material short term impact on visitor arrivals, the impact of the law will fade over time.

Looking forward, while the Chinese Tourism Law is likely to result in a more moderate short term outlook for Chinese visitor arrivals, the expansion of low cost carriers to South East Asia and the recovery of the European and North American economies mean that the broader outlook for visitor arrivals remains favourable.

As Chart 2.7 illustrates, while China and other Asian markets are forecast to account for the majority of growth in visitor arrivals over the next three years, increasing visitor arrivals are also expected from Europe and North America. China is forecast to account for 20% of the growth in visitor arrivals over the next three years, and the rest of Asia is forecast to account for a further 38%. However, Europe and North America are forecast to account for a further 18% of growth in visitor arrivals, with the remaining 23% coming from New Zealand and other countries.

Overall, Deloitte Access Economics forecasts growth in international visitor arrivals to remain similar over the next three years. The growth in the Asian middle class coupled with economic recovery in US and Europe and a moderation in the value of the Australian dollar should see international visitor arrivals continue to grow strongly, although growth in 2014 will be temporarily impacted by the introduction of the Chinese Tourism Law. The latter has meant that our forecasts have been marginally reduced, but the outlook for international arrivals remains strong with international visitor trips forecast to grow by 4.3% and visitor nights by 4.8% p.a. on average over the next three years.

*Results and forecasts are for the year to September.
Source: ABS OAD, TRA, Deloitte Access Economics.
Grey Nomads

The economic and fiscal consequences of the baby boomer generation entering retirement age have been the subject of considerable discussion and policy attention in recent years. But what will it mean for Australia’s tourism and accommodation sector?

Visitor nights

The popular image of baby boomers retiring is that of the so-called ‘grey nomad’ retiree couple packing up the campervan and driving off into the sunset to experience Australia.

To some extent this image is borne out in domestic tourism data. In terms of age, ‘grey nomads’ are most likely to fall in 65 and above and 45-64 years groups. As Chart 2.8 illustrates, these two groups had the highest overall average domestic overnight stays per person. Both groups spent an average of 17 nights travelling domestically in September 2013, compared to 14 nights for those aged 25-44 and 12 nights for those aged 15-24.

Chart 2.8: Domestic Overnight Stays Per Person

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Nights Per Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-24</td>
<td>12</td>
</tr>
<tr>
<td>25-44</td>
<td>14</td>
</tr>
<tr>
<td>45-64</td>
<td>17</td>
</tr>
<tr>
<td>65+</td>
<td>17</td>
</tr>
</tbody>
</table>

There were also clear differences in travel purpose across age groups. For those aged 65 and over, 40% of visitor nights were spent to visit friends and relatives compared to 29% for the rest of the population. Conversely, those aged 65 and over spent only 4% of visitor nights on business, compared to 19% for the rest of the population.

Implications for accommodation providers

As the baby boomers enter retirement, understanding their travel preferences will be important for accommodation providers. Consistent with the grey nomad, 56% of those aged 65 and above travel as an adult couple compared to 23% of the rest of the population. Conversely, those aged 65 and over spent only 4% of visitor nights on business, compared to 19% for the rest of the population.

While those aged 65 and over are less likely to use paid accommodation, they are not all using caravan parks either. Those aged 65 and over spent 20% of visitor nights in a hotel, resort, motel or motor inn compared to 28% for the rest of the population and 15% in a caravan park or commercial camping ground compared with 10% for the rest of the population. They were also more likely to stay with friends and relatives than other age groups.

Thus, as more of the population moves into older age groups average visitor nights per person will grow (see Chart 2.8) but average nights in paid accommodation are likely remain relatively constant. Those aged 65 and over are less likely to stay in paid accommodation, but given they venture on longer trips, they actually spend a similar number of nights in paid accommodation to the population as a whole. However, nights in paid accommodation are higher for those aged 45-64.
The data also suggests that those aged 65 and over are less likely to visit major capital city destinations. Only 24% of trips were to Sydney, Melbourne, Brisbane, Adelaide and Perth compared to 29% for the rest of the population. This suggests that those aged 65 and over have a relative preference for smaller cities and regional destinations compared to other aged groups.

Finally, those aged over 65 tend to take longer trips. This is driven by two factors. First, they tend to have more stopovers, with 16% of their trips involving two or more stopovers, compared to 9% of trips for the rest of the population. Secondly, for a given number of stopovers, they tend to stay for longer. Overall, those aged 65 and over had an average of 5.2 visitor nights per trip, compared to 3.5 nights for the rest of the population. As more baby boomers leave the workforce, there is likely to be a further shift towards staying for longer.

While these statistics provide an interesting picture of travel by older groups, the travel dynamics of this market are likely to shift over time. For example, it remains to be seen how the retirement of increasing numbers of relatively wealthy baby boomers, with significant superannuation assets, will impact travel propensity and accommodation patterns over time.
Hotel market outlook

Overview

2013 was a solid year for the Australian hotel market, with occupancy rates averaging 66.8% – up a percentage point from the previous year – and room rates growing 2.3% p.a. over the 12 months to December. As is typical, capital cities outperformed regional markets in terms of room rate growth, although overall capital city performance was weighed down by softer conditions in Perth and Brisbane. It was a year that saw markets like Perth and Brisbane draw breath – receding from their resource sector-driven highs – and markets like Hobart and Melbourne pick up pace. Three out of the nation’s eight capital cities achieved 10-year record highs, including the two majors of Sydney and Melbourne.

The outlook for 2014 and beyond will continue to be characterised by a diverse set of influences which are impacting different markets to varying degrees. Improved conditions for inbound and domestic leisure travel are being counterbalanced by a softer outlook for mining-related corporate travel – with impacts on individual markets governed by their respective exposure to these forces. The strength of the hotel and room supply pipeline also varies markedly across the country, with no projects on the horizon in several markets and relatively significant growth forecast for others.

Nationally, occupancy rates are forecast to climb to 68.8% in the year ending December 2016 – two points up from today’s levels and further into unchartered territory. As has been the case for some time – and despite a relatively buoyant supply pipeline – the near term outlook sees demand outpacing supply by a solid margin. Indeed, over the forecast horizon, room nights sold are forecast to grow at 2.2% p.a., while room nights available are projected to grow at 1.2% p.a.

The outlook for hotel performance overall is one of demand growing at nearly twice the pace of supply over the next three years and occupancy rates being propelled further into record territory as a result.

In net terms, the long-term supply pipeline remains similar to our last Outlook, with 66 projects identified across the country at varying stages of development. That said, the pipeline has thinned out slightly for the 2014 and 2015 calendar years, as developments were either completed in the past six months or pushed back beyond December 2015. Conversely, a number of new announcements in Perth, Melbourne and Brisbane have strengthened projected supply growth for calendar 2016. Timing on many of these projects will no doubt shift and so full realisation is far from guaranteed. While there are a diverse range of projects on the cards, the investment pipeline is predominated by serviced apartments and mixed use developments of a mid-scale standard or below.

With demand outpacing supply across nearly all markets – and occupancies pushing into unchartered territory in several – the outlook for room rate growth remains positive. Average room rates are projected to grow at 3.4% p.a. over the next three years – a forecast that moderates over the outlook period, given the supply additions expected in 2016. When forecast growth in occupancies is overlayed, RevPAR is projected to grow 4.5% over the period to December 2016 – marginally slower than the pace observed in 2013, but nevertheless faster than its ten-year trend average.

Chart 3.1: Hotel outlook, Australia

Source: Deloitte Access Economics based on: ABS Small Area Accommodation data and STR Global

Nationally, room rates and RevPAR are forecast to continue to grow at above average pace over the outlook period, increasing at rates of 3.4% p.a. and 4.5% p.a., respectively.
Sydney
The upswing in the Sydney city hotel market that began in the first part of 2013 turned into a surge in the second half of the year, with occupancy rates averaging 86.5% for the year. This growth in occupancy was accompanied by room rate growth of 4.4% for the year to December 2013, with average room rates reaching $203. The combination of rates and occupancy growth pushed RevPAR to grow 6.7% – three times faster than the preceding 12 month period.

The rebound has been led by 14% growth in international visitor nights during the year to September 2013 – growth which was strongest for the leisure segment of the market (VFR and holidaymakers). Collectively, these two account for 36% of nights in paid accommodation in Sydney. While domestic nights continued their decline in 2013, the decline was much slower – around 2.3%, relative to 14.5% in 2012.

Looking forward, the demand outlook for Sydney remains strong. As discussed above, forecast growth in international arrivals remains robust and Sydney is among the most significant beneficiaries of this. While a number of high profile projects are underway in Sydney, the net addition to the city’s room stock remains modest. The three largest developments in Sydney – the Crown development at Barangaroo, the International Convention Centre hotel (now scaled back to 600 rooms) and the Four Points Sheraton expansion – represent almost 1,200 rooms between them. That said, none of these will come online in 2014 and only 230 rooms, or 1.2% of the current stock, are scheduled to come online over the next 12 months. As a result, Sydney’s occupancy – already the nation’s highest – is likely to push further into record territory, increasing to 88.8% by year end December 2016.

These market dynamics will place further pressure on room rates, which are forecast to grow 4.0% over the three years to December 2016 when they will reach $228. Reflecting the combined strength of room rate and occupancy growth, RevPAR is forecast to grow 4.9% p.a. over the forecast horizon.

Interestingly, Sydney has not experienced the same room rate levels as other destination cities around the world (such as Hong Kong, New York, London, Singapore, Dubai), despite higher occupancies and operating costs. These international comparisons suggest scope for further growth.

Chart 3.2: Hotel outlook, Sydney

Source: Deloitte Access Economics based on: ABS Small Area Accommodation data and STR Global

Melbourne
After a flat 2012 calendar year, Melbourne posted strong growth in occupancy and room rates, with both recording trend growth of 4.2% for the year to December 2013. November is a consistently strong month for Melbourne with the Melbourne Cup Carnival, and in 2013 average occupancies passed the 90% mark for the month. July, August and October were also strong months, posting occupancies of 86%, 89% and 87% respectively.

Demand growth was driven by a 21% increase in domestic holiday nights for the year to September 2013, 10% growth in visitor nights for education or employment and 15% growth in VFR travellers (noting the low conversion to nights in paid accommodation). At the same time, growth in domestic corporate travel was flat. International visitor nights to Melbourne reflect a similar narrative to domestic, growing overall by 14% for the year to Q3 2013, again led by VFR and holiday makers.
Following the Oaks Hotel and Tune Hotel openings in the second half of 2013, the Melbourne supply pipeline has around 936 rooms coming online by the end of 2016. The largest individual additions to the pipeline over the next three years are expected to be the Sheraton Melbourne, which is due to open at the end of March 2014, and the Parkroyal Docklands, scheduled for a 2016 opening. Despite these additions, demand growth is forecast to outstrip inventories, propelling occupancies further into unchartered territory. Indeed, Melbourne’s average occupancy rate is forecast to increase to 85.7% by the year to December 2016. Like Sydney, Melbourne’s hotels are nearing capacity several nights a week, affording hoteliers the opportunity to drive rate growth at above average pace. Room rates are projected to grow 3.8% p.a. over the three years to December 2016, underpinning RevPAR growth of 4.4%.

**Chart 3.3: Hotel outlook, Melbourne**


Brisbane

As highlighted in our July 2013 Outlook, dual forces are weighing the performance outlook for Brisbane. The slowdown in growth in the mining sector is curtailling demand for short term accommodation, with domestic corporate travel down 13% and international corporate travel down 8% in the year to September 2013, compared with the corresponding 2012 period. At the same time, Brisbane’s supply pipeline – as a share of current rooms – is greater than both Sydney and Melbourne.

Reflecting these forces, occupancies averaged 78.7% for the 2013 calendar year, down 1.5 percentage points on 2012 and around two percentage points on their late 2011 peak. Average room rates were effectively flat.

Over the first half of 2014, Brisbane hotel supply is expected to grow by 5%, headlined by the Four Points by Sheraton Brisbane, and NEXT Hotel Brisbane coming on-line in March and April, respectively, in time for the G20 summit later this year. More properties are expected to open their doors in the first half of 2016.

Occupancies in Brisbane are projected to ease slightly then recover over the next three years, reaching 80.2% for the year to 2016, a moderate increase on today’s levels. With demand solid but slowing and supply growth strong, the room rate pressure forecast for Sydney and Melbourne is unlikely to materialise in Brisbane. That said, the consolidation seen over the last 18 months is forecast to give way to continued room rate growth – 3.4% p.a. over the outlook period. With occupancies dipping before a recovery, RevPAR is forecast to grow at 4.3% p.a.

**Chart 3.4: Hotel outlook, Brisbane**

Perth

A decline in domestic corporate travel saw Perth’s occupancy rates for the year to December 2013 fall to 84.2%, after a record 2012. On a trend basis, occupancy bottomed out at 83.3% for the year to September 2013, with the last few months of the year posting more stable figures, on a seasonally adjusted basis. As emphasised in our July 2013 Outlook, Perth’s hotel market remains largely at the whims of the construction-phase of the mining boom – 44% of all nights in paid accommodation are accounted for by corporate travellers, with the lion’s share of this travel being resources-related. That said, Perth’s development as a leisure tourism destination shows promising signs, as domestic visitor nights spent by holidaymakers was over 1.4 million for the year to Q3 2013, the highest levels of visitation for that market segment since the GFC.

From the historical highs of 2012, occupancy rates are forecast to ease further over the next three years, declining to 79.4% in the year to December 2016. While corporate travel has slowed, it remains elevated relative to historical levels. The main driver of the occupancy easing is significant supply additions expected over the forecast period – calendar year 2016, especially. Combined, these projects are expected to add significantly to the Perth City’s hotel stock over the next three years. Despite this, the residual strength of the mining sector will continue to underpin room rate growth, with rates forecast to grow at an average annual rate of 4.6% over the next three years. However, RevPAR will be weighed down by the occupancy easing, with RevPAR projected to grow by 2.6% p.a.

Adelaide

After easing over the first six months of 2013, occupancies in Adelaide rebounded over the latter part of the year, to finish on par with the previous couple of years at 75.4%. This was a result of declining corporate travel – both domestic and international – being offset by increased leisure numbers. While demand continues to creep up – albeit at a pace slower than the other capitals – so too does supply, with last year’s opening of the 117 room Quest on Franklin to be followed by a further four properties in 2014. This represents, in aggregate, a 13% addition to the city’s room stock. The largest of these, the Ibis Adelaide, is due to open in May and will bring over 300 rooms on line.

After edging up over the first part of 2014, occupancies in Adelaide are expected to ease as the additional room stock comes onto the market. However, from there they will increase modestly over the outlook period, reaching 75.7% for the year to December 2016.

With occupancies stable at levels below the other capitals, Adelaide’s room rates came off 1.3% for the 2013 calendar year. The outlook is for modest growth, with room rates projected to growth at 2.4% p.a. to December 2016, reaching an average $153 in calendar 2016; well below the rates observed in the other capitals. RevPAR growth is projected to be similarly subdued, growing at an average pace of 2.5% p.a. over the next three years.

Chart 3.6: Hotel outlook, Adelaide

Source: Deloitte Access Economics based on: ABS Small Area Accommodation data and STR Global
Canberra

Demand for short stay accommodation in Canberra continues to stagnate, with performance belying expectations over 2013. Room nights sold contracted 3% over calendar 2013—a soft outcome given it was an election year. More so than any other State capital, Canberra’s hotel market is heavily reliant on the domestic corporate traveller. In fact, half of the city’s hotel users are domestic business travellers. With this travel heavily orientated toward the government services sector, the increasing fiscal restraint being exercised by the Federal Government is weighing on the hotel sector in the nation’s capital.

Compounding the impacts of sluggish demand growth is a forecast addition of 300 rooms to Canberra’s hotel stock in 2015—6% growth—on the back of the opening of the new Acton Hotel last November.

Occupancy rates averaged 67.2% over calendar year 2013, although the trend was sharply downward. From 72.9% in the first quarter, the average occupancy in the nation’s capital fell to 65.3% in fourth quarter. Over the next three years occupancies are projected to ease marginally, averaging 66.7% for calendar 2016.

With occupancy rates low and easing, pressure on room rates was modest over 2013—in fact, rates eased by an average 2.5%. Looking forward, the scope for room rate growth will continue to be limited by prevailing capacity and the modest outlook for demand growth. Room nights sold are projected to grow by a relatively modest 1.8% p.a. over the three year outlook period as government sector activity gains pace. As a result of these benign market conditions, room rates in Canberra are projected to increase at an average annual rate of 2.8% over the outlook period. With occupancies easing, RevPAR is projected to grow at 2.5% p.a. to calendar year 2016.

Darwin

Room rates in Darwin continued to grow at the nation’s fastest pace over the second half of 2013. After posting growth of 11% over the year to May, growth moderated to 7.7% over the year to December, with the city’s average room rate increasing to $168. Resource-sector construction activity continues to provide a strong underpinning to demand, while also reducing the seasonality inherent to Australia’s northern-most capital (wet season occupancies are around 20 percentage points higher than a decade ago). While rate growth was strong, occupancies drew breath, nudging up just 0.7% to 78.4% for the year to December. This was largely a reflection of increased supply entering the market—the stock of formal short stay accommodation grew 4% for the year, with other initiatives such as the fly-in-fly-out (FIFO) village at Howard Springs (which has now reached capacity) also contributing to the available accommodation options.

Looking forward, the outlook is characterised by strength in both demand and supply growth. Although the INPEX Ichthys project has reached its peak construction activity, it is nevertheless expected to continue to drive demand for hotel rooms over the outlook period. Some of the initial hotel demand has shifted to the purpose-built FIFO village at Howard Springs.

Three out of the nation’s eight capital cities achieved 10-year record high occupancies in 2013, including the two majors of Sydney and Melbourne.
On the supply front, while there have been some changes to the specifications of several individual projects, the overall pipeline remains similar to six months ago, with a net addition of 7.5% of the level of current stock expected. Soho apartments and Quest Berrimah are both expected to open by the end of 2014. Ausco Modular (under the Stayover brand), also has plans to expand its current capacity towards the end of 2014.

As a result, occupancy is expected to remain relatively constant over the next three years, averaging 78.2% over calendar year 2016, as demand growth is soaked up by the additional capacity. Rates are forecast to maintain a robust pace of growth, albeit slower than the pace witnessed over the last two years. Average room rates are projected to grow at 4.0% p.a. over the period to end-2016, reaching $190 in calendar year 2016. RevPAR growth is forecast at 3.9% p.a. over the next three years.

**Chart 3.8: Hotel outlook, Darwin**

Source: Deloitte Access Economics based on: ABS Small Area Accommodation data and STR Global

**Gold Coast**

Improved conditions for leisure travel continued to see an improvement in hotel performance among Gold Coast properties. While the sharp jump in occupancies witnessed in 2012 (around 6%) was not repeated, the utilisation of short stay accommodation continued to improve, with occupancy climbing a further 2.5% in 2013 to average 71.7% for the year. Room rates also pushed higher although with significant capacity remaining in the market, price pressure was limited and rates grew at a modest 2.5% for the calendar year.

With no supply additions forecast over the next three years, the outlook is characterised by modest demand growth driving modest occupancy growth. More so than any other market, the Gold Coast relies on domestic holidaymakers – some two-thirds of nights in paid accommodation are accounted for by domestic leisure. Although conditions continue to trend favourably for domestic leisure, the gain in pace remains moderate.

Accordingly, occupancy growth is expected to be restrained, with average levels increasing to 72.5% by calendar year 2016. Reflecting these same forces, room rate growth is forecast to be solid, but not outstanding, with rates growing 3.2% p.a. over the three years to December 2016. RevPAR is in turn projected to grow by 3.5% p.a. over the outlook period.

**Chart 3.9: Hotel outlook, Gold Coast**

Source: Deloitte Access Economics based on: ABS Small Area Accommodation data and STR Global

**Tropical North Queensland**

2013 saw a continuation of the improvement in occupancy rates which commenced in early 2011, with a further 2% occupancy growth recorded for the calendar year. Strong growth in domestic leisure tourism was aided by pockets of growth in both domestic and international corporate travel. Although occupancy rates have rebounded strongly from the lows of 2010, they remain below Australia’s other markets with consequently less room rate pressure than observed elsewhere. In fact, room rates grew by just 1.3% on average over calendar 2013 – that is, they fell in real terms.
With no supply increases in the near term pipeline, the outlook for occupancy rates in Tropical North Queensland is for continuing improvement over the next three years. Over the period to calendar year 2016, occupancy rates are forecast to grow 1.3% p.a. to reach 64.2%. Despite improving conditions on Australia’s north east coast, capacity levels in hotel markets across Tropical North Queensland will see subdued growth in room rates, with a forecast increase of 3.5% p.a. Given the increase in occupancies, RevPAR is forecast to grow at a healthy 4.9% over the outlook period.

Chart 3.10: Hotel outlook, Tropical North Queensland

Source: Deloitte Access Economics based on: ABS Small Area Accommodation data and STR Global

Hobart

As earlier parts of the discussion in this Outlook note, there were a lot of good news stories for Tasmanian tourism in 2013. Leisure travel to the State grew strongly, with Tasmania’s visitor survey revealing 22% growth in visitation by domestic holidaymakers; and Tourism Research Australia’s International Visitor Survey recording 12% growth in visitation by international holidaymakers. The strength of travel to the State was reflected in hotel market performance, with average occupancies growing 3.7% over calendar 2013 and room rates 4.6% – the fastest rate of any capital in 2013 other than Darwin.

With no supply additions anticipated over the outlook period and with room nights sold projected to grow at a solid 2.8% p.a., average occupancy rates are projected to climb from 73.4% to 77.7% over the outlook period. While growth in room rates is forecast to moderate from the high posted in 2013, it is nevertheless expected to remain robust as Tasmania’s appeal to the leisure segments continues to drive visitation to the state. To December 2016, room rates are forecast to grow by 3.0% p.a., pushing RevPAR higher at an average pace of 5.0% p.a.

Chart 3.11: Hotel outlook, Hobart

Source: Deloitte Access Economics based on: ABS Small Area Accommodation data and STR Global

Deloitte Access Economics’ Tourism and Hotel Market Outlook – 2014 reports on the performance of Australia’s tourism and hotel accommodation sector, based on data published by the Australian Bureau of Statistics (ABS) and extrapolated through information from Tourism Research Australia (TRA) and other sources.

Forecasts to December 2016 are presented, based on projections generated from our in-house tourism forecasting model and hotel accommodation sector model. These projections draw on Deloitte Access Economics’ macroeconomic forecasts, as reported in our quarterly Business Outlook publication.
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