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TOURISM RESEARCH AUSTRALIA

# TOURISM INVESTMENT MONITOR 2017

October 2017

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Publication date: October 2017



Cover image: *Aurora Melbourne Central* Developed by UEM Sunrise

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# ABOUT THIS REPORT

Tourism Research Australia's (TRA) *Tourism Investment Monitor 2016–17* reports on the number and value of significant projects (valued at over $20 million) in Australia's tourism investment pipeline in 2016–17.

**TOTAL INVESTMENT PIPELINE $37.8b**

**204 PROJECTS**

| | | |
|---|---|---|
| **PROJECTS** | | |
| **Aviation** | **Arts, Recreation & Business Services** | **Accommodation** |
| **$10.1b** | **$17.0b** | **$10.8b** |
| 19 airport infrastructure projects | 83 infrastructure projects | 102 accommodation projects<br>19,730 new rooms |
| **DISTRIBUTION** | | |
| Capital cities accounted for 11 projects valued at $9.5b.<br>Regional airports accounted for 8 projects valued at $610m. | Capital cities accounted for 64 projects valued at $14.8b.<br>Regional areas accounted for 19 projects valued at $2.2b. | Capital cities accounted for 77 projects valued at $9.2b.<br>Regional areas accounted for 25 projects valued at $1.6b. |

**Mixed-use**, which sits outside the pipeline, was worth **$35.9b** with the potential to add 19,910 rooms to accommodation supply.

## CHANGES TO THE METHODOLOGY

The results in this report are based on a different methodology to previous reports, and as such, this report is not comparable with previous editions. Changes include the following:

- State government agencies have been consulted to ensure that the pipeline is as comprehensive as possible
- There has been a shift to financial year reporting to make this report consistent with other TRA publications
- Aviation Fleet has been removed from the tourism investment pipeline due to significant volatility in the data caused by a reliance on average exchange rates
- Accommodation transactions have been removed as they represent a changing of ownership, rather than an expansion of the accommodation supply.

For further information regarding the methodology, please see Appendix 1.

## KEY FINDINGS

There were 204 projects in the tourism investment pipeline in 2016–17, valued at $37.8 billion:

- Arts, recreation and business services accounted for the most value – $17.0 billion
- Aviation infrastructure projects accounted for $10.1 billion
- Accommodation projects were valued at $10.8 billion, with the potential to add an additional 19,730 rooms to the accommodation sector.

Investment remained strong in each of the three main sectors in the tourism industry:

**Arts, recreation and business services** contributed 83 projects to the investment pipeline. These projects were worth a combined $17.0 billion, with $2.2 billion worth of investment set for regional areas. Large sporting projects continued as the main driver in this category, with 35 projects worth $7.6 billion in the pipeline for the development of new sporting facilities and upgrading of existing infrastructure.

The **aviation infrastructure** pipeline had 19 projects worth $10.1 billion. While much of this was due to the proposed Western Sydney Airport at Badgerys Creek ($5.3 billion), almost half of all aviation investment projects were at smaller regional airports.

Australia's geographic isolation from the rest of the world, plus its large land mass makes aviation infrastructure the main component of Australia's tourism transport network, and the main recipient of investment. However, in response to increased visitation and increased consumer expectations, there is a continued push for cities to upgrade their seaports. This type of investment is evident, with the $1 billion upgrade to the Spirit of Tasmania and terminals currently under construction.

**Accommodation** continued to be a focal point for investment, with a push to provide more accommodation for visitors, especially given the high occupancy rates in a number of capital cities. In 2016–17, there were 102 stand-alone accommodation projects worth $10.8 billion. These projects have the capacity to add 19,730 rooms to accommodation supply. This is in addition to the 18 projects that opened in the period, adding 2,650 rooms to supply.

The trend towards **mixed-use projects** continued to bolster the accommodation pipeline, with 90 projects containing an accommodation component. While these projects sit outside the pipeline due to a majority of the $35.9 billion in investment not being tourism related, they have the potential to add 19,910 rooms to short-term accommodation, thus taking the potential number of rooms in the pipeline to 39,640 rooms.

The strength of the investment pipeline is supported by continued interest from foreign investors in Australia, particularly around accommodation projects. This complements the work of all three levels of government and their focus on facilitating the development of sporting and aviation infrastructure.

**Image: Gold Coast Airport**
**Image courtesy of Gold Coast Airport**

# AUSTRALIA'S TOURISM ENVIRONMENT

Tourism continues to be a standout performer in the Australian economy, providing an attractive environment for investors. Evidence of this strong performance in recent years (between 2011–12 and 2016–17) includes:

- Nights spent in hotels, motels and serviced apartments – up 21% since 2011–12 to 120 million nights in 2016–17
- Inbound passengers on airlines – up 36% to 20.2 million passengers
- Passengers on domestic flights – up 7.8% to 59.3 million passengers
- Total tourism spend in Australia – up 29% to $110.2 billion.

Off the back of this increased demand, there has been a substantial increase in room supply, with research by Colliers suggesting that since 2010, approximately 23,000 rooms have entered the market in capital cities. The industry continues to thrive in the cities, with accommodation establishments in Sydney, Melbourne and Hobart operating at average rates of above 80% occupancy (STR Global, 2017).

### FIGURE 1: OCCUPANCY RATES FOR KEY MARKETS AND PERFORMANCE FORECASTS

| | 2011 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **SYDNEY** | 80.0% | 89.0% | 89.0% | 89.2% | 89.2% |
| **MELBOURNE** | 75.3% | 87.6% | 87.6% | 87.0% | 86.3% |
| **AUSTRALIA** | 65.3% | 69.7% | 70.3% | 70.7% | 70.8% |

FORECASTS

Source: ABS, Survey of Tourist Accommodation and Deloitte, Tourism and Hotel Market Outlook.

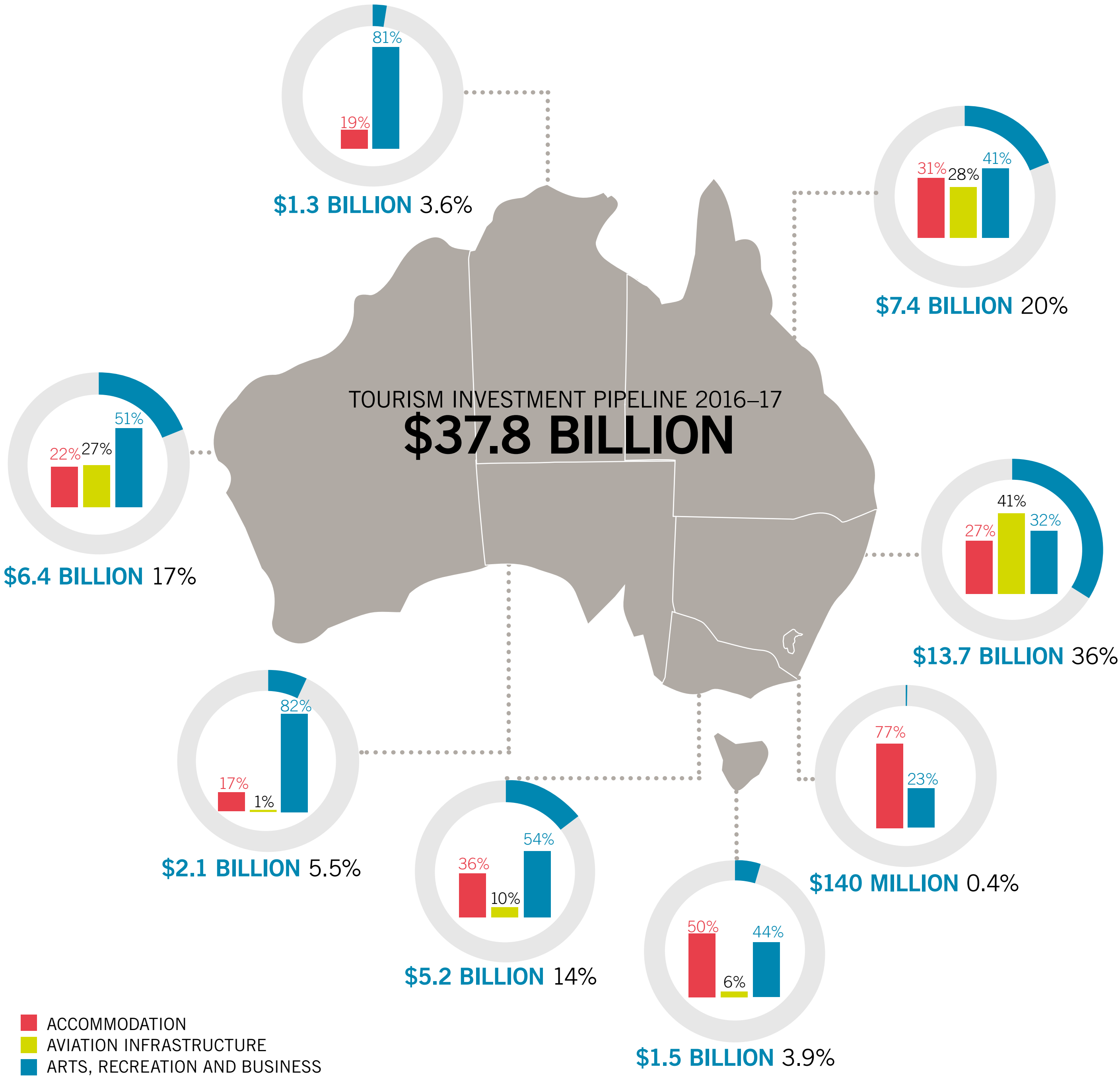
Future investment prospects for the industry are also promising, driven by predicted strong demand from international visitors. *Tourism Forecasts* (TRA, 2017) suggests that tourism expenditure will continue to grow at a rate of 6.3% per annum to reach $224.8 billion (nominal terms) by 2026–27. The growth in visitors is expected to create demand for:

- more than 29 million inbound available seats on airlines – 44% more than in 2016–17
- more than 174 million nights in hotels, motels and serviced apartments – 45% more than in 2016–17
- more than 933,000 short-term places for international students in Australia's educational institutions.

Consequently, a strong level of investment in Australia's tourism industry will be important into the future to ensure supply can keep pace with growth in demand, and to cater to the increased expectations of consumers.

Image: Barangaroo with skyscrapers and park in Sydney Australia, view from ferry
Image courtesy of iStock

**FIGURE 2: TOURISM INVESTMENT PIPELINE – VALUE OF INVESTMENT BY SECTOR AND STATE/TERRITORY, 2016–17**



# TOURISM INFRASTRUCTURE – AUSTRALIA'S ACCOMMODATION MARKET 2016

Buoyant economic conditions along with significant visitor growth and substantial investment in tourism infrastructure saw the Australian hotel market continue to demonstrate strong trading fundamentals in 2016. Year-on-year volumes were lower, however, this was expected following a record breaking 2015 during which a number of top five-star hotels changed hands.

Foreign investor activity remained high with overseas capital representing just over half of total transactions in 2016. Chinese investors continued to show a strong appetite for Australian hotel assets with Chinese capital behind some of the biggest transactions of 2016.

While the volume of sales decreased by about a third on 2015 levels, this was largely due to lack of stock coming on to the market. As a result, investors showed greater interest in opportunities outside of CBD locations resulting in a higher number of regional transactions.

In terms of hotel performance, Sydney and Melbourne were the strongest performers in 2016.

Sydney continues to lead hotel performance across the country. It secured record occupancy levels in 2016 and has enjoyed increases in revenue per available room (RevPAR) annually for the last seven years. Unprecedented growth in visitor numbers, underpinned by buoyant economic conditions, resulted in a level of new development in Sydney unmatched for decades.

Melbourne was the second highest performer in 2016. Occupancies remain very strong, which provide good fundamentals for the market's ability to absorb the new wave of supply coming out of the Melbourne pipeline over the next two years.

Hobart and Tropical North Queensland (TNQ) have also been standouts in terms of hotel performance in 2016. The TNQ hotel market has shown strong growth for the past six years, accompanied by increases in room rates and this trend is expected to continue. The downturn in the mining boom has seen adverse effects in the mining-related business markets of Perth, Darwin and Brisbane. This impact has been compounded by a wave of new supply.

A record number of direct air services from China has come out of the Air Services Agreement signed by the Chinese and Australian governments. This, along with a streamlining of visa processing for Chinese visitors, is expected to drive continued high growth in visitor numbers in the coming years.

Strong growth in both international and domestic visitation means that tourism is one of the fastest growing sectors of the Australian economy. It continues to benefit from growth of the Asian middle class, with 2016 seeing double-digit visitor growth from China, Singapore, Japan, Malaysia, South Korea and India. This, along with Australia's financial and political stability and uninterrupted economic growth for over two decades, has seen Australian capital cities experience record levels of investment in tourism infrastructure.

**Emma McDonald**
**A/g Senior Investment Specialist, Tourism Infrastructure**
**Austrade**

Image: Adelaide
Image courtesy of iStock

# INVESTMENT CATEGORIES AND THEIR PERFORMANCE

# STAND-ALONE ACCOMMODATION

| VALUE | ROOMS | PROJECTS |
|---|---|---|
| $10.8b | 19,730 | 102 |

In 2016–17, the accommodation investment pipeline was worth $10.8 billion and was spread across 102 projects. Collectively, these projects have the capacity to add over 19,730 rooms to national accommodation supply.

Reflecting substantial growth in demand, capital cities have seen the largest increases in the accommodation pipeline, with 77 projects valued at $9.2 billion that have the capacity to add 15,960 rooms. Some of the largest projects in terms of size include:

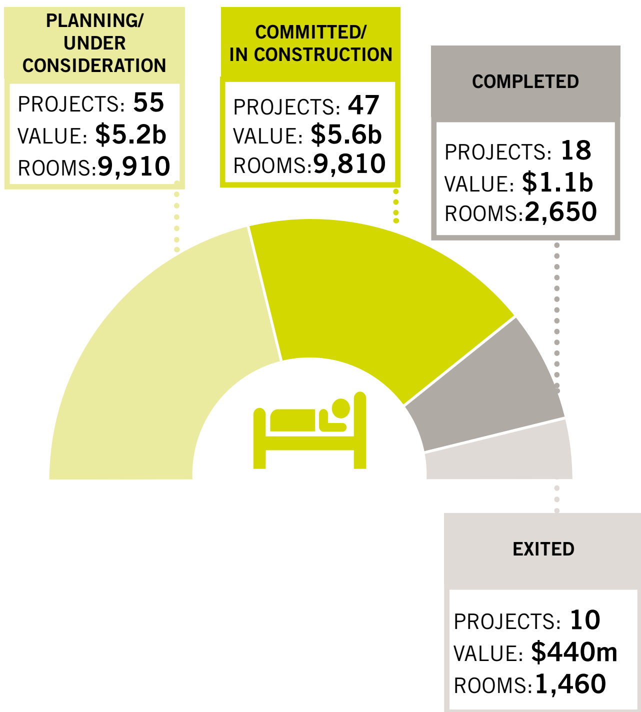
- Sofitel Sydney, Darling Harbour – 590 rooms
- Pacific Point, Surfers Paradise – 580 rooms
- Westin Perth – 368 rooms.

While capital cities represent the bulk of investment activity, investment in regional areas remains strong, with 25 projects valued at $1.6 billion having the potential to add 3,760 rooms to regional supply. Major regional projects include:

- Rydges Tradewinds redevelopment, Cairns – 311 rooms
- Westin Coolum Resort and Spa – 220 rooms
- Pullman Trinity Point Resort, Lake Macquarie – 215 rooms.

The accommodation investment pipeline had 47 projects in the *committed/under construction* phase. These projects have a total value of $5.6 billion and the potential to add 9,810 rooms to accommodation supply. There are an additional 55 projects in the *planning/under consideration* phase worth $5.2 billion. These projects have the potential to add 9,910 rooms to accommodation supply.

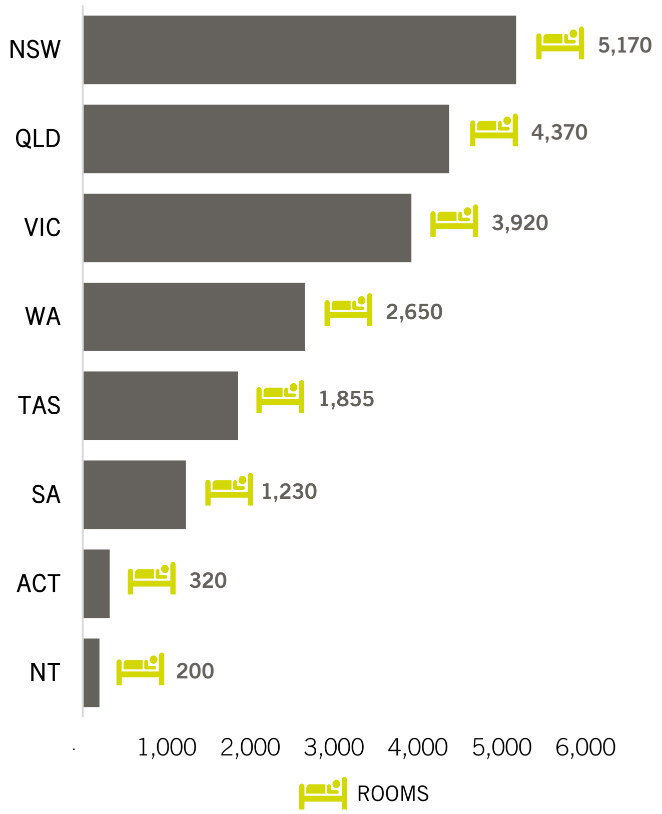
In 2016–17, 10 projects worth $440 million were abandoned, with 1,460 rooms removed from the pipeline. Over the same period, 18 projects (worth $1.1 billion) were completed, adding 2,650 rooms to accommodation supply.



In terms of location, states on the eastern seaboard had the largest pipelines:

- New South Wales – 28 projects worth $3.7 billion, 5,170 rooms
- Queensland – 19 projects worth $2.3 billion, 4,370 rooms
- Victoria – 21 projects worth $1.9 billion, 3,920 rooms.

**FIGURE 2: ADDITIONAL ROOMS IN THE ACCOMMODATION INVESTMENT PIPELINE BY STATE, 2016–17**




The tourism investment pipeline methodology is designed only to track investment projects valued at over $20 million. However, it should be noted that there are many accommodation investments valued under this $20 million threshold. STR Global data indicates that 750 rooms were opened in smaller investments in 2016–17. Additionally, at least 1,820 rooms remain in small-scale investments which sit outside of the accommodation pipeline. This indicates that as smaller investment projects are not tracked to the same extent as larger projects, the accommodation pipeline will underestimate the true level of investment activity.

# MIXED-USE ACCOMMODATION

**VALUE** **$35.9b**

**ROOMS** **19,910**

**PROJECTS** **90**

While investment in accommodation remains strong, there is a continued shift towards mixed-use projects that combine tourism accommodation with other non-tourism components such as residential housing or office space.

The growing popularity of mixed-use developments in Australia reflect what is happening in Asian markets such as Singapore, Hong Kong and China (JLL, 2017). This could be aligned with the high level of foreign investment in the mixed-use investment pipeline, particularly in regard to large Asia-based companies such as Toga Far East, Adina and Mandarin Oriental. However, domestic players such as Mantra and Meriton continue to feature in the mixed-use pipeline.

In 2016–17, there were 90 projects in the mixed-use pipeline worth a total $35.9 billion. While a significant part of this money goes to non-tourism components, these projects have the potential to add 19,910 rooms to accommodation supply.

Regional areas will benefit greatly from mixed-use investment, with 19 projects worth $6.0 billion and the capacity to add 3,590 rooms. This is bolstered by a number of large integrated resort projects along the northern coastline. Some of the most significant projects include:

- Great Keppel Island Resort – $2.0 billion, 250 rooms
- Ella Bay development – $1.4 billion, 860 rooms
- Capricorn Integrated Resort, Fitzroy – $600 million, 300 rooms.

The remaining 71 projects (worth $29.9 billion) are in capital cities, with the capacity to add 16,320 rooms. Some of the largest projects include:

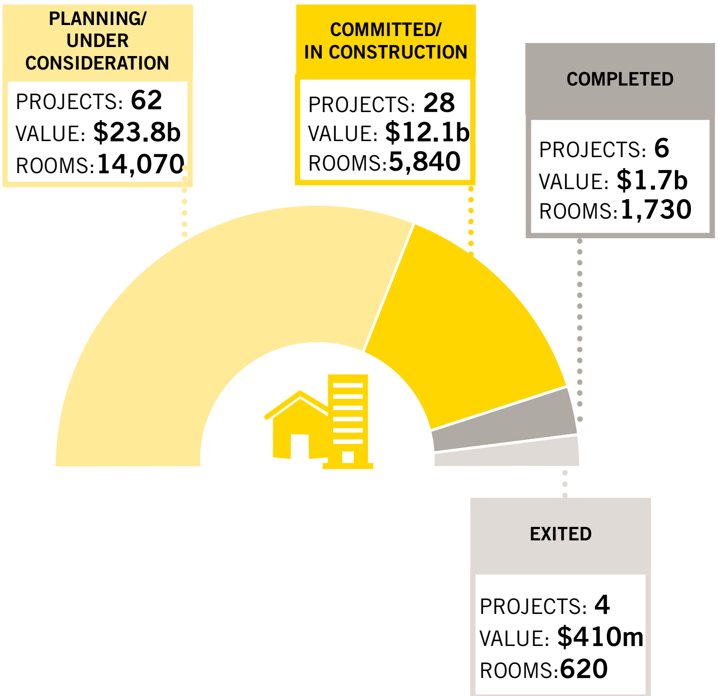
- Queens Wharf, Brisbane – $3.0 billion, 700 rooms
- Crown Sydney Hotel Resort – $2.0 billion, 350 rooms
- Melbourne Upper West Side development – $1.4 billion, 240 rooms.

The mixed-use pipeline shows 28 projects worth $12.1 billion in the *committed/under construction* phase. These projects have the potential to add 5,840 rooms to the accommodation pipeline.

Sixty-two projects worth $23.8 billion were in the *planning/under consideration* phase, with the potential to add 14,070 rooms to national accommodation supply.

In 2016–17, six mixed-use projects worth $1.7 billion were completed, adding 1,730 rooms. This was bolstered by the Meriton group's completion of four projects worth $1 billion, and adding 1,100 rooms to Sydney and the Gold Coast.

Four projects were abandoned. These projects were valued at $410 million, and resulted in the removal of 620 rooms from the pipeline.



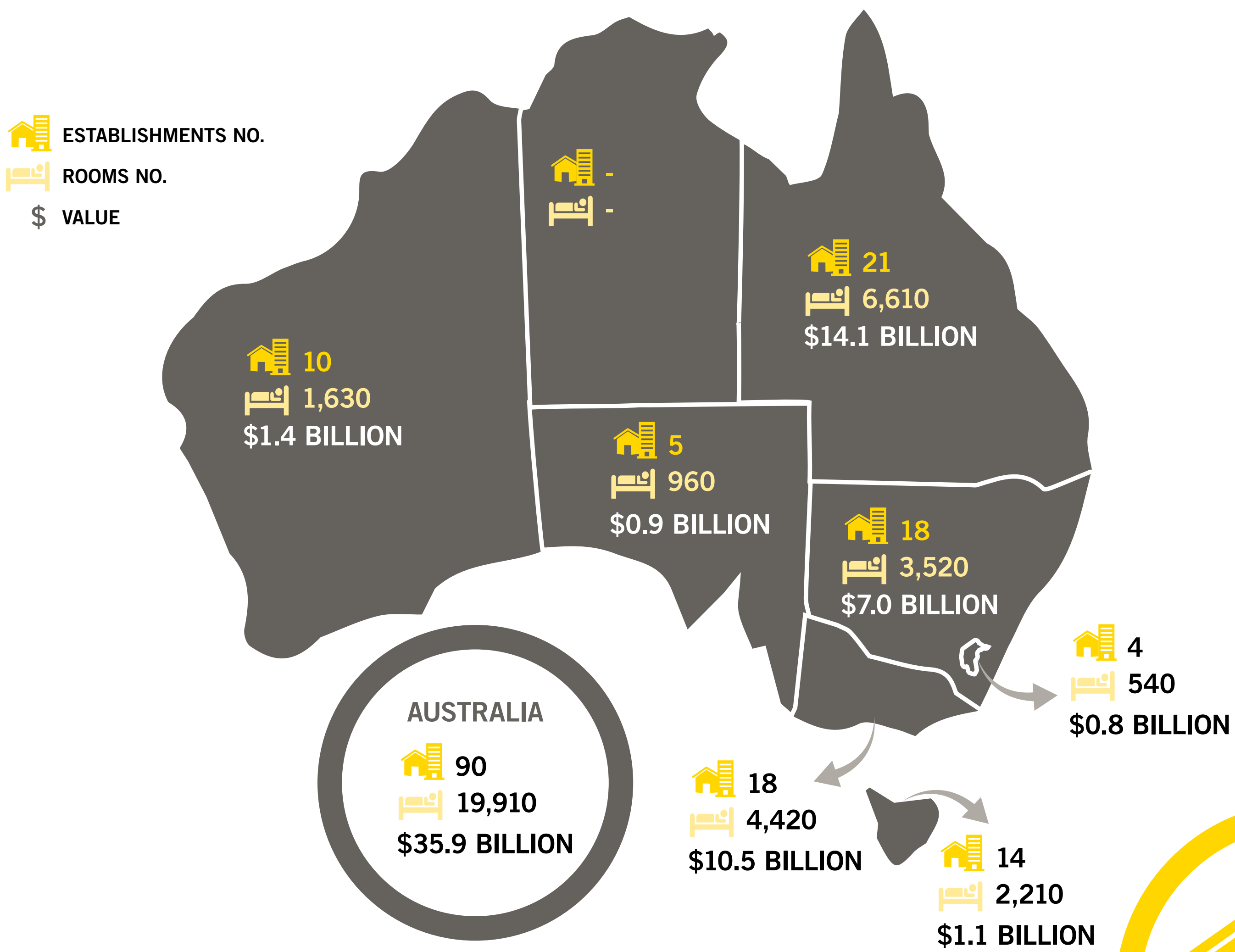
Queensland and Victoria were the most popular for mixed-use developments, with more rooms in this category than in standalone accommodation projects:

- Queensland – 21 projects worth $14.1 billion, 6,610 rooms
- Victoria – 18 projects worth $10.5 billion, 4,420 rooms.

Other key states for mixed-use developments include:

- New South Wales – 18 projects worth $7.0 billion
- Tasmania – 14 projects worth $1.1 billion
- Western Australia – 10 projects worth $1.4 billion

**FIGURE 3: MIXED-USE INVESTMENT BY STATE/TERRITORY, 2016-17**

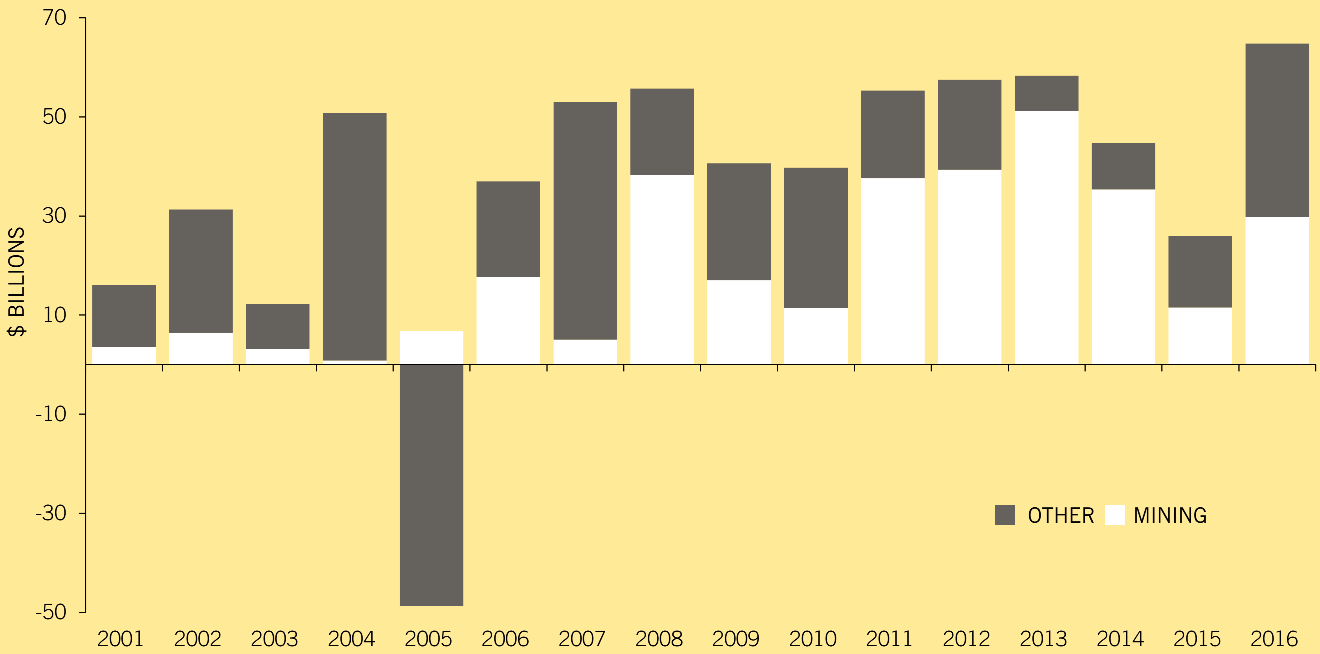



Source: DAE; JLL; STR Global; STATE GOVERNMENTS; TRA

## AUSTRALIA: A TWENTY-FIRST CENTURY MAGNET FOR INWARD FDI?

According to the United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2017, Australia received about US$48 billion in inward foreign direct investment (FDI) last year, making it the eighth most popular destination for FDI in 2016. For five of the six years since 2011, Australia has been in UNCTAD's list of top ten destinations worldwide for FDI (the exception was 2015, when Australia slipped to 16th spot).[1]

### FIGURE 4: AUSTRALIA'S FOREIGN DIRECT INVESTMENT INFLOWS, 2001 TO 2016




Source: DAE; JLL; STR Global; STATE GOVERNMENTS; TRA

A substantial share of the explanation for that strong performance rests with the global commodity boom that arose in the first decade of the current century. As a resource-rich economy with very attractive political, legal and business fundamentals, Australia was ideally positioned to benefit from the resulting push to expand global capacity in the resource sector. Annual FDI into Australia averaged almost $50 billion over the decade from 2007 to 2016, with investment into the mining sector on average accounting for more than 50% of yearly inflows, and in the peak years between 2011 and 2014 accounting for around 75%.

As the commodity boom unwound and the expansion of new capacity drew to a close, the anticipated decline in mining investment was expected to trigger a decline in overall FDI, and initially this did play out in the numbers, with a decline in both mining and overall FDI inflows recorded in 2014 and (especially) 2015. Last year, however, saw a dramatic rise in FDI flows which surged to a record high of almost $65 billion. While this partly reflected a recovery in mining FDI, more than half of FDI flows last year actually went into the non-mining sector, which in 2016 received its highest level of direct investment since 2007, indicating that investors' appetite for Australian assets has expanded beyond resources. And while the year-by-year volatility of FDI makes forecasting tricky, the partial data we have seen for 2017 so far suggest another strong year could be in store: in the first half of 2017, FDI inflows reached $40.5 billion, an outcome that was well up on the already-strong $33.3 billion recorded in the same period of 2016.

1 UNCTAD excludes small offshore financial centres like the British Virgin Islands and the Cayman Islands from its count.

# ARTS, RECREATION AND BUSINESS SERVICES INFRASTRUCTURE

**CAPITAL CITIES** **$14.8b**

**REGIONAL** **$2.2b**

**TOTAL** **$17.0b**

Arts, recreation and business service infrastructure projects help to boost tourism demand through the provision of events and attractions. In 2016–17, the infrastructure pipeline consisted of 83 projects worth $17.0 billion.

While the majority of investment is currently in capital cities ($14.8 billion), there is increasing interest in regional areas with a number of significant projects in the pipeline:

- Chinese Theme Park, Warnervale NSW – $500 million
- Townsville Integrated Stadium and Entertainment Precinct – $250 million
- Geelong Convention Centre – $100 million.

The investment pipeline consisted of 40 projects in the *committed/under construction* phase, valued at $7.8 billion. The main projects in this category included:

- Perth Stadium development – $1.2 billion
- Commonwealth Games Village development, Gold Coast – $815 million
- Melbourne and Olympic Parks redevelopment – $338 million.

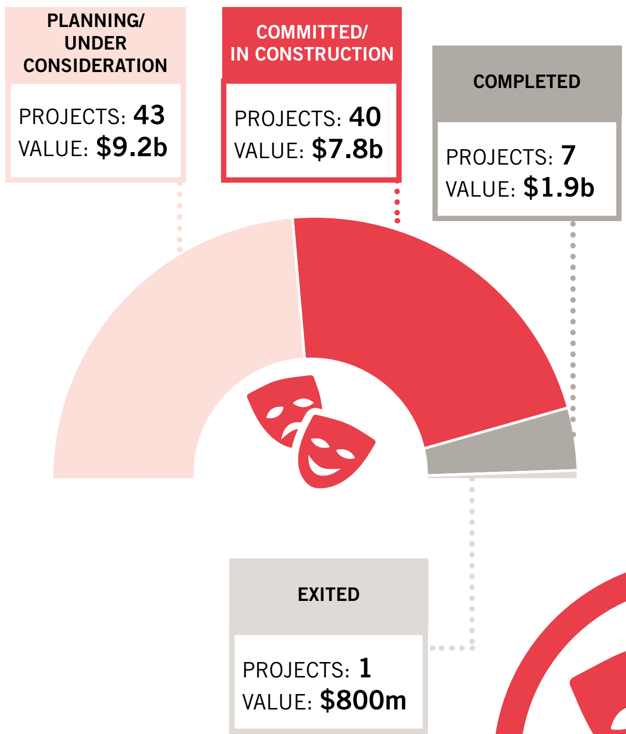
Forty-three projects, valued at $9.2 billion were in the *possible/under consideration* phase:

- Mooney Valley Racecourse development, Melbourne – $1.4 billion
- Waterfront Opera House, Perth – $1.2 billion
- ANZ Stadium Upgrade, Sydney – $1.1 billion.

Seven projects worth $1.9 billion were completed in 2016–17. This was bolstered by the completion of the Darling Harbour Live project, worth almost $1.6 billion.

One project exited the pipeline, being the proposed $800 million redevelopment of Manuka Oval in the ACT.

Investment in Arts, recreation and business services infrastructure is spread across a wide variety of project types. However, sporting facilities continue to attract the majority of investment activity, with the pipeline valued at $7.6 billion over 35 projects. By comparison, the pipeline of Arts and cultural facilities was valued at $3.2 billion over 17 projects, while tourist attractions had nine projects for a total value of $2.1 billion.



# AVIATION INFRASTRUCTURE

**CONSIDERED/ POSSIBLE**
**$6.9b**

**COMMITTED/ CONSTRUCTION**
**$3.2b**

**TOTAL**
**$10.1b**

In this report, only aviation infrastructure projects are considered as part of the tourism investment pipeline. Previous reports also considered the value of aircraft orders. Aircraft orders have been removed to eliminate the significant impact of exchange rate fluctuations on the value of the investment pipeline. This will ensure greater consistency when tracking the value of the aviation pipeline in future.

In 2016–17, aviation infrastructure projects were worth $10.1 billion spread across 19 projects.

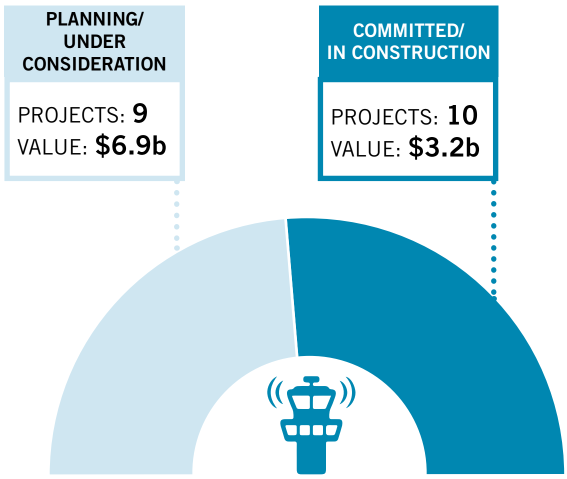
More than half of the pipeline was accounted for by the Western Sydney Airport at Badgerys Creek, which was upgraded in value from $2.5 billion to $5.3 billion during the financial year. Other major aviation infrastructure projects include:

- Perth Airport international and domestic terminal upgrades and the addition of a third runway – $1.6 billion
- Brisbane Airport domestic terminal expansion and parallel runway construction – $1.4 billion
- Melbourne Airport construction of a third runway – $500 million.

While capital cities remain the core focus for large-scale aviation development, mainly due to higher passenger volumes and international terminals, there are still a number of developments in regional areas. The 2016–17 aviation pipeline included projects across eight regional airports that are valued at over $600 million:

- Sunshine Coast Airport – $347 million runway upgrade
- Busselton Airport – $70 million expansion and runway upgrade
- Townsville Airport – $50 million terminal upgrade.

In 2016–17, there were no projects completed or abandoned. Ten projects vlued at $3.2 billion were *committed* or *under construction*, one of which moved from the *under consideration* phase to *under construction* during 2016–17 (valued at $40 million). The additional nine projects remain in the *planning/under consideration* phase.




While aviation fleet is not considered in terms of the aviation pipeline, it is important to note that Australian Airlines are continuing to invest in their fleet. Virgin is continuing to invest in the Boeing 737 as part of a major fleet expansion that began in 2011, while Qantas is investing in Airbus A380 and Boeing 787 Dreamliner aircraft for long-haul travel