



Australian Hotel Industry Sentiment Survey Impact of COVID-19

17 April 2020



Horwath HTL™

Hotel, Tourism and Leisure

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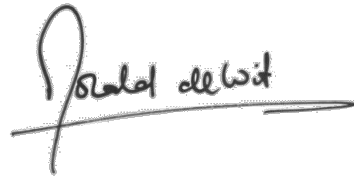
**accommodation
association**

Dear Hotel Industry Colleague

As the COVID-19 pandemic wreaks havoc across the globe and at home, the travel and tourism industry in Australia has effectively been shut down and the hotel industry finds itself in an unprecedented situation.

Hotel owners and operators are currently looking at an empty horizon, uncertain when the first signs of a resumption of business and leisure travel will come into view. While no body knows the answer to this, we believe that the collective thoughts of the industry can provide some guidance over the coming weeks and months as we all seek to understand the scale of the situation.

We also hope that the survey will enable us to track the outlook over time so that we can better identify when the first signs of recovery emerge and better estimate the pace of return back to pre-COVID-19 levels.



Ron de Wit
Managing Director
AHS Advisory

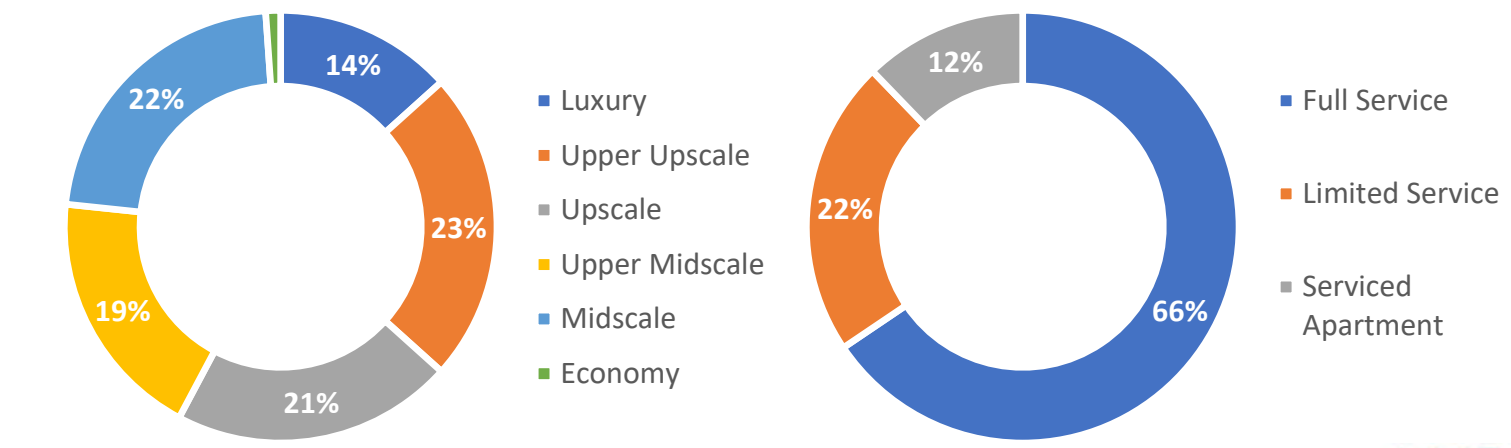
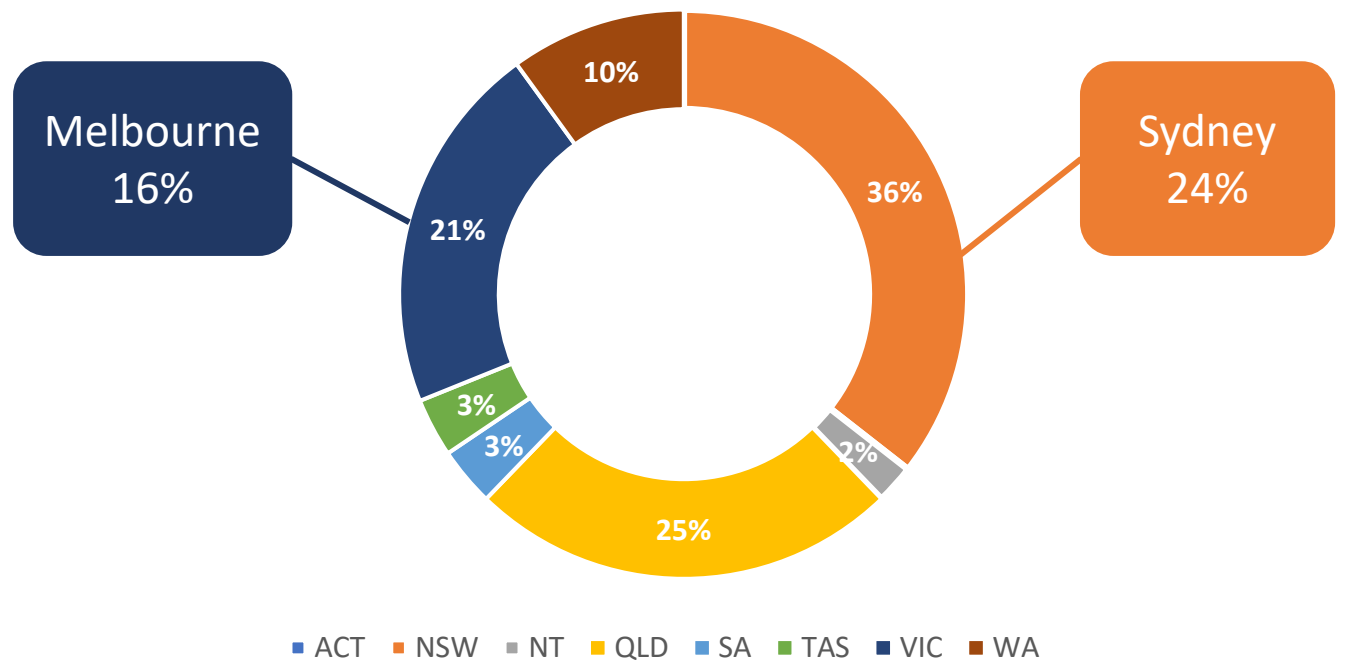


Summary Findings

- The majority of hotels in the survey (67%) are planning to remain open. This is a higher ratio than had initially been expected heading into the survey. A greater proportion of Hotels located in Regional markets (69%) are planning to stay open compared to their State Capital counterparts (65%) despite the fact that a greater proportion of participating Regional hotels have already closed.
- Most hotels that have closed, or are planning to close, are currently expecting to reopen in Q3 2020, with a smaller number holding a longer-term outlook with expectations to reopen in Q4 2020 or in 2021.
- The majority of survey participants expect the impact of COVID-19 to be long-term, thus, occupancy performance is expected to start rebounding only in Q4 2020. There is no noticeable difference in the trend of occupancy expectations among properties, regardless of location, although hotels in Melbourne expect Q3 2020 to record lower performance than Q2 2020. This could be due to the looming amount of new supply to enter the market.
- A larger proportion (39%) of Luxury and Upper Upscale participants are expecting a steeper decline in ADR (60% and above) compared to 28% of the Upscale and Upper Midscale properties regarding the CY 2020 outlook. With similar levels of occupancy decline expected across all properties, this resulted in a higher proportion Luxury and Upper Upscale properties (64%) expecting a steeper decline in Revenue (60% and above) for CY 2020 compared to 50% of the Upscale and Midscale properties.
- Unsurprisingly, domestic-sourced demand segments are expected to recover faster, since there is more uncertainty surrounding the return of international travel. This strongly aligns with Australia being a predominant domestic hotel market.



Survey Respondents



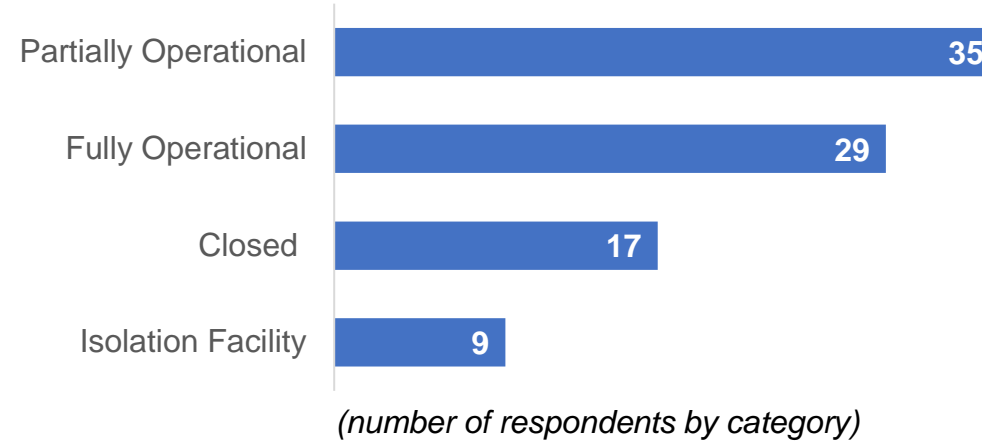
A total of 90 hotels (15,160 rooms) across Australia participated in the sentiment survey with 61% from State capitals and 39% from Regional areas.

Operating Status

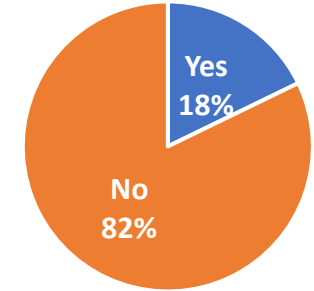
19% of hotels have already shut down (15% of State Capital hotels and 26% of Regional hotels)



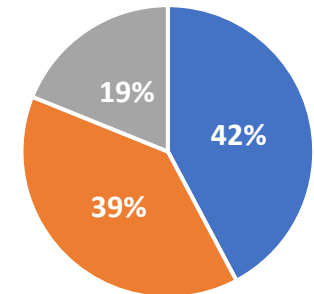
Current Operating Status of Rooms



If still under operation, are you planning to close?

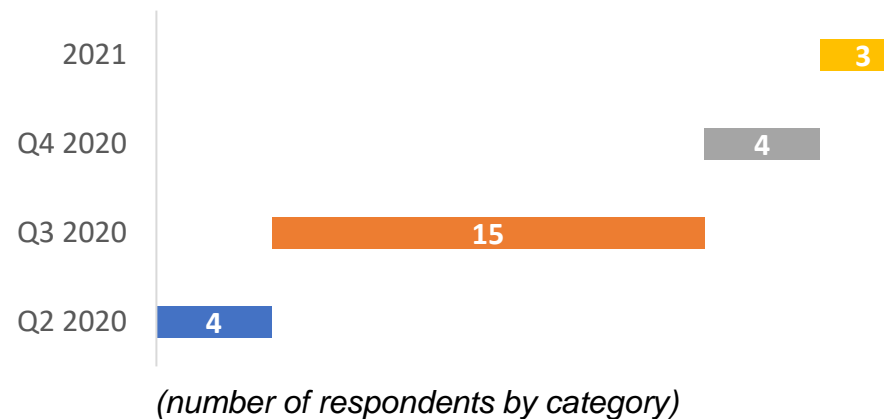


What is the status of your F&B operation?



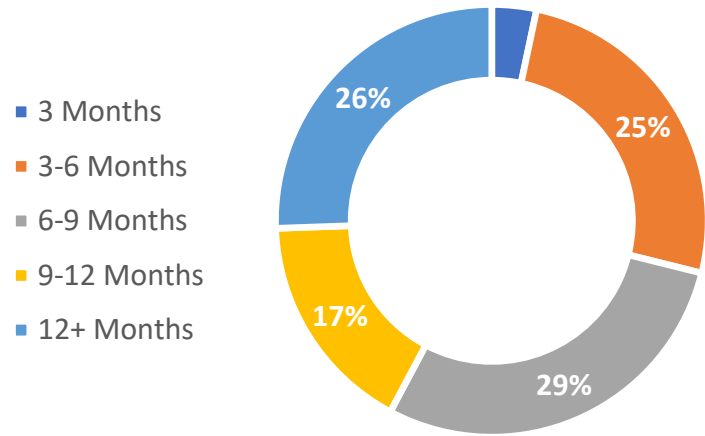
■ Delivery ■ Closed ■ N/A

For hotels that are closed or planning to close, what is the envisaged time for reopening?



Impact of COVID-19 on Operational Performance

What is the length of impact you expect COVID-19 to have on the market?

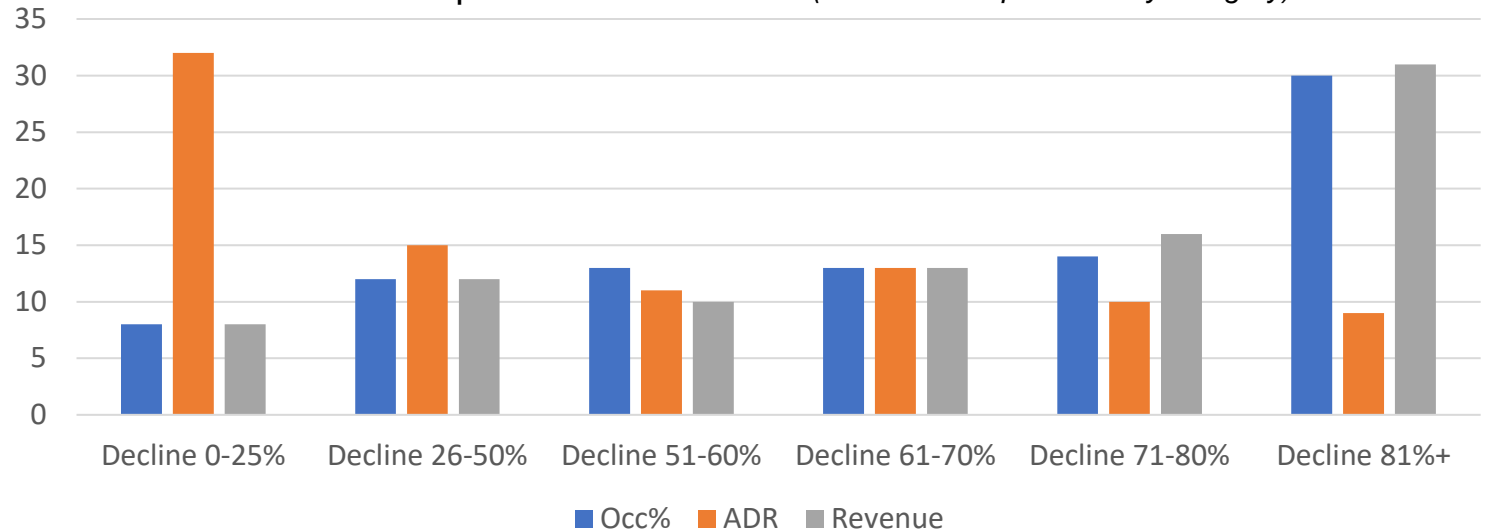


The majority of survey participants expect the impact of COVID-19 to be long-term, with 71% expecting the impact to last 6 months or more, and 26% expecting the impact to be longer than 12 months.

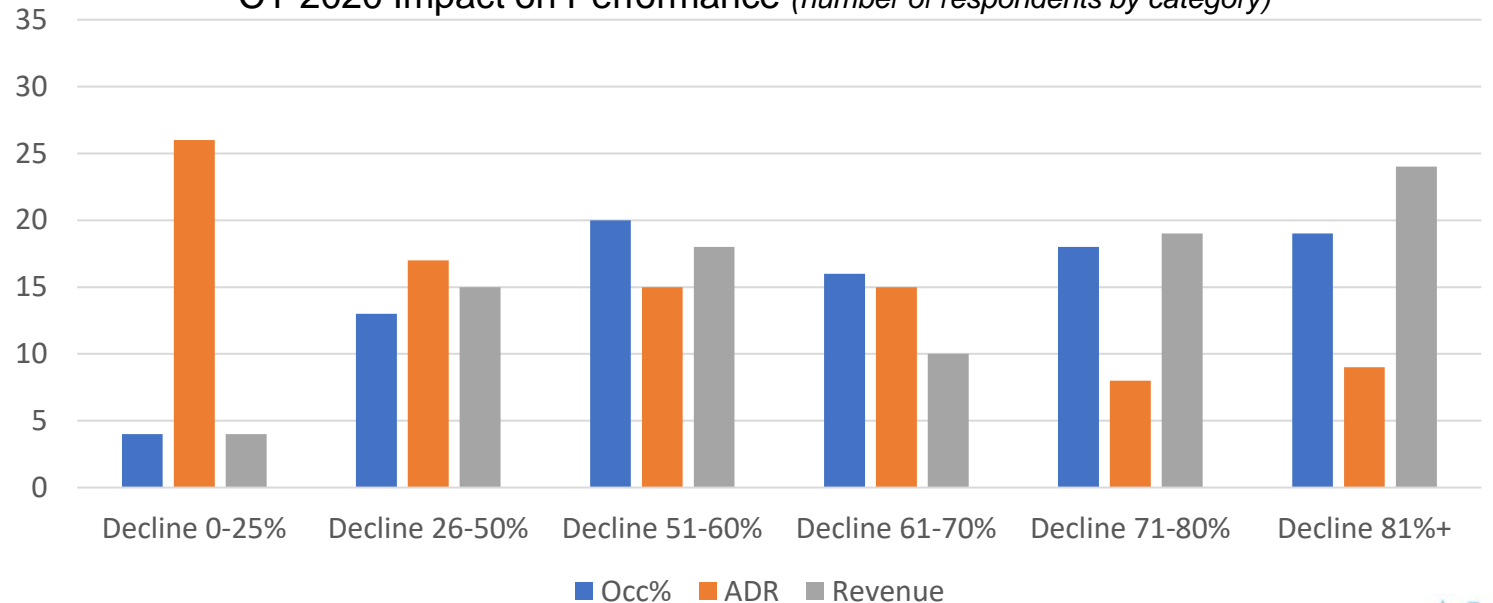
As expected, occupancy is forecast to be impacted more than ADR with 78% of participants expecting a 50%+ impact on occupancy for H1 2020 and 49% expecting a greater than 70% impact. The forecast for CY 2020 is slightly moderated with 41% forecasting a greater than 70% impact on occupancy.

A decline of 0-25% in ADR is forecast by 36% of participants for H1 2020 and 29% of participants for CY 2020.

H1 2020 Impact on Performance (number of respondents by category)



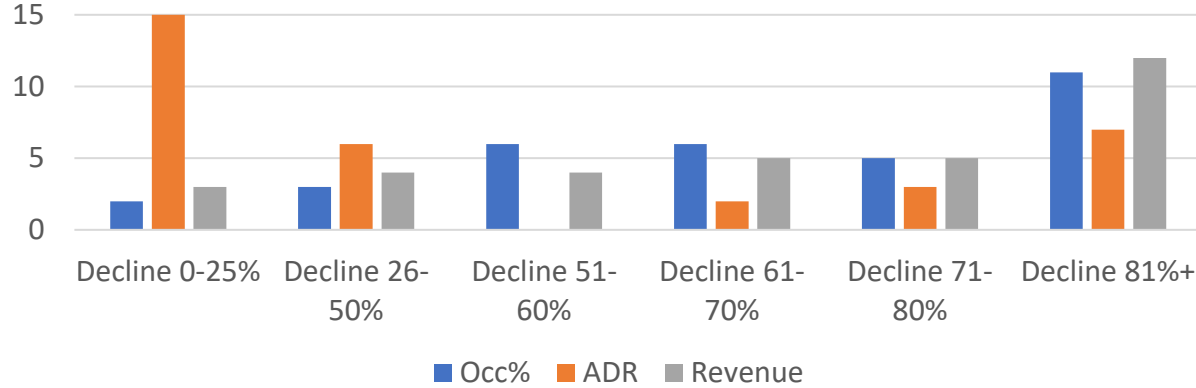
CY 2020 Impact on Performance (number of respondents by category)



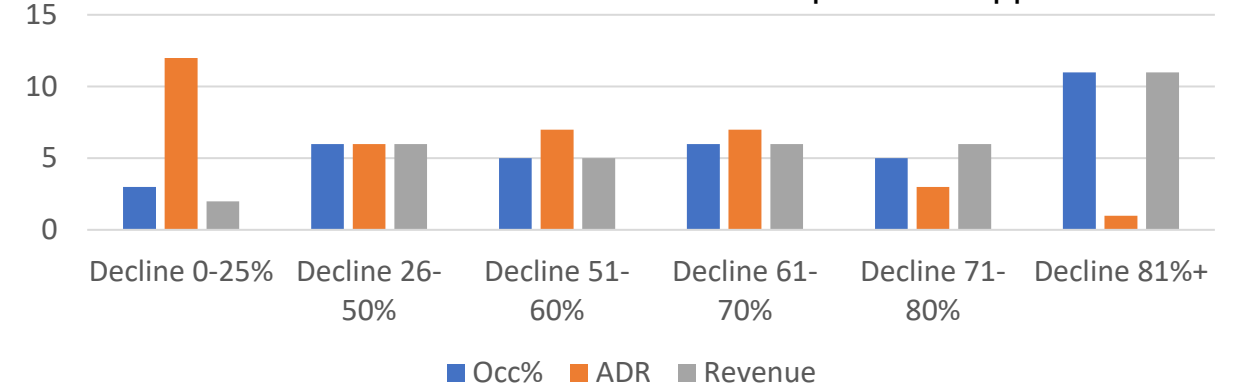
Impact of COVID-19 on Operational Performance (By Class)

H1 2020 Impact on Performance
(number of respondents by category)

Luxury & Upper Upscale

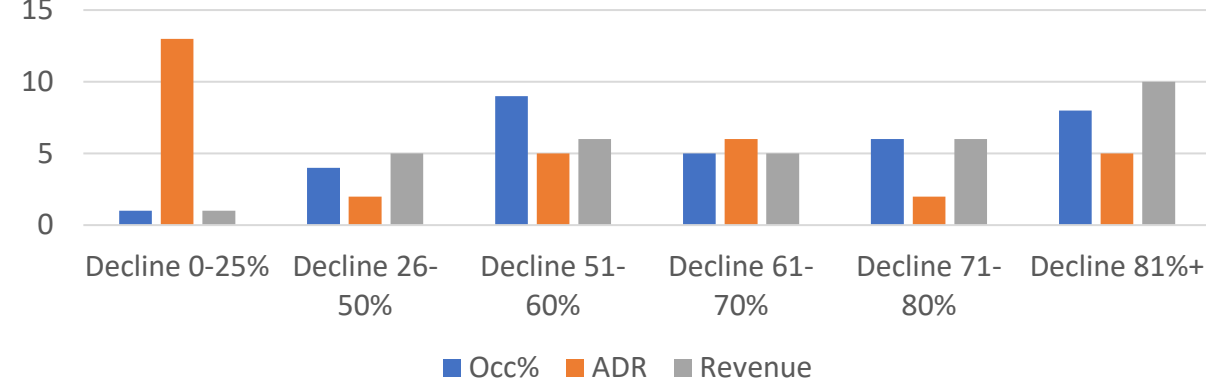


Upscale & Upper Midscale

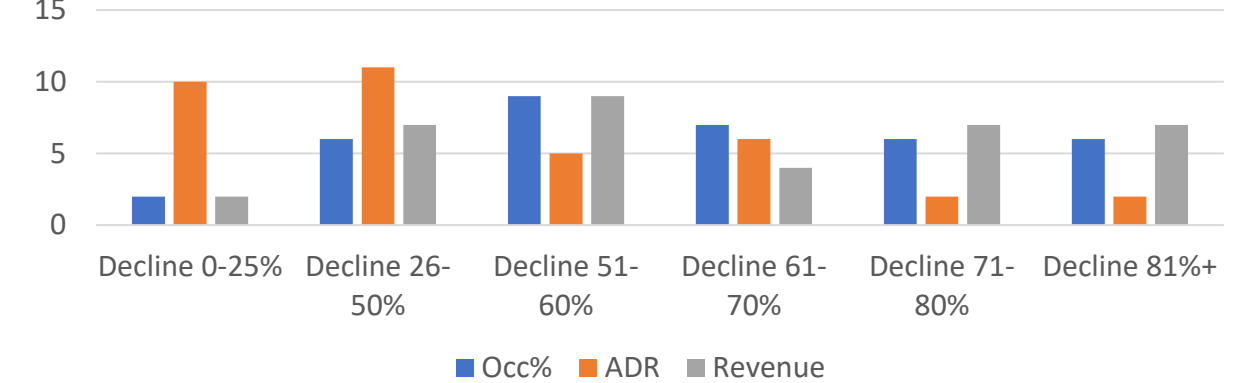


CY 2020 Impact on Performance
(number of respondents by category)

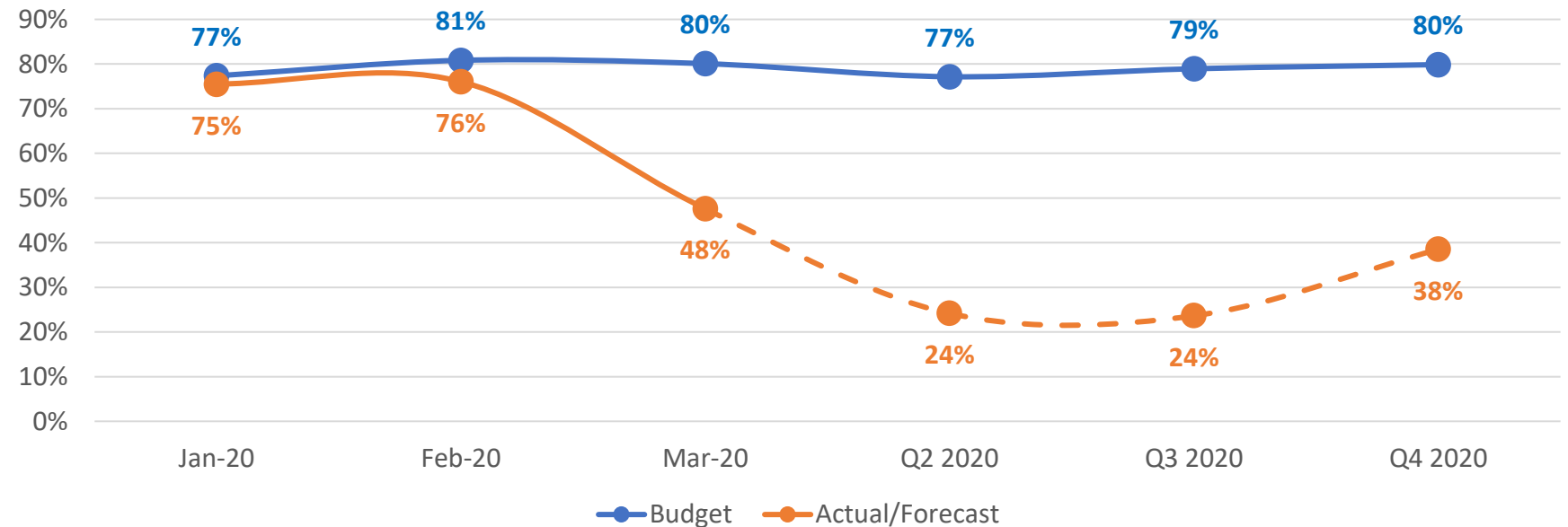
Luxury & Upper Upscale



Upscale & Upper Midscale



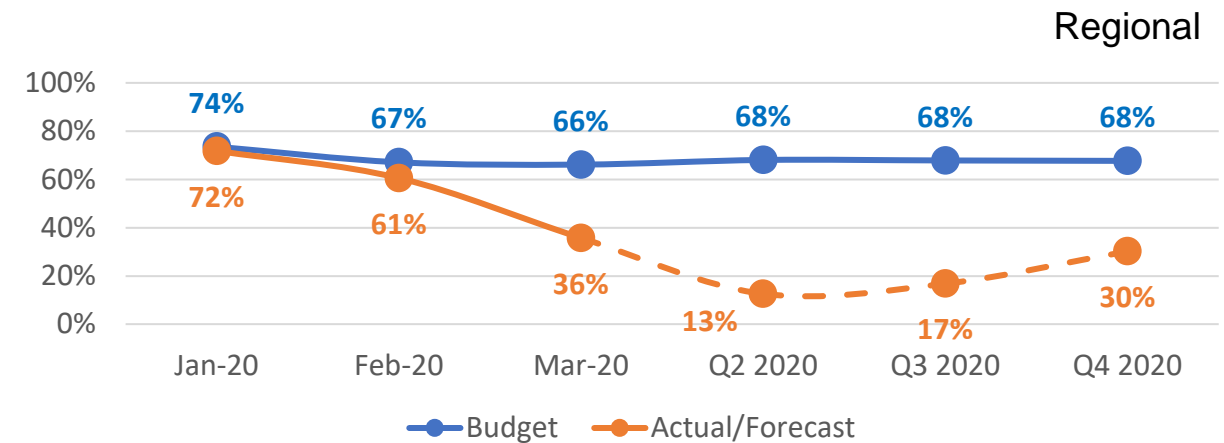
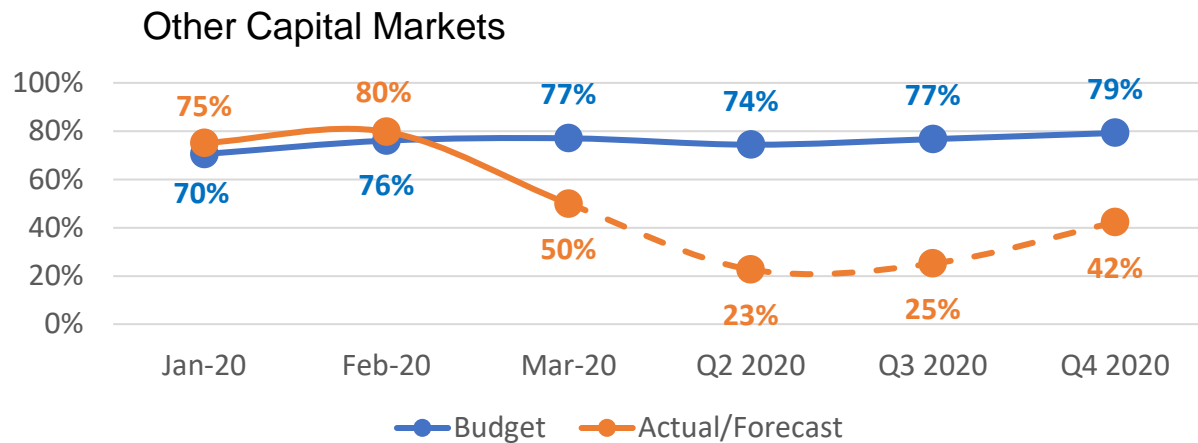
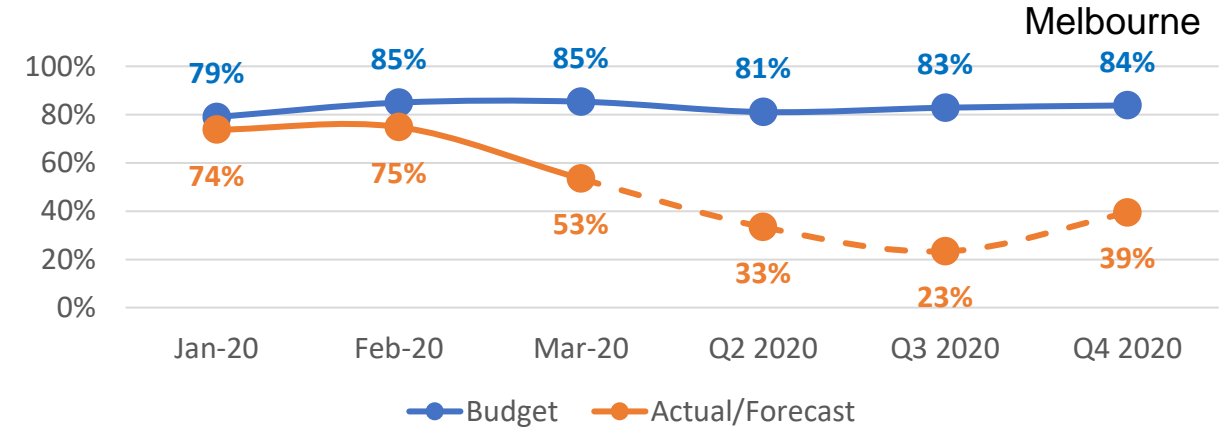
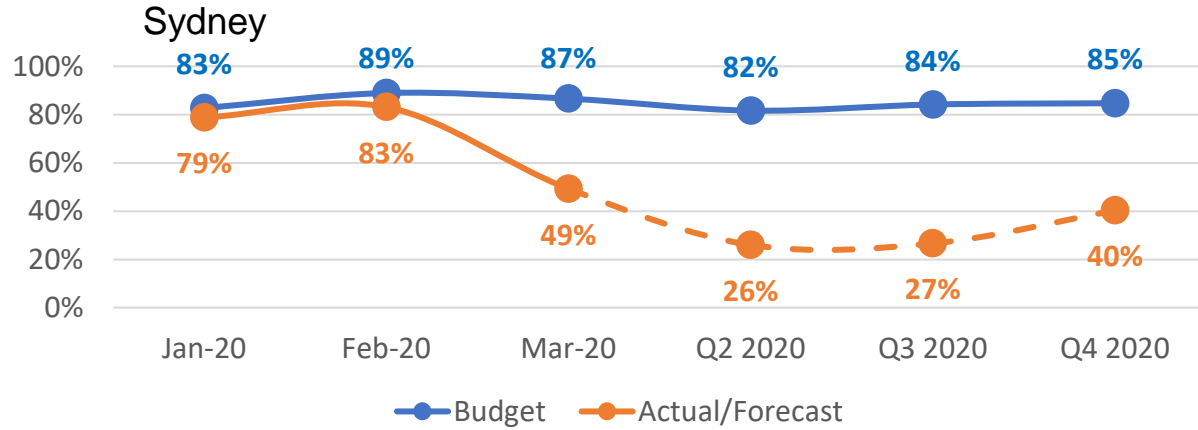
Expectations of Hotel Occupancy in 2020



In January and February, actual occupancy was slightly behind budget for the participating hotels, most likely due to the impacts of the bush fires across the country over the summer months and the initial impacts of the Chinese travel ban. Following the cancellation of the Melbourne Grand Prix and other major events in cities throughout the nation, together with the introduction of social distancing measures across the country in mid-March, occupancy performance dropped dramatically as the travel industry came to a standstill and all types of large gatherings were banned.

The outlook for the remainder of the year looks bleak at the current point in time, with participating hotels collectively estimating low- to mid-20% levels for Q2 and Q3 with some improvement in Q4 at 38%, which still represents over 50% impact on that originally budgeted.

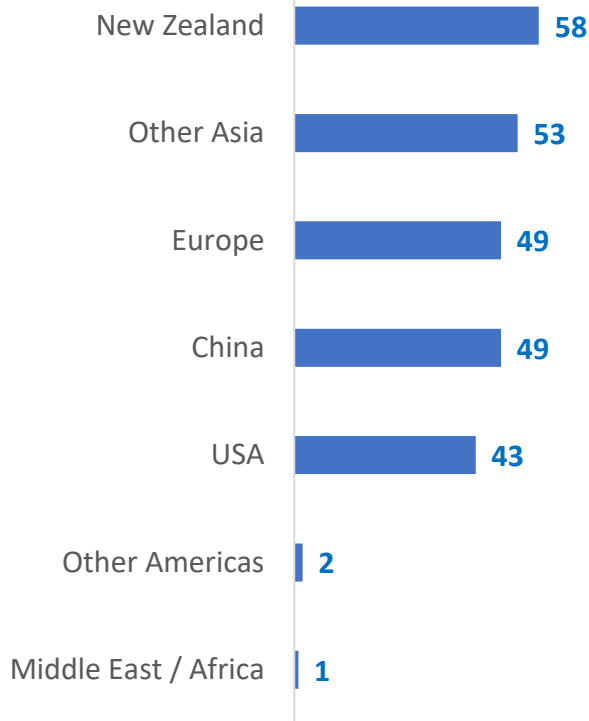
Expectations of Hotel Occupancy in 2020 (By Location)



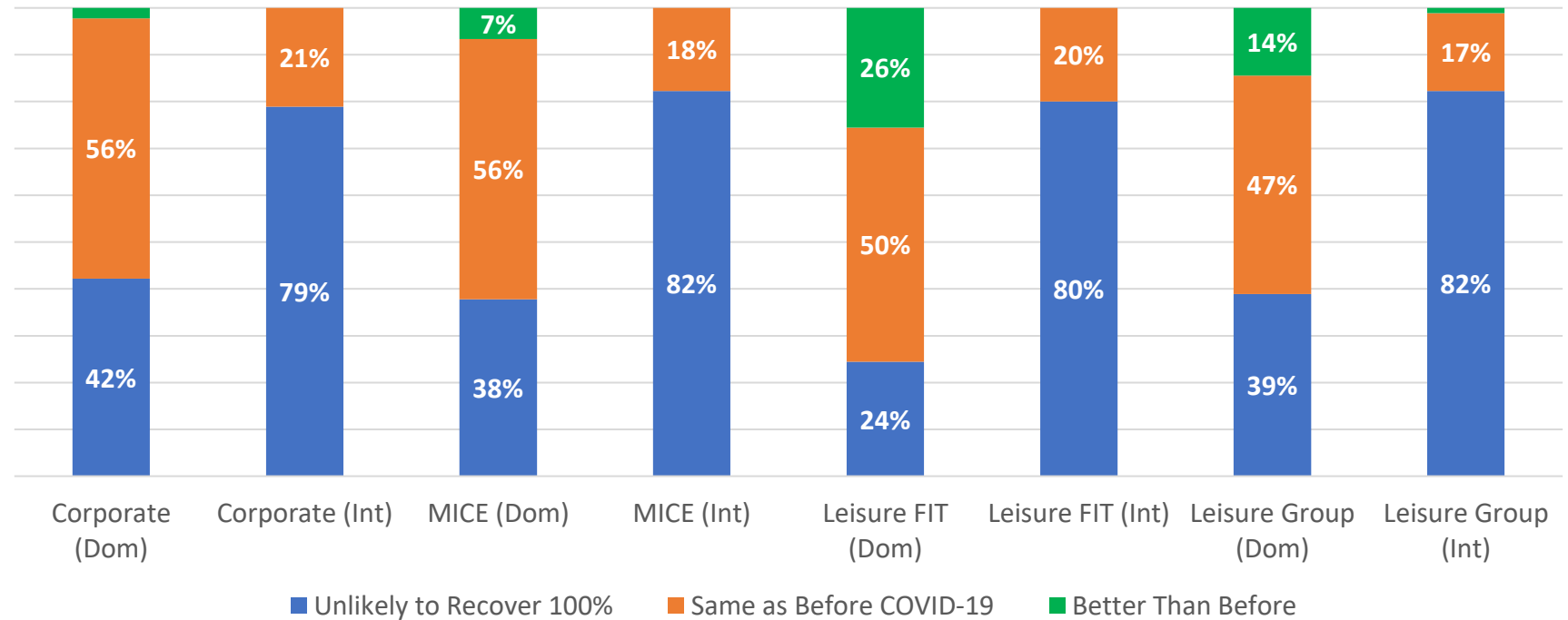
Demand Profile and Expectations of Recovery

Top International Source Markets

(number of respondents by category)



Expectations of Demand Recovery by Demand Segment



Australia is a predominantly domestic market and so while a ban on international visitors entering Australia does have a large impact on the tourism industry overall, an international travel ban on its own would not close down the hotel industry in Australia. Conversely, the closing of State borders and banning of non-essential travel has effectively had a far greater impact on the hotel industry in Australia, reducing demand to the levels as reported by survey participants.

Most international source markets are likely to be locked out for the foreseeable future, however, perhaps there is the possibility of seeing arrivals from New Zealand if both Australia and New Zealand are able to get on top of the outbreak. Most hotels identified New Zealand as a key international source market. Heavily impacted source markets such as Europe and the USA might remain locked out for a longer duration. For Asian source markets, there is a lack of clarity on the current status of COVID-19 outbreaks in many countries, such as Indonesia, which might result in borders remaining locked to a number of important sources of tourism demand to Australia.

Domestic source markets are expected to recover better than international source markets with around 50%+ of participants expecting business to return to pre-COVID-19 levels. 26% of participants expect the Domestic Leisure FIT market, when it does recover, to be better than pre-COVID-19 levels. Conversely, the majority of participants do not expect International demand segments to return to pre-COVID-19 levels, particularly for MICE and Leisure Group demand.

Demand Profile and Expectations of Recovery



Survey participants expect that the domestic segments of Corporate, Leisure FIT and MICE will be the demand segments that will recover the fastest following the loosening of travel restrictions across Australia in the COVID-19 recovery period. Domestic Corporate demand is expected to recover the fastest, although as we saw from the previous page, Domestic Leisure FIT demand is expected to come back stronger than before by more participants.

Of the International demand segments, Leisure FIT travellers and Corporate travellers are expected to be the first to return as there appears to be more pessimism regarding recovery of International MICE and Leisure Group demand.

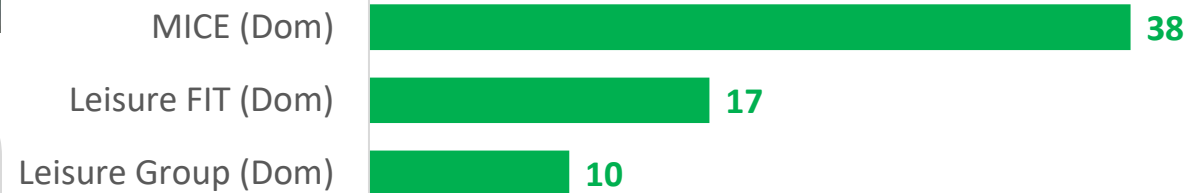
Fastest Segment To Recover *(number of respondents by category)*



Second Fastest Segment To Recover



Third

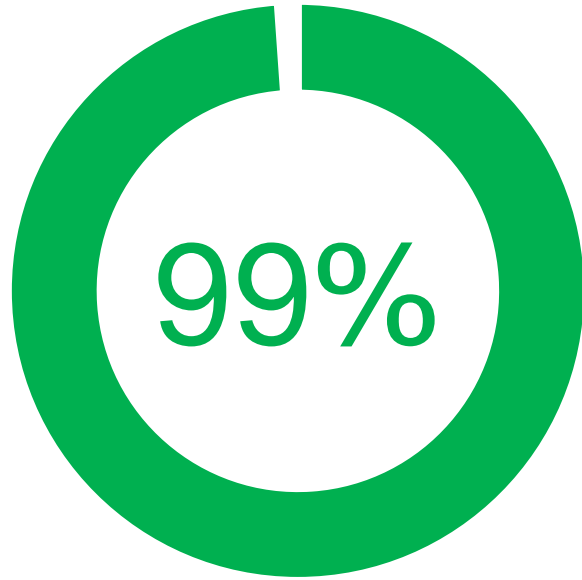


Fourth

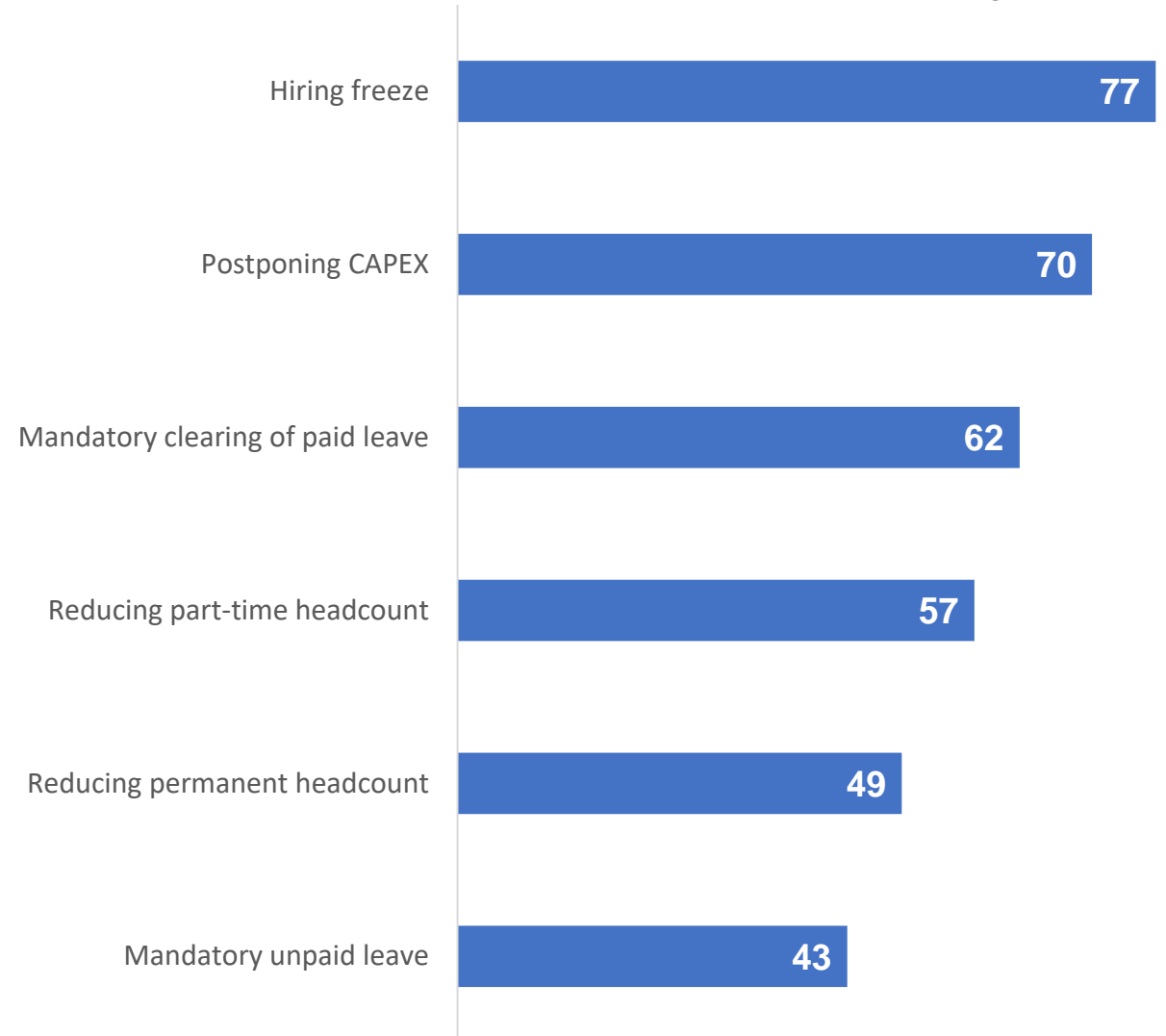


Temporary Support Measures

Have Implemented Cost Control Measures



Number of Respondents Adopting Measure





Horwath HTL is the world's largest hospitality consulting brand with 50 offices across the world providing expert local knowledge. Established in Asia in 1987, Horwath HTL APAC has been involved with thousands of hotel and tourism related projects throughout the region for clients ranging from individually held businesses to the world's most prominent hotels, developers, lenders, investors and industrial corporations on issues pertaining to the development, financing, operations, asset management, and valuation of hotel and other hospitality related properties.

We are the industry choice; a global brand providing quality solutions for hotel, tourism & leisure projects and recognized as the founders of the Uniform System of Accounts which subsequently has become the industry standard for hospitality accounting.

We are Horwath HTL, the global leader in hotel, tourism and leisure consulting.



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Performance benchmarking
Feasibility & viability



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Operator search & selection
Technical services



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Property review
Performance review
Asset management



STRATEGY

Branding & positioning
Sales & marketing
Acquisition & disposal

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