



Pro-invest
group

Australian Hospitality Opportunity (AHO)
Quarterly Newsletter Q1 2016

Dear AHO Investors, Industry Colleagues & Friends,

Pro-invest is pleased to present its Quarterly Newsletter for the first quarter of 2016.

This edition provides insights into the current state of the Australian and New Zealand hotel markets, highlighting the strength of their respective sectors and their attractiveness as an investment opportunity.

Key takeaways of this report include:

- Australia's **travel & tourism industry is growing at 3 times the pace of the total economy**, with accommodation being the fastest growing contributor to the sector's growth.
- **Domestic nights spent in Australian hotels are experiencing their highest growth rate on record**, led by corporate travel which continues to grow faster than any other segment in Australia.
- In 2015, **US and Chinese travellers generated over 80 percent of the growth** in inbound room nights sold in Australia.
- New Zealand has just witnessed its **strongest summer in history**, pushing **national occupancies close to 80 percent**.
- Since 2013, arrivals to New Zealand have been **rising at 7.8 percent CAGR**, translating into 5.1 percent CAGR in room nights sold.

In addition, the region's hotel investment market remains active with the continued strong performance of the industry fuelling investor confidence in the asset class. According to a recent survey conducted by CBRE Asia Pacific, investors in the region are now more likely than ever before to acquire hotels.

"The hospitality sector has been one of the most resilient asset classes in Australia and this has underpinned significant investor interest in hotel investment opportunities." Ray Pittman, President & CEO CBRE Pacific

Pro-invest is particularly well-positioned to capitalise on the attractive investment opportunity the Australian hotel market currently provides. With a vertically integrated business model, an entrepreneurial approach to value-creation and proven active management capabilities, Pro-invest is able to achieve above average returns.

Pro-invest's Australian Hospitality Opportunity Fund, referred to later in this report, secured its final close in March 2016, with A\$300 million equity committed. It is currently developing Australia's first portfolio of Holiday Inn Express hotels and is forecast to deliver an IRR in excess of 20% to investors. Latest news on the Fund and media coverage of the opening of Australia's first Holiday Inn Express can be viewed [here](#).

The Fund holds an Australian Financial Services License (AFSL), is a Managed Investment Scheme and is able to reduce withholding tax by half to qualified offshore investors.

We hope you enjoy the read and as always, look forward to your comments and feedback.

With kind regards,

Ronald Stephen Barrott FRICS,
On behalf of Pro-invest Group

For more information about Pro-invest Group and the Australian Hospitality Opportunity, please visit:

www.proinvestgroup.com

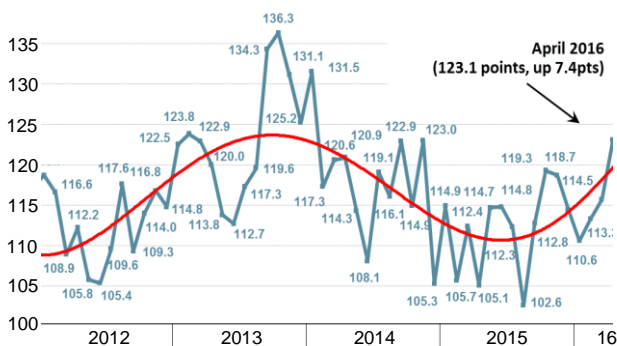
Politico-economic Developments & Implications for the Australian Hotel Industry

Business Confidence Strengthening

According to Roy Morgan Research (RMR), business confidence is rising significantly in Australia. Since a 2016 low in January, confidence has continuously been rising and has now reached levels well above the five-year average. Respondents to the latest survey indicated they expect an increase in business performance over the next twelve months which they see as a ‘good time to invest’. Accordingly, latest employment statistics indicate a high level of job creation with the unemployment rate dropping to 5.7 percent, a 30-month low. The level of business confidence is a good sign for the economy overall and in particular for the hotel market as it supports further growth in corporate travel activity.

RMR is Australia’s largest independent research company and has been tracking business confidence since December 2010. Latest figures, illustrated below, are the result of over 1,000 interviews carried out with a cross section of businesses across Australia.

Figure 1: Australian Business Confidence: On the Rise¹



¹ Rating is 100.00 plus the simply unweighted average of the difference between the percentage of respondents who give favourable and those who give unfavourable answers to the survey questions. Source: Roy Morgan research, 2016

Low Inflationary Environment Leads to a Further Cut to the Base Interest Rate

Key economic indicators are pointing to an improvement in the economic environment, with

unemployment dropping, business confidence rising and latest GDP reading indicating an annual growth of 3 percent and trending upwards. However, the latest Consumer Price Index (CPI) figures for the first quarter of 2016 have indicated slower growth in the Australian economy for the first time since 2008 (dropping to 1.7 percent) and this has led the Reserve Bank of Australia (RBA) to cut the base interest rate (cash rate) by 25 basis points, to 1.75 percent.

Debt Capital Market

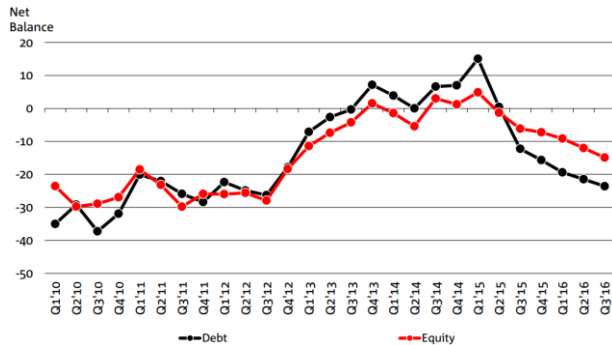
Although it is good news for real estate markets that the RBA’s cash rate has been decreasing, the cost of debt raised by Australian banks in wholesale funding markets has been rising over the last 12 months. While Australian debt is typically priced as a margin over the 90-day bank bill swap rate (BBSY), the actual cost of debt raised by banks is linked to short term and long term debt, and has been rising. Bank’s seek to recover the difference through their pricing and margins charged to borrowers.

Market interest rates and the funding costs for the global banking sector have been increasing on the back of market volatility, concerns about major economies, the flow on for credit quality and changes in US regulation which have resulted in a significant reduction in demand for short term debt. These changes flow to Australian banks who rely on the global market. From a national perspective, the cost of raising debt has also increased as a result of the Australian Prudential Regulation Authority (APRA) addressing global reforms in banking supervision. Whilst more costly, the additional regulation is overall a positive for the security of the banking sector.

Lastly, given that Australian banks rely on international debt markets to meet the funding requirements of their loan books, international investors are the price setters for Australian banks’ wholesale funding. These investors are now demanding a higher price for Australian risk which according to a recent article from ANZ is directly related to the slowing economic growth in China, weak iron ore and oil prices and a perception of high house prices; all of which are negatively impacting on the credit quality of Australian banks.

The above issues are flowing through to the availability of capital. Accordingly, National Australia Bank's (NAB) latest Australian Commercial Property Survey results, indicate property developers are experiencing a deterioration in the ease of funding projects. The graph below illustrates how respondents expect the situation to evolve in the coming 6 months.

Figure 2: Ease of Securing Financing



Source: NAB, 2016

Australian Tourism Growing at 3 Times the Pace of the Total Economy

The tourism sector is growing rapidly and is now responsible for 3.0 percent of Australia's total Gross Domestic Product (GDP).

In the financial year 2014-15, the sector contributed A\$47.5 billion to the national GDP, a 5.3 percent annual growth which is three times the pace of the total economy. In nominal terms, the growth was led by domestic tourism GDP. However, international tourism GDP is now growing at over 8 percent annually and represents an increasing share of total direct tourism GDP (currently 28 percent).

An analysis of the main tourism industries indicates that accommodation is the fastest growing contributor to the sector's growth. In the FY 2014-15, accommodation's gross value added¹ grew by 7 percent to reach A\$7 billion. Accommodation is the second-largest tourism industry after transport, which contributes A\$7.7 billion, only slightly more.

Overall, these numbers illustrate the strength of the tourism sector, in particular from an accommodation perspective. They also highlight the sector's growing importance for Australia, as it continues to diversify its economy.

¹ Tourism gross value added is a measure of GDP minus net taxes on products that are attributable to the tourism industry.

Trans-Tasman Visa Back on the Discussion Table

Two of the region's leading tourism industry groups, the Tourism and Transport Forum Australia (TTF) and the Tourism Industry Association New Zealand (TIA) are calling for the implementation of a permanent Trans-Tasman Visa that would allow international visitors to travel seamlessly between both countries.

Such a visa would allow the marketing of a joint Australia-New Zealand experience and allow the region to function much like the Schengen zone, which successfully allows travellers to visit 28 European countries using a single document.

"Australia and New Zealand are long-haul destinations - it makes a lot of sense for us to package the two countries in a joint regional visa to prospective international tourists who are weighing up the long flight to our countries."

Margy Osmond, TTF CEO

TTF estimates that a joint visa scheme could increase the number of international visitors to the region by over 140,000 people by 2020.

Australian Travel Industry Performance

Domestic Visitation

As illustrated below, the latest National Visitor Survey conducted by Tourism Research Australia (TRA) reveals positive results for domestic tourism.

Figure 3: Year Ending December 2015 National Visitor Survey Overview

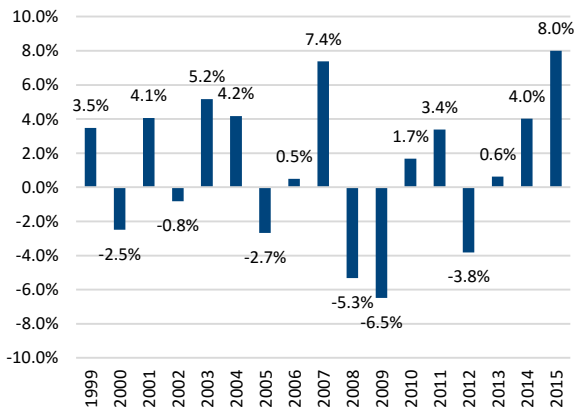
TRIP SPEND ▲6%	OVERNIGHT TRIPS ▲7%	NIGHTS ▲4%
A\$57.9 BILLION	87.1 MILLION	322 MILLION

Source: TRA, 2016

The year ending December 2015 saw a continuation of previously recorded strong growth in domestic travel. Trip spend is up 6 percent to A\$57.9 billion, overnight trips are up 7 percent to 87.1 million and nights are up 4 percent to 322 million.

Led by strong growth in all segments, domestic nights spent in hotels & similar accommodation (hotels, motels, resorts and motor inns) grew by 8 percent in the 12 months to December 2015, the highest growth rate on record.

Figure 4: Annual Growth in Domestic Nights (Hotels & Similar Accommodation)



Source: TRA, 2016

Business travel, which typically contributes only one third of domestic nights, continues to grow faster than any other segment and was responsible for close to 50 percent of the annual growth in room nights sold in 2015. The segment itself grew by 11 percent in the year, delivering an additional 2.7 million nights annually or 7,600 daily room nights.

Domestic visitation within Australia is increasing in every state throughout the country except the Northern Territory and Victoria which remained flat. In nominal terms, Queensland experienced by far the largest growth in nights spent in hotels & similar accommodation. It added 2.5 million additional nights to what was achieved in 2014, representing 42 percent of the nation-wide annual domestic room night demand growth. Queensland was followed by the Western Australia (+1.3 million nights) and Tasmania (+660 million nights).

In growth terms, the Australian Capital Territory was the star performer, recording a staggering 31.2 percent annual increase in demand over 2014.

International Visitation

According to TRA, as is the case for the domestic market, the strong growth in inbound travel continues. In the year ending December 2015, international visitor numbers are up 8 percent to 6.9

million, international visitor nights are up 11 percent to 248 million, and international trip expenditure is up 18 percent to A\$36.6 billion.

Figure 5: Year Ending December 2015 International Visitor Survey Overview

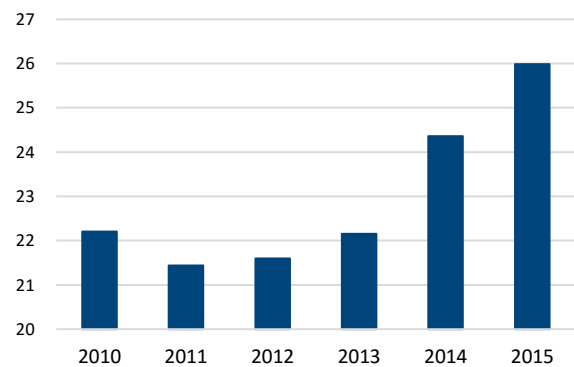
VISITORS ▲8%	NIGHTS ▲11%	EXPENDITURE ▲18%
6.9 MILLION	248 MILLION	A\$36.6 BILLION

Source: TRA, 2016

International visitors contribute a much smaller proportion of room night demand for hotels & similar accommodation than domestic visitors, representing only 25 percent of the market share. Although demand growth isn't as pronounced as in 2014, inbound travel continues to grow steadily, achieving a Compound Annual Growth Rate (CAGR) of 4.9 percent since 2011.

The number of international room nights generated in hotels & similar accommodation grew by 1.6 million in year ending December 2015. Most of this increase was driven by growth of inbound travel from the US (+26 percent) and China (+19 percent), which together represented over 80 percent of the annual growth.

Figure 6: Inbound Visitor Nights in Hotels & Similar Accommodation (millions)



Source: TRA, 2016

For the first time on record, New Zealand has slipped to third place in the ranking of top source markets by number of room nights generated in hotels & similar accommodation. The first market remains China with a 15 percent market share, followed by the US (13 percent), New Zealand (12 percent), the UK (11 percent) and Singapore (5 percent). These top 5 inbound markets generate over 56 percent of Australia's international room night demand.

Australian Hotel Fundamentals & Capital Markets Update

Overall Performance

In the year ending March 2016, Australian hotels achieved an average occupancy in excess of 75 percent (+1.3 percent) and an Average Daily Rate (ADR) of A\$184 (+1.5 percent), pushing the national Revenue Per Available Room (RevPAR) further into record territory.

Over the period, the best performing markets in terms of annual RevPAR movement were Hobart (+8.8 percent), Sydney (+7.7 percent) and Canberra (+6.2 percent) which all recorded increases in both ADR and occupancy. In absolute terms however, the star performer remains Sydney which at A\$183 added A\$13 to its annual RevPAR over the past 12 months. Sydney is now 16.5 percent ahead of Perth (A\$160.64) and 18.8 percent ahead of Melbourne (A\$154.91) in annual RevPAR performance.

Figure 7: Australian Capital Cities Hotel Fundamentals

Location	Occ (percent)	ADR (A\$)	RevPAR (A\$)	RevPAR Change* (percent)
Australia	75.6	184	139	+2.8
Adelaide	75.7	150	114	-1.8
Brisbane	73.5	170	125	-11.8
Canberra	74.0	165	122	+6.2
Darwin	65.8	167	110	-15.9
Hobart	81.8	165	135	+8.8
Melbourne	82.8	186	154	+1.3
Perth	81.3	193	157	-4.2
Sydney	85.3	215	183	+7.7

* Year ending March 2016 figures vs year ending figures prior year
Source: STR Global, CBRE Hotels & Colliers 2016

As has been the case over the past quarters, mining reliant markets such as Darwin, Perth and Brisbane continued to experience a correction in the first quarter of 2016 as these markets are faced with having to absorb new supply while experiencing slower demand growth.

Sydney



The lack of rooms continues to be a trait of the Sydney hotel market, leading to occupancies

averaging over 90 percent three nights a week and on average for the months of February, March and November last year. Capacity constraints resulted in close to 9 percent rate growth experienced in the last 6 months of 2015, twice as fast as Sydney's medium term average growth.

From a supply perspective, although there is hotel construction activity in the market, close to 1,000 rooms will be removed from Sydney's existing stock by 2020 (mainly as a result of conversions) and thus minimise the net effect of additional supply.

Given demand and supply dynamics, it is expected the Sydney hotel market will continue to dominate Australia as the main visitor hub, both for business and leisure travellers, in the foreseeable future.

Melbourne



With supply growth meeting demand growth, the Melbourne market performance indicators remained relatively flat in 2015, albeit still robust. Occupancies added a single percentage point (reaching an average 87.4 percent) and rates grew by a slight 1.8 percent.

There are approximately 1,300 rooms in the pipeline for the Melbourne market to December 2018. This represents a 3.8 percent growth in room nights available and remains in-line with demand growth expectations of 4.2 percent, expressed as room nights sold over the same period.

With demand growing hand in hand with supply in the coming years, occupancies are expected to remain relatively flat and rate growth will likely remain steady at around 3.3 percent per annum.

Brisbane



Both domestic and international leisure visitation numbers are experiencing growth, however business travel continues to be sluggish on the back of the slowdown in mining activity. This is resulting in a gradual change in hotel customer mix when compared to recent years (now increasingly leisure oriented) and is negatively impacting rates given the higher price-sensitivity of leisure travellers.

Compared to 2014, Brisbane witnessed a slight increase in number of room nights sold, however

given recent additions to supply, occupancy growth remains in negative territory. Brisbane continues to have one of the largest hotel pipelines in Australia with approximately 2,000 rooms in likelihood-adjusted terms projected to come online by the end of 2019. This represents a substantial supply growth of over 15 percent in terms of room nights available (over 4 percent annually) and will take time to be absorbed.

Looking forward, Deloitte Access Economics expects only a modest easing in occupancies as travel demand fundamentals remain strong. Room rates however, are forecast to continue correcting until 2018 when they will stabilise at \$167, a 7 percent drop compared to 2015 figures.

Adelaide



The Adelaide hotel market experienced a slight correction in the past months as new supply has come online. While rates have held steady, room nights sold over the past six months remained flat, negatively affecting market occupancy.

Demand for Adelaide is highly dependent on the city's event calendar and in 2015, the ICC Cricket World Cup unfortunately coincided with Adelaide's usual peak in events.

The only hotel scheduled to open in the coming two years is the Holiday Inn Express Adelaide Hindley Street. However, a further 400 rooms are considered likely to come online in 2018.

The strength of Adelaide's local economy and calendar of events will dictate the pace at which supply gets absorbed.

Perth



Despite the slowdown in Western Australia's mining activity, Perth's hotel market remains one of Australia's key performers. Over the second half of 2015, room nights sold declined slightly however, the closure of 240 rooms for renovation kept performance metrics stable.

Looking forward, growth trends in visitation continue to be strong and are expected to persist on the back of significant tourism investment. The supply pipeline is however substantial and will impede

Perth's ability to maintain its current performance. Over the coming three years, approximately 1,900 rooms are expected to enter the market. Accordingly, a correction period that will last at least until the end of 2018 is projected. Nonetheless, Perth will remain in the top three performing markets nationally.

Canberra



Canberra has shown surprising strength over the past months with room nights sold up a healthy 4.6 percent annually 2015. Considering 385 new rooms recently completed, the market is much stronger than headline growth figures suggest (3.7 percent Occ, 2.4 percent ADR in the year ending March 2016).

To a certain degree, Canberra is going through a repositioning and becoming increasingly seen as an eclectic destination with a series of new destination hotel options, an increasingly upscale dining scene and a strengthening events calendar. Although recent additions to supply will take time to be absorbed, demand growth combined with a relatively benign supply pipeline are likely to see performance strengthen in the medium term.

Darwin



Darwin has been substantially impacted by the slowdown in mining activity, losing close to 45 percent of corporate room night demand in 2015. In parallel, this relatively small market has seen hundreds of rooms come online over a short period of time, resulting in a substantial demand vs supply imbalance and leading to a severe drop in hotel performance in recent months.

While statistics show that international demand is growing at a CAGR of 35 percent, this is off a low base which only represents about a quarter of Darwin's demand.

There are currently no more significant supply additions expected, however the next challenge awaiting Darwin hoteliers is the wind down of the A\$50bn Ichtys LNG project's construction phase. This is scheduled to occur from Q3 2017 and will bring the project's workforce from an 8,000-strong peak to only 300 people.

The short term prospects for Darwin’s hotel market are grim but will depend heavily on the Northern Territory government’s ability to diversify the sources of investment beyond Ichtys and promote the destination.

Hobart



As a tourism destination, Hobart is growing at a historical pace with all hotel performance indicators showing growth. In the past year, occupancy edged over 80 percent and rate reached similar levels to those experienced in Canberra. These positive results have led to a substantial RevPAR growth of 8.8 percent in the year ending March 2016, the highest growth in the country, in nominal terms.

Hobart’s positive performance has put the market on the radar of hotel developers and thus its pipeline has recently expanded. Over the next three years, proposed projects could add up to 20 percent of rooms.

Looking forward, room night demand is expected to continue its rapid growth, however given the healthy supply pipeline, occupancies could see a slight correction.

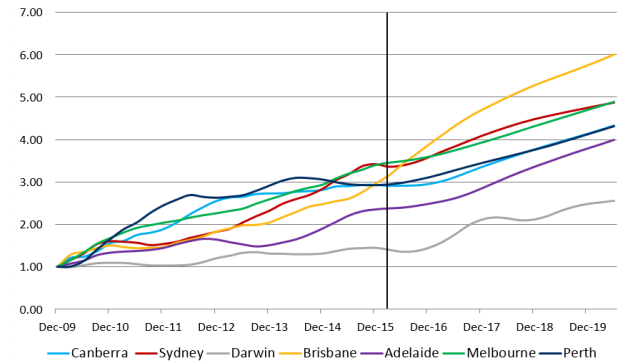


Hobart Waterfront & City Aerial

Short & Medium Term National Outlook

Room nights occupied, the underlying measure of how healthy the tourism sector is, are forecast to grow steadily in all markets over the foreseeable future. As indicated in the following graph, Brisbane is expected to experience the highest growth in room nights occupied (RNO). This is partly as a result of the Queen’s Wharf precinct development which will house the city’s new integrated resort, including a world-class casino, hotels, retail and around 50 cafes / restaurants.

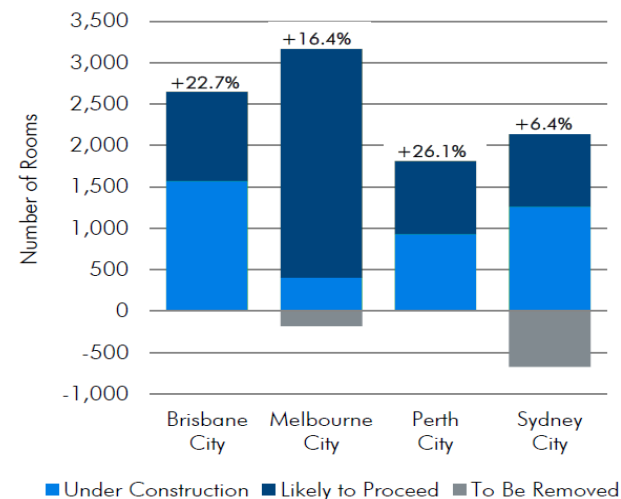
Figure 8: Australia Key Markets RNO¹ Growth



¹ Room Nights Occupied
Source: Horwath HTL, 2016

While Sydney will only experience relatively little change in supply over the coming years, the supply pipeline in all other markets has now grown considerably. At the end of 2015, Deloitte Access Economics expected a supply injection of over 8,000 rooms across the country, in likelihood-adjusted terms. Looking at net growth figures, Perth is facing the largest pipeline with a potential 26.1 percent increase over existing stock, followed by Brisbane (+22.7 percent) and Hobart (+19.1 percent).

Figure 9: Top 4 Australian Major Markets Supply Pipeline



Source: CBRE Hotels, 2016

The resulting performance outlook for Australian hotels is optimistic with average national RevPAR growth expectations of 4.3 percent per annum over the next three years. All major cities are forecast to experience growth, albeit at a different pace. Sydney will clearly be the leading market, followed closely by Melbourne.

Australian Hospitality Opportunity (AHO) Fund I

Fund Overview

In early 2000, Pro-invest's CEO, Ronald Barrott FRICS brought the Holiday Inn Express (HIE) brand to the European market. At the time, he developed a portfolio of HIE hotels throughout the UK which he grew to become one of the biggest franchised portfolios outside of the US. **Over a period of 6 years 15 HIE assets were developed and the portfolio was exited as a trade sale achieving an IRR in excess of 25 percent.**

In 2013, given his successful relationship with InterContinental Hotels Group (IHG), Ronald launched the AHO Fund I ('Fund') to develop, own and operate a portfolio of 10 to 15 Holiday Inn Express® hotels across Australia and New Zealand. The portfolio is being rolled out under a Master Development Agreement with IHG.

The Fund is a Managed Investment Scheme with an MIT-compliant structure. This allows it to reduce withholding tax by half to qualified offshore investors. **The Fund is forecast to achieve an IRR in excess of 20 percent.**

Progress Made over the Past Quarter

In the first quarter of 2016, **a significant milestone was achieved with the opening of Australia's first Holiday Inn Express hotel, Holiday Inn Express Sydney Macquarie Park.**

With the addition of a new project to the Fund's pipeline, the number of rooms under development increased to over 1,200, including assets located in Sydney, Melbourne, Brisbane, Adelaide and Newcastle.

Finally, Pro-invest achieved a successful outcome with respect to its fundraising activity and **the Fund closed in April 2016 with an equity commitment of A\$300m, A\$50m in excess of expectations.** The secured funding will allow Pro-invest to focus on acquisition efforts, allowing for the clustering of properties in both Sydney and Melbourne in addition to continuing the brand's expansion in key markets of Australia and New Zealand.

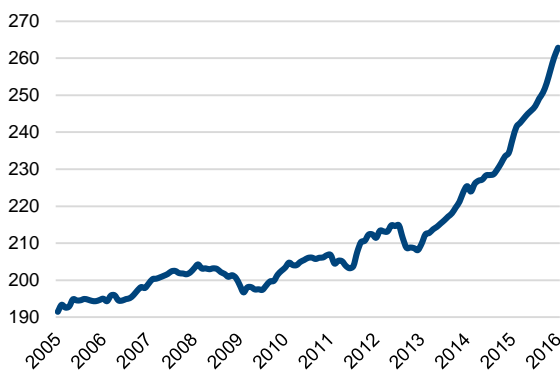


New Zealand Travel Industry Performance

The good news continues for New Zealand’s hotel market with all indicators pointing towards continued growth. New Zealand has witnessed its strongest summer in history with over 3.26 million international visitor arrivals recorded in the year ending March 2016, a 10.4 percent increase year-on-year.

In recent years, arrivals have experienced incremental growth, rising at a CAGR of 7.8 percent since 2013, over twice the pace of the long term average since 2005 (2.9 percent). The country’s current tourism boom is unprecedented and seeing the pace at which the industry is growing, it seems possible it could overtake Dairy as New Zealand’s biggest earner.

Figure 10: New Zealand Monthly International Arrivals (12-month rolling average¹, '000s)

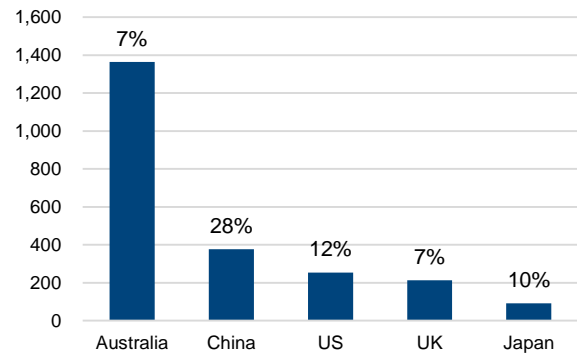


¹ Year ending March
Source: NZ Ministry of Business, Innovation & Employment, 2016

New Zealand’s top five source markets (Australia, China, US, UK and Japan) make up nearly three quarters of all international arrivals to the market. Australia is by far the largest contributor to inbound travel, with Australians representing close to 40 percent of all inbound travellers.

Among all source markets, China, the country’s second largest source of inbound travellers, is rapidly growing its market share. As illustrated in the following graph, it currently accounts for close to 18 percent of all international arrivals and grew by a staggering 28 percent in the year ending March 2016.

Figure 11: NZ Top 5 International Source Markets by Arrivals & Annual Growth ('000s)¹



¹ Year ending March 2016
Source: Statistics New Zealand, 2016

The surge in visitation New Zealand has been experiencing is translating into an exponential room night demand growth. Compared to 2013, in excess of 5 million room nights are now being generated in commercial accommodation annually, a 5.1 percent CAGR over the past three years.

Figure 12: New Zealand Monthly Guest Nights in Commercial Accommodation (12-month rolling average¹, '000s)

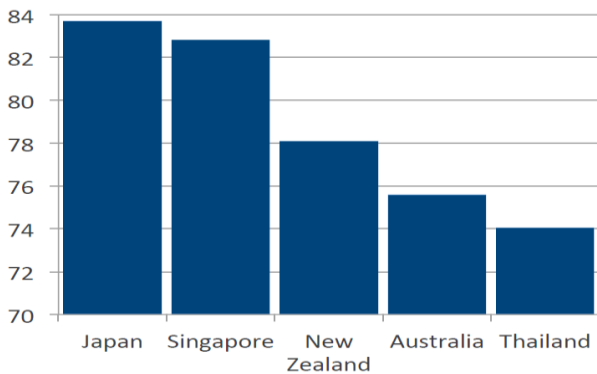


¹ Year ending February
Source: NZ Ministry of Business, Innovation & Employment, 2016

New Zealand Hotel Fundamentals & Markets Update

Led by growth in international traveller numbers as noted above, record occupancy levels are being achieved with most key markets near or at capacity in peak periods. National occupancy levels for the 12 months to March 2016 reached close to 80 percent, placing New Zealand in third position of the top performing Asia Pacific hotel markets (behind Japan and Singapore).

Figure 13: Top 5 APAC Hotel Markets by Occupancy¹



¹ Year ending January 2016
Source: STR Global, 2016

In the year ending March 2016, the country’s ADR also experienced an uplift, rising by 8.1 percent to NZ\$161 and resulting in a RevPAR increase of over 12 percent to NZ\$128. According to Colliers International, the prognosis is positive for continued rate growth and given the current extremely limited supply pipeline, an ADR of up to NZ\$200 could become a reality for certain markets in the short to medium term.

Figure 14: New Zealand Key Markets Hotel Fundamentals

Location	Occ (percent)	ADR (NZ\$)	RevPAR (NZ\$)	RevPAR Change* (percent)
New Zealand	79.6	161	128	+12.2
Auckland	84.4	169	142	+11.7
Christchurch	78.1	155	121	+2.1
Queenstown	80.2	178	143	+20.9
Wellington	79.1	169	134	+14.6

* Year ending March 2016 figures vs year ending figures prior year
Source: STR Global & Colliers International, 2016

Over the past 12 months, Queenstown and Wellington were the star performers, achieving nominal RevPAR growth of NZ\$24.76 and NZ\$17.03, respectively, when compared to a year ago.

Auckland



In Auckland, room occupancy surged to over 84 per cent in the year ending March 2016, surpassing the previous peak level reached during the 2011 Rugby

World Cup, an increase of 1.8 percent over last year. In parallel, average rates increased by 8 percent over the period, resulting in a RevPAR premium of 11.7 percent year on year to NZ\$142 (higher than the Adelaide, Brisbane, Canberra and Darwin markets).

From a supply perspective, 180 rooms have recently entered the market (Adina Apartments, Ramada Suites) and these have easily been absorbed. To date, only 2 major hotel projects have been announced, namely a 200-key Park Hyatt and a 300-key 5-star hotel as part of the New Zealand International Convention Centre. While these projects will assist the current supply constraints, they will do little to satisfy future demand growth and thus market performance is expected to continue rising, mainly on the back of rate growth.

Christchurch



The Christchurch market is slowly recovering from the 2011 earthquakes and posting relatively strong performance. In the year ending March 2016, the market experienced strong absorption levels with occupancy up 78.1 percent despite over 300 rooms being added to the supply over the year. Rates dropped slightly, however this may be attributed to lower star graded properties entering the market.

Looking forward, Christchurch remains a difficult market to forecast. The supply pipeline is substantial however inventory levels are still well below previous heights. It is expected demand will continue to strengthen, however the pace at which this will occur is highly dependent on major government projects being completed, many of which are currently delayed.

Wellington



Despite Wellington being considered a traditionally stable market, demand growth on the back of the booming tourism market and a polished events calendar has resulted in occupancy growth of over 5 percent in the year ending March 2016. This increase in demand along with a number of existing hotels undergoing refurbishment programs, have led to upward pressure on rates. The combined

occupancy and rate growth have resulted in Wellington posting the country's second largest RevPAR growth in nominal terms (+NZ\$17 in the year ending March 2016).

From a supply perspective, the market has seen a dearth of hotel development in recent years, with no additional supply coming online since 2009. Currently, the only project in the pipeline is a 130-room Sofitel.

Queenstown



Queenstown is New Zealand's current star performer, achieving the country's highest ADR at NZ\$178 (+14.4 percent in the year ending March 2016) and a RevPAR slightly higher than Auckland.

The performance is underpinned by record international visitor demand in a highly supply constrained environment. Given the seasonality of the market, hoteliers and the local government have been concentrating efforts on spreading demand to lower peak periods. This in turn has contributed to growing rates.

With no new additions to supply in recent months and no notable projects in the supply pipeline, Queenstown will continue to operate at under-capacity with demand growing faster than supply.



View of Queenstown © Lawrence Murray, 2011

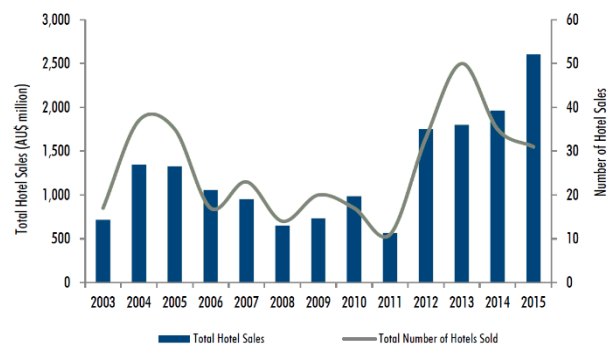
Regional Hotel Investment Market & Recent Transactions

According to a recent Investor Intentions Survey conducted by CBRE Asia Pacific, investors are more likely than ever before to acquire hotel assets. The survey results indicate that 14 percent of investors expect to be purchasing hotels compared to only 1

percent in 2014 and that hotels now sit third behind office and logistics as the preferred sector for investment.

Illustrating the above, in 2015, Australian hotel transaction volumes reached a new high at over A\$2.5bn. According to brokerage house CBRE Hotels, current indications are that investor interest has remained strong in the first quarter of 2016 which will likely be another record year for hotel transactions.

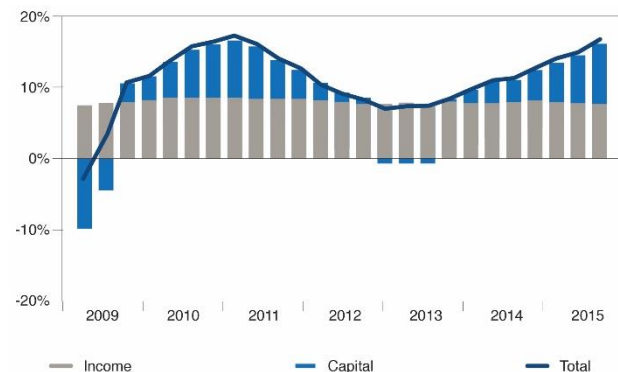
Figure 15: Total Australian Hotel Sales vs Number of Hotels Sold



Source: CBRE Hotels, 2016

The chart below illustrates the evolution of IPD Australia's Australian Hotel Property Index. The index tracks investment performance of 48 hotel assets worth over c. A\$3.3bn, representing 37 percent of the estimated hotel investment market with the intention of providing an investment performance benchmark with other core property sectors. In the year ending December 2015, annualised total returns reached 17 percent, higher than any other real estate sector.

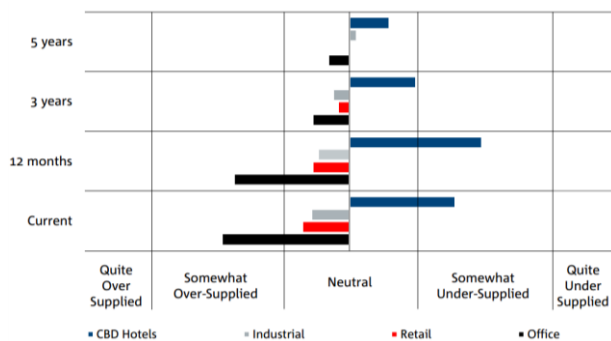
Figure 16: Total Annualised Returns for the Australian Hotel Property Index



Source: IPD Australia, 2016

Accordingly, National Bank of Australia’s (NAB) most recent Australian industry survey on commercial property indicates that optimism is the strongest for the hotel sector. According to the bank, the shortage of rooms nationally and the increase in tourism are fuelling the confidence in CBD hotels. Survey respondents expect these will out-perform all other commercial property sectors for capital growth over the next two years. The survey tracks expectations of around 250 players in the Australian property sector, including agents, developers, asset/fund managers, valuers and owners/investors.

Figure 17: Australian Property Supply Conditions



Source: NAB, 2016

In New Zealand, despite buoyant trading conditions, new supply remains well below requirements mainly due to high construction costs, a shortage of suitable land and competition from other property sectors. This is translating into soaring hotel performance and having a positive impact on property values which is attracting high investor interest. Colliers International recently reported that hotel buyers now outnumber sellers five to one.

“The combination of New Zealand’s tourism boom, international visitor arrivals being at record levels, our weakening currency and low interest rates are attracting an increasing number of hotel investors to our market.” Dean Humphries, Colliers National Director, New Zealand.



Holiday Inn Express Shanghai Gongkang

Transaction Highlights

Despite continued high investor interest, only two significant hotel transactions occurred in Australia over the quarter, illustrating the scarcity of assets available for sale in the market.

The largest transaction was the leaseback sale of the Vibe Hotel Sydney (A\$90m, A\$471,000 per key), located in the southern part of Sydney’s CBD. It was sold to Singapore’s Far East Organization for close to A\$90m at an estimated initial yield in the vicinity of 5 percent. The second property to sell was the Adina Norwest, a 109-key serviced apartment property with fully leased retail tenancies and commercial suites. The property is located in one of Sydney’s largest business parks and has significant redevelopment potential. It was acquired by a private buyer for a reported A\$60m (A\$550,000 per key) at an undisclosed yield.

In New Zealand, the sale of the Novotel Wellington marked the country’s first major hotel transaction this year. The hotel is one of seven previously owned by significant US hospitality REIT Host Hotels & Resorts who are in the process of divesting their Asia Pacific portfolio to redirect funds to the US. The 139-key property sold for NZ\$33m, the highest price ever achieved by a 4-star hotel in the Kiwi capital, at a yield of 7.6 percent. The purchaser, CP Group, is operated by local Pandey family, reputed as the largest owner of hotel real estate in New Zealand. This acquisition follows the group’s recent purchase of the 247-key Novotel/Ibis Ellerslie, a dual branded hotel located in suburban Auckland, for slightly over NZ\$55m (NZ\$224,000 per key).

In general, capitalisation rates in New Zealand are slightly higher than those experienced in Australia. However, New Zealand is currently at an earlier stage in the cycle and given the combination of growing investor interest in the asset class and limited pipeline, rate compression in key markets can be expected.

The following tables illustrate selected Australia & New Zealand hotel transactions over A\$20 million having occurred on a rolling twelve months. In order to be most relevant to our development of the Holiday Inn Express® brand, they exclude development sites, leisure and resort assets, regional assets as well as suburban assets requiring significant capital expenditure.

Figure 18: Recent Australian Hotel Transactions

Hotel	Location	Date	Keys	Price [A\$m]	Price / Key [A\$000]	Initial Yield [percent]	Comments
Adina Norwest	Baulkham Hills, NSW	FEB 2016	109	60	550	undisclosed	4-star serviced apartment property with commercial component on a large site with redevelopment potential. Adjacent Norwest Business Park.
Vibe Hotel Sydney	Sydney, NSW	JAN 2016	191	90	471	c. 5	4-star hotel well-located in the southern part of the CBD. Lease-back sale.
Tune Hotel Melbourne	Melbourne, VIC	DEC 2015	225	52	231	5.7	Near new 3-star hotel in proximity to the CBD. Includes parking and retail component. Sold with vacant possession available upon sale.
Melbourne Art Series Hotels	Melbourne, VIC	DEC 2015	342	146	427	c. 7	Combined sale-and-leaseback of two 5-star boutique properties located in the outskirts of Melbourne.
InterContinental Rialto*	Melbourne, VIC	DEC 2015	253	133	526	5.8	Centrally located and recently refurbished hotel in Melbourne's CBD.
Crowne Plaza Melbourne*	Melbourne, VIC	DEC 2015	385	141	366	6.6	4-star property well located but in need of a refurbishment.
Crowne Plaza Coogee Beach*	Coogee, NSW	DEC 2015	209	80	385	7.4	4.5-star property located on Sydney's coast, c. 10 kilometres from the city centre.
Crowne Plaza Canberra*	Canberra, ACT	DEC 2015	296	54	183	7.7	Well-located 4-star property in proximity to offices, F&B outlets and the casino.
Holiday Inn Potts Point*	Potts Point, NSW	DEC 2015	288	58	200	5.9	4-star property well located and well maintained.
Pullman Sydney Airport	Mascot, NSW	DEC 2015	229	84	367	5.6	New build hotel sold on completion, located near the airport's domestic terminal.
Pensione Hotel	Melbourne, VIC	SEP 2015	114	26	228	6.5	Well located CBD hotel. Purchased by Third Fan
Quest Rockingham	Perth, WA	SEP 2015	48	22	458	undisclosed	Purchased by Aligned Funds Management from the Diploma Group.
RendezVous Hotel Sydney	Sydney CBD	AUG 2015	116	38	327	undisclosed	Purchased by Naumi Hospitality
Four Points by Sheraton	Perth, WA	AUG 2015	278	92	329	7.1	4.5-star property recently rebranded to Four Points after extensive A\$22m refurbishment
Elan Soho Suites	Darwin, NT	JUL 2015	301	57	190	undisclosed	4.5-star apartment hotel, recently built and purchased by Thai Minor Group. It will be rebranded under the group's Oaks brand.

Source: CBRE Hotels and Savills Research, 2016

*assets were purchased as a portfolio from Eureka Funds Management

Figure 19: Recent New Zealand Hotel Transactions

Hotel	Location	Date	Keys	Price [NZ\$m]	Price / Key [NZ\$000]	Initial Yield [percent]	Comments
Ibis Wellington	Wellington, NZ	MAR 2016	200	34	170	undisclosed	Sold with a long-term management agreement in place. The asset is located in an area prone to seismic risk.
Novotel Wellington	Wellington, NZ	FEB 2016	140	33	237	7.6	Recently refurbished 4.5-star hotel located in the heart of the CBD.
Novotel Queenstown Lakeside	Queenstown, NZ	NOV 2015	273	91	333	7.3	Iconic hotel in the heart of Queenstown. Largest single hotel transaction completed in New Zealand since 2006.
Novotel / Ibis Auckland Ellerslie	Auckland, NZ	OCT 2015	245	55	224	7.8	Suburban dual branded hotel, well-located close to large demand drivers. Largest sale price for a non-CBD hotel in New Zealand.

Source: Colliers International, 2016

Australia's First Holiday Inn Express Officially Open

Pro-invest Press Release, 30/03/2016



InterContinental Hotels Group (IHG) in partnership with investment group, Pro-invest has this morning (March 30th) celebrated the opening of Australia's first Holiday Inn Express hotel, Holiday Inn Express Sydney Macquarie Park, scheduled to welcome its first guests on 11th April 2016.

A ribbon cutting ceremony marked the occasion, attended by IHG Chief Executive Officer, Richard Solomons, Pro-invest Chief Executive Officer, Ronald Barrott, and New South Wales Minister for Trade, Tourism and Major Events, the Hon. Stuart Ayres MP.

Holiday Inn Express Sydney Macquarie Park is the first of 15 Holiday Inn Express hotels to be developed in partnership between IHG and international investment group, Pro-invest Group under a Master Development Agreement. Additional key locations for properties in the portfolio have been secured in Spring Hill, Brisbane (226 rooms), Hindley Street, Adelaide (245 rooms) and Southbank, Melbourne (345 rooms).

"This is an important milestone for the Holiday Inn Express brand globally, this year celebrating its 25th anniversary. I'm delighted to be here for the occasion, and to celebrate with our partners from Pro-invest." Richard Solomons, IHG Chief Executive Officer.

"IHG's global strategy is to align the right market with the right brand at the right time – and with the right partner. With a strong tourism economy in place, coupled with a receptiveness to a select service accommodation brand in this market and a dynamic partner in Pro-invest Group, Australia presented as an ideal opportunity to continue the growth of Holiday Inn Express. A brand synonymous with offering guests a great experience and everything they need but nothing they don't, coupled with friendly service, Holiday Inn Express will no-doubt prove popular among smart, discerning Australian travellers," he said.

Ronald Barrott, CEO at Pro-invest Group said: "Since announcing our partnership with IHG and this portfolio of Holiday Inn Express hotels to open in Australia, our team has scoured the country for prime locations for our hotels. Macquarie Park is one of Sydney's leading business precincts for this, our first Holiday Inn Express hotel, perfectly-suited to cater for corporate travellers. "In just a few days' time we will open our doors to guests, and it won't be too long before we do the same at Holiday Inn Express Brisbane Spring Hill. It's an exciting time, and we could not have wished for better partners than IHG with whom to undertake this exciting project."

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