



Pro-invest
group

Australian Hospitality Opportunity (AHO)
Quarterly Newsletter Q2 2016

Dear AHO Investors, Industry Colleagues and Friends,

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

This newsletter 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 edition include:

- The Australian Government has confirmed the importance of the tourism industry, **with increased funding and a lift into Government Ministry.**
- Australia is experiencing strong growth in domestic travel with 6% annual increase in hotel room nights sold, **the highest nominal growth in the past 10 years.**
- **International travel to New Zealand has never been so high**, with the number of arrivals reaching an all-time record of 3 million, mostly driven by Chinese demand.
- Since initiation of New Zealand's Tourism 2025 strategy in 2014, the industry's growth has exceeded all expectations, with **arrivals up by 16%, nights up by 11% and hotel RevPAR up by a staggering 23%.**
- According to latest research, if demand and supply forecasts are borne out, **there will be a shortfall of over 4,500 hotel rooms across New Zealand by 2025.**

In addition, the Australia and New Zealand 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, hotels now rank third most sought after real estate asset class behind logistics and office space.

“Despite the relatively sharp pricing in first-tier cities, there remains significant appetite from investors for deals in markets with strong domestic and international visitation fundamentals.” Marc Durran, Managing Director JLL Hotels & Hospitality Group Australasia

Pro-invest is particularly well-positioned to capitalise on the attractive investment opportunity the Australian and New Zealand 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 I ('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. 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 (MIT) providing significant tax benefits to its 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

Brexit

With 95% of UK hoteliers supporting a 'remain vote', the UK's decision to leave the EU has put the industry in dismay. Following the vote, British hotels operating in gateway cities will potentially see a short-term increase in occupancy as a result of the weakened pound which makes the UK more attractive to foreign visitors and the rest of the world more expensive for British travellers. In the longer run however, if the exit results in any diminution of the rights of EU workers, whose efforts fuel much of the UK's hotel sector, hotel and restaurant operators will face a challenging position when staffing their properties at a viable price-point.

“Even if rights are preserved, the feeling of being unwelcome, and the fear that any rights kept in the immediate aftermath of Brexit may be eroded over time will surely lead some EU employees to up sticks and leave the UK.”
Simon Allison, HOFTEL Chairman

On the other hand, any destination for which the UK has proven a substantial inbound source market are likely to feel some contraction in British demand. While current summer holidays have already been booked, forward bookings in the last part of 2016 can be expected to drop. The UK is currently Australia's third largest and New Zealand's fourth largest source of inbound visitors. Any contraction in British demand will thus surely be felt in the coming months.

Australian Federal Budget to Drive Future Tourism Growth

Tourism now accounts for 3% of Australia's GDP, supports one million jobs and drives over A\$30 billion in exports. The industry is projected to grow at 4.1% per year over the coming decade, well above the national average, presenting Australia with a multitude of opportunities. The latest Federal Budget recognises the sector's strength and reaffirms the government's view that it is one of the country's 'super-growth sectors' which has the potential to

significantly contribute to economic growth. Key measures include:

- Record funding for Tourism Australia of A\$629 million over four years;
- A range of measures to make it easier for international visitors to access visas;
- Tax cuts to benefit small tourism operators with an annual turnover of under A\$10 million; and
- Transport as well as regional tourism infrastructure funding.

“In what is considered a ‘tough’ budget, the measures outlined by the government provide a real vote of confidence in the industry and its ability to generate both income and employment for the Australian economy.” Martin Ferguson, Tourism Accommodation Australia Chair

Australia Lifts Tourism into Government Ministry

Following the positive Federal Budget outcome, tourism was lifted into the new Turnbull-led government ministry with Steven Ciobo announced as Australia's new Minister for Trade, Tourism and Investment. Upon his appointment, Ciobo announced that he would be an unwavering advocate for the tourism industry around the Cabinet table, emphasising that the Turnbull government will pursue an ambitious trade agenda to grow exports, attract new investment and increase visitor numbers to the country.

In Australia's changing economy, where services industries are becoming first-tier and have the brightest prospects for growing export earnings as well as creating employment, it is positive news that tourism is being recognised in Minister Ciobo's Cabinet title and is proof of this government's understanding of the industry's importance for Australia's economy.

Australia is currently in the most dynamic expansionary phase it has ever experienced in terms of hotel construction and tourism infrastructure growth. It is therefore essential that the sector benefits from government's full support, through positive policies and a reduction in barriers.

New Zealand 2016 Budget

In May 2016, John Key, New Zealand Prime Minister and Minister of Tourism, announced the Government will invest an additional NZ\$20 million over the next four years to further support the tourism sector across the country.

“The new funding, which is in addition to the over NZ\$130 million a year the Government currently spends, aims to help all regions realise their tourism potential and reap the economic benefits that it brings” John Key, New Zealand Minister of Tourism

The additional funding is aimed at growing the marketing footprint of Tourism New Zealand in growth markets (NZ\$8 million) as well as creating a NZ\$12 million ‘Regional Mid-sized Tourism Facilities Fund’ to help smaller communities develop local tourism infrastructure.

Expansion of the New Zealand eVisa Scheme

On the back of strong visitor demand originating from China, the New Zealand government is in the process of introducing eVisas for Chinese nationals, streamlining the visa application process for the country’s fastest growing international source market.

This initiative follows the doubling of the length of the multiple entry visa to two years and the introduction of a three-year multiple-entry business visa.



Holiday Inn Express® Sydney Macquarie Park Great Room

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. The year ending March 2016 saw a continuation of previously recorded strong growth in domestic travel. Trip spend is up 5% to A\$58.3 billion, overnight trips are up 8% to 88.5 million and nights away are up 5% to 327 million.

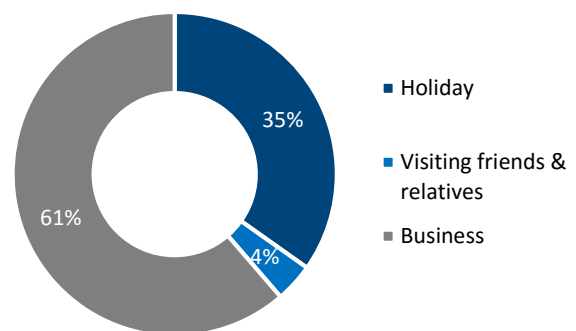
Figure 1: Year Ending March 2016 National Visitor Survey Overview

TRIP SPEND ▲5%	OVERNIGHT TRIPS ▲8%	NIGHTS ▲5%
A\$58.3 BILLION	88.5 MILLION	327 MILLION

Source: TRA, 2016

Led by strong growth in holiday and business travel, domestic nights spent in hotel accommodation (hotels, motels, resorts and motor inns) grew by 4.5 million (+6%) in the 12 months to March 2016, the highest nominal growth in the past 10 years. In-line with recent years, approximately 25% of all domestic travel nights in Australia are spent in hotel accommodation.

Figure 2: Contribution to Growth in Domestic Room Night Demand by Segment



Source: TRA, 2016

In the year ending March 2016, the business segment was responsible for over 61% of the growth in annual room nights sold to domestic travellers. The segment itself grew by 11.2% in the year, delivering an additional 2.9 million room nights or 7,800 additional nights per day. The business segment now generates 35% of all domestic hotel

nights and continues to grow faster than any other segment.

Domestic visitation within Australia is increasing in most states throughout the country. In nominal terms, Queensland continues to lead the pack, generating close to half of the nation-wide annual growth in domestic room night demand (+2.6 million nights). It is followed by Western Australia (+1.1 million nights), New South Wales (+727,000 nights) and South Australia (+664,000 nights).

International Visitation

Exchange rates have provided favourable conditions for travel to Australia. According to TRA's latest International Visitor Survey, in the year ending March 2016, international visitor numbers are up 9% to 7.1 million, international visitor nights are up 8% to 248 million, and international trip expenditure is up 17% to A\$37.9 billion.

Figure 3: Year Ending March 2016 International Visitor Survey Overview

VISITORS ▲9%	NIGHTS ▲8%	EXPENDITURE ▲17%
7.1 MILLION	248 MILLION	A\$37.9 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% of the market share.

In the year ending March 2016, the number of international room nights generated in hotels & similar accommodation grew by 1.8 million. Most of this increase was driven by growth of inbound travel from China, which alone represented over a third of the annual growth. The US, Australia's second largest market, is also growing strongly (+16%), albeit at half the pace China is. Given increased air traffic capacity, growth for this market is expected to remain steady over the foreseeable future. As mentioned in our previous report, New Zealand has slipped a rank to become Australia's third largest source market. Interestingly, in the year to March 2016, it is the only one of Australia's top 10 inbound source markets to have stagnated.

Holiday is by far the main purpose of visit by international visitors, representing 64% of all inbound nights and fuelling over 70% of the annual growth in overseas demand.

Australian Hotel Fundamentals

Overall Performance

In the year ending June 2016, Australian hotels achieved an average occupancy in excess of 76% (+1.3%) and an Average Daily Rate (ADR) of A\$184 (+1.7%), pushing the national Revenue Per Available Room (RevPAR) further into record territory at A\$139, a 1.7% growth.

Over the period, the standout markets in terms of annual RevPAR movement were Hobart (+10.7%) and Sydney (+7.6%) which both recorded increases in both ADR and occupancy. In absolute terms however, the star performer remains Sydney which at A\$185 added A\$13 to its annual RevPAR over the past 12 months. As has been the case over the past quarters, resource-reliant markets (Darwin, Perth and Brisbane) continued to experience a correction as they continue to absorb new supply while experiencing slower demand growth.

Figure 4: Australian Capital Cities Hotel Fundamentals

Location	Occ (%)	ADR (A\$)	RevPAR (A\$)	RevPAR Change* (%)
Australia	76	184	139	+3.0
Adelaide	76	151	115	+1.2
Brisbane	72	168	121	-11.8
Canberra	73	164	119	+1.2
Darwin	66	158	104	-17.4
Hobart	82	168	138	+10.7
Melbourne	83	186	155	+2.1
Perth	81	192	156	-4.2
Sydney	85	217	185	+7.6

* Year ending June 2016 figures vs year ending figures prior year
Source: STR Global & CBRE Hotels 2016

From a RevPAR perspective, Sydney is now c. 19% and A\$30 ahead of Perth and Melbourne. Perth remains Australia's second strongest RevPAR market, only slightly ahead of Melbourne.

In order to further put the above trading statistics into context, it is however important to analyse them with consideration to underlying market dynamics. For instance, a review of the latest room night demand data from TRA indicates that while Perth and Adelaide don't shine in annual RevPAR growth, these markets have actually been the most dynamic over the 12 months to March 2016, each generating

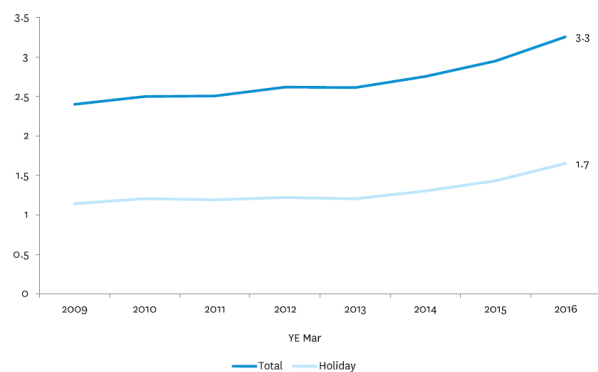
over 600,000 additional room nights compared to the year ending March 2015. Combined, this represents 60% of Australia’s room night demand growth. Canberra is another standout market from a demand perspective, with a 17% year-on-year increase in room nights sold. On the flip side, although Melbourne’s trading performance remains exceptional, domestic demand has softened leading to less room nights being generated than in the prior period.

New Zealand Travel Industry Performance

The value of New Zealand’s tourism sector continues to rise with statistics indicating international tourism spend has surpassed NZ\$10 billion for the first time at the end of last quarter, up 25% year-on-year.

Positively, two successful off-peak seasons (spring and autumn) flanking the best summer ever for arrivals, prove that Tourism New Zealand’s efforts to broaden the peak visitation period are not in vain.

Figure 5: New Zealand International Arrivals (m)



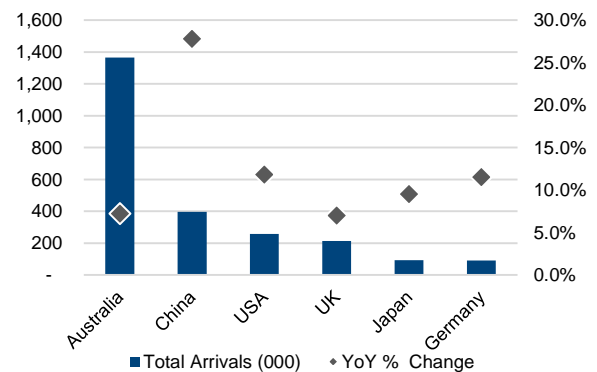
Source: Tourism New Zealand, 2016

New Zealand derives inbound demand primarily from Oceania (46%), followed by Asia (26%), Europe (15%) and the Americas (11%). Over the past three years, most source markets have grown roughly in line with their market share. Asia is however growing in predominance, with China, Japan and Korea generating increased demand.

In the year ending June 2016, international arrivals to New Zealand passed the three million mark. The country’s top six source markets (Australia, China, US, UK, Japan and Germany) generated 73% of all

international arrivals, a combined annual growth of over 10%. Australia, New Zealand’s number one source of international travellers (41% of all inbound arrivals), maintained steady growth, contributing 25% of the increase in number of arrivals while China, the country’s second largest market (12% of all inbound arrivals), continued to expand and generated 26% of the overall demand growth. On the back of new American Airlines and United Airlines flights between the US’s west coast and Auckland, growth in American arrivals is expected in the coming months. The new routes are expected to grow air capacity by 30% between the US and New Zealand.

Figure 6: NZ Top 6 International Source Markets by Arrivals & Annual Growth ('000s)¹

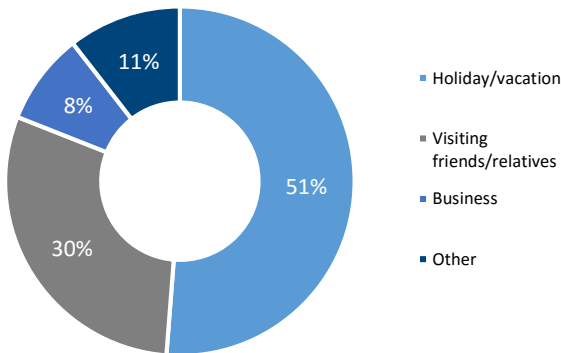


¹ Year ending June 2016
Source: Statistics New Zealand, 2016

New Zealand has typically been a holiday destination for international travellers and this is being reaffirmed with over 90% of year-ending June 2016 demand growth arising from either the Holiday or Visiting Friends & Relatives segments. International business travel remains steady with consistent growth especially from Australia, however this segment only represents 11% of inbound arrivals.

“In May 2016, holiday visitor arrivals from China exceeded those from Australia. This is the second time this has ever happened.” Statistics New Zealand

Figure 7: NZ International Arrivals by Purpose of Visit¹



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

Tourism 2025 Review - Two Years On

Two years ago, Tourism 2025, the New Zealand governmental growth framework for the nation's tourism industry, sought to grow tourism to a NZ\$41 billion annual industry. Two years on, and Tourism New Zealand reports that actual growth has exceeded all expectations and the industry is well on track to achieve the aspirational target. Since the framework's inception, international arrivals grew 15.6%, guest nights grew 10.7% and hotel RevPAR grew by 23.3%.

The growth has been led by economic recovery in source markets, substantial increases in air connectivity with new routes and higher passenger capacity, an increase in the productivity of tourism operations through successful marketing initiatives aimed at reducing the impact of seasonality and the rapid expansion of the Chinese inbound market.

The industry's rapid growth however comes with its challenges and New Zealand is now recognising that some parts of the industry (such as aviation capacity) have the ability to grow quicker than others (such as public infrastructure and accommodation facilities), potentially creating imbalances across the industry. In order to address these, Tourism New Zealand is increasing initiatives aimed at growing shoulder and off-peak visitation as well as dispersing demand around the country in order to relieve pressure on places with highest visitor loads while optimising the use of the country's tourism assets.

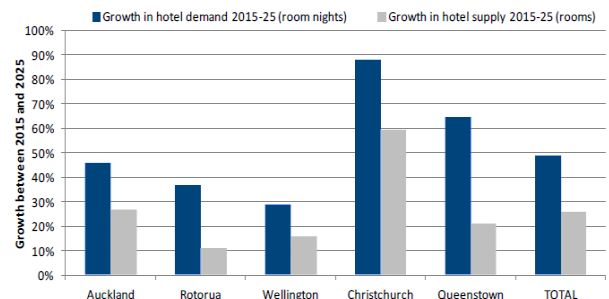


Holiday Inn Express® Sydney Macquarie Park Reception

New Zealand Hotel Fundamentals

According to Tourism Industry Aotearoa research, New Zealand hotels collectively recorded their best results in five years during the financial year 2015/16. The strong performance was a factor of improvements in the New Zealand economy, historic growth in international visitation (partly driven by a strong events calendar) and a limited supply pipeline. According to STR Global, in the 12 months to June 2016, room night demand grew by 4%, while room supply only saw a marginal growth of 0.6%. In line with these statistics, a report commissioned by the New Zealand Government has recently found that the demand vs supply imbalance is spread across the country and expected to persist in the coming years. The same report indicates that if demand and supply forecasts are borne out (see figure below), there will be a shortfall of over 4,500 hotel rooms across the country's major markets by 2025.

Figure 8: New Zealand Growth in Demand and Supply 2015-25



Source: Colliers International & Fresh Info Co, 2016

This constrained environment is leading to continued growth in hotel performance with all markets except Christchurch experiencing double digit RevPAR growth.

Figure 9: New Zealand Key Markets Hotel Fundamentals

Location	Occ (%)	ADR (NZ\$)	RevPAR (NZ\$)	RevPAR Change* (%)
New Zealand**	81	157	127	+12.7
Auckland	86	172	148	+13.9
Christchurch	78	155	120	+0.3
Queenstown	82	178	147	+23.3
Wellington	79	164	130	+11.5

* Year ending June 2016 figures vs year ending figures prior year

** Only includes key markets, not a national average

Source: Tourism Industry Aotearoa & Colliers International, 2016

Latest trading data issued by STR Global indicates national occupancy levels for the period reached close to 80% (+3.3%) and average room rate grew by 9.0%, resulting in a 12.7% RevPAR growth for the year. Over the past 12 months, Queenstown was the star performer, achieving annual nominal RevPAR growth of close to NZ\$35. Auckland and Wellington operated at a similar pace with the capital’s market displaying slightly more constraint. Although Christchurch’s performance numbers show a decrease in RevPAR, this is mainly due to a 10.6% growth in supply yet to be absorbed. In addition, with the bulk of the supply which entered the market being star-graded lower than current players, the resultant average rate compared to the previous period is also arithmetically lower.

Regional Hotel Investment Market & Recent Transactions

According to a recent report by Jones Lang LaSalle (JLL), Asia Pacific hotel investment volumes are up 13% in the first half of 2016. In the first 6 months of the year, a total of over 14,000 keys transacted, with 50% of the top deals occurring in Japan. Australasia continues to attract the highest capital inflows with cross boarder investors emerging as the dominant purchasers of hotel assets over recent years. A similar survey conducted by CBRE Hotels indicates that hotels now rank third most sought after asset behind logistics and office space. According to the same report, 14% of investors in Asia Pacific intend to invest in hotels this year, up from 1% last year.

“Despite the relatively sharp pricing in first-tier cities, there remains significant appetite from

investors for deals in markets with strong domestic and international visitation fundamentals.” Mark Durran, Managing Director JLL Hotels & Hospitality Group Australasia.

The most notable Australian transaction was the sale of The Ribbon development (in Sydney’s Darling Harbour) to Chinese investor Zhengtang for A\$700 million. The development will include a six-star W Hotel with approximately 400 rooms and approximately 160 serviced apartments. According to CBRE hotels, this is the largest hotel transaction ever recorded in Australia. Other significant Australian transactions having occurred in the quarter include a development deal for a 300-room Next hotel (A\$110 million) between Singapore-based hotel owner and operator, SilverNeedle and QIC. Development of the hotel is scheduled to commence in 2017 as part of QIC’s mixed use hotel-office-retail scheme at 80 Collins Street, Melbourne. In Queensland, the hotel Grand Chancellor Surfers Paradise was purchased for A\$80 million by Challenger on behalf of an offshore group. A number of other transactions occurred in the A\$50 million price range, highlighting the continued strength of the hotel investment market. Current sales processes worth noting include the Novotel Melbourne on Collins and Hilton South Wharf, both located in Melbourne. These assets are expected to transact in Q3/2016, rumoured at tight initial yields in the order of 6%. In Sydney, The Larmont Sydney, a 106-room four-star hotel located in Potts Point, also recently went through a sales process and is expected to trade at approximately A\$475,000 a key.

There were limited hotel transactions in New Zealand over the quarter. There were two smaller hotel sales in Queenstown; both the Tanoa Aspen (NZ\$12 million) and the Goldridge Resort (NZ\$11 million) transacted, highlighting the demand for hotels and sites in the area. The initial yield for Tanoa Aspen was 5.9% and 6.3% for the Goldridge Resort. 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 very limited pipeline, yield compression in key markets can be expected.

The following tables illustrate selected Australian and New Zealand hotel transactions over A\$20

million having occurred on a rolling twelve-month basis. 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 10: Recent Australian Hotel Transactions

Hotel	Location	Date	Keys	Price [A\$m]	Price / Key [A\$000]	Initial Yield [%]	Comments
Quest New Quay Docklands	Melbourne, VIC	JUL 2016	221	71	321	n/a	4-star apart-hotel to be developed by local developer MAB and sold on completion with a long term lease in place to a joint venture between Singaporean listed hospitality group, Ascott and the Qatari Investment Authority.
The Ribbon Darling Harbour	Sydney, NSW	JUL 2016	561	700	1,248	c. 5.50	'6-star' hotel development by Grocon sold to Chinese investor Zhengtang. The price includes approximately 160 serviced apartments.
Mercure Parramatta	Parramatta, NSW	JUL 2016	165	40	242	6.40	4-star hotel in growing suburb of Sydney. Sold with a management agreement to Accor until 2021.
Novotel Cairns	Cairns, QLD	JUN 2016	314	50	159	6.75	4-star hotel offering resort style accommodation in the Cairns CBD.
Hotel Grand Chancellor	Surfers Paradise, QLD	MAY 2016	408	80	196	4.50	4.5-star hotel sold with vacant possession, one of the largest hotels in Surfers Paradise.
Next Hotel	Melbourne, VIC	MAY 2016	300	110	367	n/a	4.5-star hotel project of which development will commence in 2017. Part of a well-located mixed-use scheme including 45,000sqm of office space and 9,000sqm of retail space.
Adina Mascot	Mascot (Sydney Airport), NSW	MAY 2016	123	37	300	6.20	123 serviced apartments across seven stories, developed and operated by Toga Hotels. Sold with a long term lease in place.
Quest Apartments	Perth, WA	APR 2016	130	42	323	7.90	Serviced apartment property sold prior to development completion with 15-year lease agreement in place.
Clifton Suites on Northbourne	Canberra, ACT	MAR 2016	153	65	424	6.70	One of the largest hotel deals in the ACT for the past 8 years, serviced apartments sold with vacant possession.
Rydges Tradewinds	Cairns, QLD	FEB 2016	246	34	139	5.90	4.5-star hotel sold as a planned multimillion dollar refurbishment to create a 5 or 6-star luxury hotel
Adina Norwest	Baulkham Hills, NSW	FEB 2016	109	31 ¹	286	6.70	4-star serviced apartment property with commercial component on a large site with redevelopment potential. Adjacent Norwest Business Park.
Crowne Plaza Terrigal	Terrigal, NSW	FEB 2016	199	58	291	7.44	4.5-star hotel located on the Central Coast, with extensive F&B facilities.

Source: CBRE Hotels and Knight Frank, 2016

¹ Value allocated to the hotel component, total consideration was A\$60 million

Figure 11: Recent New Zealand Hotel Transactions

Hotel	Location	Date	Keys	Price [NZ\$m]	Price / Key [NZ\$000]	Initial Yield [%]	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: CBRE Hotels and Colliers International, 2016

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.

Progress Made over the Past Quarter

In the second quarter of 2016, good progress was made on the delivery of the Fund's assets under development (Melbourne, Brisbane, Adelaide and Newcastle) and strong trading performance was achieved by the Fund's first operating hotel (Sydney).

Since opening in April 2016, HIE Sydney Macquarie Park has consistently been receiving positive guest feedback through various social media channels and IHG's guest satisfaction tracking tool, HeartBeat. Comments received confirm the product meets the expectations of the local market and has been effectively positioned.

Finally, as the Group's Master Development Agreement with IHG now includes New Zealand and the related investment structure has been implemented, it is expected the Fund's first New Zealand assets will be announced in Q3/2016.



HIE Newcastle, Artist Impression

In Focus: *The Hotel Asset Management Function*

Genesis of Hotel Asset Management

Unlike other 'bricks and mortar' asset classes, hotels are specialist 'going concern' properties that require active management in order to maximise returns. Monitoring and managing hotel assets requires a particular base of knowledge and expertise that spans the areas of distribution, yield management, marketing, payroll, energy, maintenance and capital expenditure.

"A hotel is a real estate investment, but it is unlike any other real estate class in that we don't have two- to five-year leases. We have two to five-night leases." Daniel Kurz, Partner at Integrated Capital

The separation of hotel ownership and management as well as the increasing complexity of the industry (intricate management contracts, mixed-use development structures, complex competitive climate, evolution of key functions such as distribution, etc.) has created a growing need for dedicated, specialist hotel asset management (HAM) services, able to effectively monitor the performance of hotel assets and ensure ownership interests are being protected.

This has been accentuated by the institutionalisation of hotel ownership and the rise of ownership groups (such as hotel funds) over the past two decades. HAM has really become mainstream following the last global financial crisis during which equity investors and lenders turned to 'workout specialists' to repackage distressed assets, realising the value-add strategic oversight of hotel operations can yield.

Profile & Benefits of Hotel Asset Management

In the past two decades, the HAM function has evolved from an initial role of troubleshooting hotel operations to the current ongoing professional role of representing ownership interests and working synergistically with hotel operators to maximise investment value and realise investment objectives.

Nowadays, specific tasks performed by a hotel asset manager typically include:

- Acquisition modelling and price assessment related to return hurdles and investment objectives;
- Coordination of technical, financial, tax, valuation and legal due diligence prior to acquisition;
- Establishment of tax efficient investment structures;
- Procurement of competitive debt finance terms and ongoing management of debt covenants;
- Active operational & financial oversight (including budget reviews) aimed at enhancing operational performance by uncovering optimisation opportunities to improve top-line performance and bottom-line yields;
- Capital planning & renovation / major project oversight, balancing brand requirements with market realities and investment objectives;
- Ownership-level accounting, cash planning, compliance & risk management; and
- Exit planning & implementation of a divestment strategy to realise investment goals.

In broader terms however, an experienced asset manager will bring the following to the table:

Alignment - The need for asset managers arises from the fact that hotel operators and hotel owners typically have diverging goals. This lack of alignment is especially acute with branded operators for which growth and protection of the brand trumps the individual needs of a given asset. The asset manager acts as an intermediary between the operating and investing disciplines, taking action to restore or maintain balance and ensure return objectives are met.

Perspective - Given the nature of their role, hotel operators are for the most part focussed on the 'hotel business'. A good hotel asset manager will however be focussed on the 'business of hotels', taking more of a strategic view towards the asset and ensuring that operating modalities are balanced with owner's financial objectives.

A Levelled Playing Field - By having an intrinsic knowledge of asset-level operations, an experienced hotel asset manager eliminates any imbalance between ownership and operations, avoiding potentially suboptimal budgeting, inaccurate interpretation of performance metrics and the acceptance of poor excuses for failed performance, to name a few examples.

Focus - Most individuals and organisations perform better when they have active oversight and are being encouraged to improve. Experienced asset managers are able to act in synergy with the operating team to drive profitability, keeping investment objectives central to decisions made.

In order to be successful, a hotel asset manager should understand, articulate and be capable of fulfilling the owner's investment objectives. Thus, the best asset managers combine practical hotel operations experience with solid financial and analytical skills. Having hands-on experience allows them understand the granularity of the business and adds credibility when dealing with the hotel's operational team. On the flip side, having the financial and analytical capacity to understand the nuance of hotels' income statement and valuations is critically important too.

While it is difficult to measure the impact an asset manager may have across the board, research suggests that this may be an enhancement of departmental profits in the order of 3 to 5% and 5 to 15% of Gross Operating Profit margins.

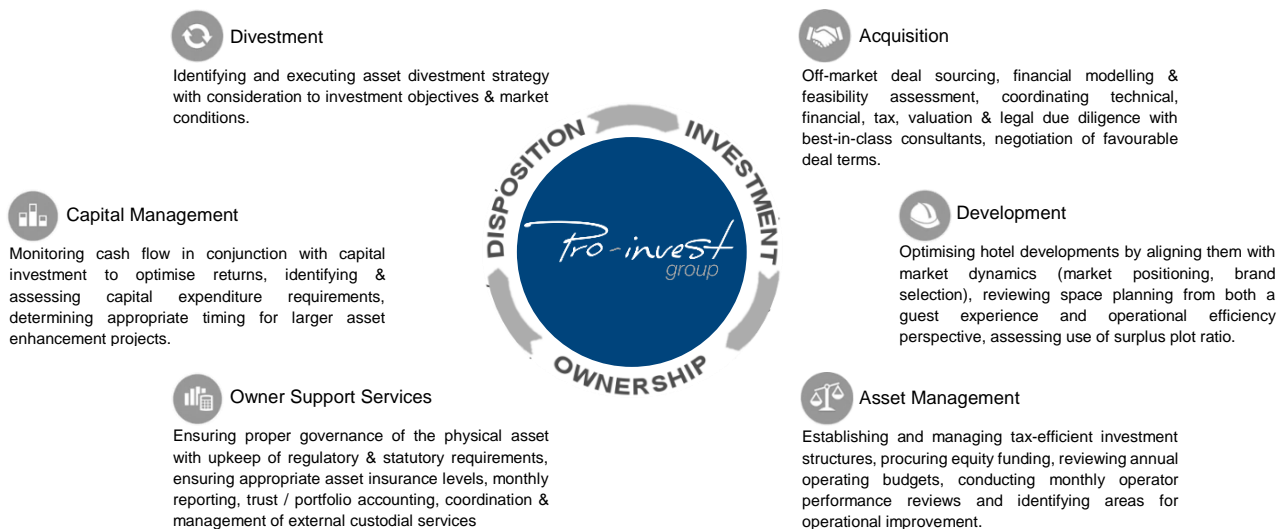
From all the pieces making up the hotel investment puzzle, hotel asset management is an integral one. Combining broad expertise in all key functions required in the lifecycle of a hotel investment, the asset manager acts as the strategist whose job is to ensure all parties involved fit in the overall picture. It brings together brand owner, asset owner, developer and operator.

In the case of Pro-invest Group, all roles (ownership, development, operation) originate from within in a unique, fully-integrated hotel investment management platform. This allows the group to offer a truly holistic 'hotel investment management service' in which all parts of the puzzle are in place from day one, working hand-in-hand to deliver the highest possible returns to investors.

Pro-invest's asset management team remains the strategic function within the group. However, having in-house specialist expertise spanning all key areas and the lifecycle of hotel investment tending towards common investment objectives from day one and the added benefit of having established, tested synergies between all stakeholders allows for a much more streamlined asset management process. Efforts can thus be focussed on areas that matter the most.

For the Fund, this has translated to date in ensuring an optimal design of the Holiday Inn Express brand, tailored to the local market, the establishment of an efficient investment structure optimising the Fund's tax position, the acquisition of sites in strategic locations at the right price, the pursuit of specific initiatives such as the 'clean MIT status' and the provision of highly competitive debt finance terms with leading financiers. Currently, the team is working closely with the operational team and brand owner (IHG) to strategically position the brand in the marketplace, ensuring effective long-term market penetration which will benefit all assets. This provides substantial opportunity to outperform other market players.

Figure 12: Pro-invest's Fully-Integrated Model Offers Investors Hotel Asset Management Services Covering the Full Life-Cycle of Hotel Investments



Pro-invest partners with IHG on new Holiday Inn Express® in Newcastle

Australian Financial Review, 27th July 2016



Pro-invest's Ron Barrott and IHG's Karin Sheppard

Pro-invest Group has taken its pipeline of Holiday Inn Express® hotels in Australia to five with the unveiling of a new, 170-room hotel to be built in the centre of Newcastle.

The boutique investment firm, founded by veteran hotel developer Ron Barrott, completed a \$300 million capital raising in May 2016 to fund its initial pipeline of Holiday Inn Express® hotels in Australia and New Zealand, which now stands at more than 1,000 rooms. The first of these hotels opened in Macquarie Park, Sydney in April, with two more to open in Brisbane and Adelaide next year. A fourth Holiday Inn Express hotel is being developed on Melbourne's Southbank after Pro-invest acquired a 1,704-sqm development site on City Road last year with plans for a 20-level hotel with 345 rooms. The mid-scale hotels are being developed under a franchise agreement with UK-listed InterContinental Hotels Group.

Mr Barrott told the Australian Financial Review the Holiday Inn Express® in Newcastle, due to open on King Street in late 2017, would cater to strong demand from the corporate market in a city that is moving away from its coal-mining past. *"There's a lack of quality hotel product designed for the corporate market in Newcastle,"* Mr Barrott said.

The Holiday Inn Express brand is IHG's no-frills, limited-service hotel offering, which runs under the tag line of giving guests "everything they need and nothing they don't". IHG Chief Operating Officer for Australasia and Japan, Karin Sheppard, told the Financial Review the Holiday Inn Express® brand was an attractive proposition for investors given its efficient use of space and smart design. *"These hotels don't need large meeting rooms or extensive eating facilities, which bring with them operating inefficiencies,"* she said.

IHG has a pipeline of 11 hotels in Australia, its strongest in a decade, including an InterContinental Hotel to open in Perth next year and new hotels coming to Sydney, Hobart, Christchurch and Queenstown in New Zealand.

Ms Sheppard said IHG's midscale brands were performing well and were especially popular with the growing numbers of visitors from China.

www.proinvestgroup.com