



Australian Hospitality Opportunity

Q1 2018 Quarterly Newsletter

Dear Investors and Friends,

Pro-invest is pleased to present its Australian Hospitality Opportunity Quarterly Newsletter for the first quarter of 2018. This Newsletter highlights the attractive investment opportunity the Australia and New Zealand hotel sector provides and how, through the roll-out of two hotel Funds, Pro-invest is bringing this opportunity to investors.

Key takeaways of this edition include:

- Australia is entering its **27th year of consecutive economic growth**, while also being listed as **one of the world's top 15 most resilient economies**.
- The hotel industry in capital cities in Australia and New Zealand continue to thrive, with **all but one market operating over 75% occupancy**;
- **To keep pace with the ever-growing tourist demand**, several new flight routes and evening flights have been introduced, coupled with major airport refurbishments.

Over the past three years, Pro-invest has brought the Holiday Inn Express® (HIE) brand to the ANZ market and set the foundations for the brand's expansion and positioning as market leader in the mid-scale select service hotel space through the Australian Hospitality Opportunity Fund I ('Fund I').

In the past quarter, the Fund's three standing assets continued to ramp up, with the award-winning HIE Sydney Macquarie Park exceeding forecasts and achieving rate premiums amongst its competitive set. As the Brisbane market shows signs of recovery from recent supply additions, HIE Brisbane Central also started 2018 off well and the outlook for the Brisbane asset improves. While HIE Adelaide City Centre completed its second full quarter of operation, boosting its market penetration index while making industry headlines, as the hotel continues to be well-received by the market.

On the development side, Pro-invest acquired the 2-12 Sarah Street Mascot Sydney Airport site, boosting the Fund's total assets to nine hotels, with three already operational and another six HIE hotels in various stage of development in Melbourne (2), Newcastle, Sydney, Auckland and Queenstown. Moreover, we are pleased to announce the Clean Energy Finance Corporation's (CEFC) media release titled '*CEFC and Pro-invest reach for the stars with first Clean Energy Investment in the Hotels Sector*'. The release discusses CEFC's A\$39 million investment commitment in the HIE

Melbourne Southbank asset to achieve a 5-star energy rating under the National Australian Built Environment Rating System (NABERS). This rating is expected to make the hotel the highest energy rated hotel in Australia, emphasising Pro-invest's leadership in sustainable hotel development.

Given the sizeable opportunity, with c. 50 prime target sites identified, the continued strength and positive outlook for the region's hotel sector as well as the high level of investor interest, Pro-invest established the Australian Hospitality Opportunity Fund II ('Fund II') in 2017. Fund II will build onto the existing portfolio, continuing the expansion of the HIE brand and anchoring it as market leader in the region. In addition, the Fund will bring InterContinental Hotels Group's (IHG) wellness-focussed lifestyle brand, EVEN® Hotels, to the market, allowing it to capitalise on rapidly growing travel trends. Fund II has already secured its first site in Auckland's CBD and further opportunities are being assessed throughout the region. It is expected the dual-branded Fund will ultimately comprise of c. 15 hotels across the ANZ region.

The uniqueness of the investment opportunity, being the only hotel fund in the region to own, develop and operate internationally branded select service and lifestyle hotels, is receiving good traction from investors. The interest is reinforced by the continued strength of the region's hotel sector, as well as Pro-invest's successful roll-out of its first portfolio, now comprising nine assets (over 2,200 rooms).

Fund II continues to received strong interest from a number of large institutional investment groups currently undertaking due diligence on the opportunity. Following the first close in Q3 2017, it is expected that the Fund's next close will occur mid-2018, while a final close and commitments of A\$500 million are anticipated by the end of 2018.

We hope you enjoy the read.

With kind regards,

Ronald Stephen Barrott FRICS,
CEO Pro-invest Group

On behalf of Pro-invest Group

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

www.proinvestgroup.com

Economic Update

Australia and New Zealand Economies

On a global scale, the Travel & Tourism sector grew for the 7th consecutive year, achieving 4.6% growth in 2017, outperforming the global economy which rose by 3%. The Travel and Tourism sector also outperformed other key sectors such as Retail and Wholesale, and Manufacturing which increased by 3.4% and 4.2% respectively. According to the World Travel & Tourism Council, the Travel and Tourism sector is one of the world's largest economic sectors, in 2017 the sector contributed US\$8.3 trillion to the global economy, accounted for 10.4% of global GDP and supported 313 million jobs (or 9.9% of total employment).

In 2017, Australia entered its 27th consecutive year of economic growth at a 2.3% increase, while also being listed as the world's 13th largest economy, having grown by c. 123% over the past quarter of a century, the longest growth cycle on record. For the year 2017, Australia was listed as one of the world's top 15 most resilient economies, while having the 4th largest GDP in the Asia-Pacific region. Much of this resilience has been supported by Australia's strategic trade alliances in commodities, natural resources and education, coupled with the countries in the Asia-Pacific region and the country's transition towards a more services-based economy that is equipped for financial, professional, healthcare and tourism services.

After ranking 1st for global visitor spend and 10th for tourism receipts, it is clear global economic conditions remain favourable for Australian tourism. Although travel costs are anticipated to increase as oil prices rise marginally over the coming few years, Deloitte Access Economics (DAE) anticipate that in the medium-term, the Australian dollar will moderate and drift downwards to reach 70 cents. The Reserve Bank of Australia anticipate the Australian economy to strengthen a further 3.5% in 2018. According to DAE, the Australian economy is anticipated to grow by 3.0% per annum in the three years to 2021, with Queensland and the Northern Territory predicted to achieve the fastest rate growths at 3.4% per annum.

In a March 2018 release, StatsNZ announced that in the year ending (YE) March 2017, New Zealand's GDP reached NZ\$270.6 billion. Specifically, the release emphasised the growth of Auckland economy after it reached NZ\$101.4 billion for the

first time, gaining 6.3% on the year prior. The improvement in nominal GDP was due to the strong uplifts in hiring, rental and real estate services, coupled with construction, and finance and insurance service industries. Accordingly, Auckland now represents a 37.5% share of the national economy.

The Ministry of Business, Innovation & Employment (MBIE) reported similar figures in their April 2018 release for the YE March 2017, stating that tourism directly contributed NZ\$14.7 billion (or 5.9%) to New Zealand's total GDP, while a further NZ\$11.3 billion or 4.6% is contributed indirectly. Notably, international tourist expenditure (NZ\$14.5 billion) represented 20.7% of New Zealand's total export earnings. Tourism is of significance to New Zealand, as the sector directly employs 230,793 people, representing 8.4% of the country's total employment.

Australian Tourism & Travel Industry

During 2017, total visitor spending reached A\$126.3 billion, with international visitor spending taking a 33% share at A\$41.3 billion while total domestic tourism accounted for 67%. Domestic tourism comprised of A\$64.5 billion for overnight spend and A\$20.4 billion in day trip expenditure. Notably, in the three years to 2017, New South Wales gained the largest number of visitors across all states and territories (35.7 million or +20%), followed by Victoria (27.3 million or +24%).

International Visitation

International visitor arrivals to Australia continued at record levels reaching 8.1 million in 2017, up by 6% on the year prior. International nights gained 5% to total 265 million. According to Tourism Research Australia (TRA), Visiting Friends and Relatives (VFR) and Business were key contributors to the escalation in arrivals, each representing a growth of 17% and 14% respectively. In the December quarter, international tourist figures were even stronger as visitor numbers and expenditure increased by 27% and 29% respectively.

Figure 1: Year Ending December 2017 International Visitor Survey Overview

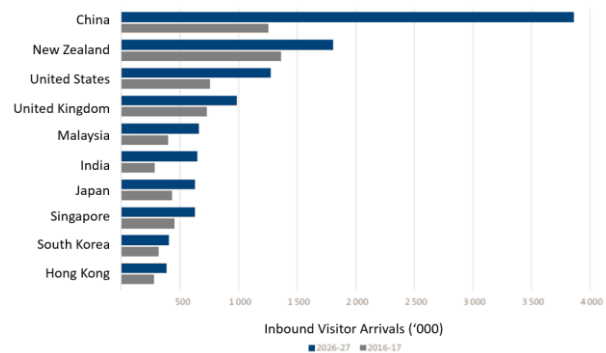


Source: TRA 2018

As expected, out of Australia’s top five international visitor markets, China demonstrated the strongest growth in 2017 boosting visitor numbers by 12% to 1.3 million and trip spend by 14% to A\$10.4 billion. Visitor numbers from the United States (US) were up 9% to 729,000, although nights declined by 5% to 14 million while spend gained a modest 3% to A\$3.8 billion. However, New Zealand visitors remained constant (+1%) as expenditure dropped by 8%. Visitors from the United Kingdom (UK) gained 2% and trip spend declined 6%. Looking forward, Tourism Australia anticipate international visitor arrivals to rise by 13.1% from the 8.6 million recorded in 2016-17 to 9.2 million in 2017-18 and 9.7 million in 2018-19. Asia is the fastest growing tourism market globally and will continue to play a pivotal role in international visitation growth in Australia. Growth in the Asian market is largely driven by strong economic development, and affluent middle class and urban advancements, coupled with the fastest aviation sector in the world. Asia is projected to increase by 17.4% in the two years to 2018-19, from 4.2 million in 2016-17 to 4.5 million in 2017-18 and 4.9 million in 2018-19. Australia is set to experience growth from Western markets as well, with US visitors expected to rise 14.9% from 752,000 in 2016-17 to 864,000 in 2018-19, while visitors from the UK will gain 7.0% to 779,000.

By 2026-27, Asia will contribute more than 50% of all inbound visitors to Australia. The markets supporting the robust forecast, include China, Malaysia, India and Japan.

Figure 2: Top 10 Inbound Markets by Visitor Arrivals (10 Year Forecast)



Source: Tourism Research Australia, 2018.

Domestic Visitation

Growth in domestic trips have continued to outperform real GDP, with Deloitte reporting that after a decade of decline in visitor numbers to 2010, Australian domestic travel has consistently risen over the last seven years.

The most recent National Visitor Survey released by TRA recorded a 7% increase in overnight trips to reach 97.2 million, with nights gaining 5% to 351 million, resulting in an overnight spend of A\$64.5 billion, up 6% on 2016.

Figure 3: Year Ending December 2017 National Visitor Survey Overview



Source: TRA, 2018

Growth was distributed across all categories for purpose of visit. Notably, Holiday gained 6% to reach 39.3 million, boosting spending by 6% also to reach A\$32.5 billion as nights increased by 4%. Overnight trips for Business reached 21 million on the back of a 12% surge. Reportedly, the 12% increase is reflective of the improved economic performance recorded in recent quarters coupled with stronger business confidence. In addition, Business trips were shorter in duration, with nights improving by 3% to reach 67 million and spending gaining 2% to total to A\$15.9 billion.

Australian Hotel Fundamentals

The Australian hotel market continued to perform well in the YE March 2018, with national occupancy gaining 1.1% to 76.4% coupled with a 2.0% increase in Average Daily Rates (ADR) to reach A\$188. Accordingly, Revenue per Available Room (RevPAR) added 3.0% to reach A\$144 during the period. Markedly, Cairns performed exceedingly well, gaining 1.5% in occupancy to record 84.9% while ADR improved by 7.5% to A\$153, resulting in RevPAR undergoing a 9.1% boost to A\$130. In contrast, Perth demonstrated the weakest performance out of all Australian cities as occupancy dropped 3.0% to 75.0%, while ADR declined by 6.2% to A\$172 and RevPAR falling 9.0% to A\$127.

CBRE indicate that during the first quarter of 2018, Darwin was the second best performing market in terms of RevPAR with a 6.7% growth rate during the YE March 2018 following on from hotel operators deploying a strategy to attract guests through substantially cutting room rates.

Sydney continued to hold its position as Australia's leading hotel market, recording an occupancy of 85.6% following a 0.6% uplift and ADR gaining 3.9% to A\$231, resulting in a 4.6% increase in RevPAR to record A\$198. The leading market is trading at c. 20% above the national room rate average and CBRE states that Sydney shows no signs of slowing down. The publication suggested that hotel operators are in a position to raise room rates further with limited impact on occupancy performance. In the YE March 2018, nights spent in Sydney hotels reached c. 18.4 million annually following a 5.8% improvement. Hotel nights for the purpose of Holiday and Business represented a share of 45% and 39% respectively.

Hotel performance in Melbourne decelerated with occupancy dropping minorly by 1.0% to 82.9%, ADR increasing by 0.6% to A\$186 and RevPAR down by 0.4% to A\$154.

Adelaide recorded the third highest annual RevPAR growth (+5.5%) to reach A\$124 on the back of a 1.0% improvement in occupancy and 4.4% rise in ADR. Visitor numbers in Adelaide continued stable growth, with CBRE indicating a 6% increase in hotel nights to c. 4 million per annum.

Brisbane sustained the momentum of 2017 by gaining 1.2% in occupancy to record 73.3% in the YE March 2018 and despite ADR falling 0.5% to

A\$157, RevPAR reached A\$115 after a 0.5% lift. Notably, hotel nights in Brisbane increased by 16% to reach 7.3 million annually with Business trips representing 41% of hotel nights, followed by Holiday at a share of 35%.

Figure 4: Australian Key Markets Hotel Fundamentals

Location	Occ (%)	ADR (A\$)	RevPAR (A\$)	RevPAR Change*
Australia ¹	76	188	144	3.0
Adelaide	79	157	124	5.5
Brisbane	73	157	115	0.6
Cairns	85	153	130	9.1
Canberra	77	174	134	5.0
Darwin	75	149	112	6.7
Gold Coast	72	191	137	2.5
Hobart	80	171	137	-4.2
Melbourne	83	186	154	-0.4
Perth	75	168	127	-9.0
Sydney	85	231	198	4.6

* Year ending March 2018 figures vs year ending March 2017 figures

Source: CBRE, 2018

Australia remains a prime destination for hotel development. In the 8 years since the global financial crisis, average room rates in Australia have been climbing with the trend continuing in 2017.

On the back of c. 5,500 hotel keys entering the market in 2017, DAE indicate that a further 7,000 hotel keys are in the supply pipeline for 2018. The bulk of pipeline supply is concentrated in Australia's capital cities, particularly in Perth, Brisbane and Melbourne. DAE suggest 2018 and 2020 will see the largest influx of new rooms, adding 3.4% to the total hotel supply per year.

Notably, the absorption capabilities of different markets across Australia will vary. Sydney is anticipated to absorb new supply relatively easily, while markets such as Perth and Brisbane may experience minor declines or stagnations in occupancy growth, as absorption proves somewhat challenging.

The DAE outlook¹ for the Australian hotel market remains positive, as forecasts report a 0.3% per annum lift in occupancy between 2017 to 2020, reaching a national average of 69.0% in 2020. During the period, room rates are expected to rise

¹ CBRE national data set is expected to comprise of city hotels which typically produce higher occupancies when compared to hotels in regional areas. DAE national data set is expected to comprise a broader set of data including regional areas, hence reducing occupancy averages.

Pro-invest Australian Hospitality Opportunity (AHO) Funds

Overview

In early 2000, Pro-invest's CEO, Ronald Barrott brought one of the largest and most renowned hotel brands, Holiday Inn Express® (HIE), to the European market. At the time, he developed a portfolio of HIE hotels across the UK, which he grew to become one of the largest franchised hotel 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 30%.**

In 2013, given his successful relationship with InterContinental Hotels Group (IHG) and a substantial market opportunity, Ronald launched the AHO Fund I to develop, own and operate a new portfolio of HIE hotels across Australia and New Zealand (ANZ). Fund I has laid the foundations for the HIE brand's expansion in the market, in which c. 50 prime target areas have been identified.

The Fund is a widely held Managed Investment Scheme, allowing for a final withholding tax rate of 15%. Its portfolio now counts 9 hotels and close to 2,200 rooms, being rolled out under a Master Development Agreement.

Pro-invest AHO Fund II ('Fund II')

In 2016, Pro-invest Group was granted exclusivity by IHG to roll-out their latest lifestyle brand, EVEN® Hotels, across ANZ. The brand is being brought to market by Fund II, which will comprise a portfolio of c. 15 HIE and EVEN® Hotel assets. Fund II will build onto Pro-invest's existing portfolio, focusing on:

1. growing the HIE footprint in the region and continuing to position the brand as the market leader in the region's upper-midscale select service space; and
2. capitalising on new travel trends and the high-yielding 'wellness traveller' by introducing the first wellness-focused brand ever created by a global hotel operator.

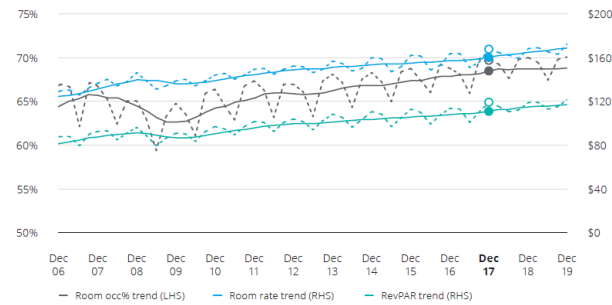
Fund II achieved a first close at A\$70 million in July 2017 and by the end of 2017, three large institutional investor groups were undertaking due diligence on the opportunity. Given the high level of investor interest, it is expected that Fund II's next close will occur mid-2018 while a final close, with commitments of A\$500 million are anticipated by the end of 2018.



HIE Melbourne Southbank Entrance, Artist Impression

by 2.8% per annum to record A\$175 in 2020. Subsequently, RevPAR will improve by 3.1% per annum between 2017 to 2020, reaching A\$121.

Figure 5: Australian Hotel Market Outlook



Source: Deloitte Access Economics, 2018

Sydney will continue to hold its reputation for being the strongest performing hotel market in Australia. Forecast reports expect Sydney to undergo minor occupancy improvements in the three years to 2020 to reach 89.4% (+0.2% per annum), as the market already achieves occupancy highs. During the period, ADR will increase by 6.1% per annum to record A\$300 in 2020, while RevPAR will climb 6.3% per annum to achieve A\$268 the same year. This growth is due to several major events attracting visitor numbers in 2018, including the Chinese New Year, the Sydney Festival and Vivid Festival, coupled with a supply injection of c. 800 new hotel rooms by the end of 2018 to sustain occupancy levels. Moreover, softening has been identified in pipeline growth in 2019 with several projects to be delayed to 2020, lifting room rates even further.

Additionally, Sydney has continued to advance its global appeal for business events and conferences. Indicative of this is the International Convention Centre Sydney at Darling Harbour welcoming 1.3 million visitors across 755 different events in its first year of operation, securing a further 1,300 leading national and international events in the 9 years to 2026. DAE specify hotels to be among the leading beneficiaries of the growing demand for business events.

Reportedly, international visitor nights spent in Melbourne hotels are projected to rise more than three times the rate of domestic visitor nights in the three years to 2020. International hotel nights are expected to surge by 9.2% per annum during the period, while domestic hotel nights increase at 3.0% per annum. In the three years to 2020, as Melbourne takes in new hotel supply, occupancy will soften 1.5% per annum to 82.2%, while ADR growth will

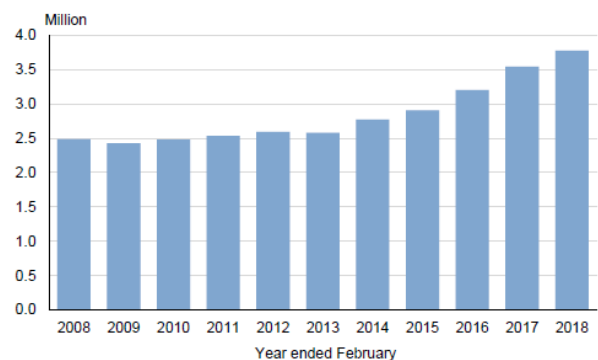
remain steady at 0.3% per annum to reach A\$202. Subsequently, RevPAR in Melbourne is anticipated to decline by 1.2% per annum to total to A\$166 in 2020.

As room nights available increase significantly over 2018 (+13.1%) and 2019 (+5.0%), Brisbane’s hotel market is expected to undergo performance pressures. Occupancy is forecasted to decline by 1.3% per annum to record 71.6% in 2020, while ADR is anticipated to reach A\$147 after an annual improvement of 0.3%. However, RevPAR will drop slightly at 1.0% per annum to A\$105 by 2020. Nevertheless, a leading source of hotel night demand in Brisbane is domestic business travellers and considering Queensland’s GDP growth in the three years to 2021 is anticipated to be the nation’s fastest, DAE expect domestic corporate travel to the region to remain robust. Furthermore, major infrastructure investments in the market are predicted to drive economic activity and support Brisbane’s appeal to both international and domestic travellers. These investments include the second runway at Brisbane Airport, the Metro Transport System and recreational areas such as Brisbane Live.

New Zealand Tourism & Travel Industry

As depicted in Figure 6, international visitors to New Zealand have consistently gained traction since 2014.

Figure 6: Annual Visitor Arrivals in New Zealand



Source: StatsNZ, 2018

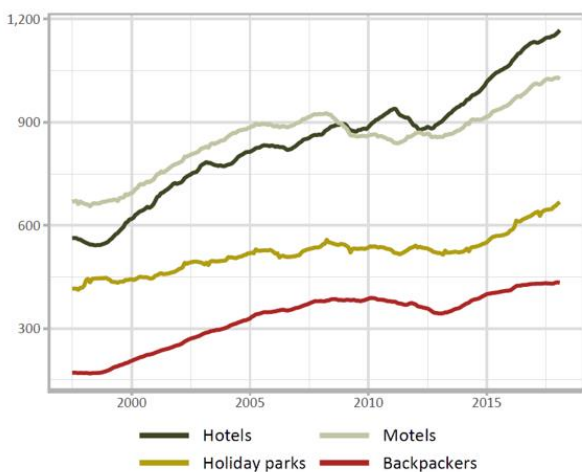
In the four years to February 2018, the country gained 1.0 million international arrivals, representing a compound annual growth rate of 8.1%.

In the YE February 2018, 3.7 million international visitors travelled to New Zealand, representing a 6.5% increase on the year prior. International visitors travelled to New Zealand primarily for the purpose of Holiday, with the category rising by 7.9% to represent a share of 53% of all international visitors. Visiting Friends and Relatives (VFR) followed at a share of 29% on the back of a 4.8% uplift, while Business represented 8% following a 3.9% increase.

According to the MBIE, Australia represented c. 40% of all international arrivals to New Zealand, followed by China at 12%, the US at 9%, the UK at 7% and then Germany and Japan at a share of 3%. Collectively, the aforementioned top five markets represented just under three quarters of international visits to New Zealand. Australia and China have been identified to be the country's leading markets over the next few years.

The MBIE reported in the YE January 2018, visitor nights spent in commercial accommodation increased 3% to total to 39.5 million. Visitor nights spent in hotels gained 3% also to reach c. 14 million nights in the YE January 2018, representing the largest share (35%) of commercial accommodation sectors. In recent years, as indicated in Figure 7, nights spent in hotel accommodation has outperformed all other commercial accommodation.

Figure 7: Nights Spent in Commercial Accommodation (month ending January 2018)



Source: Statistics New Zealand, 2018

New Zealand Hotel Fundamentals

As demand continues to climb, New Zealand's hotel sector sustained strong performance during the YE March 2018. Occupancy lifted by 0.6% to 81.3%,

while ADR gained 10.1% to reach NZ\$195. Robust occupancy coupled with ever-growing ADR resulted in the national RevPAR gaining 10.7% to NZ\$159.

In the YE March 2018, Auckland led New Zealand in terms of occupancy despite minorly retracting by 0.5% to 86.2%. Queenstown followed by recording an occupancy of 83.4% following a 1.4% increase, while Wellington gained 1.2% to 80.1%.

Queenstown and Auckland were the top performers in ADR with gains of 17.6% to NZ\$238 and 12.0% to NZ\$214 respectively.

According to Colliers International, many of New Zealand's hotel markets are now outperforming Australia's key markets, as in the YE March 2018 Queenstown and Auckland ranked first and second respectively in terms of RevPAR growth across Australasia.

Figure 8: New Zealand Key Markets Hotel Fundamentals

Location	Occ (%)	ADR (NZ\$)	RevPAR (NZ\$)	RevPAR Change* (%)
New Zealand	81	195	159	10.7
Auckland	86	214	184	11.4
Christchurch	77	161	124	3.0
Queenstown	83	238	198	19.7
Wellington	80	176	141	5.9

* Year ending March 2018 figures vs year ending March 2017 figures
Source: Colliers International & TIA, 2018

According to TIA, the robust performance by Auckland and Queenstown can be observed over several years. In the YE March 2014 Auckland's occupancy stood at 79.4%. In the four years to YE March 2018, occupancy rose at a compound annual rate growth (CARG) of 2.0%. Similarly, the City of Sails have demonstrated a CARG of 10.7% for ADR or a total boost of NZ\$72 in the four years to YE March 2018, which resulted in RevPAR recording a CARG of 12.9%, equating to an increase of NZ\$71.

Similarly, occupancy in Queenstown has accumulated by a CARG of 5.2% in the 4 years to YE March 2018. ADR followed suit at CARG of 12.8% in the 4 years to YE March 2018, which resulted in the region recording a RevPAR CARG of 18.8%. In monetary terms, Queenstown's ADR and RevPAR each accumulated by NZ\$91 and NZ\$99 respectively between YE March 2014 and YE March 2018.

In 2017, New Zealand's popularity exceeded expectations of c. 3.1 million annual arrivals, welcoming c. 3.5 million people, representing growth of 12%. According to Colliers International, in the YE March 2018 supply only increased by 3.1%, unable to match the 6.5% increase international visitation numbers. Furthermore, by 2020 c. 4.5 million international visitors are expected to travel to New Zealand.

Colliers International suggest New Zealand is in high need of new hotel inventory, with current supply levels unable to cope with this level of tourism growth. Auckland in particular is in critical short supply, as hotel inventory has been declining after the closure of c. 300 hotel rooms for refurbishment representing a 3.2% decline in total inventory, while c. 500 serviced apartment units have been removed from the short-stay accommodation pool to be put toward alternative uses by first home buyers and private investors.

According to Bayleys Realty Group's Director of Hotel and Tourism, key tourist centres in New Zealand are undergoing significant development activity. However, the industry is still struggling to keep pace with New Zealand's status as a must-visit tourism destination. Bayley's further emphasized that the international tourism boom has produced favourable trading conditions for hotel operators. However, if the supply and demand imbalance is left unaddressed, the situation could curb future growth in New Zealand's largest export earner, the tourism industry.

Reportedly, the objective of New Zealand's tourism industry is to increase its total annual revenue from the NZ\$35.9 billion recorded in 2017 to NZ\$41 billion by 2025. Hotel accommodation is considered to be a critical contributor in achieving this growth. In support of this, a survey administered by The Rees Hotel Queenstown which was distributed to c. 5,000 travellers staying in New Zealand during 2017 revealed that over two-thirds of Business travellers 'always' book hotel rooms. Notably, 80% of respondents revealed that they never use Airbnb accommodation, squashing the notion that Airbnb holds as a competitor for the hotel sector in New Zealand. Results further indicated that c. 50% of respondents anticipated to stay the same amount of hotel room nights in 2018 as they did in 2017, while c. 30% of respondents stated that they will spend an additional 30% in hotel room nights during 2018.

Although commercial accommodation spending in New Zealand accounts for merely 10% of total visitor spend, the commercial accommodation sector is greatly influential to the wider tourism economy. Consequently, should the accommodation sector undergo a capacity constraint, other sectors within the tourism industry will experience constraints, as tourists will be forced to select other markets which can accommodate them.

New Zealand will however experience some supply relief with the New Zealand Trade & Enterprise indicating that Auckland is set to receive c. 500 rooms during 2018, c. 1,500 in 2019 and c. 3,000 between 2020 and 2025. Furthermore, the remaining four key markets (Queenstown, Christchurch, Rotorua and Wellington) will receive the bulk of new supply (c. 4,000 rooms) between 2020 and 2025.

Reportedly, notable new developments under construction in central Auckland include the 130-room SO Sofitel and 300-room SkyCity Convention Centre Hotel. The 4.5-star The Peterborough hotel in Christchurch's Casino comprising of 200 rooms at NZ\$85 million is still in the drawing board phase, while Pro-invest Group's very own 227-room Holiday Inn Express Queenstown hotel has been indicated to alleviate supply constraints in New Zealand's adventure capital.

Regional Aviation Capacity

In the 12 months to December 2017, international aviation capacity to Australia improved by 5%. China demonstrated significant capacity growth at 30%, followed by Canada at 26% and Japan at 11%. With the ever-growing presence of inbound visitation from China, Australia is in prime position to benefit economically, as the country remains a popular choice for Chinese travellers. According to Savills, China's economy is projected to remain robust and positive, with the calendar year 2017 recording a GDP growth of 6.9%, well above expectations. With China's continued economic development, the middle class is expected to gradually transition to the upper middle class and affluent status, who have been identified to be keen consumers known for their sustained growth in sophistication and strong desire to travel abroad.

As a result of the increased demand for domestic and international passengers to Australia, the Australian government and industry-related bodies

have responded with A\$37.8 billion being allocated to the tourism investment pipeline in 2016-17. Over a quarter (A\$10.1 billion) of the pipeline has been allocated to aviation infrastructure which will comprise of 19 projects. More than half (A\$5.3 billion) of the A\$10.1 billion investment can be attributed to the proposed new Western Sydney Airport at Badgerys Creek.

Due for completion in 2026, Western Sydney Airport will have the capacity for 10 million passengers per annum and a 3.7-kilometre runway which will be built to accommodate the largest passenger aircraft in operation today, including the Airbus A380.

Moreover, to accommodate the growing demand for Sydney, numerous airlines have expanded their services to the market. In January 2018, United Airlines launched daily flights from Houston, connecting Sydney to over 70 cities across the United States. Emirates added a 4th daily flight in March 2018, while throughout Q1 2018, Sydney has been introduced to new airline services directly connecting Sydney to China. Airlines have included Beijing Capital Airlines, Hainan Airlines and Tianjin Airlines, translating to c. 14,000 new visitors per annum.

In the 20 years to June 2017, the amount of people using Melbourne Airport has more than doubled (+150%) soaring from c. 14 million in 1997 to 35 million, gaining the title of Australia's second busiest airport after Sydney. According to Melbourne Airport's Chief Executive, the number of passengers is expected to double again over the next 20 years. To accommodate for the rising demand, Melbourne Airport will construct a third runway spanning 3 kilometres in length and 60 meters in width. The redevelopments to Melbourne Airport are valued at a reported A\$500 million, with construction commencing in 2019.

Melbourne too has introduced new airline services to keep pace with arrivals with new airline service operators including Beijing Capital Airlines, Hainan Airlines and Xiamen Air. In response to the travel boom between Japan and Australia, Japan Airlines launched a new daily nonstop Tokyo-Melbourne service using the 787 Dreamliner aircraft in September 2017. In June 2018, Air Canada is set to launch a direct year-round service to Vancouver, while in September 2018, Melbourne will be introduced to non-stop flights to San Francisco.

As the primary gateway to Queensland, Brisbane Airport welcomes millions of visitors per annum and

continues to announce new direct flights to global destinations, resulting in job creation and major infrastructure investments. Since 2012, Brisbane Airport has received more than A\$1.8 billion in investments. The airport is undergoing extensive expansion and redevelopments comprising of 27 projects at a value of A\$2.3 billion (as at February 2018), with the final project due for completion in 2022. Major projects include domestic terminal redevelopment, domestic northern and southern apron expansions, international concourse expansions, runway upgrades and vehicle accessibility.

Notably, construction of the A\$303 million Sunshine Coast Airport Expansion Project commenced during Q1 2018. The multimillion dollar project is the Sunshine Coast Council's single largest construction project ever undertaken, marking a significant milestone for the region. The project will see the inclusions of a 2450-metre-long (and 45 meters wide) runway which will be one third longer than the existing runway, a half-length parallel taxiway and an expansion of the apron at the existing terminal. Anticipated for completion by Christmas 2020, the Sunshine Coast Airport Expansion Project is anticipated to contribute A\$4.1 billion to GDP between 2020 and 2040, attract c. 2 million passengers to the Sunshine Coast annually, while providing supplementary benefits such as unlocking more tourism opportunities and new international trade prospects.

Auckland currently serves as the gateway to New Zealand and is the country's largest city. The investment into Auckland's airport will ensure that it is a key hub in the Asia-Pacific region, with the airport to promote a "local" feel as the design will focus on highlighting New Zealand culture. According to Auckland Airport Chief Executive, investments of over NZ\$1 million are being made every working day, with the intention to transform Auckland Airport at a total investment of NZ\$1.8 billion in aeronautical infrastructure by 2022. Improvements to the Auckland Airport include the expansion and upgrading of the international departure experience, provision of three more contact gates for international aircraft, investments in public transportation, roading and walking projects, as well as improvements to the international arrival experience by expanding the border processing area.

Auckland Airport is also set to receive a second runway which will greatly increase airline capacity,

which has an opening date of 2028, with construction expected to commence in 2020-21.

Queenstown Airport serves a large geographic area and a mix of international, national and local passengers. According to the Chief Executive of Queenstown Airport Corporation, the airport is projected to grow from 1.8 million passenger movements (c. 900,000 travellers) a year to 6 million by 2035 and 7 million by 2045. Redevelopment options such as a dual airport operation with Wanaka Airport, new and larger terminals and additional runways and plane stands are currently being explored by Queenstown Airport to ensure the airport can continue keeping pace with demand. Redevelopments would mark the second expansion since the NZ\$17 million international terminal expansion that was completed in 2015.

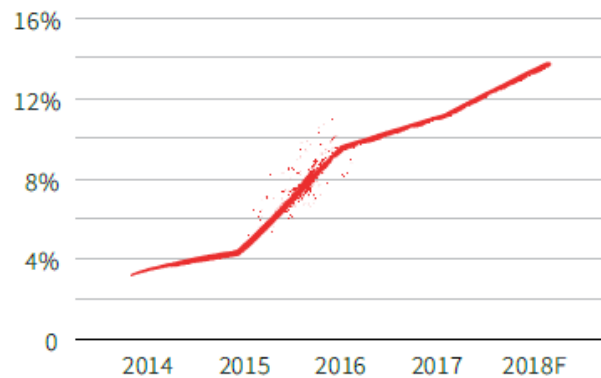
Regional Hotel Investment Market & Recent Transactions

In the recent Hotel Investment Outlook report published by Jones Lang LaSalle (JLL), attention was raised to an abundance of debt and equity capital targeting hotel investments. JLL indicated that globally, a multitude of investors including insurance companies and private equity are being drawn to the higher yields offered by hotel real estate assets. Institutional investments have more than doubled market share since 2014, as they continued to be increasingly active in hotel property acquisitions.

In 2018, hotel investment market liquidity is anticipated to hold comparatively steady on 2017 levels, while the Asian market is expected to undergo softening on the back of a reduction in singular portfolio transactions. Nevertheless, private equity firms will be the driving force behind hotel transactions in 2018.

Notably, CBRE's 2018 Asia Pacific Investor Intentions Survey revealed that Melbourne surpassed Sydney to rank as the second most preferred destination for cross-border capital. Out of the top ten most preferred destinations in the Asia Pacific, Australian capital cities performed strongly with Melbourne ranking second, Sydney sixth and Brisbane eighth.

Figure 9: Institutional Investor Share of Acquisition



Source: JLL, 2018

According to a Q1 2018 release by the Australian Trade and Investment Commission (ATIC), hotel investments, in comparison to other property types, have performed favourably over the ten years to July 2017. Regardless of displaying similar volatility to office and industrial assets, the hotel asset class demonstrated considerably higher returns, with the ATIC emphasising that the risk return profile of the hotel asset class is superior to other asset classes.

Figure 10: Return Profile by Asset Class



Source: Australian Trade and Investment Commission, 2018

Looking ahead, Savills Hotels anticipate Sydney and Melbourne to maintain strong trading performances during 2018, as the two markets continue to record international and domestic tourist numbers and expenditure, coupled with modest supply growth. Accordingly, it is expected that developers in Sydney and Melbourne hotel markets will take advantage of robust capital values and the lack of availability of existing investment grade hotels, leaving their assets and seizing the widespread and deep pools of capital that are in search for hotels in these prime markets. However, CBRE indicate that Sydney and

Melbourne will be increasingly difficult to enter as investors search for quality assets, and investors will need to look at markets such as Perth or Brisbane that are in different stages of the cycle.

Brisbane is expected to benefit from the Commonwealth Games and the activities associated with the Queens Wharf development and large quantity of public and private infrastructure and developments. CBRE and Savills both anticipate these conditions to provide cyclical opportunities for Brisbane in 2018. Brisbane is expected to continue rebounding as investors increasingly turn their attention to the market.

Hoteliers in New Zealand are enjoying yields among historical highs as the shortage of hotels in key markets, particularly in Auckland, have pushed up prices.

The following tables illustrate selected Australian and New Zealand hotel transactions over A\$20 million, having occurred within the past 12 months. To be relevant to the Fund's rollout of the HIE brand, they exclude development sites, leisure or resort assets, suburban assets as well as properties requiring significant capital expenditure.

Figure 11: Recent Australian Hotel Transactions

Hotel	Location	Date	Keys	Price [A\$m]	Price / Key [A\$000]	Initial Yield [%]	Comments
Holiday Inn City Centre Perth	Perth, WA	MAR 2018	186	63	343	4.5	4.5-star hotel acquired by Singaporean company Legend Land Perth Pty Ltd. Located in Perth's CBD, the property's facilities include a restaurant fronting Hay Street, ground floor reception, gymnasium and 8 convention rooms.
BreakFree on Clarence	Sydney, NSW	MAR 2018	52	30	577	4.3	3.5-star hotel located in Sydney CBD sold by Elanor Investors Group's 193 Clarence Hotel Fund to Plantation Hotels.
Watermark Hotel & Spa	Gold Coast, QLD	MAR 2018	388	82	211	undisclosed	4.5-star hotel acquired by SP&G Group. The property's facilities include a function venue, day spa, hair salon, pool and gymnasium.
Emporium Hotel	Brisbane, QLD	JAN 2018	102	36	354	4.2	Multi-award full service 5-star hotel, located in the retail and dining precinct of Fortitude Valley, Brisbane. Acquired with vacant possession and will be rebranded to Ovolo Hotels.
Ibis & Mercure Brisbane	Brisbane, QLD	JAN 2018	412	77	187	5.3	3 and 4-star hotels acquired on a triple net lease to Accor until 2021 and present refurbishment/repositioning opportunities. Transaction facilitated by Pro-invest Group.
Royce Hotel	Melbourne, VIC	DEC 2017	100	48	480	5.99	5-star hotel located c. 1.5kms of Melbourne's CBD. The hotel, purchased by Tabet Investment Group, features award-winning F&B facilities. A\$7m of the total consideration (A\$55m) to the office component, presenting a redevelopment opportunity.
Mercure & Ibis Styles Grosvenor Hotel	Adelaide, SA	DEC 2017	245	36	147	undisclosed	Centrally located in Adelaide's CBD, dual-branded hotel featuring a restaurant, bar, conference & function facilities. Purchased by Singapore-based Chip Eng Seng.
Adina Apartment Hotel on Flinders	Melbourne, VIC	NOV 2017	65	43	661	3.71	4-star property in Melbourne CBD. The hotel is leased to Toga Far East until 2021 and includes an associated ground floor retail (recently refurbished IGA supermarket and whiskey bar) with a major street frontage to Flinders Street. A\$10.5m of the total consideration (A\$53.5m) apportioned to retail, car parking and air rights.
Mercure Sydney International Airport	Sydney, NSW	OCT 2017	271	77	275	5.5	4-star hotel acquired by Australian-based Folkestone Funds Management. Folkestone intends to undertake extensive refurbishment (A\$12.5m capital expenditure) to reposition the hotel.
Mercure Melbourne Treasury Gardens	Melbourne, VIC	SEP 2017	164	70	426	undisclosed	4-star hotel in centre of Melbourne overlooking Treasury Gardens and features restaurant. Purchased by Cbus Property from the Abu Dhabi Investment Authority.

Ibis Styles Canberra	Canberra, ACT	AUG 2017	207	27	132	8.0	4-star hotel located in Narrabundah featuring restaurant, conference and parking facilities. Hotel is within close proximity to city centre and major government offices. Purchased by Elanor Funds Management Limited.
Novotel Norwest	Sydney, NSW	JUN 2017	132	35	265	4.5	The Novotel Sydney Norwest comprises a 132 room, 4.5-star 5 storey hotel which opened in 2000. Facilities include a restaurant and bar, conference and meeting facilities, outdoor swimming pool and car parking for 205 vehicles.
InterContinental Double Bay	Double Bay, NSW	MAY 2017	140	135	966	4.2	5-star hotel. Purchased by Zobon Real Estate Group and Shanghai United Real Estate Group (China based). The sale remains subject to settlement. The sale price is reflective of a large retail component (leased).
Four Points by Sheraton, Central Park	Sydney, NSW	APR 2017	297	142	478	3.6	4.5-star hotel located on the edge of Sydney's CBD. Purchased by Impact Investment. The sale price is an estimated allocation to the total consideration of A\$188m to exclude retail / office / commercial components.
Hilton Melbourne South Wharf	Melbourne, VIC	MAR 2017	396	230	581	6.7	5-star hotel. Fringe CBD asset adjoining the Melbourne Convention Centre and Plenary Theatre. Purchased by Singapore-based UOL Group Ltd on a leasehold basis (99 years starting in 2009) and with vacant possession. The asset will be rebranded to Pan Pacific.
Crowne Plaza Perth	Perth, WA	MAR 2017	191	50	265	4.7	4.5-star hotel. Purchase by I-Power Management (Singapore based).

Source: CBRE Hotels and Knight Frank, 2017 and The Hotel Conversation and CBRE Hotels, 2018

Figure 12: 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 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.

Source: CBRE Hotels and Colliers International 2016; Naumi Hotels 2018

In-Focus: Corporate Social Responsibility in Action

In the five months to Q1 2018, Pro-invest Group solidified its dedication to making a positive impact to the firm’s people and the communities in which the Group operates. Pro-invest Group is proud to announce the participation of Pro-invest team members in the Movember and the financial support of the SOS Children’s Villages Thailand Project.

SOS Children’s Villages Thailand Project

Founded in November 1971, the organisation came under the Royal Patronage of H.M. the Queen in 1976. SOS Children’s Villages is a member of SOS Children’s Villages International, an organisation active in 135 countries. Grounded in the belief that the family environment is the best setting for a child to grow, the SOS Children’s Villages assist children who are without the care of their parents, guiding them on their path from childhood through to adulthood. Currently, more than 500 individuals from the SOS Children’s Villages Thailand now live as independent, responsible and contributing members of society. Moreover, the organisation is responsible for caring for c. 700 children in five SOS Children’s Villages; Bangpoo Samutprakarn, Hatyai Songkla, Nongkhai, Chiang Rai and Phuket.



Source: SOS Children’s Village in Thailand

In April 2018, Pro-invest Group entered into an agreement with SOS Children’s Village Thailand to assist in funding the Bangpoo, Samutprakarn Village, located c. 15 kilometres east of Bangkok, ultimately supporting 143 people. The Village comprises of 12 SOS family houses, SOS kindergarten building, village directors’ residence, medical room, library room, guest rooms, retired mother houses and an office building which includes a SOS aunts’ residence. The funding amount

totalled to US\$25,000 which will be allocated towards the renovation of the 12 family houses at SOS Children’s Village Bangpoo, Samutprakarn. These houses have been used for more than 45 years and thus are in urgent need of renovation. Works will include the housing foundation, roofs, floors, walls, ceilings, doors and windows along with sanitary ware, electricity and painting.

Movember Foundation

The Movember Foundation is the only charity that tackles men’s health on a global scale, year-round. The foundation addresses some of the most pressing health issues faced by men, including that of prostate cancer, testicular cancer, and mental health and suicide prevention. Men of all ages face this health crisis, with all being fathers, brothers, partners, friends and beloved colleagues.

During November 2017, Pro-invest personnel joined the forces of thousands of other men, not shaving for 4 weeks, raising donations, making conversations and inspiring real change. Before fundraising commenced, the team set the target of A\$2,500 and by the end of November, the team had achieved their goal.

Pro-invest Group wishes to thank everyone who supported the team in combating prostate cancer, testicular cancer and mental health and suicide. All donations were greatly appreciated.



Pro-invest Group team members in office on the final day of the Movember month.

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