



Australian Hospitality Opportunity

Q4 2018 Quarterly Newsletter



Holiday Inn Express Malbourne Southbank, Artist Perspective

Dear Investors and Friends,

It is with pleasure that Pro-invest Group presents you with our Australian Hospitality Opportunity Quarterly Newsletter for the fourth quarter of 2018. This Newsletter highlights the attractive investment opportunity the Australian and New Zealand (ANZ) 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's tourism market demonstrates strong results for Year Ending (YE) September 2018, with **international and domestic expenditure combined totalling to A\$113.4 billion** following an 8% uplift on the year prior.
- **Brisbane achieves record tourism figures** during YE September 2018, with **international visitors reaching 1.4 million** (+9.7% y-o-y) and **international expenditure totalling to A\$2.7 billion** (+20.5% y-o-y).
- With a strong economic backdrop and significant investments in tourism and transport infrastructure in Australia, **demand is expected to absorb new hotel supply**.
- Historic figures demonstrate New Zealand's sustained appeal as a tourism destination, with **international visitor arrivals increasing by over 142% to 3.8 million over the 19 years to 2018**.
- Anticipation for the **2019 China-New Zealand Year of Tourism** make industry headlines, as New Zealand prepares to establish the country as a world-class destination, level out seasonality and strategize to capture a greater share of the ever-growing Chinese market.
- Slow uptake in prioritising sustainability by the Australian hotel sector as a whole, while industry reports list **Pro-invest as a leader in sustainable hotel design and operations**.

Over the past five 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').

Given the sizeable opportunity, with c. 50 prime target locations identified, the continued strength and positive outlook for the region's hotel sector as well as the high level of investor interest, Pro-invest continues the successful rollout of quality select service hotels via its Fund II. Fund II will build onto the existing portfolio, continuing the expansion of the HIE brand and anchoring it as a market leader in the region. Fund II has already secured its first site in Auckland's CBD and second site during Q4 2018 in Parramatta while 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 portfolio, now comprising of a total 11 assets (over 2,500 rooms) with a strong future pipeline.

Further, following the involvement of the Clean Energy Finance Corporation (CEFC) in Pro-invest's HIE Melbourne Southbank asset in providing a A\$39 million Term Debt Facility to uplift the Melbourne asset's base 4.5-Star National Australian Built Environmental Rating System (NABERS) to a 5-Star NABERS Energy rating, CEFC has continued their partnership with Pro-invest. CEFC's involvement has provided a number of key learnings for the portfolio, facilitating Pro-invest's efforts to minimise its environmental footprint and boost asset efficiency, ultimately producing significant long-term financial savings.

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

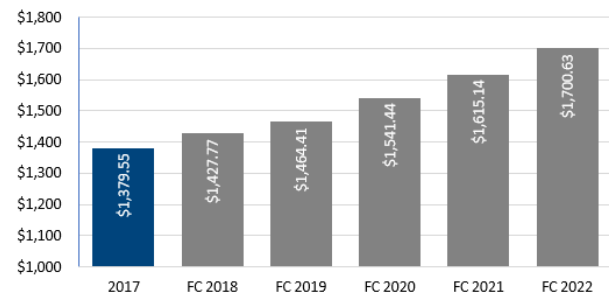
Overall, Australia’s economy has been steadily growing and the nation’s economic factors indicate a well-established country. Globally, Australia has one of the largest Gross Domestic Products (GDP), ranking 13th worldwide and is labelled as one of the G20 countries which comprises of the world’s top twenty major economies.

Based on the most recent figures released by Statista, Australia’s GDP for 2017 amounted to US\$1,379 billion (in current January 2019 prices). As per Statista, Australia was one of the few countries across the globe to have not been severely impacted by the 2008 financial crisis. As an example, Australia’s trade balance, inflation rate and unemployment rate were hardly affected during the downfall. Additionally, tourism, one of Australia’s largest industries continues to provide significant contributions to the country’s GDP. Tourism provides Australia a direct economic benefit of c. A\$55 billion per annum.

Further, 2018 marks the year the Australian economy entered its 27th consecutive year of economic growth without recession, which the ABS attributes to plentiful exports and uplifts in business investment. Additionally, Savills conveyed that the sustained growth is partly due to the materially stronger population growth of Australia in comparison to the nation’s developed peers.

Despite the residential property market concerns the media is reporting, in a November 2018 report by the Reserve Bank of Australia (RBA), Australia’s GDP is anticipated to grow c. 3.5% on average over 2018 and 2019. The RBA report that tighter-than-anticipated labour market conditions coupled with the accommodative monetary policy are projected to provide sustained support to the growth of household income, consumption and business investment throughout 2019. Further, mining investment has started to increase and is anticipated to contribute to GDP growth throughout 2019, while public infrastructure developments is expected to remain high.

Figure 1: Australian GDP Growth from 2017-2022* (in current prices; US\$ billions)



Source: Statista 2019

Looking forward, as per Figure 1, it is expected that Australia’s economy will enlarge by US\$272 billion between the forecasted 2018 to 2022 period to reach US\$1,700 billion, translating into a Compound Annual Growth Rate (CAGR) of 4.5%.

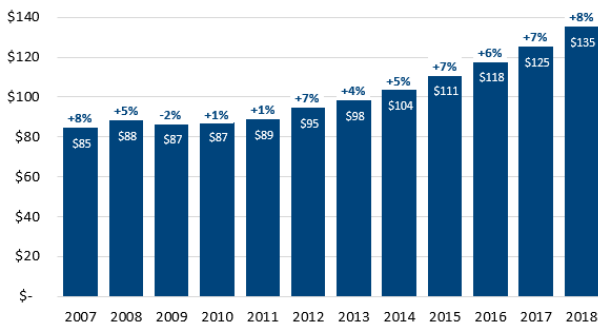
Over in New Zealand, in a December 2018 release, the New Zealand Parliament recorded an average annual GDP growth of 2.7% to NZ\$289 billion in the 12 months to June 2018. On a quarterly basis, the New Zealand economy grew by 1% during the June quarter 2018, which is reportedly stronger than market expectations. According to the New Zealand Parliament, there were several factors behind the June quarter’s growth.

Looking forward, the New Zealand Institute of Economic Research anticipates the New Zealand economy to expand by an average of 2.8% in the five years to 2020, peaking at 3.1% in the YE September 2020.

Australian Tourism & Travel Industry

In Australia, both international and domestic travel recorded strong results for the YE September 2018. The total overnight expenditure (international and domestic combined) amounted to A\$113.4 billion following an increase of 8% (or A\$8.5 billion) on the year prior. From a historical perspective, as indicated in Figure 2, overnight spend by tourists in Australia has been on a growth trajectory.

Figure 2: Total Tourism Spend Between Year Ending September 2007-2018 (A\$ millions)



Source: Tourism Research Australia 2018

Brisbane’s International Visitor Numbers & Expenditure Soar to Record Highs

Making industry headlines were the record international visitors recorded for the Brisbane market. During YE September 2018, international visitors soared by 9.7% y-o-y to a record 1.4 million while expenditure climbed 20.5% y-o-y to a record A\$2.7 billion. Partially driving this growth were visitors from China recording an uplift of 15.8% y-o-y to 257,000 and New Zealand gaining 13% to a record 220,000. Further, visitors from Taiwan demonstrated a 39.1% boost y-o-y to a record 60,000, while visitors from the UK and USA were up by 4.4% and 5.7% y-o-y to 132,000 and 99,000 respectively.

Simultaneously, national visitors remained stable at 7.2 million while total national expenditure was boosted by 5.4% y-o-y to a record A\$4.4 billion. Of note, visitors travelling for the purpose of Holiday gained 11.7% y-o-y to reach a record 2.1 million during the period.

According to Deputy Mayor Adrian Schinner, *“Brisbane is really building momentum in the tourism space as our exciting new hotels, venues and precincts enhance our reputation both nationally and internationally as a destination of choice”*.

International Visitation

In the 12 months to September 2018, international visitation to Australia continued to mount, uplifting by 6% to 8.4 million visitors y-o-y. International spend

during the period followed with a 5% increase to A\$43.2 billion y-o-y.

Figure 3: Year Ending September 2018 International Visitor Survey Overview



Source: Tourism Research Australia 2019

Notably, international visitation and spend growth was recorded across Queensland, New South Wales (NSW), Victoria and South Australia. In Queensland, international visitation increased by 5% to 2.8 million and spend grew by 12% to A\$5.9 billion during YE September 2018. During the period, international visitors to NSW increased by 3% to 4.3 million, while spend improved 2% to A\$10.6 billion. In the 12 months to September 2018, Victoria received 3.0 million international visitors following a 6% uplift while spend totalled to A\$8.3 billion on the back of a 9% climb. South Australia recorded a 4% growth for both international visitation and spend to total to 461,000 visitors and A\$1.1 billion spend for YE September 2018.

Markedly, Tourism Research Australia (TRA) indicates a slight reduction in nights spent by international visitors in Australia during YE September 2018, as nights improved 1% to 271 million, while the average duration of trips by international visitors dropped 4% from 34 nights to 32 nights during the period. The effect of this is that there is a slight reduction in visitor nights from some of the source markets.

In respect to visitation from Australia’s top five source markets [China, New Zealand, the United States (US), United Kingdom (UK) and Japan], TRA demonstrates mixed performance for international nights and expenditure spent in Australia.

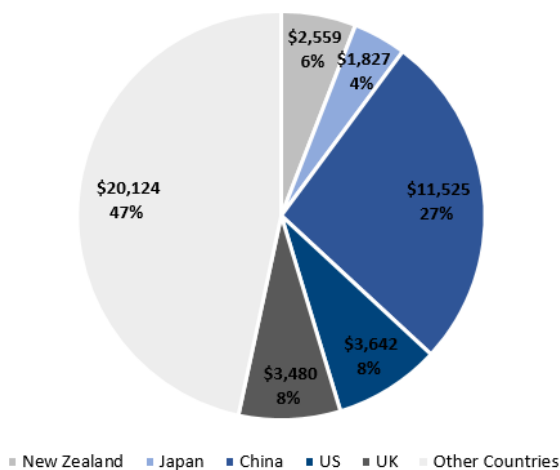
In terms of the top source markets, China increased by 8% to 57.6 million nights in the 12 months to September 2018. Furthermore, spending by international visitors from China grew 12% to A\$11.5 billion, accounting for 27% of the total international expenditure during the 12 months to September 2018. Nights spent by the US declined 13% to 13.0 million and spending fell 3% to A\$3.6 billion, while nights from New Zealand declined by 7% to 12.8 million and spending weakened 2% to A\$2.6 billion. In the UK nights reduced by 7% 22.4 million coupled with spending dropping 2% to A\$3.5 billion. Further, visitor nights by Japan fell 2% to 10.5 million,

however spending uplifted 4% to A\$1.8 billion. According to TRA, the decline in the duration of stay had an influence on spending.

TRA indicates that during the five-year period to YE September 2018, the collective spending from all international markets increased by A\$14.9 billion to the current figure of A\$43.2 billion, marking an uplift of c. 52% or A\$14.9 billion over five years. Notably, China accounted for 46% of the A\$14.9 billion increase. Accordingly, spending from China has increased from A\$4.7 billion in YE September 2013 to A\$11.5 billion in YE September 2018, translating to a growth of 146% (A\$6.8 billion).

Collectively, the top five source markets accounted for 53% (or A\$23.1 billion) of the total international visitor spend during YE September 2018, establishing their significance to Australia's international tourism market.

Figure 4: International Visitor Expenditure Share YE September 2018 (A\$ in Millions)



Source: Tourism Research Australia 2019

Regarding the accommodation international visitors chose to stay at, 153 million nights were spent in commercial accommodation during the YE September 2018, accounting for a 57% share of total nights spent in Australia. Of the international visitor nights spent in commercial accommodation during the period, hotels and similar accommodation represented a 19% share (c. 29 million nights) with 1% reduction y-o-y, while nights spent in backpacker accommodation accounted for an 8% share after a marginal decline of 1% during YE September 2018.

In addition, on a Calendar Year (CY) basis, according to data released by the Australian Bureau of Statistics (ABS), tourism in Australia has risen by

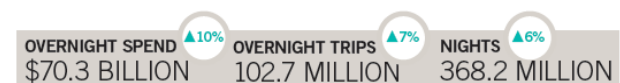
an average 8% per annum since CY 2012. Utilising historic ABS data, CY 2018 is anticipated to account for more than 9.5 million international visitors, marking a c. 8% growth on CY 2017, while CY 2019 is expected to further balloon to reach 10.3 international visitors at a forecasted growth of c. 8%.

Domestic Visitation

Based on TRA figures, domestic overnight tourism performed strongly during YE September 2018, as overnight trips gained 7% on the year prior to reach 102.7 million, while domestic nights improved 6% to 368.2 million. Subsequently, the gains experienced by overnight trips and nights supported the strong 10% growth to A\$70.3 billion in domestic overnight spend.

TRA indicates the 10% uplift (or A\$6.6 billion in dollar terms) in domestic overnight spend during YE September 2018 to be driven by strong growth for travel for the purpose of Holiday, Visiting Friends and Relatives (VFR) and Business.

Figure 5: Year Ending September 2018 National Visitor Survey Overview



Source: Tourism Research Australia 2018

Accordingly, overnight domestic visitation for the purpose of Holiday climbed 9% to 41.7 million trips while spend added 8% to reach A\$34.3 billion. VFR overnight trips increased 7% to 34.7 million and spend gained 16% to A\$14.5 billion. Further, Business overnight trips by domestic visitors lifted 8% to 22.6 million, as overnight spend climbed 13% to total to A\$18.4 billion during YE September 2018.

Markedly, with the strong growth of 10% in domestic overnight expenditure, TRA indicate the benefits were chiefly accounted for by accommodation, dining and transportation (airfares and petrol) sectors. During YE September 2018, the aforementioned categories received the bulk (83%) of the share of growth, with accommodation representing 27% of the growth in domestic overnight spend to A\$1.8 billion.

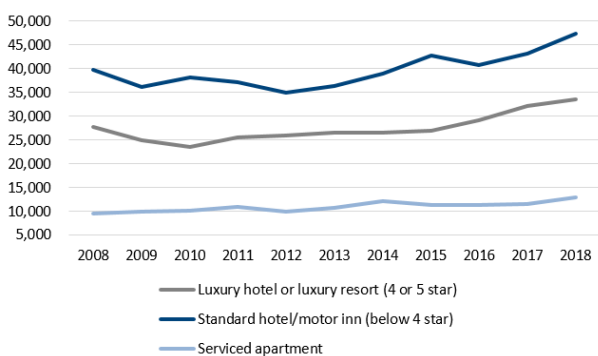
In continuance of domestic nights spent in commercial accommodation during YE September 2018, hotels, motels and resorts accounted for a 26% share. Nights spent in hotels, motels and resorts increased by 8% to 94 million nights during

the period, with TRA indicating the robust growth to have been driven by domestic travel for the purpose of Holiday and Business. On a historic basis, domestic nights spent in hotel-related accommodation have climbed between YE September 2008 to YE September 2018, increasing by 16.9 million nights, translating to a 22.1% uplift, or CAGR of 2.0%.

Of the 94 million nights spent in hotels, motels and resorts during YE September 2018, 36% were spent in luxury hotels (4 or 5 stars) following a 4.8% growth on 2017, while the bulk (50%) of nights were spent in standard hotel accommodation (below 4 stars) on the back of a 10.2% uplift in the 12 months to September 2018. During the period, serviced apartment accommodation gained 12.2% to reach a 14% share of domestic nights spent in hotels.

On a historic basis, nights spent in luxury hotels (4 or 5 stars) gained 5.8 million nights to 33.6 million in the ten years to YE September 2018, a growth of 21.2% or CAGR of 1.9%. In turn, the classification of standard hotels (below 4 stars) increased by 7.6 million nights during the ten-year period, representing a 19.2% growth or CAGR of 1.8%. Lastly, serviced accommodation increased 3.4 million to 12.9 million in the ten years to YE September 2018, translating to a 36.4% climb or a CAGR of 3.2%.

Figure 6: Domestic nights spent in hotel accommodation (YE September 2008-18)



Source: Tourism Research Australia 2019

Australian Hotel Fundamentals

In the 12 months to December 2018, the Australian hotel market demonstrated mixed Key Performance Indicator (KPI) results. Nationally, occupancy remained stable at 75% and Average Daily Rate (ADR) lifted 1.4% to A\$188, resulting in Revenue per

Available Room (RevPAR) gaining 1.2% to A\$142 for CY 2018.

According to CBRE, due to the increase in new hotel supply in some markets, a number of markets in Australia experienced downward occupancy shifts during the final quarter of 2018. However, CBRE suggests that the shift in demand may be indicative of some markets performing better than others.

Nationally, the Gold Coast and Canberra registered as top performers. The Gold Coast experienced an ADR increase of 7.6% to A\$202 coupled with an occupancy growth of 1.7% to 72%, resulting in a RevPAR gain of 9.4% to A\$146. CBRE reports the strong performance to be attributed to the Commonwealth Games held during April 2018, boosting Gold Coast's overall hotel market performance during Q2 2018, with trends indicating the momentum to have continued throughout the second half of 2018.

On the other end of the KPI spectrum is Darwin recording a 5.8% decline in RevPAR to A\$103, following an occupancy fall of 5.6% to 68% paired with an ADR dip of 0.2% to A\$149. Darwin's poor performance is due to a major resource project having entered its final stages and thus corporate travel to the region fell significantly relative to the year prior.

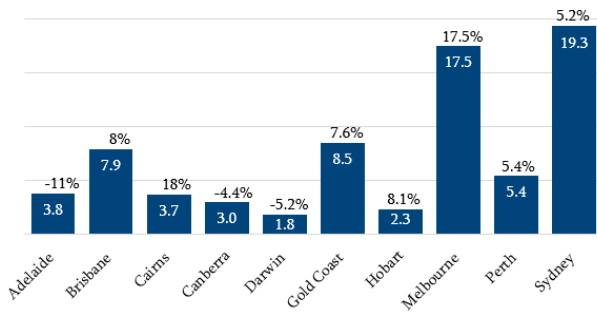
Figure 7: Australian Key Markets Hotel Fundamentals (12 Months to December 2018)

Location	Occ (%)	ADR (A\$)	RevPAR (A\$)	RevPAR Change* (%)
Australia	75	188	142	1.2
Adelaide	80	155	124	1.2
Brisbane	71	156	111	-3.5
Cairns	81	154	125	-1.2
Canberra	78	176	139	4.4
Darwin	68	149	103	-5.8
Gold Coast	72	202	146	9.4
Hobart	80	180	145	2.6
Melbourne	82	186	153	0.0
Perth	73	167	122	-3.5
Sydney	84	228	191	-1.9

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

Source: CBRE 2019

Figure 8: Nights Spent in Hotels (millions) during 2018 (y-o-y growth)



Source: CBRE 2019

Over in Brisbane, RevPAR declined by 3.5% due to a quieter calendar of events during 2018 in comparison to 2017, while the additions of new hotel supply boosted competition in the market. Nevertheless, CBRE stress demand for Brisbane hotels to remain strong with corporate travellers alone recording an 18% growth. Further, in an August 2018 report, Colliers International forecast the Brisbane market to experience an increase in ADR while RevPAR will remain stable during FYE2019.

CBRE report that in the next two years, only two more upper scale hotels are planned to reach completion, with supply to the Queensland city to ease with no more major hotel openings expected until 2024. In addition, the Urban Developer announced the progression of plans by the Palaszczuk state government to develop the 1,500 - 1,700 seat Queensland Performing Arts Centre in Brisbane. The theatre is anticipated to be operational by 2022 with the capability to welcome a supplementary 300,000 visitors per annum. Thus, the Brisbane-based theatre is expected to boost the state’s visitor economy.

In NSW, Sydney maintained standout occupancy of 84% following a minor 1.8% reduction on the back of sustained growth throughout the last ten years, while ADR dipped a marginal 0.2% to A\$228 y-o-y. Subsequently, Sydney recorded a RevPAR of A\$191 – the highest RevPAR nationally. This slight reduction in Sydney can be attributed to the recent openings of a number of hotels increasing supply. Although as per Figure 8, nights spent in Sydney hotels underwent a strong 5.2% growth to over 19.3 million nights, boosting demand. According to a Colliers International report released in August 2018, the Sydney hotel is forecasted to experience

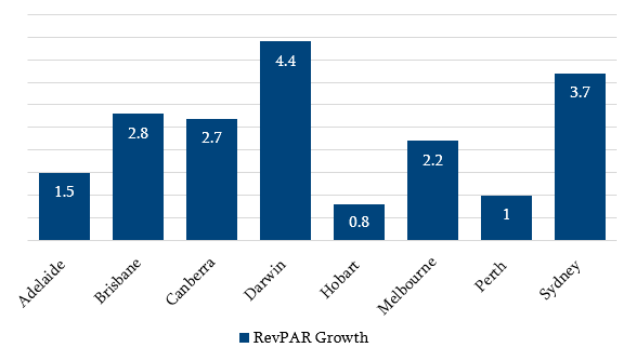
an uplift in ADR and RevPAR with stable occupancy for FYE2019.

Regarding Melbourne, KPIs remained stable, with the city recording the second highest RevPAR at A\$153 nationally following no change relative to the year prior. Melbourne’s RevPAR performance comes on the back of a 0.8% occupancy dip to a still strong 82%, coupled with ADR gaining 0.8% to A\$186. Looking forward to FYE2019, Colliers International forecast the Melbourne market RevPAR to remain stable.

Adelaide recorded growth across all KPIs during 2018 on a rolling annual basis. Accordingly, occupancy in Adelaide improved 0.1% to 79% and ADR improved 0.1% to A\$157, resulting in RevPAR gaining 1.2% to A\$124 during 2018. Nights spent in hotels fell 11% to c. 3.8 million in 2018, as international visitation was lower relative to 2017. CBRE reports hotel occupancy in Adelaide to continue to be supported by domestic corporate travellers. In respect to Colliers International’s FYE2019 forecast, Adelaide is projected to experience an uplift in occupancy, ADR and RevPAR.

With respect to the hotel market outlook till 2023, factoring in both demand and supply, RevPAR forecasts demonstrate growth across key Australian markets. Sydney is anticipated to experience an average RevPAR growth of 3.7% per annum and Melbourne is expected to experience an average RevPAR growth of 2.2% per annum by 2023.

Figure 9: RevPAR Growth Outlook (Average Annual Growth 2018-2023)



Source: Dransfield 2018 (average RevPAR annual growth from 2018 to 2023)

Australian Hotel Supply Pipeline

Tourism Australia indicate 56 new hotels at c. 6,000 rooms to have opened across Australia during 2018.

Queensland accounted for the bulk of hotel room openings during 2018 at a c. 37% share with 22 new hotels at 2,247 rooms. The large count of new openings in Queensland was driven by the Gold Coast Commonwealth Games which built up Queensland's room stock by 3% - the highest growth rate nationally, along with Western Australia. Further, NSW represented c. 25% of new national supply during 2018 with 15 hotels at 1,512 rooms.

Looking forward, Tourism Australia anticipate 41 hotels offering a collective c. 8,000 rooms to open across the country during 2019. A large portion of the new hotel openings for 2019 are considered to be higher-end products with high room counts, as per Tourism Australia and CBRE. Further, across Australia there are c. 48,000 hotel rooms in the total development pipeline set to come live within the next five years. Of this figure, 15,000 are currently under construction.

Looking forward, the bulk of the new supply is in planning phases with the possibility of not all projects proceeding to completion. As per Colliers International, about 70% of new supply coming into the key Australian market is Full Service compared to less than 10% of the new supply being Select Service and c. 10% of the new supply representing lifestyle and boutique hotels.

Further, in respect to hotel chain scales due to go live in the six years to 2024, Tourism Australia indicated Independently branded properties to account for the bulk of the new hotel rooms, representing c. 47%, followed by c. 42% of Luxury, Upper Upscale and Upscale Chain hotels. Midscale and Upper Midscale hotels represents c. 11% of the new supply coming into the market. The Colliers International report also mentions that with a strong economic backdrop and significant investments in tourism and transport infrastructure, demand is expected to absorb the additional supply. As a result, it is expected that the growth in both the domestic and international visitors and additional campaigns run by various tourism bodies would further support that demand growth continues to outperform supply growth.

On a city basis, Adelaide has c. 2,000 hotel rooms planned over the coming three years, with a number of hotels being of a high-end product carrying brands such as the Westin Hotels & Resorts, Sofitel Adelaide and Hotel Indigo. CBRE however report the peak of the pipeline to be reached in 2020.

Over in Brisbane, CBRE report that in the next two years, only two more upper scale hotels are planned to reach completion, with supply to the Queensland city to ease with no more major hotel openings expected until 2024. The limited number of new hotel supply entering the market in the three years to 2023 is expected to support Brisbane's hotel market performance.

Regarding the Gold Coast, over the next three years c. 900 hotel rooms are anticipated to reach completion, with CBRE indicating the new supply may place pressure on future market performance. Although, it should be noted that CBRE stress the current supply lacks diversification, and hence the increase in competition as the trend of luxury hotels expand to the Gold Coast.

CBRE indicate the hotel supply of Sydney to grow 5.7% per annum over the next three years. However, consistent with the national trend, a great portion of the developments will be high-end products. Markedly, due to the Sydney market being in need of new luxury hotels following a scarce supply of upper end products during the last decade, supply is expected to be absorbed well.

Further down the eastern coast of Australia, Melbourne is expected to experience c. 1,400 new hotel rooms enter the market in the two years to 2020, while a supplementary 3,600 are proposed for completion by 2022. Although, a large portion of this supply is planned for Melbourne's CBD and will be of a high-end product.

New Zealand Tourism & Travel Industry

In the 19 years to 2018, international tourist arrivals to New Zealand increased by over 142% to 3.8 million representing a 1.2 million uplift as per the latest StatsNZ Tourism Satellite Account.

In YE March 2018, international tourist expenditure totalled to NZ\$39.1 billion, with the tourism industry providing one in every 12 jobs (indirectly and directly). International visitors contributed c. NZ\$16 billion while domestic visitation contributed c. NZ\$23 billion to the total expenditure.

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 more than 2,200 rooms, being rolled out under a Master Development Agreement.

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

Fund II will build onto Pro-invest's existing portfolio, focusing on:

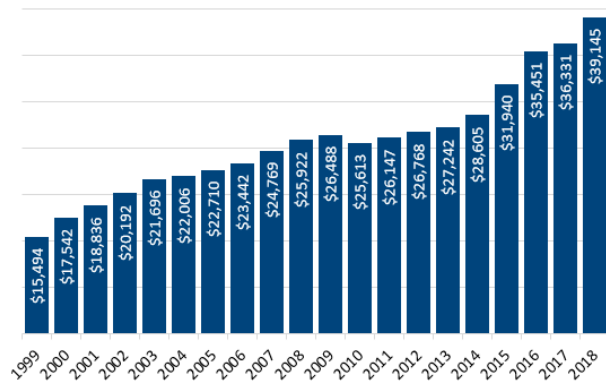
1. Growing the HIE footprint in the region and continuing to position the brand as the market leader in the region's upper-midscale select service space; and
2. Capitalising on new travel trends and the high-yielding 'wellness traveller' by introducing one of IHG's leading lifestyle brands.

Given the high level of investor interest, it is expected that Fund II's final close will occur mid-2019, with total commitments of A\$500 million.



HIE Sydney Airport, Artist Impression

Figure 10: Total Tourism Expenditure in New Zealand (by NZ\$ millions)



Source: StatsNZ 2018

Moreover, on a historic basis, total tourism expenditure in New Zealand between YE March 1999 to YE March 2018 increased by 152.6% or c. NZ\$23,650 million.

Furthermore, guest night expenditure in New Zealand softened slightly to 36.8 million during YE September 2018. The North Island captured the bulk of total guest nights at a 58% share. In terms of origin of guests, 20.6 million were domestic travellers, representing a c. 56% share following a 6% decline. International travellers represented the remaining 44% share at 16.2 million guest nights on the back of a 4% dip during the YE March 2018.

Of the 36.9 million guest nights spent in New Zealand, 36% stayed in hotel accommodation, closely followed by motel accommodation which represented a 31% share in YE September 2018. During the period, 13% of guest nights were spent in backpacker accommodation and the remaining 21% in holiday parks.

New Zealand Hotel Fundamentals

According to STR data, during CY 2018, occupancy in New Zealand remained stable with an uplift 0.1% to c. 80%, while the nation recorded an ADR of NZ\$195 on the back of a 2.6% increase, resulting in RevPAR gaining 2.7% to NZ\$151.

Based on Tourism Industry Aotearoa (TIA) figures, high occupancies above 80% were maintained by the country's top two performing markets; Auckland and Queenstown.

¹ Please note, that two separate sources were used to provide a holistic view of the New Zealand hotel market's performance, with

Figure 11: New Zealand Key Markets Hotel Fundamentals¹

Location	Occ (%)	ADR (NZ\$)	RevPAR (NZ\$)	RevPAR Change* (%)
New Zealand	80	195	151	2.7
Auckland	83	206	172	-5.1
Christchurch	77	159	123	2.6
Queenstown	82	246	202	8.8
Wellington	78	176	138	-3.0

* Year ending December 2017 figures vs year ending December 2018 figures.

Source: Tourism Industry Aotearoa 2019 (supplied by Cushman & Wakefield); STR 2019

The Auckland market saw a strong occupancy of 83% and the second highest ADR nationally at NZ\$206. Auckland's RevPAR was NZ\$172. Even though Auckland saw a RevPAR reduction in 2018, looking forward, according to 4D Consulting, Auckland is anticipated to experience a stable RevPAR growth over CY 2019.

With Queenstown's strong occupancy of 82% coupled with ADR gaining 9.1% to NZ\$246, RevPAR improved 8.8% to NZ\$202 – the highest RevPAR recorded for a New Zealand city during the period. As per a recent CBRE report, following four years of strong growth in ADR, Queenstown has the highest ADR in Australasia for the 12 months ending December 2018.

With a 1.4% uplift, Christchurch gained an occupancy of 77%, while ADR improved 0.7% to NZ\$159, resulting in RevPAR gaining 2.6% to NZ\$123. Over in Wellington, occupancy reduced 2.2% to 78% during 2018 which, with a 0.3% decline in ADR to NZ\$176, resulted in RevPAR weakening 3.0% to NZ\$138.

Regarding New Zealand hotel supply, Colliers International indicate the core factor halting New Zealand's booming tourism sector is the lack of new hotel supply. Key tourism regions in the country are particularly in dire need of new inventory, despite New Zealand achieving a record 3.7 million international visitors during 2018. According to Colliers International, in the five years to 2018, only 526 hotel rooms have been added to Auckland's hotel supply, with Queenstown recording a mere 158 new rooms during the period. Further, with a full events and conference calendar for Queenstown,

STR data accessible providing a national overview, while TIA data provided a market breakdown of key regions.

the market is considered to be fuelling demand for the region's hotel accommodation.

However, to alleviate national supply constraints, a handful of new hotels are currently under construction, with the pipeline of mooted projects rising. In the interim, the demand for hotels will continue to mount, particularly with the America's Cup to be held in 2021 and the Asia Pacific Economic Cooperation (APEC) in 2021-22. Colliers International indicates the New Zealand International Conference Centre to attract c. 33,000 delegates per annum, with the America's Cup attracting c. 150,000 to 175,000 international visitors, while APEC has the capacity to attract 22,000 attendants. Based on New Zealand Trade and Enterprise (NZTE) figures, Auckland alone will require up to 4,000 new hotel rooms by 2025 to keep up with the current demand, particularly with the Ministry of Business, Innovation and Employment (MBIE) predicting New Zealand to attract 5 million international visitors by 2024.

The 2019 China-New Zealand Year of Tourism

Making headlines during Q4 2018 was the anticipation of the 2019 China-New Zealand Year of Tourism, which the MBIE depict as an opportunity for New Zealand and China to strengthen their economic ties through tourism. Accordingly, there is opportunity in showcasing New Zealand to be a world class destination with a comprehensive range of experiences and attractions on offer. The 2019 China-New Zealand Year of Tourism is expected to formally launch in February 2019. Furthermore, 2019 additionally marks the twentieth anniversary since New Zealand welcomed the country's first international visitors from China.

To date, China is New Zealand's second largest international tourism market, next to Australia. Traditionally, Chinese tourists tend to visit New Zealand in large numbers during the Chinese New Year. Further, majority of Chinese visitors travel for the purpose of Holiday, visiting another country during the same trip, with MBIE indicating Australia to be the most commonly accompanying country.

Moreover, the MBIE reports the market to be experiencing a shifting trend towards Free Independent Travelers (FIT), with Chinese tourists becoming increasingly confident in organizing their

own trips and seeking unique experiences. Subsequently, New Zealand have placed focus on encouraging Chinese tourists to visit New Zealand during the off-peak visitor seasons of spring and autumn. Accordingly, the marketing campaign "the Heart of the Long White Cloud" launched in mid-2018, is anticipated to attract Chinese tourists to regions such as the top of the South Island region and Wellington.

To facilitate the influx of Chinese travelers, a total of 36 flights operate between China and New Zealand per week with the country's national carrier, Air New Zealand, operating seven direct flights between Shanghai and Auckland.

Looking forward, over the next five years outbound trips from China are predicted to surge from 130 million to 700 million, with China's Consul General, Xu Erwen, stressing there to be substantial potential for Chinese tourists to deliver greater benefits to the New Zealand economy. Accordingly, by 2024, the MBIE anticipate more than 800,000 Chinese travelers to visit New Zealand, translating to an increase of c. 77% on 2018 or CARG of c. 10%.

Sustainability Measures & Hotel Investors

With the cost of energy being an important price item, the hotel sector has increasingly begun to source new avenues to drive efficiencies and protect their bottom lines. Within the last 18 months, three of Australia's largest energy providers increased prices for gas and electricity, with JLL reporting the move to have raised hotel bills by an average of 30% per year. Subsequently, hotel owners have begun implementing creative energy-saving initiatives, such as the installation of regenerative-lift drives to recycle energy. Further, JLL and articles featured by the Hotel Conversation indicate that despite forecasts anticipating energy prices to surge by c. 100% over the coming three years, overall, the Australian hotel sector has been slow to take action.

JLL suggests that in order to mitigate energy expenses, hotel consumption can firstly be reduced by streamlining the asset's operations while exploring the capex requirements of plant and equipment with high energy consumption can prove valuable. Moreover, JLL advisories have suggested the avenue of the sector harnessing the purchasing

power of hotel companies in an effort to achieve the most competitive energy pricing in the market.

As demonstrated by the Global Real Estate Sustainability Benchmark (GRESB) Assessment 2018 results, property funds in Australia and New Zealand topped the rankings for the eight successive year. GRESB serves as a global sustainability benchmark that assists investors in managing Environmental Social Governance (ESG) risks, capitalize on opportunities and engage with investment managers, while simultaneously providing business intelligence and engagement tools via validating, scoring and benchmarking ESG data for portfolio managers and asset operators. The GRESB Assessment results indicates a clear trend with the capital for green assets growing.

Furthermore, due to the nature of hotels being operational 24-hours a day, seven days a week, hotels categorize as one of the most energy intensive asset classes in the real estate market, with usage for hot water, room lighting, air conditioning and lifts exceeding the consumption of other commercial assets such as offices. This presents an opportunity to the hotel industry. JLL's commentary are in line with that of other reports

produced by powerhouse institutions such as PERE ([click here](#) for the Australian Hospitality feature 'Properties made for Precision', featuring Pro-invest Group), demonstrating that considerations for sustainable design can improve asset efficiencies and mitigate the risk of market volatility which have a flow-on effect on cost.

Subsequently, the need for thorough asset planning with strong considerations to reducing energy consumption and costs are becoming more essential for Australian hotels, despite the current uptake of such incentives being relatively low by the hotel sector as a whole.

Hotel Investment Market & Recent Transactions

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, as well as properties requiring significant capital expenditure.

Figure 12: Recent Australian Hotel Transactions

Hotel	Location	Date	Keys	Price [A\$m]	Price / Key [A\$000]	Initial Yield [%]	Comments
Little Albion Hotel	Sydney, NSW	DEC 2018	35	26	736	4.0	Boutique 35-room Guest House located in the hip Sydney suburb of Surry Hills will join the expanding hospitality group, Crystalbrook Collection Hotels and Resorts, in an off-market deal brokered by CBRE Hotels' on behalf of 8Hotels.
SkyCity Darwin Casino	Darwin, NT	NOV 2018	152	188	1,237	NA	5-star hotel located in Darwin sold by SKYCITY entertainment group to US giant, Delaware North. The acquisition includes an integrated entertainment destination, casino gaming facilities, Darwin's only 5-star resort, restaurants, bars and VIP facilities.
Aloft Perth	Perth, WA	NOV 2018	224	51	229	3.7	4.0-star hotel in metro Perth marks Marriott International's flagship debut Aloft hotel in Australia. The hotel was sold along with an efficient and flexible 10-storey A-Grade office with NLA of 10,569sqm, and a 509-bay car park managed by Wilson Parking for c. \$100m.

ibis Styles Brisbane Elizabeth Street	Brisbane, QLD	OCT 2018	367	94	256	4.0	Opened in March 2016, the 367-room ibis Styles Hotel is located in the Brisbane CBD, approximately 250m from Queen Street Mall. In a deal brokered off market, this marks Singapore's Action Hotels first entry to the Brisbane market.
Park Regis Sydney	Sydney, NSW	SEP 2018	122	54	443	5.8	3-star hotels located in Sydney CBD close to Town Hall Station. The hotel was acquired by Yeh Group, subject to a management agreement with Staywell Hospitality with the sale price representing a 23% increase on purchase price in under two years.
The Richardson Hotel	Perth, WA	SEP 2018	74	36	484	NA	5-star boutique hotel, the Richardson Hotel and Spa in Perth is set to close following the sale of the property. The hotel has been sold to Oryx Communities, a Perth based aged care provider, who will operate their new Richardson Aged Care business from the property.
Pullman on the Park	Melbourne, VIC	SEP 2018	419	165	394	5.5	Centrally located on the fridge of Melbourne's CBD, the hotel is currently managed by Accor Hotels and offered with the possibility of vacant possession, Facilities include conference facilities, a 1000-person ballroom and parking for 215 cars Purchased by local fund manager, iProsperity.
Hotel Urban	Spring Hill (Brisbane) QLD	JUL 2018	179	31	173	2.0	4-star hotel in Brisbane's CBD spanning 11 storeys was acquired by Facilitate, inclusive of the management of the hotel which will be rebranded as Pacific Hotel Brisbane.
Quest Springfield Central	Springfield, QLD	JUL 2018	82	24	296	6.7	4.5-star hotel located directly opposite the A\$85 million Mater Private Hospital, while also being situated adjacently to the University of Southern Queensland and numerous other educational institutions.
BreakFree & Mantra Bell City	Melbourne, VIC	MAY 2018	828	157	190	NA	Hotel, student accommodation and office complex located in Preston, Melbourne. Purchased by Gaw Capital Partners from Elanor Group with settlement expected in July.
Emporium Hotel	Brisbane, QLD	APR 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.
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.
Watermark Hotel & Spa	Gold Coast, QLD	MAR 2018	388	82	211	NA	4.5-star hotel acquired by SP&G Group. The property's facilities include a function venue, day spa, hair salon, pool and gymnasium.

BreakFree on Clarence	Sydney, NSW	FEB 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.
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.

Source: CBRE Hotels and Knight Frank, 2017, The Hotel Conversation and CBRE Hotels, 2018 and Colliers International 2018; Colliers International 2019

Figure 13: Recent New Zealand Hotel Transactions

Hotel	Location	Date	Keys	Price [NZ\$m]	Price / Key [NZ\$000]	Initial Yield [%]	Comments
Novotel New Plymouth	New Plymouth, NZ	NOV 2018	85	23	270	NA	4.5-star hotel offering full service under the Novotel franchised Accor Hotels Group.
Waldorf Stadium Apartment Hotel	Auckland, NZ	OCT 2018	178	57	320	7.1	4.5-star freehold hotel, subject to a ground lease with the transaction taking place under a conditional new 11-year performance lease underpinned by Japan's Daiwa House Group.
Best Western President Hotel Auckland	Auckland, NZ	MAY 2018	80	23	293	7.2*	3.5-star hotel centrally located and in close proximity to Auckland Sky Tower and Sky City Casino, with facilities including meeting suites, a fitness centre and restaurant. The hotel presents as dated and appears to be in need of refurbishment.

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

*Due to reasons pertaining to confidentiality, detailed information on the transaction was not disclosed by the agent. However, based on information accessible from secondary sources, the hotel presents as dated and appears to be in need of capex to improve product offering, hence the high initial yield of 7.2%.

In-Focus: Leadership in the Hospitality Sector by Pro-invest Group

Pro-invest Group is dedicated to positioning itself as an industry leader, particularly in respect to developing, operating and managing sustainable assets which are resilient to future shocks and stressors.

GRESB Case Study Feature

After working closely with the Global Real Estate Sustainability Benchmark (GRESB) throughout 2018 and demonstrating a substantial uplift in its GRESB Real Estate Assessment score, Pro-invest was chosen to be featured as the hospitality sector case study. The Resilience & Real Assets Report by GRESB is the first of its kind and demonstrates market-leading ESG performance across real assets which, in the face of shocks and stressors, are ultimately resilience, ensuring the portfolio experiences low volatility.

The case study stresses Pro-invest's wholistic approach to integrate sustainability initiatives at both the organisational and asset level, ensuring the entire lifecycle of the hotels in the Pro-invest portfolio has provisions in place to enhance efficiency, drive costs down and generate greater returns for all stakeholders involved.

Markedly, the case study highlights the strong partnership formed between Pro-invest and the Clean Energy Finance Corporation (CEFC). CEFC is a statutory authority established by the Australian Government to invest in projects which demonstrate robust potential in decarbonisation and ambitious energy efficiency. CEFC has committed A\$39 million to a construction and term loan facility for HIE Melbourne Southbank, with the institution's support aiding the uplift of the hotel's 4.5-star National Australian Built Environmental Rating System (NABERS) to a 5-star NABERS Energy rating. Initiatives for the Southbank hotel include, but are not limited to, regenerative lift drives to recycle energy, high efficiency air-cooled chillers and condensing boilers and photovoltaic systems on the hotel's roof.

To access the GRESB Resilience & Real Assets Report, please click [here](#).

Q4 2018 ESG Initiatives in Review

In addition to the GRESB case study feature, Pro-invest encountered several milestones during Q4 2018. Some of these highlights include HIE Sydney Macquarie Park partnering with Soap Aid, a non-for-profit organisation, recycling and sending critical soap to communities facing major hygiene challenges. The initiative additionally permits the hotel to divert soaps from landfill.

Additionally, HIE Brisbane Central partnered with Scouts Australia to recycle containers. HIE Adelaide City Centre aligned with Scouts Australia in Q2 2018. Under the scheme, the Queensland and South Australian governments provide 10 cents for the return of eligible containers to promote recycling habits. The program works with each hotel collecting containers (plastic, glass, aluminium etc) and placing the items in dedicated Scouts Australia bins. Scouts Australia then comes to each of the hotel and collects the containers to take to a depot. As a way of giving back to the community, HIE Brisbane Central donates 50% of all monies received to Scouts Australia, while HIE Adelaide City Centre donates 100% of all monies received under the scheme. The scheme is not currently available in NSW and avenues are being explored for HIE Sydney Macquarie Park to participate in.

Further, HIE Sydney Macquarie Park maintained its 4.5-Star Energy and NABERS rating. HIE Sydney Macquarie Park and HIE Brisbane Central have also achieved Level 1 Green Engage Certification Assurance, following the hotel teams working through 10 core sustainability initiatives set by IHG. HIE Adelaide City is currently in the assurance phase of Level 1 Green Engage. Green Engage is a sustainable platform designed by IHG, offering over 200 solutions to boost asset efficiency throughout the hotel's lifecycle.

In preparation for Pro-invest's third annual GRESB Real Estate Assessment submission in 2019, coupled with Pro-invest's efforts to streamline the recording, monitoring and reporting of asset consumption, a partnership with sustainability software provider Measurabl was formed. Measurabl will enable investor-grade utility consumption tracking and reporting. Q4 2018 additionally saw Pro-invest's H2 2018 Employee Engagement Survey be released with the team looking forward to reviewing all team members' stances on aspects such as their Health & Wellbeing needs.

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