



Pro-invest Asia-Pacific Opportunities  
Q1 2024 Quarterly Newsletter

## Dear Investors and Friends,

It is with pleasure that Pro-invest Asia-Pacific (APAC) presents you with our updated **Pro-invest Asia-Pacific Quarterly Newsletter** for the first quarter of 2024, which reflects Pro-invest's expanded focus from hospitality into urban accommodation strategies.

**Pro-invest APAC announced the entering into the urban accommodation market with its new Flex-Living model, developed to capture the extensive potential of Flex-Living across Australia. The company is set to own and operate approximately 2,000 units across ten assets in its first tranche of development; and anticipates scaling it to the size of their current hotel business (c. 6,000 keys).**

The Australian economy grew again over Q4 2023, though at a slightly slower pace compared to the previous quarter. New Zealand experienced a technical recession over the quarter, as it continues to battle high inflation.

Australia has experienced a strong rebound in international traveller numbers following the full reopening of borders in February 2022. Overseas visitor numbers are at c. 93% recovery of pre-COVID levels. The Chinese market, Australia's largest source of international visitors pre-COVID, still has room for growth, only at 72% recovery on 2019 levels as of February 2024. In New Zealand, international visitor arrivals have yet to fully reach to pre-COVID levels, recovering to 87% as of February 2024.

Looking at hotel industry performance, the YTD March 2024 period saw Sydney record the highest level of occupancy across all other capital cities at 80%, down only 6% on YTD March 2019 levels. Sydney also led the nation in ADR at \$297, up 28% on YTD March 2019 levels. All capital cities recorded growth in RevPAR over March levels, with Brisbane achieving a growth rate of 59% over YTD March 2019.

Over the same period, Queenstown saw occupancy reach 86%, just 4% shy of YTD March 2019 levels. ADR climbed 13% on the YTD March 2019 figure, sitting at an impressive \$326. These strong results led to a RevPAR of \$279, up 7% on the YTD March 2019 amount. Auckland saw occupancy reach 73%, just 12% shy of YTD March 2019 levels. ADR climbed 11% above the YTD March 2019 figure, sitting at \$246. These strong results led to a RevPAR

of \$180, just 5% down on the YTD March 2019 amount.

Q1 2024 saw Pro-invest APAC become the recipient of Aareal Bank's largest green hotel portfolio loan in the Asia-Pacific region. A strategic refinancing initiative of Pro-invest APAC's Fund I portfolio saw five hotels form part of the loan. These properties have met the stringent criteria of Aareal Bank's Green Finance Framework 2023, with all five hotels achieving or bettering the minimum required 4.5-star rating under the National Australian Built Environmental Rating System (NABERS) Energy rating scheme.

Pro-invest APAC expects further opportunities to materialise over 2024, with the Group positioned to leverage their active asset management approach and leading fully integrated platform to create significant value generation for investors. The combination of COVID-19 aftermaths, sticky inflation and higher interest rates has impacted hotel cash flows. Single-owner hotels present the ideal opportunity to secure good quality hotels in strong locations across Asia-Pacific.

With a team comprised of industry veterans and specialists and unique operating structure allowing for full control of the entire value chain, coupled with Pro-invest APAC's well-formed network, track-record and access to unique off-market opportunities, Pro-invest APAC is positively positioned to overcome and even leverage off the hurdles presented by COVID-19. Currently, Pro-invest APAC is managing c. A\$3 billion worth of assets through several funds, co-investments, joint ventures, and other assets that Pro-invest APAC manages.

We wish you all health and safety. As always, welcome your comments and feedback.

With kind regards,

**Ronald Stephen Barrott FRICS,**  
**CEO Pro-invest Group**

On behalf of Pro-invest Group

*For more information about Pro-invest Group please visit:*

**[www.proinvestgroup.com](http://www.proinvestgroup.com)**

## Pro-invest APAC Flex-Living Program – Hospitality Based Urban Accommodation Model

Pro-invest Group APAC is evolving into the Australian urban accommodation market with a hospitality-led, short-stay accommodation platform designed to capture strong sector growth. The strategy focuses on amenity-activated urban accommodation solutions designed to maximise investor returns.

Through the conversion and repositioning of existing assets, Pro-invest Group will deliver properties of 100–250 rooms, targeting an overall portfolio of more than 5,000 rooms. Leveraging decades of expertise in operating, upgrading, repurposing, and redeveloping hotel and office assets globally, the firm is uniquely positioned to extract value from conversions while preserving yield during planning and preliminary works.

Located in key Australian city centres, city-fringe precincts, and high-growth suburbs, the Flex-Living properties will appeal to a wide range of guests. The Flex-Living accommodation units will typically comprise of studios, complemented by ample activated amenity spaces for guest use.

### Demand for Amenity-Rich Urban Accommodation

Australia’s major cities continue to experience strong demand for centrally located, flexible accommodation, driven by population mobility, evolving travel patterns and changing stay preferences.

Flex-Living accommodation responds to demand for well-located, hospitality-led accommodation, by delivering well-located, quality studios that are designed to support seamless short-stay accommodation experiences. Designed with activated amenities and curated guest experiences, these schemes appeal to a broad range of guests seeking flexible, hospitality-led accommodation in urban locations.

## Pro-invest Group’s Approach to Urban Accommodation Solutions

Pro-invest Group will leverage its expertise in converting and repositioning assets such as hotels and secondary grade offices to deliver its Flex-Living properties to market. These properties will be strategically positioned near key employment hubs, supported by strong infrastructure pipelines and major transport nodes.

Unlike traditional accommodation formats with fixed stay requirements, Pro-invest Group’s model is designed to support flexible booking structures aligned with hotel operating principles. The Flex-Living properties will be up to 35 square metres and fully furnished. Guests will also benefit from well-curated hospitality experiences including integrated technology, guest experiences, and access to Pro-invest Group APAC’s extensive network of partners, suppliers, restaurant and bar offerings.

Additionally, sustainability initiatives will be embedded across the asset lifecycle from the design and development phase through to asset operations.

Pro-invest Group APAC, as a real estate private equity firm with a strong foundation in hospitality, is well placed to lead the growth of the urban accommodation sector in Australia.



Pro-invest Group Urban Accommodation Rendering, 2024

## Q1 2024 ANZ Market Update

### Australian Economy

Australia's economy grew at a marginally slower rate in Q4 2023 compared to the previous quarter. Quarter-on-quarter (QoQ) GDP rose 0.2%, down from 0.3% in Q3 2023.<sup>1</sup> Year-on-year (YoY) GDP growth for the December quarter reached 1.5%, compared to 2.1% for the September quarter.<sup>2</sup> The main drivers of the growth in Q4 2023 were government expenditure and private business investment.<sup>3</sup> Household spending grew by 0.1% in Q4 2023, the same growth rate that was achieved in the previous quarter.<sup>4</sup>

The unemployment rate for February 2024 was 3.8%, the same rate recorded 3 months prior.<sup>5</sup> The participation rate fell however, from 67.1% in November 2023 to 66.6% in February 2024.<sup>6</sup> Inflation slowed significantly, with the Consumer Price Index (CPI) increasing 4.1% YoY for the December quarter compared to 5.4% the previous quarter.<sup>7</sup>

The cash rate has remained unchanged since November 2023, currently sitting at 4.35%.<sup>8</sup> The prevailing market sentiment is that the cash rate has reached its peak, and that the RBA will lower the rate within the range of 3.85%-4.10% by December 2024.<sup>9</sup>

### New Zealand Economy

The New Zealand economy recorded a technical recession in the final quarter of 2023. GDP declined by 0.1% QoQ in Q4 2023, having already fallen 0.3% the previous quarter.<sup>10</sup> While the annual growth rate for Q4 2023 was positive at 0.6%, it still decreased from the 1.3% figure achieved the previous quarter.<sup>11</sup>

The labour market remains tight, with the unemployment rate growing slightly from 3.9% in Q3 2023 to 4.0% in Q4 2023.<sup>12</sup> In terms of inflation, the CPI grew 4.7% YoY for Q4 2023, down from 5.6% in the previous quarter.<sup>13</sup>

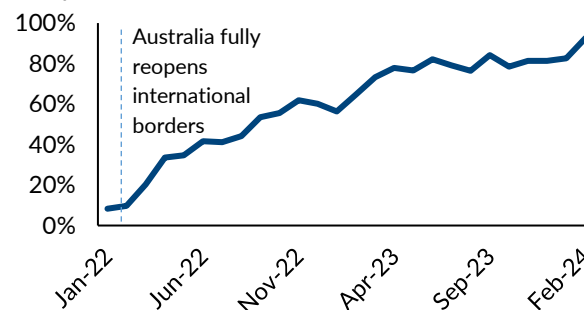
The RBNZ most recently left the Official Cash Rate (OCR) unchanged at 5.5% at the April 2024 meeting.<sup>14</sup> A number of forecast houses are currently predicting the rate to fall within the 4.25%-5.50% range by December 2024.<sup>15</sup>

### Australia - New Zealand Tourism Update

#### International Tourism

Australia has experienced a steady rise in international travellers since fully reopening its borders in February 2022.<sup>16</sup> Short-term international visitor arrivals reached 857,950 in February 2024, 7.4% lower than the pre-COVID level recorded in February 2019.<sup>17</sup> China was the largest source of short-term visitor arrivals, totalling 149,770.<sup>18</sup> The Chinese market still has room to grow though, currently at only 72% of the total number of arrivals recorded in February 2019.<sup>19</sup>

Figure 1: Monthly International Arrivals to Australia Compared to 2019 Levels



Source: ABS, Overseas Arrivals and Departures, 04.2024. Note: excludes Australian citizens and permanent residents.

The rebound in overseas visitors has been reflected in passenger traffic numbers at Australia's major airports. Over Q1 2024, Sydney Airport had 4.2m passengers pass through T1 international terminal,

<sup>1</sup> Australian Bureau of Statistics (ABS), Australian National Accounts, 03.2024.

<sup>2</sup> ABS, Australian National Accounts, 03.2024.

<sup>3</sup> ABS, Australian National Accounts, 03.2024.

<sup>4</sup> ABS, Australian National Accounts, 03.2024.

<sup>5</sup> ABS, Labour Force, Australia, 03.2024.

<sup>6</sup> ABS, Labour Force, Australia, 03.2024.

<sup>7</sup> ABS, Consumer Price Index, 01.2024.

<sup>8</sup> Reserve Bank of Australia (RBA), Cash Rate Target, 03.2024.

<sup>9</sup> Westpac, AU & NZ Weekly, 04.2024, ANZ, ANZ Forecasts, 04.2024 & NAB, Interest Rate Forecasts, 04.2024.

<sup>10</sup> StatsNZ, Gross Domestic Product (GDP), 03.2024.

<sup>11</sup> StatsNZ, Gross Domestic Product (GDP), 03.2024.

<sup>12</sup> StatsNZ Unemployment rate, 02.2024.

<sup>13</sup> StatsNZ, Consumer Price Index (CPI), 01.2024.

<sup>14</sup> Reserve Bank of New Zealand, OCR 5.50% - Official Cash Rate remains unchanged, 04.2024.

<sup>15</sup> Westpac, AU & NZ Weekly, 04.2024, ANZ, ANZ Forecasts, 04.2024 & NAB, Interest Rate Forecasts, 04.2024.

<sup>16</sup> Reuters, "Welcome back world!" Australia fully reopens borders after two years, 02.2022.

<sup>17</sup> ABS, Overseas Arrivals and Departures, Australia, 04.2024.

<sup>18</sup> ABS, Overseas Arrivals and Departures, Australia, 04.2024.

<sup>19</sup> ABS, Overseas Arrivals and Departures, Australia, 04.2024.

representing a 25% increase on the same period last year and a 92% recovery rate on Q1 2019.<sup>20</sup> Melbourne Airport recorded 2.9m international passengers this quarter, which was a 33% increase on Q1 2023 and 98% of Q1 2019 figures.<sup>21</sup>

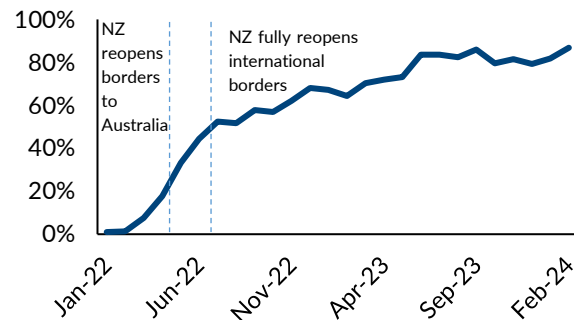
Q1 2024 saw Qantas announce that it would be expanding its international flight capacity in Brisbane by more than 35,000 seats a year.<sup>22</sup> The move will involve operating larger aircraft at higher frequencies to service the growing demand for business and holiday travel.<sup>23</sup> Other airlines such as Delta and Emirates have also committed to growing their international network in Australia.<sup>24</sup>

The number of Chinese tourists arriving in Australia has yet to recover to pre-COVID levels. Outbound travel in China has slowed due to economic uncertainty, which has meant that households have a higher propensity to save or travel locally rather than overseas.<sup>25</sup> However, research conducted by Oxford Economics suggests that Chinese outbound visits will fully rebound to pre-COVID levels by 2025 as international airline capacities recover and visa issues ease.<sup>26</sup>

In New Zealand, Q1 2024 saw recovery continue to trend towards pre-COVID levels. International visitor arrivals reached 362,600 in February 2024,

recovering to 87% of the pre-COVID level recorded in February 2019.<sup>27</sup>

Figure 2: Monthly International Arrivals to New Zealand Compared to 2019 Levels



Source: StatsNZ, International Arrivals, 04.2024. Note: excludes NZ residents.

At Auckland Airport, the total number of international passengers reached 894,616 in March 2024, representing a 91% recovery on the figure achieved in March 2019.<sup>28</sup> Queenstown Airport recorded 70,118 overseas visitors, which was a 27% improvement on the 2019 level.<sup>29</sup>

In February 2024, Air New Zealand and Singapore Airlines extended their joint venture for another five years until 2029.<sup>30</sup> Since launching in 2015, the alliance has boosted seat capacity between New Zealand and Singapore by 50%, carrying over 4.6 million passengers between the countries.<sup>31</sup>

<sup>20</sup> Sydney Airport, Sydney Airport Traffic and Operational Performance Q1 2024, 04.2024.

<sup>21</sup> Melbourne Airport, International competition helps Melbourne Airport hit record March high, 04.2024.

<sup>22</sup> Hotel Management, Qantas adds 35,000 international seats from Brisbane, 03.2024.

<sup>23</sup> Hotel Management, Qantas adds 35,000 international seats from Brisbane, 03.2024.

<sup>24</sup> Hotel Management, Delta expands Australian operations with new seasonal Brisbane flights, 03.2024, Hotel Management, Emirates set for Adelaide return with daily Dubai flights from October, 02.2024.

<sup>25</sup> Australian Financial Review, How this tour guide pivoted when Chinese visitors stopped arriving, 02.2024.

<sup>26</sup> Oxford Economics, Will Chinese Behaviour Change?, 02.2024.

<sup>27</sup> StatsNZ, International Travel: February 2024, 04.2024.

<sup>28</sup> Auckland Airport, March 2024 Monthly traffic update, 04.2024, Auckland Airport, March 2019 Monthly traffic update, 04.2019,

<sup>29</sup> Auckland Airport, March 2024 Monthly traffic update, 04.2024, Auckland Airport, March 2019 Monthly traffic update, 04.2019,

<sup>30</sup> Air New Zealand, Air New Zealand and Singapore Airlines receive regulatory approval to extend joint venture alliance, 02.2024.

<sup>31</sup> Air New Zealand, Air New Zealand and Singapore Airlines receive regulatory approval to extend joint venture alliance, 02.2024.

## Pro-invest APAC Hospitality Funds

### Pro-invest Asia-Pacific Hospitality Opportunity Fund III (Fund III)

Pro-invest APAC is pleased to announce having launched its third hotel fund, the Pro-invest Asia-Pacific Hospitality Opportunity Fund III (Fund III).

Fund III has acquired its first two assets in Canberra and Melbourne. The Sebel Canberra Campbell (FKA C5 Hotel Canberra) has opened for trading in September 2022 and has been well received by the hotel guests. The Hotel Indigo Melbourne on Flinders (FKA Holiday Inn on Flinders) will become the first Hotel Indigo in Melbourne after repositioning, with a target opening in August 2023.

Pro-invest APAC is actively looking at other opportunities which are in the pipeline for Fund III across the key markets of Japan, Singapore, Korea and Thailand, in addition to Australasia. Unprecedented market conditions created by COVID-19 and increase in interest rates and inflation have established an opportunity to make value-add investments into standing and income producing assets primarily in luxury, upper-upscale and upscale full-service hotels in Australia & New Zealand, as well as other secure markets in Asia.

Fund III is structured to capitalise on the current opportunity, presenting a platform that allows investors to participate in the travel recovery. Pro-invest APAC is targeting to raise A\$500 million from institutional investors, sovereign wealth funds and established family offices among other investors.

### Pro-invest APAC Overview

Pro-invest APAC is currently managing c. A\$3 billion in real estate assets, including commercial assets as well as the roll out of the European pipeline.

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 Pro-invest Australian Hospitality Fund I (Fund I) to develop, own and operate a new portfolio of HIE hotels across Australia and New Zealand (ANZ). Fund I is a widely held Managed Investment Scheme, allowing for a final withholding tax rate of 15%. Its portfolio now counts 8 hotels and c. 2,000 rooms, being rolled out under a Master Development Agreement with IHG.

By 2017, Pro-invest APAC launched the Pro-invest Australian Hospitality Fund II (Fund II), which successfully completed equity raising in 2020. Fund II continues Pro-invest APAC's strong track record of rolling out its Select Service and Lifestyle hotels throughout the Australasian market. 4 of the hotels in Fund II have opened for trading in 2022 and have been well received across their respective markets.



Voco and HIE Auckland City Centre

## Domestic Tourism

The Australian domestic tourism industry continues to achieve strong post-COVID growth. In December 2023, 5.2 million passengers were carried by domestic commercial aviation, a 95% recovery on the December 2019 level.<sup>32</sup>

For the year ending December 2023, overnight spending by domestic travellers climbed 35% above the 2019 level to \$109.3b.<sup>33</sup> Additionally, the number of overnight trips reached 112.6b over the YTD December 2023, representing a 96% recovery rate on the 2019 level.<sup>34</sup>

In New Zealand, domestic passenger traffic at Auckland airport has recovered to 90% of pre-COVID levels to reach 795,616 in March 2024.<sup>35</sup> At Queenstown Airport, the number of domestic passengers was 157,409 in March 2024, which is now fully recovered on the 2019 level.<sup>36</sup>

## Australian & New Zealand Tourism Support & Campaigns

In February 2024, Tourism Australia partnered with The New York Times to promote Australia as a top tourist destination to the newspaper’s audience.<sup>37</sup> The collaboration utilises digital, social and audio platforms to showcase Australia’s unique offerings, including culture, food, and natural landscapes.<sup>38</sup>

February also saw the Queensland Department of Tourism and Sport announce a \$2m subsidy to support the development of tourism businesses in sustainability and ecotourism.<sup>39</sup> The subsidy will directly boost Queensland’s tourism industry and contribute to the state’s long-term “Towards Tourism 2032” strategy.<sup>40</sup>

In March, Tourism New Zealand kicked off an “A to NZ” social media series to promote the country’s distinct culture and lifestyle.<sup>41</sup> The whimsical

promotion will give international audiences a taste of what life is like as a local and persuade them to experience the country for themselves.<sup>42</sup>

## ANZ Hotel Market Performance

### Australia

Over the YTD March 2024 period, Australia recorded strong results across all key hotel metrics. Occupancy in Australia is now only 3% below the YTD March 2019 level.<sup>43</sup> Brisbane was the strongest performing state, up 5% on YTD March 2019 levels.<sup>44</sup> In terms of ADR, Australia grew 31% on YTD March 2019 levels, with Brisbane again performing the best among the states, up 48%.<sup>45</sup>

This strong rebound in occupancy and ADR flowed through to RevPAR results. YTD March 2024 RevPAR in Australia improved 26% on its YTD March 2019 level.<sup>46</sup> Sydney and Melbourne climbed 19% and 8% over the same period, thanks to major events such as the Taylor Swift tour and F1 Grand Prix.<sup>47</sup>

Figure 3: Australian Hotel KPI YTD March 2024

Market	Occ (%)	ADR (A\$)	RevPAR Change (vs YTD Mar 2023)	RevPAR Change (vs YTD Mar 2019)
Australia	71%	252	6%	26%
Sydney	80%	297	12%	19%
Melbourne	74%	244	8%	8%
Brisbane	72%	223	2%	59%
Adelaide	75%	217	4%	24%
Canberra	68%	197	-1%	5%

Source: STR, ANZ Performance Update, 04.2024.

<sup>32</sup> Bureau of Infrastructure and Transport Research Economics, Domestic Aviation Activity December 2023, 01.2024, Bureau of Infrastructure and Transport Research Economics, Domestic Aviation Activity December 2019, 01.2020.

<sup>33</sup> Tourism Research Australia (TRA), National Visitor Survey Results, 01.2024.

<sup>34</sup> TRA, National Visitor Survey Results, 01.2024.

<sup>35</sup> Auckland Airport, March 2024 Monthly traffic update, 04.2024, Auckland Airport, March 2019 Monthly traffic update, 04.2019.

<sup>36</sup> Auckland Airport, March 2024 Monthly traffic update, 04.2024.

<sup>37</sup> Tourism Australia, Essentials 28 February 2024, 02.2024.

<sup>38</sup> Tourism Australia, Essentials 28 February 2024, 02.2024.

<sup>39</sup> Ecotourism, Queensland Grant Available for Ecotourism Australia Certifications and Programs, 02.2024.

<sup>40</sup> Ecotourism, Queensland Grant Available for Ecotourism Australia Certifications and Programs, 02.2024.

<sup>41</sup> Tourism New Zealand, A-NZ on kiwi culture inspires travelers, 03.2024.

<sup>42</sup> Tourism New Zealand, A-NZ on kiwi culture inspires travelers, 03.2024.

<sup>43</sup> STR, ANZ Performance Update, 04.2024.

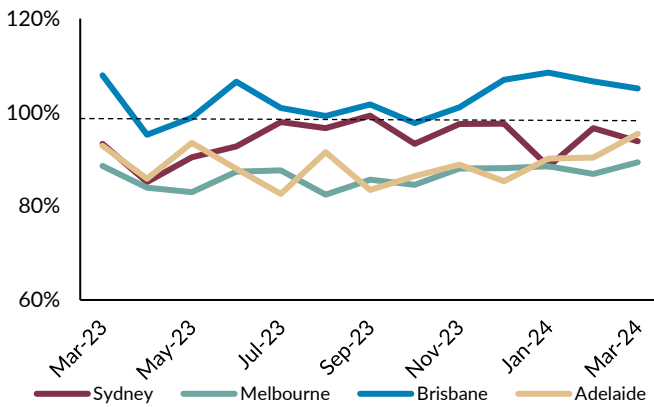
<sup>44</sup> STR, ANZ Performance Update, 04.2024.

<sup>45</sup> STR, ANZ Performance Update, 04.2024.

<sup>46</sup> STR, ANZ Performance Update, 04.2024.

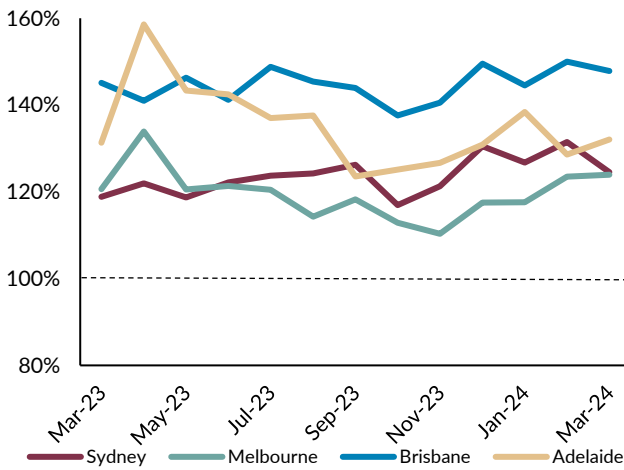
<sup>47</sup> STR, ANZ Performance Update, 04.2024, Hotel Management, Swift’s sold-out Sydney concerts expected to bring over 100,000 visitors to the state, 02.2024, Ticketmaster, Record attendance for the Formula 1 Australia Grand Prix 2024, 04.2024.

Figure 4: Markets Monthly Occupancy (indexed to 2019)



Source: STR, ANZ Performance Update, 04.2024.

Figure 5: Markets Monthly ADR (indexed to 2019)



Source: STR, ANZ Performance Update, 04.2024.

**New Zealand**

For the YTD March 2024 period, New Zealand's occupancy was just 9% below its YTD March 2019 level.<sup>48</sup> Over the same period, Auckland and Queenstown were down 12% and 4% on their YTD March 2019 level, respectively.<sup>49</sup>

In terms of ADR, YTD March 2024 saw New Zealand's figure grow 18% on its YTD March 2019 level, with Auckland and Queenstown improving 11% and 13% respectively.<sup>50</sup> The country's RevPAR rebounded 5% on its YTD March 2019 level as a result, and while Auckland was down 5%, Queenstown improved by 7%.<sup>51</sup>

<sup>48</sup> STR, ANZ Performance Update, 04.2024.

<sup>49</sup> STR, ANZ Performance Update, 04.2024.

<sup>50</sup> STR, ANZ Performance Update, 04.2024.

<sup>51</sup> STR, ANZ Performance Update, 04.2024.

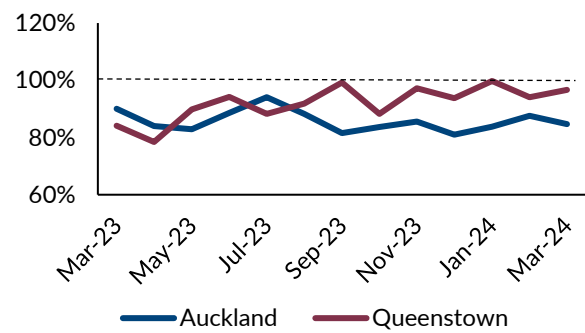
<sup>52</sup> Hotel Conversation, Savills Hotels announce the Four Points by Sheraton Melbourne Docklands Hotel sold in a A\$96 million off-market transaction, 02.2024.

Figure 6: New Zealand Hotel KPI YTD March 2024

Market	Occ (%)	ADR (NZ\$)	RevPAR Change (vs YTD Mar 2023)	RevPAR Change (vs YTD Mar 2019)
New Zealand	76%	251	7%	5%
Auckland	73%	264	-7%	-5%
Queenstown	86%	285	33%	7%

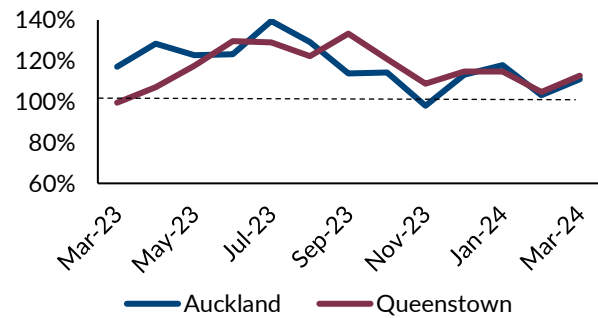
Source: STR, ANZ Performance Update, 04.2024.

Figure 7: Markets Monthly Occupancy (indexed to 2019)



Source: STR, ANZ Performance Update, 04.2024.

Figure 8: Markets Monthly ADR (indexed to 2019)



Source: STR, ANZ Performance Update, 04.2024.

**Hotel Investment Market**

Q1 2024 saw the sale of Four Points by Sheraton in Melbourne Docklands for \$96m.<sup>52</sup> Other notable sales this quarter include DoubleTree by Hilton in Wellington for \$40m and Mercure Sunshine Coast Kawana Waters for \$21m.<sup>53</sup>

<sup>53</sup> Hotel Conversation, Colliers NZ act as strategic advisors for Sarin Hotels on the acquisition of the DoubleTree by Hilton Wellington, 02.2024, Largest Hotel transaction on the sunshine coast in over five years, 01.2024.

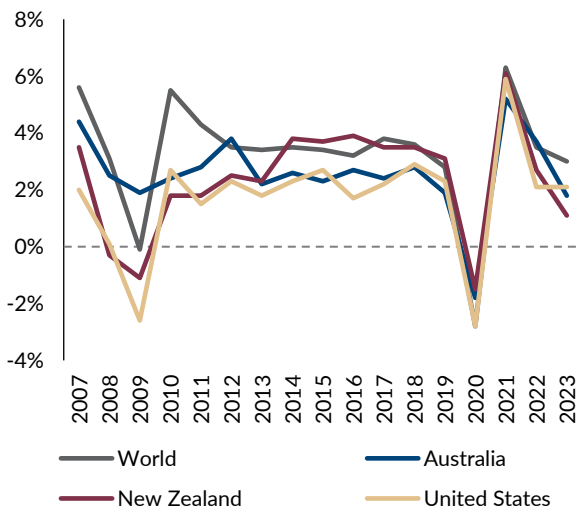
# Looking Back on the COVID-19 Pandemic: An Economic Reflection

## Introduction

### Economic Impact

The COVID-19 pandemic had widespread implications on the global economy that are still being felt to this day. As the virus began to spread, infections greatly reduced the supply of labour in the economy, while the closure of workplaces significantly disrupted supply chains and productivity.<sup>54</sup> Subsequent government-imposed lockdowns and social distancing measures aimed at containing the virus led to extensive layoffs and business closures as consumer spending plummeted.<sup>55</sup> In 2020, global real GDP growth was recorded at -2.8%.<sup>56</sup> Comparatively, GDP growth the previous year was 2.8%.<sup>57</sup> At the national level, Australia's GDP growth for 2020 was -1.8%, down from the 1.9% figure recorded in 2019.<sup>58</sup>

Figure 9: Real GDP Growth, Select Countries

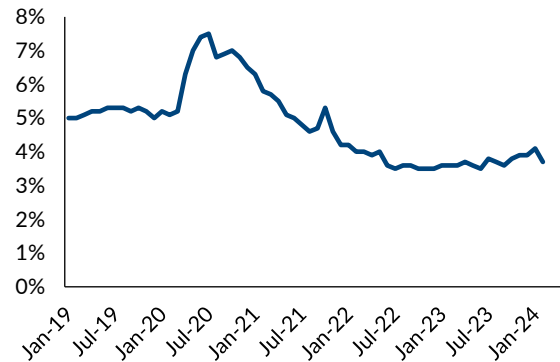


Source: IMF, Real GDP Growth, Accessed 03.2024.

The large number of job losses arising from the pandemic resulted in a global unemployment rate of

6.6% in 2020,<sup>59</sup> while Australia's unemployment rate peaked at 7.6% in Jul-20.<sup>60</sup>

Figure 10: Australia Unemployment Rate, Seasonally Adjusted

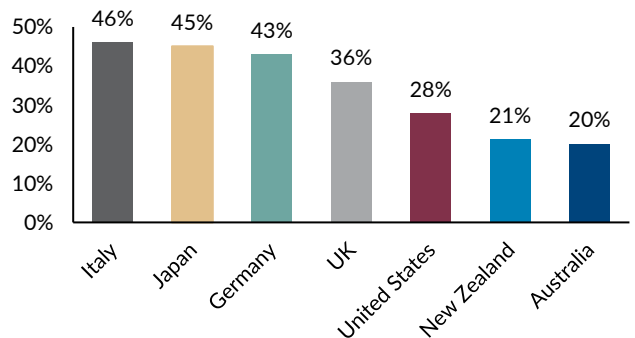


Source: ABS, Labour Force, Australia, 02.2024.

### Economic and Financial Supports: The Good, the Bad and the Ugly

In response to the pandemic, policymakers worldwide engaged in a range of fiscal and monetary policies aimed at stimulating their economies. Some examples of these fiscal measures include both direct income support and debt moratoria.<sup>61</sup> Italy, Japan, and Germany led the world in financial response to the pandemic, recording the largest fiscal response as a share of GDP as of Sep-21.<sup>62</sup>

Figure 11: Fiscal response to the COVID-19 crisis as share of GDP, Select Countries



Source: IMF, Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, 10.2021.

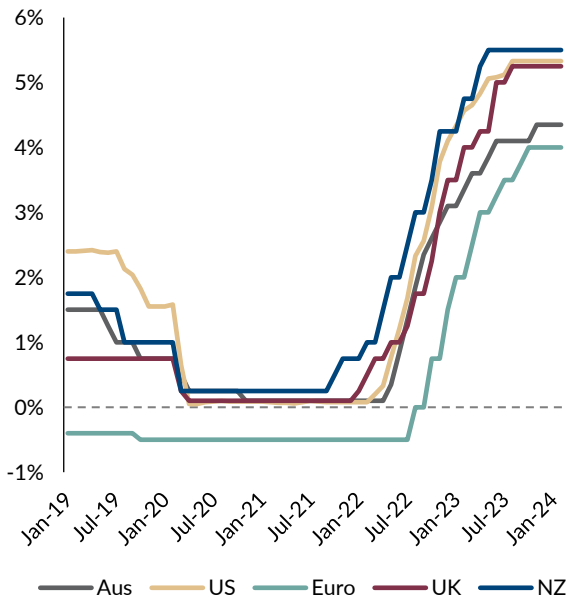
On the monetary side, central banks engaged in asset purchase programs and lowered policy rates to

<sup>54</sup> IOP Science, Research on the Impact of COVID19 on Global Economy, 08.2020.  
<sup>55</sup> IOP Science, Research on the Impact of COVID19 on Global Economy, 08.2020.  
<sup>56</sup> International Monetary Fund (IMF), IMF DataMapper, 03.2024.  
<sup>57</sup> International Monetary Fund (IMF), IMF DataMapper, 03.2024.  
<sup>58</sup> International Monetary Fund (IMF), IMF DataMapper, 03.2024.

<sup>59</sup> The World Bank, Unemployment, total, 02.2024.  
<sup>60</sup> ABS, Labour Force, Australia, 04.2024.  
<sup>61</sup> The World Bank, Chapter 1. The economic impacts of the COVID-19 crisis, 12.2022.  
<sup>62</sup> The World Bank, Chapter 1. The economic impacts of the COVID-19 crisis, 12.2022.

unprecedented levels.<sup>63</sup> In Australia, the policy rate was cut to a record low 0.1% during the pandemic.<sup>64</sup> The US similarly lowered rates to a range of 0% to 0.25%.<sup>65</sup>

Figure 12: Policy rates, Select Countries

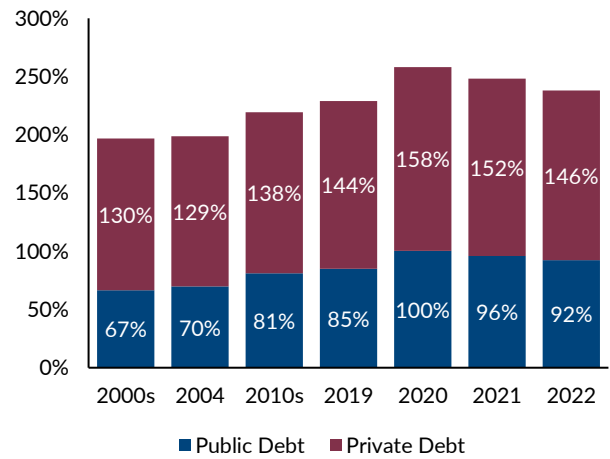


Source: RBA, Cash Rate Target, 03.2024, Federal Reserve Economic Data, Federal Funds Interest Rates, ECB Deposit Facility Rate for Euro Area, 03.2024, Bank of England Interest Rates and Bank Rate, 03.2024, RBNZ, Past monetary policy decisions, 02.2024.

These measures were effective in stymying the short-term economic consequences of the pandemic. The global economy rebounded dramatically in 2021, recording a GDP growth rate of 6.3%.<sup>66</sup> Australia saw a similar strong recovery, with GDP growing by 5.2% that year.<sup>67</sup>

However, these initiatives also had the unintended consequence of raising global debt to unsustainable levels. Reduced borrowing costs allowed global debt to rise to \$226 trillion or 258% of GDP in 2020.<sup>68</sup> Overall, higher debt levels restrict the ability of governments to support economic recovery and reduces the investing capacity of the private sector.<sup>69</sup>

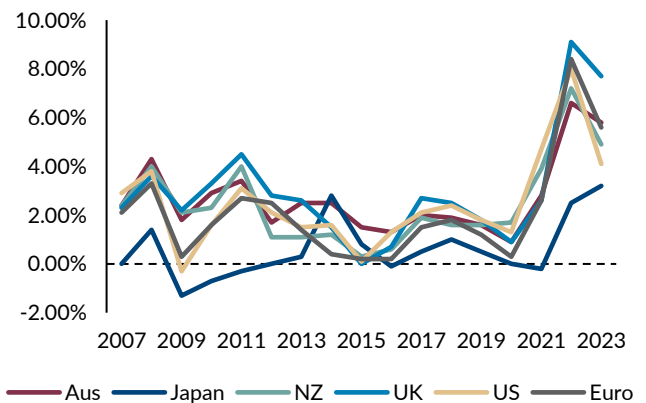
Figure 13: Global Debt as a Percentage of GDP



Source: IMF Global Debt Database, Accessed 03.2024.

In addition, these expansionary fiscal and monetary policies pushed inflation rates above targeted central bank target ranges. Over the YTD March 2022 period, the US headline inflation rate rose 8.5%, the fastest it has increased in over 40 years.<sup>70</sup> Elsewhere, Australia's inflation rate peaked at 7.8% in 2022.<sup>71</sup> High inflation is damaging to the economy, eroding the purchasing power of household income, and diminishing the value of savings. The challenge that policymakers now face is acting quickly to return inflation rates back to their targeted lower levels.

Figure 14: Inflation Rate, Average Consumer Prices Annual Percentage Change



Source: IMF, Inflation Rate, Accessed 03.2024.

<sup>63</sup> The World Bank, Chapter 1. The economic impacts of the COVID-19 crisis, 12.2022.

<sup>64</sup> RBA, Cash Rate Target, 03.2024.

<sup>65</sup> FRED, Federal Funds Effective Rate, 03.2024.

<sup>66</sup> International Monetary Fund (IMF), IMF DataMapper, 03.2024.

<sup>67</sup> International Monetary Fund (IMF), IMF DataMapper, 03.2024.

<sup>68</sup> IMF, Global Debt Reaches a Record \$226 Trillion, 12.2021.

<sup>69</sup> IMF, Global Debt Reaches a Record \$226 Trillion, 12.2021.

<sup>70</sup> The New York Times, U.S. Inflation Report Inflation Continued to Worsen in March, as Gas and Rent Costs Rose, 04.2022.

<sup>71</sup> RBA, Measures of Consumer Price Inflation, 02.2024.

## Central Banks Turn to Monetary Tightening Policies

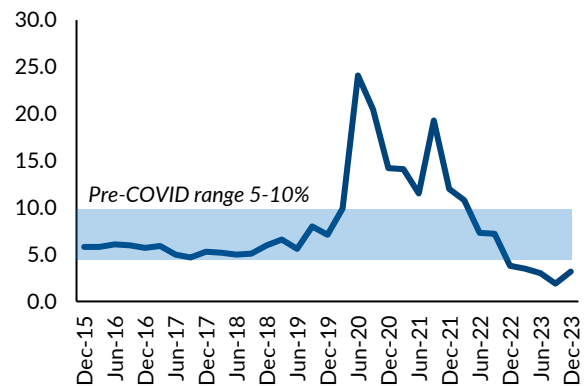
Central banks around the world employed various strategies in response to the high inflation rate environment. Those that had implemented asset purchase programs throughout the pandemic engaged in quantitative tightening to shrink their balance sheets and remove liquidity from financial markets.<sup>72</sup>

However, the main instrument used by the central banks during this inflationary period was the raising of the policy rate. As seen in Figure 12, since September 2021, the US Federal Reserve has raised the overnight interest rate by 525 bps to 5.5% where it sits as of Mar-24.<sup>73</sup> The European Central Bank increased their deposit rate by 450bps to a record high of 4%, while the RBA has raised the policy rate by 425bps to 4.35%.<sup>74</sup> In March 2024, the Bank of Japan tightened its monetary policy by raising interest rates for the first time in 17 years, increasing the target policy rate from -0.1% to a range of 0 - 0.1%, putting an end to the world's longest negative rate regime.<sup>75</sup>

Given that there is a 12-to-24-month time lag between monetary policy decisions and their impact on the economy, these interest rates hikes are now beginning to take effect.<sup>76</sup> In Australia, CPI has fallen from its peak of 7.8% in Dec-22 to 4.1% in Dec-23.<sup>77</sup>

The increase of interest rates and consumer prices have also impacted consumer disposable income and savings. In Australia, as a result of tighter financial conditions, consumers started eating into their savings to meet expenses which is observable from the decrease in the household saving ratio to 3.2%<sup>78</sup> in Dec-23, being below the 5-10% pre-COVID range and the 24.1% peak during COVID.<sup>79</sup>

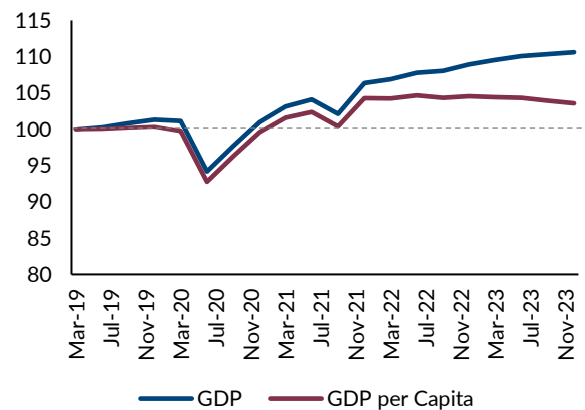
Figure 15: Australia Household Saving Ratio (%), Seasonally Adjusted



Source: RBA, Australian National Accounts: National Income, Expenditure and Product Dec-23, 03.2024.

The economic policies have also had the effect of cooling down the economy. As seen in Figure 16 while the aggregate GDP has risen since mid-2021,<sup>80</sup> the GDP per capita, which factors out population growth, edged slightly lower over 2023 to Dec-23 quarter.<sup>81</sup>

Figure 16: Australia Quarterly GDP and GDP Per Capita Index, Seasonally Adjusted, Rebased to 100 at Mar-19



Source: RBA, Australian National Accounts: National Income, Expenditure and Product Dec-23, 03.2024 & ABS, National, state and territory population, 03.2024. Note: Dec-23 total population is an estimate.

<sup>72</sup> CEPR, Monetary policy responses to the post-pandemic inflation: Challenges and lessons for the future, 02.2024.  
<sup>73</sup> World Economic Forum, Big central banks pause interest rate rises, and other economics news to read this week, 11.2023.  
<sup>74</sup> World Economic Forum, Big central banks pause interest rate rises, and other economics news to read this week, 11.2023, RBA Cash Rate Target, 03.2024.  
<sup>75</sup> AFR, Bank of Japan scraps negative rates in historic policy shift, 03.2024.

<sup>76</sup> RBA, The Transmission of Monetary Policy, 03.2024.  
<sup>77</sup> RBA, Measures of Consumer Price Inflation, 02.2024.  
<sup>78</sup> ABS, Australian National Accounts Dec-23, 03.2024.  
<sup>79</sup> CBA, Global and Australian Economic & Market Outlook, 02.2024.  
<sup>80</sup> ABS, Australian National Accounts Dec-23, 03.2024.  
<sup>81</sup> ABS, Australian National Accounts Dec-23, 03.2024 & ABS, National, State and territory population, 03.2024.

## The Impact on Real Estate Assets

### Capitalisation Rates on The Move

Given the longer duration profile of real estate investments, long-term bond yields, such as 10-year government bonds, can represent an appropriate indicator for the levels and direction of cap rates.

Both the Australian and the US 10-year government bond yields rose substantially since 2020, as both country’s central banks started to raise interest rates. The Australian 10-year Government bond yield increased by 382bps from Oct-20 to its recent peak of 4.63% in Oct-23.<sup>82</sup> Similarly, the US 10-year Treasury yield rose by 418bps from Jul-20 to 4.80% in Oct-23.<sup>83</sup>

Figure 17: Australia and US 10-year Government Bond Yields, Monthly Frequency

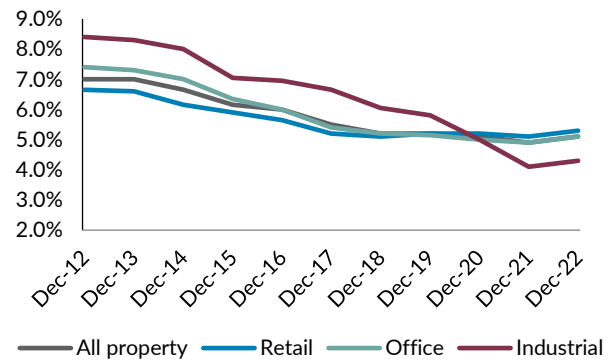


Source: RBA, Capital Markets Yield – Government Bonds, Accessed 03.2024 & FRED, Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, Accessed 03.2024.

In the Australian market, as depicted in the graph below, cap rates had been gradually compressing before and during the initial stages of the pandemic. However, towards 2023 and onwards, as monetary tightening policies kicked in and long-term bond yields reacted, cap rate started to soften again, broadly following the US and Australian bond yield trajectory.<sup>84</sup>

<sup>82</sup> RBA, Capital Markets Yield – Government Bonds, Accessed 03.2024.  
<sup>83</sup> FRED, Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, Accessed 03.2024.

Figure 18: Australia Cap Rates across Property Sectors, Quarterly periods to Dec-22



Source: KPMG, The Australian Real Asset Economy, 05.2023.

The cap rate softening is clear as per the figure below which shows a particular expansion for CBD office and logistics assets across all major global markets, potentially as a result of the extent of the compression experienced previously. Interestingly, the cap rate softening appears to be more limited for multifamily / BTR assets.<sup>85</sup>

Figure 19: Latest Prime/Core Stabilised Market Cap Rates % [bps shift since end 2021]

Market	CBD Office	Multifamily/ BTR	Logistics
US (National)	7.00%-10.00% [+250bps]	5.0%-6.0% [+175bps]	5.50%-6.00% [+200bps]
Eurozone (avg. Paris, Munich)	4.25% [+170bps]	4.50% [+100bps]	4.60% [+150bps]
UK (London)	5.60% [+180bps]	4.00%-4.25% [+50bps]	4.60% [+150bps]
Australia (avg. Sydney, Melbourne)	5.80% [+110bps]	4.25% [+25bps]	5.40% [+180bps]

Source: ANREV, ANREV Investment Survey 2024, 03.2024.

Although hotels saw a lower compression profile of cap rates than the other asset classes over the same period, the impact of higher rates resulted in a degree of cap rate softening starting in 2023 and into 2024, as shown in the figure below.<sup>86</sup> The same has

<sup>84</sup> KPMG, The Australian Real Asset Economy, 05.2023.  
<sup>85</sup> ANREV, ANREV Investment Survey 2024, 03.2024.  
<sup>86</sup> CBRE, Q3 2023 Asia Pacific Cap Rate Survey, 11.2023.

been fairly supported by more recent anecdotal evidence in the market.

Figure 20: Hotel Indicative Cap Rates

Australia	March 2023	September 2023	Six-month outlook
Sydney	4.50%-5.50%	5.00%-6.00%	Upward Risk
Melbourne	4.50%-6.00%	5.00%-6.50%	Upward Risk

Source: CBRE, Q3 2023 Asia Pacific Cap Rate Survey, 11.2023.

### Impact on Real Assets Valuations

The COVID-19 pandemic, and the resulting changed workplaces and movements in cap rates across virtually all asset classes and markets had severe implications on real estate asset valuations and performances.

Looking at the listed space, the S&P/ASX 200 A-REIT Index, which tracks the broader Australian listed REIT universe, crashed by more than 50% in Mar-20 from its pre-COVID level in Jan-20.<sup>87</sup> As of 11 March 2024, the index was still c. 9% below the pre-COVID level.<sup>88</sup>

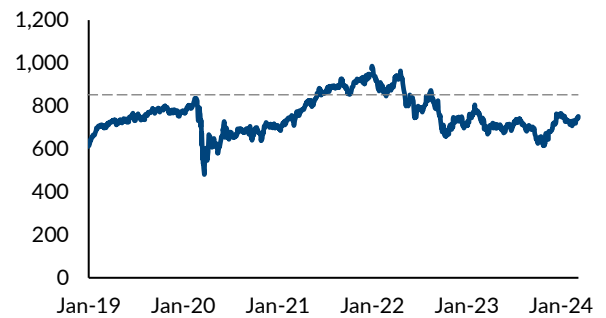
Figure 21: S&P/ASX 200 A-REIT Index, Adjusted Closing



Source: S&P, S&P/ASX 200 A-REIT, Accessed 03.2024.

Similarly, the FTSE Nareit All Equity REITs Index, which tracks the broader US listed REIT space, plunged by as much as 51% in Mar-20 from its pre-COVID level in Dec-21.<sup>89</sup>

Figure 22: FTSE Nareit All Equity REITs, Adjusted Closing



Source: FTSE Nareit, FTSE Nareit All Equity REITs, Accessed 03.2024.

Although the A-REIT index has recovered significantly since the shock in Mar-20, Australian REITs are broadly trading at substantial discounts to their Net Tangible Assets (NTA). Commercial, office-focused REITs showed a median discount to NTA of c. 39%, as of 31 Jan-24.<sup>90</sup> Indeed, office buildings were the biggest casualties as post-COVID changes in working patterns and poor energy efficiency combined with rising interest rates to crush values.<sup>91</sup>

Figure 23: Australian REITs Median Discount to Net Tangible Assets (NTA), as of 31 January 2024

Category	Discount to NTA
Commercial A-REITs	38.8%
Retail A-REITs	13.5%
Specialised A-REITs	27.2%

Source: Moelis Australia, Monthly Real Estate Update Jan-24, 02.2024.

In the unlisted space, asset values have also been affected by the cap rate softening as proxied by the Gross Asset Value (GAV) of all funds tracked by the Global Real Estate Fund Index (GREFI). In particular, the All Funds GREFI GAV decreased for the third consecutive quarter in Q4 2023, dropping by circa 11% since Q1 2023 to US\$897bn.<sup>92</sup>

<sup>87</sup> S&P, S&P/ASX 200 A-REIT, Accessed 03.2024.

<sup>88</sup> S&P, S&P/ASX 200 A-REIT, Accessed 03.2024.

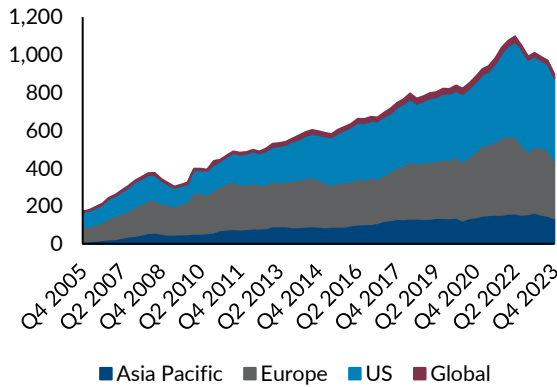
<sup>89</sup> FTSE Nareit, FTSE Nareit All Equity REITs, Accessed 03.2024.

<sup>90</sup> Moelis Australia, Monthly Real Estate Update Jan-24, 02.2024.

<sup>91</sup> AFR, News Article, 02.2024.

<sup>92</sup> ANREV, Global Real Estate Fund Index Q4 2023, 03.2024.

Figure 24: Global Real Estate Fund Index, Gross Asset Value as of Q4 2023, All Funds, USD bn

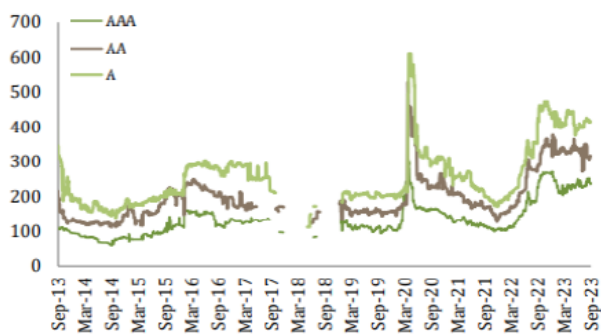


Source: ANREV, Global Real Estate Fund Index Q4 2023, 03.2024.

### Ramifications for the Credit Markets

As a result of the elements discussed in the previous paragraphs, commercial real estate debt has received particular attention from banks and non-banks around the world.

Figure 25: Europe 3-5 Year Commercial Mortgage-Backed Securities Spreads by Credit Rating



Source: Mellum Capital, Structured Credit Tracker, 03.2024.

In Europe, credit markets have started to factor in the higher risk profile of commercial real estate (CRE) debt from 2023 as commercial real estate was heavily impacted by the COVID-19 related fallout. This is observable from the spike in the credit spreads on Commercial Mortgage-Backed Securities (CMBS) across the whole credit rating spectrum.<sup>93</sup>

In the United States, bad commercial real estate loans have overtaken loss reserves at the biggest US banks after a sharp increase in late payments linked to offices, shopping centres and other properties.<sup>94</sup>

With pressures on valuations and cash flows being evident in Australia, traditional banks have started to review their appetite for CRE lending.

A capital gap is expected to emerge through 2024 in the Australian commercial real estate sector as markets adjust to rapid rises in interest rates, the impact of the COVID-19 shocks, and a tougher regulatory environment for banks and debt provider. In particular, the owners of Australia’s commercial real estate will need as much as \$45bn in new equity and debt to recapitalise their properties in response to falling values and rising finance costs.<sup>95</sup>

Although the gap in refinance needs and more conservative leverage parameters from traditional banks is expected to be partially filled by the growing non-traditional bank space, this will be at the expense of profits. Indeed, non-bank lenders generally require a substantially higher margin rate compared to traditional lenders which results in higher interest costs.<sup>96</sup>

<sup>93</sup> Mellum Capital, Structured Credit Tracker, 03.2024.

<sup>94</sup> AFR, News Article, 02.2024.

<sup>95</sup> AFR, News Article, 02.2024.

<sup>96</sup> RBA, Non-bank Lending in Australia and the Implications for Financial Stability, 03.2023.

## ESG: Launching our Social Strategy

**One Earth, Countless Experiences (OECE)** is celebrating its 2-year anniversary by implementing its social strategy which includes five core initiatives. OECE is a core brand initiative and ethos led by Pro-invest Group. It represents a holistic approach to sustainability, ensuring that ESG principles are integrated into every aspect of the organisation, from operations to guest experiences.

### **RISE Program:** *Reaching for Inclusion through Scholarships & Experiences*

A unique partnership with Southern Cross University and The Hotel School Australia to provide equity scholarships to students from low socio-economic backgrounds studying hotel management. A core fundraising initiative surrounds leveraging hotel government recycling rebate schemes. Scholarship students will be offered internships across Pro-invest Group's hotels and corporate team to foster talent and build up future hotel leaders.

This program encompasses the provision of equity scholarships of A\$5,000 per student annually, commencing with a donation of A\$15,000 to launch the program, supporting three scholarship students. Corporate commitments, team fundraising and contributions from the recycling rebate schemes helped fund the initial A\$15,000. Pro-invest Group will continue to build on this commitment each year as it ramps up fundraising initiatives across its hotel portfolio.

All donations above A\$2 are 100% tax deductible for Australian tax purposes with 100% of funds going direct to the scholarship students.

Donations can be made to RISE by clicking [here](#).

By donating to the Pro-invest Group RISE Hotel Management Scholarship, the donations received play a crucial role in enabling students to pursue studies in Hotel Management and Tourism degrees through the support of scholarships.

### **CARE Program:** *Creating Accessible Roles & Experiences*

A program set on providing persons with disabilities employment across Pro-invest Group, facilitating diversity and accessibility while catering to a core market via a strategic partnership with MAX Employment. Further partnerships will be explored to maximise our reach with this initiative. CARE will look to the needs of hotel guests too, catering to a core market.

### **Pro-Women Leadership Alliance:** *Women in Leadership*

A program designed to empower and support the professional growth of women within Pro-invest Group through a series of monthly seminars and accompanying exercise tasks. This valuable program is focused on allowing the opportunity for participants to engage in dynamic discussions, gain valuable insights and develop essential skills necessary for leadership roles.

### **Modern Slavery:** *A Zero-tolerance Approach*

A modern slavery policy and code of conduct framework taking a zero-tolerance approach to any forms of modern slavery within Pro-invest Group's business operations, supply chains or business partners' operations.

### **RADIATE with Pride:** *Creating Safe Spaces*

An initiative focused on creating safe spaces for guests and employees free from discrimination, with a commitment to obtain 'safe space' certification, completed with associated training as the first step.



**RISE Program**



**CARE Program**



**Pro-Women Leadership Alliance**



**Modern Slavery**



**RADIATE with Pride**

