FINANCIAL REVIEW

Overseas buyers scout Australian hotels

Lisa Carapiet

Opportunistic buyers are circling the hotel investment market as economic conditions sour, Colliers International says in a report.

But economic uncertainty has made it difficult to forecast future market conditions.

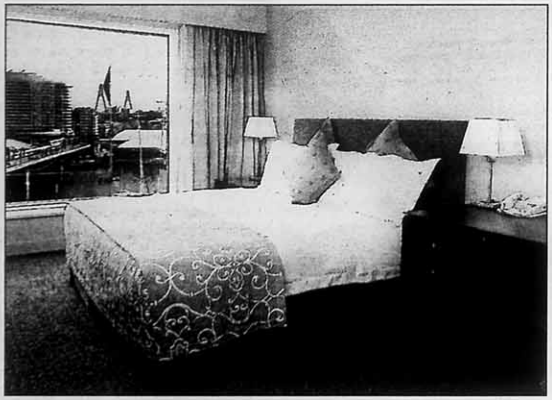
"Buyers in the current market are dominated by opportunistic buyers who believe there is potential to purchase bargains from financially distressed vendors," says Colliers' report.

"However, it remains to be seen how the market reacts to a prime asset like the Westin Melbourne where the vendor is not under financial stress."

Under financial pressure, GPT Group and Courtyard by Marriott have placed their respective portfolios on the market.

GPT Group's $800 million tourism portfolio includes the Ayers Rock Resort, the Four Points By Sheraton Hotel in Sydney and the Voyages Lodges portfolio.

Three Courtyard by Marriott hotels – owned by the failed New Zealand financier Bridgecorp – in Parramatta and North Ryde in NSW and Surfers Paradise, Queensland were put into receivership by the Commonwealth Bank of Australia in June. They are expected to fetch over $100 million.



For sale . . . GPT Group's Four Points By Sheraton Hotel in Darling Harbour, Sydney.

Michael Thomson, Colliers International's national director hotels and leisure, said the difficulty in sourcing domestic funding meant the buyers were mostly international.

"This is a reversal of the broad trend we have been tracking over the last 14 years of the increasing dominance of domestic buyers."

Mr Thomson said that it was incorrect to assume that all the sellers in the market were distressed.

"We are also aware of several hotels being sold off-market with owners taking advantage of strong historical growth, especially in Perth," he said.

Revenue per available room (RevPAR) increased in all major city markets with the exception of Cairns. Colliers' report says anecdotal evidence suggests this trend is unlikely to continue over the next 12 months.

Australia's RevPAR grew 9.2 per cent for hotels, 7.5 per cent for motels and guest houses, and 3.5 per cent for serviced apartments in fiscal 2008.

Average room rates also increased in all the major Australian cities during that period.

Perth experienced the strongest growth in average room rates, rising by 16.2 per cent to $145.92. Canberra, although experiencing a fall in demand, still managed to increase average room rates by 12.8 per cent.

Sydney remains the most expensive hotel market in Australia with an average room rate of $184.57, increasing by 5.2 per cent in the year to June 30, 2008.

Mr Thomson has turned to historical market downturns in the Australian hotel market in taking a view on capitalisation rates in today's market.

Between 1988 and 1993, Australian hotel occupancy rates fell from 82.8 per cent to 62.6 per cent and RevPAR fell 43 per cent.

While yields remained firm, the fall in values in that time was due to revenue declines rather that increasing capitalisation rates, Mr Thomson said.

Today, hoteliers had to reconsider forecasts and 2009 budgets due to cuts in corporate spending.

"The scale of the downturn will vary in different geographical locations and it should be remembered that we are coming off a very strong base with occupancy in the main markets typically over 80 per cent," he said.

KEY POINTS

- Buyers are seeking to capitalise as distressed vendors offload
- Domestic funding constraints mean interest is international.
- Revenue per room is tipped to fall.

Queensland management rights feeling the pinch

Scott Elliott

Queensland's management rights industry has nosedived due to corporatisation and a lack of demand from New Zealand, say agents and valuers.

Cairns, the Gold Coast and the Sunshine Coast have been the hardest hit. Small investors who bought hotels and resorts at the top of the market are looking to cash out.

Resort Brokers managing director Ian Crooks said the industry had been decimated.

"When you get corporate buyers buying at the top end at high multipliers, it moves all the way down through the market," he said. "They drag the multiplier up from a traditional three times net profit to sometimes five and six times.

"We should also realise the importance that New Zealanders have on the management rights industry in Queensland. Approximately 50 per cent of all management rights in Queensland are owned by New Zealanders.

"Their property prices are even more depressed than ours and their dollar has weakened significantly this calendar year against our dollar. This has had a significant impact.

"People have been buying [management rights] over the last six or seven years but it will be a long time before they will be able to sell them at what they bought them for."

Generally, about a quarter of the state's 2000 management rights were sold every four years, Mr Crooks said. He had sold just 17 this calendar year.

The initial corporate players were S8 and Break Free – although the companies are now combined as Stella, which is co-owned by CVC Asia Pacific and Octaviar, previously MFS.

PCS Finance principal Steve Burton, who specialises in the funding of management rights, said he was generating syndicates of buyers to allow them to enter the market.

"Now you get a lot of body corporates that won't sign their management rights to a public company because they want a mum and dad owner," he said.

CB Richard Ellis senior director Christopher Kennedy said there had been a considerable slowing in transactions of management rights.

"The reality is the number of transactions is down in 2008 on what it has been through 2006 and 2007," he said. "People are taking a much more critical view, particularly in relation to the business itself.

"Legal, financial and valuation due diligence is now a very important part of the process, whereas in the past people might have taken a risk."

Mr Kennedy agreed that the market was missing the New Zealanders, who traditionally bought entry-level complexes of about $1 million, allowing previous occupiers to move into the mid-range market.

Dreamtime Resorts managing director Garry McKenzie said that although corporate occupiers had outpriced some operators from the management rights market, the real enemy had been high interest rates and a strong Australian dollar, which enticed locals to go overseas.

The most recent Australian Bureau of Statistics figures show that the leisure markets of the Gold Coast, Sunshine Coast and Cairns had occupancy rates of 60-70 per cent, well below those of the rest of the country.