

Darwin Accommodation Study

Tourism NT

Final Report

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Glossary

Average Daily Rate (ADR): average rate paid for rooms sold, room revenue divided by room nights sold.

Occupancy Rate: the percentage of available rooms that were sold during a specific time period, room nights sold divided by room nights available.

Revenue per Available Room: total room revenue divided by the total number of available rooms.


Room Nights Sold (RNS): the number of rooms sold in a specific time period, the representation of market demand.

Room Supply: total number of rooms available in a specific time period.




Executive Summary

Background




The purpose of this report is to provide a comprehensive view of the Darwin short term accommodation market. Whilst data resources exist to enable statistical analysis and projection of market trends in the Darwin short stay accommodation market, this data is somewhat scattered and thus difficult to understand easily and efficiently. In addition, the current demand associated with major projects in the oil and gas sector on short-stay accommodation is not well understood, nor how the completion of the construction phase of the major project in 2016 will impact the short-stay accommodation market in Darwin.

Visitor Profile



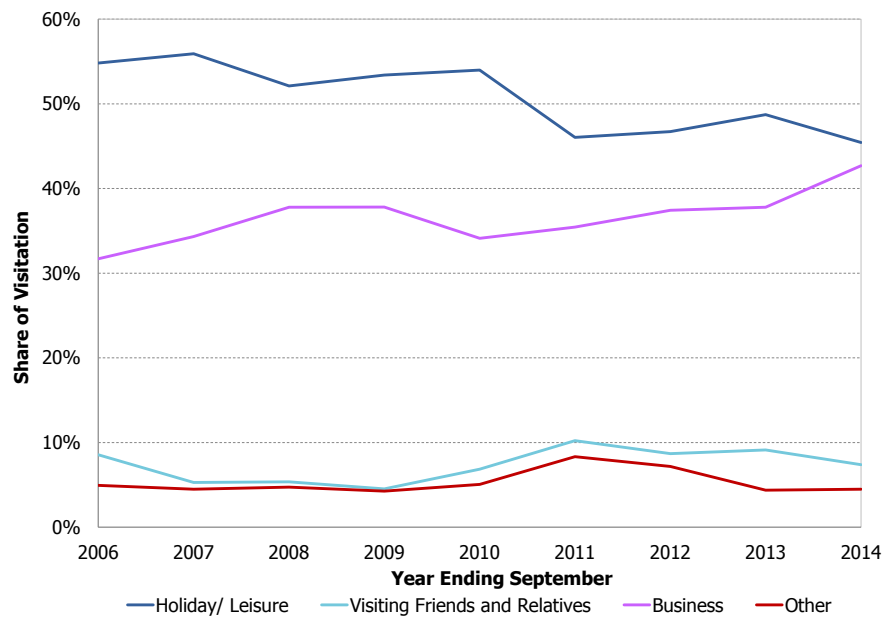
In terms of accommodation, Darwin has traditionally been a leisure market. Recent major project activity in the oil and gas sector has altered this structure through increases in business visitors, which have displaced leisure visitors and other market segments.

Key market segments for the Darwin accommodation market include:

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- **Leisure visitors:** Leisure visitors represent the majority of total visitors in Darwin as well as those visitors staying in paid accommodation. The Darwin region is a critical and central point for leisure visitors to the Northern Territory who seek the quintessential 'Australian' experience. The Northern Territory offers considerable, significant and (often) nationally iconic tourist attractions and Darwin is the often the central gateway for access to these attractions and experiences.
 - **Business visitors:** Business visitors include a variety of travellers including those travelling for government business, business events or other 'typical' business travellers as well as those related to the oil and gas industry. The range of industries and businesses is significantly diverse, given the relatively remote location of Darwin and the fact that many businesses chose to service Darwin (and the Northern Territory) from offices in Brisbane, Sydney and other parts of Australia, thereby increasing the annual number of business travellers to Darwin.
 - **Northern Territory residents:** Given the nature of the Northern Territory with a significant land mass and a dispersed population, it is not surprising that an important part of the short-stay accommodation market in Darwin is made up by residents of the Northern Territory that must travel to Darwin for health, education or other reasons. These visitors make up approximately 10% of the total market.

The market remains relatively evenly split between business and leisure visitors (Figure E.1), despite the displacement of leisure visitors through increases in business visitors (and the elevated prices these visitors can afford, which drives up the price of accommodation in Darwin, thereby deterring leisure visitors).

Figure E.1. Visitors (Staying in Paid Accommodation), Darwin Region, by Purpose of Visit



Source: AEC; TRA (2015)

Accommodation Market Profile

Darwin is a relatively small market with just 4,011 rooms (June 2015), which has experienced considerable growth and expansion over the recent past, adding over 750 rooms since 2012. This represents an increase of over 20% (based on 2012 levels). The most significant increase has taken place within the current financial year with over 400 new rooms in the market, a single year increase of over 10%. This level of supply increase is significant, particularly given the relatively small scale of the local market.

Trading conditions in Darwin have been strong over the recent past, largely due to the impact of major project activity in the oil and gas sector. 2014 saw the first decreases in demand, occupancy, ADR and RevPAR since 2010, demonstrating that the Darwin market was growing before the most recent LNG-related construction started (Figure E.1 and Figure E.2).

Since YE June 2014, the market has continued to soften with demand, occupancy and ADR all falling (Figure E.3). However, it would appear that the rate of decrease is less than what might have been feared or was reported in the press. For example, decreases in ADR have been very minimal compared to occupancy.

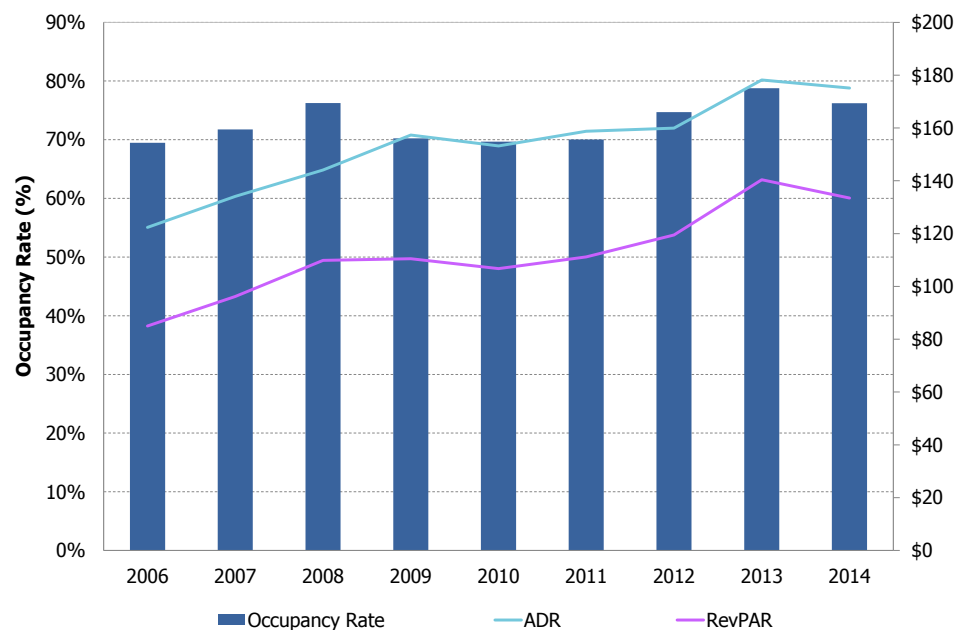
Table E.1. Short-Stay Accommodation Market Indicators, Darwin Tourism Region ^(a)

Year Ending June	Rooms	RNS	Occupancy Rate	ADR	RevPAR
2006	2,902	736,008	69.5%	\$122.37	\$85.02
2007	2,882	754,916	71.8%	\$134.06	\$96.20
2008	2,840	790,264	76.2%	\$144.10	\$109.88
2009	3,513	900,370	70.2%	\$157.34	\$110.49
2010	3,753	954,405	69.7%	\$153.20	\$106.74
2011	3,724	951,721	70.0%	\$158.77	\$111.18
2012	3,523	960,706	74.7%	\$159.95	\$119.49
2013	3,570	1,026,652	78.8%	\$178.17	\$140.38
2014	3,622	1,007,383	76.2%	\$175.13	\$133.45
<i>Change (2006-14) No.</i>	<i>720</i>	<i>271,375</i>	<i>6.7 pts</i>	<i>\$52.76</i>	<i>\$48.43</i>
<i>Change (2006-14) %</i>	<i>24.8%</i>	<i>36.9%</i>	<i>9.7%</i>	<i>43.1%</i>	<i>57.0%</i>
<i>Average Annual Change (%)</i>	<i>3.1%</i>	<i>4.1%</i>	<i>1.3%</i>	<i>4.7%</i>	<i>6.1%</i>

Note: There are two breaks in the time series data in the table above due to boundary changes made by the ABS. These took place between the December 2008 and March 2009 quarter as well as between the December 2011 and March 2012 quarter. (a) Based on the Darwin tourism region as defined by the ABS.

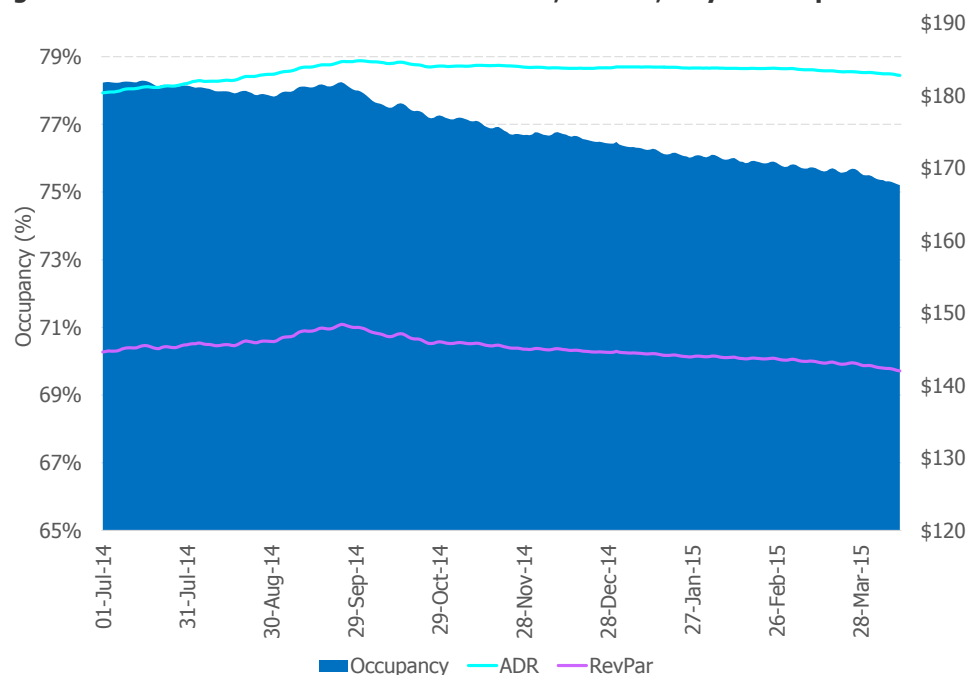
Source: ABS (2014)

Figure E.2. Short-Stay Accommodation Market Indicators, Darwin Tourism Region ^(a)



Note: year ending June. (a) Based on the Darwin tourism region as defined by the ABS.
Source: ABS (2014)

Figure E.3. Annualised Hotel Market Indicators, Darwin, July 2014-April 2015^(a)



Note: Figures represent daily 12 month moving average. (a) Based on 16 properties in Darwin.
Source: STR (2015)

Data Availability

Unfortunately, it is not possible to get a single time series of up to date hotel market data for Darwin. The Australian Bureau of Statistics (ABS) Survey of Tourism Accommodation and STR Global are the two best sources of hotel market information. The ABS data series ends as of June 2014 and the STR Global series only represents 16 properties (or 2,675 rooms) in Darwin (representing approximately 37% of total establishments and 70% of all rooms, according to the ABS data set). The combined data sets provide an understanding of the historical and current market dynamics.

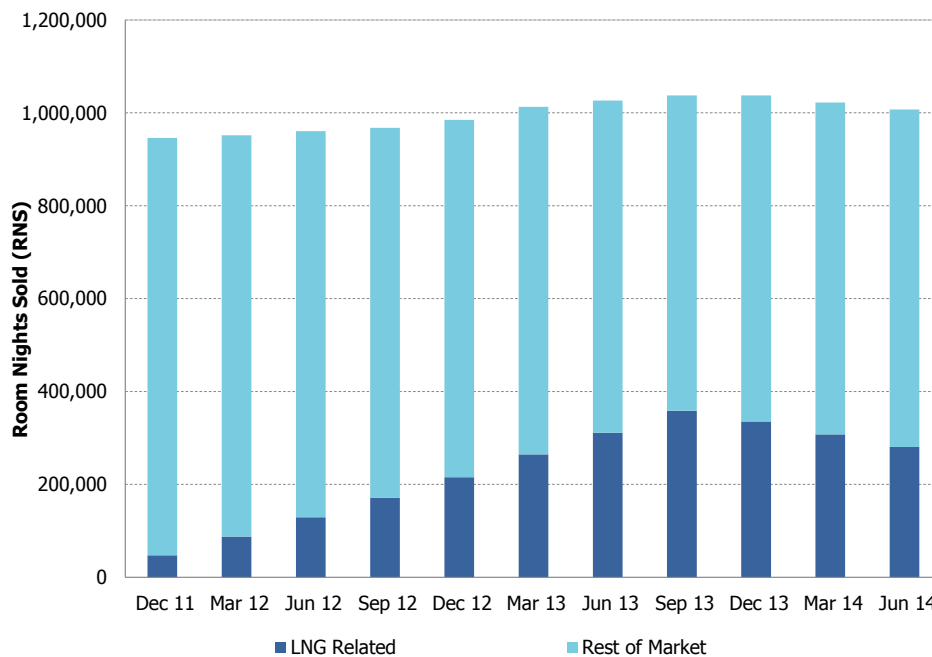
Impact of Recent Major Project Activity in the Oil and Gas Sector

The recent major project activity in the oil and gas sector has had a significant impact on the Darwin short-stay accommodation market in a number of ways, including:

- Generating a cumulative total of approximately 860,000 room nights over the last four years (YE March 2015), which is over 60% occupancy of the current market.
- Significantly increasing demand (and associated occupancy rates) to a point where considerable upward pressure was applied to ADR (i.e. ADR increased at a rate above the increase in demand or occupancy).
- The increase in occupancy and ADR (and subsequently RevPAR) would have generated considerable profits for existing operators (based on industry benchmarks), thereby increasing local asset values.
- The increase in demand (and the nature of the demand increase) underwrote numerous new projects that have been delivered into the market, thereby expanding the local short-stay accommodation supply and providing brand new stock into the market.
- The increase in demand from recent major project activity in the oil and gas sector has displaced leisure and other business travellers (mainly through an 'overcrowding' effect) during the week, particularly during the dry season.
- The increase in demand from recent major project activity in the oil and gas sector has increased visitation, occupancy and ADR during the wet season, thereby lifting annual trading performance.
- Peaking in the September Quarter 2013, demand related to the recent major project activity in the oil and gas sector is expected to continue its decline until it plateaus sometime during the 2016 calendar year.
- Analysis shows that overall demand in the market has dropped to 974,000 rooms nights (YE March 2015), which is similar to demand levels at the end of 2012, and with the overall increases in supply, occupancy rates are likely now below 70%, a level that has not been experienced consistently since 2009 and 2010, which supports current anecdotal evidence in the market place of significant discounting (in an effort to gain occupancy).
- A level of demand associated with the recent major project activity in the oil and gas sector is expected to permanently remain in the market as part of the business visitor segment.
- The lasting impact of the recent major project activity in the oil and gas sector will be the supply increases in the short-stay market over the last four years, many of which were partly made possible through contracts executed with contracting firms and others engaged in local major project activity in the oil and gas sector. This level of supply increase would have been very difficult to deliver without a major demand driver like the recent major project activity in the oil and gas sector, given the significant barriers to development for hotels.
- The new supply is beneficial from a tourism perspective in the sense that new product is now available in the market to attract visitors. Additionally, many segments of the tourism market (i.e. leisure and business events visitors) are very price sensitive and at current pricing in Darwin, the analysis assumes that growth from many of these other segments will return (as the demand from recent major project activity in the oil and gas sector continues to trend down).



Figure E.4. Darwin Accommodation Demand (RNS) LNG and Rest of Market



Note: Rolling annual quarterly data.
Source: AEC: ABS (2014)

Future Supply & Demand

There are currently 481 hotel rooms under construction that will be delivered to the market in the future, which represents an increase of 12.6% above current levels. This level of single year increase is significant and will impact overall market occupancy.

Table E.2. Future Hotel Supply, Darwin Region

Project	Rooms	Expected Delivery
13 Shepherd Street	101	2015
105 Mitchel Street	180	2016
15 Maluka Drive	200	2016
Total	481	

Source: AEC through interviews with proponents; TNT (2015)

There are considerably more projects than this that have been muted or proposed, many of which are advanced in the planning process, however, only the projects above are currently under construction and thus counted as future supply.

In order to identify future demand, various scenarios were developed in order to evaluate various potential future outcomes:

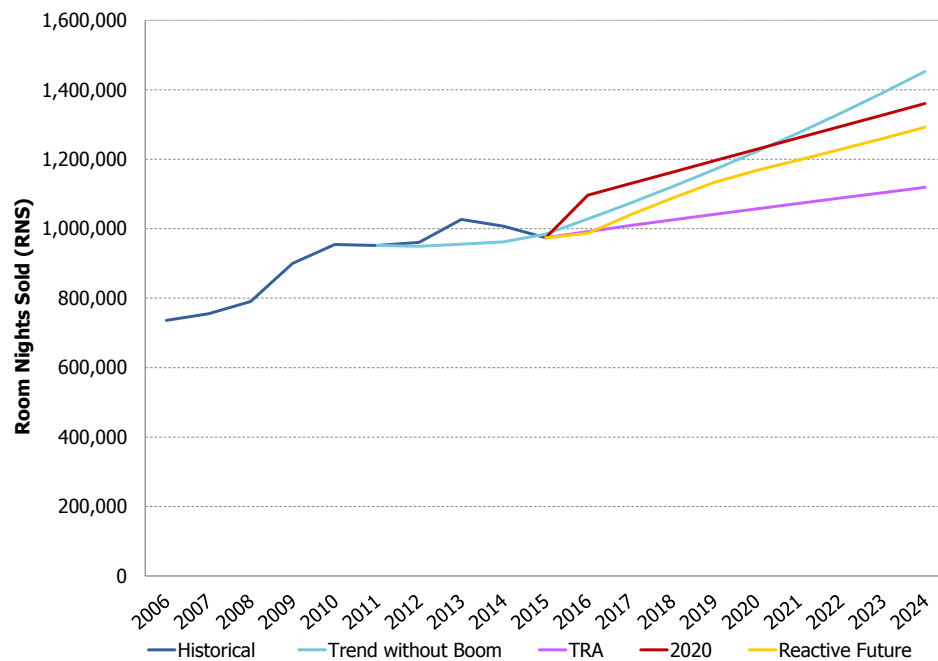
- **Future trend without the 'boom':** This scenario considers the growth trends leading into the recent growth associated with major projects in the oil and gas sector and smooths the future growth to arrive at the current level of demand and then grows future demand based on historical visitation growth from 2006 until the beginning of the construction for the LNG processing operation in Darwin.
- **Tourism Research Australia:** This scenario uses the most recent forecasts for visitor nights in paid accommodation for both domestic and international visitors in Australia (June 2014). These growth rates were applied on a weighted basis between domestic and international visitors in the Darwin region.
- **2020 Target:** This scenario uses the target of new hotel rooms in the Northern Territory by 2020 (i.e. 9,260, as published by Tourism NT). The current proportion of hotel rooms in Darwin vs. the Northern Territory was held constant and a straight line growth curve in terms of future room supply growth was applied to a constant 'sustainable' occupancy rate of 70%. The resultant demand (in terms of RNS)

demonstrates the level of demand required to sustainably add future hotel room supply to the market.

- Reactive Future:** This scenario considers movements in both supply and demand (as a reaction to future occupancy and ADR levels). Essentially, this scenario considers the likely departure of rooms from the market in the future (in light of low occupancy rates and associated low ADR) as well as a rebound in demand based on the low prices and new room stock. This scenario mimics a likely future market scenario in reaction to existing and future likely market conditions.

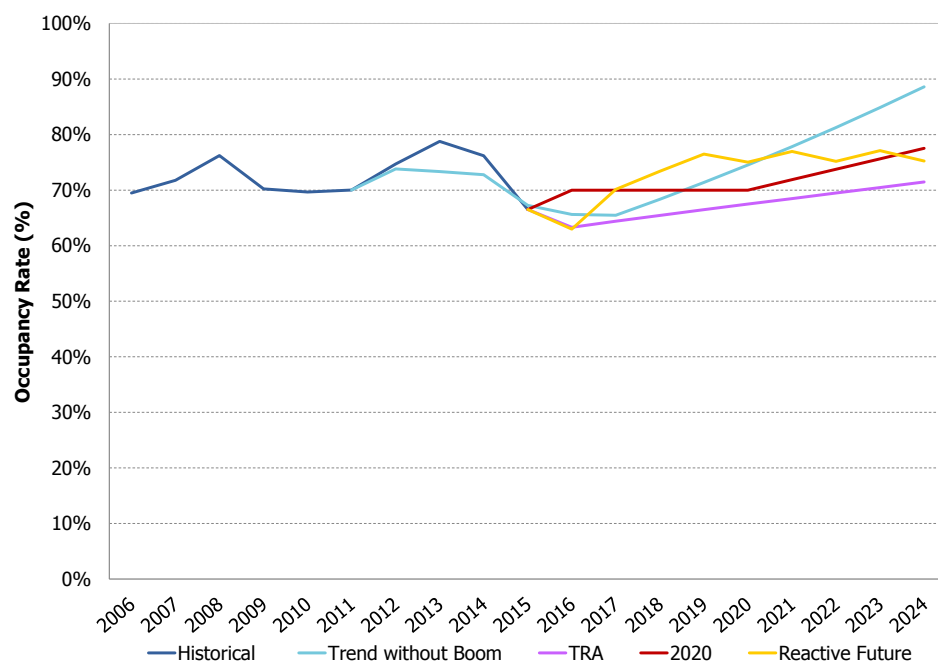
These scenarios are meant to provide a perspective on future potential development, based on the individual assumptions within the scenarios. As such, they are meant to provide insights into characteristics of the market as opposed to future projections of future economic conditions.

Figure E.5. Future Short-Stay Accommodation Demand Scenarios, Darwin Region



Source: AEC

Figure E.6. Future Short-Stay Accommodation Occupancy Scenarios, Darwin Region



Source: AEC

This analysis provides numerous insights into the future market, including:

- The market is likely to 'bottom' out during the calendar year 2015 as the demand from recent major projects in the oil and gas sector continues to decrease and other market segments begin to come back.
- The pace at which the market rebounds can vary considerably (and will be impacted by numerous external factors).
- The future anticipated supply increases (combined with the recent additions) would see lower occupancy rates in the market through to 2016 and 2017. The rate at which occupancy recovers will be a function of the increase in demand as well as the level of potential market exits (in light of the expected low occupancy and associated low ADR expected over the short term).
- If additional supply (not yet identified) were to come on to the market over the next year or two (in the case that there is an oversupply of residential and new serviced apartments enter the market), a low occupancy rate environment (and associated low ADR) may be extended. Similarly, if demand levels do not increase during the 2015-16 year, then the market will suffer lower occupancy and ADR
- There is potential downside risk in the market if the current dry season does not deliver the traditionally high levels of demand. The impact of this tempered demand would mean that occupancy levels would sink lower than currently anticipated, dragging ADR down further as well. This result would also mean that the market would not rebound until 2018.
- The analysis above also does not factor in any future major projects over the short term. If another major project was secured in the short-term, the projections for the market would be heavily impacted. The demand from a major project would largely absorb the recent additional stock (as well as the future anticipated supply) and occupancy levels would likely climb to levels more consistent with the last three years. Under this scenario, ADR would also likely rebound. Given the increase in supply, the displacement impact observed with the recent major projects in the oil and gas sector would likely be less significant for this next major project (given the expansion of supply that has and will occur).

Strategic Recommendations

Tourism NT, together with Department of Lands, Planning and the Environment, Department of the Chief Minister and other stakeholders, should consider the following two actions:

1. **Drive Demand:** The short-stay accommodation supply increase provides critical infrastructure to facilitate future demand increases. This increase has coincided with the recent redevelopment of Darwin Airport. There should be a concerted, coordinated and significant marketing drive to increase demand across a number of visitor segments to leverage this expanded tourism infrastructure, including:
 - **Business events:** Business events bring high value visitors (in terms of yield). One significant factor in terms of selecting destinations is the accommodation and general amenity offer. Given the recent developments over the last 5-10 years, Darwin has considerable amenity (in terms of the Waterfront Precinct and various other leisure tourism attractions) and new accommodation stock as well as a significant asset in the Darwin Convention Centre. Cost is another competing factor for attracting events and current (and future) pricing in Darwin is likely to be very competitive. Securing major events can take between 2-3 years, so marketing and business development activities must ramp up immediately.
 - **Leisure visitors:** Leisure visitors should be aggressively lured back into the market particularly now that there is new accommodation product, more availability and lower pricing. Increased efforts are required now in terms of marketing to attract significant increases in leisure visitors back to Darwin and the Northern Territory. The market will likely need some time to adjust to the new levels of occupancy and pricing as well as require fresh messages to dispel recent perceptions of affordability and availability.



- **International visitors:** Australia is experiencing record levels of international visitor arrivals. Considerable efforts should be made to leverage key international markets. The Northern Territory has some of the nation's most well-known tourism assets and icons, which international visitors are coming to experience. Darwin is the central distribution point for these visitors, so increases in international visitors should drive accommodation in Darwin.
- **Existing NT visitors:** There are a variety of leisure visitors that are attracted to the Northern Territory to experience any number of natural attractions outside of Darwin. Efforts should be made to capture more visitor nights from these visitors in Darwin (encouraging visitors to explore Darwin's tourism offer).

2. **Continue to Attract Investment:** Simply because there has been a recent expansion of the short-stay accommodation market, on-going efforts to attract tourism investment into a variety of tourism infrastructure and new product is necessary. Tourism is one of the most competitive industries in Australia and continual change and improvement is required.

New tourism product and experiences can also help to drive demand to fill the expanded short-stay accommodation supply. Additionally, the breadth and depth of the accommodation offer nationally is continually changing with more unique and specifically targeted product being developed across the market, including new brands and accommodation models being introduced. There is likely still a place for a more diversified accommodation product mix and offer in Darwin to include boutique, higher end quality and other specifically targeted accommodation product. It takes 2-3 years (minimum) to deliver an accommodation development so on-going efforts today can deliver additional supply 2-3 years into the future (or longer).

Efforts should be made to market Darwin and the Northern Territory for future tourism investment, including the full spectrum of infrastructure, accommodation as well as new tourism experiences. For example, becoming the home port or base for a cruise ship would generate significant accommodation directly pre and post cruise.

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1. Introduction

1.1 Background

The purpose of this review is to provide a baseline understanding of the current Darwin short-stay accommodation market and inform not only planning and investment attraction efforts for Tourism NT but also provide information to other Northern Territory Government departments.

Key objectives for this project included:

- Centralise statistical data sources to provide a “one-stop” resource for data relating to the short stay accommodation market in Darwin. Key parameters include visitor profile, market segmentation and current assessment of the short stay accommodation market in Darwin and its surrounds.
- Assess the likely impact that the recent major projects in the oil and gas sector have and will have on the market.
- Identify factors impacting on future growth and potential obstacles and impediments to accommodation supply and demand in Darwin.
- Provide recommendations that can be used by Tourism NT and other Northern Territory Government departments in terms of future investments.

1.2 Report Structure

This report provides a robust, evidence-based assessment of the short-stay accommodation market in Darwin and includes the following subsequent sections:

- **Visitor Profile:** Overview of visitor statistics (including type of visitor, source of origin, visitor expenditure and purpose of visit), consumer preferences and key market drivers.
- **Accommodation Profile:** Overview of current short-stay accommodation market (including demand, supply, occupancy, average daily rate (ADR) and revenue per available room (RevPAR), accommodation audit and current trends impacting and influencing future growth.
- **Hotel Development:** Overview of hotel development (in general) as well as within the Darwin market specifically.
- **Impact of Recent Major Projects in the Oil and Gas Sector:** Identify the impact that the recent major projects in the oil and gas sector have had on the Darwin short-stay market.
- **Future Supply and Demand:** Overview of committed and planned future supply of and demand for short-stay accommodation including the likely future impact that recent major projects in the oil and gas sector will have on future demand for room nights.
- **Key Findings and Strategic Recommendations:** Overview of key findings and strategic recommendations that will encourage not only future short-stay accommodation development and investment but the tourism product as a whole.

Unless otherwise noted, the Darwin region has been used for this assessment but is just referred to as Darwin. This region is defined in **Appendix A**.

For the purposes of this study, short-stay accommodation is defined as short-term accommodation in a hotel, motel or serviced apartment. Short-term accommodation in backpackers and caravan parks has been excluded.

2. Visitor Profile

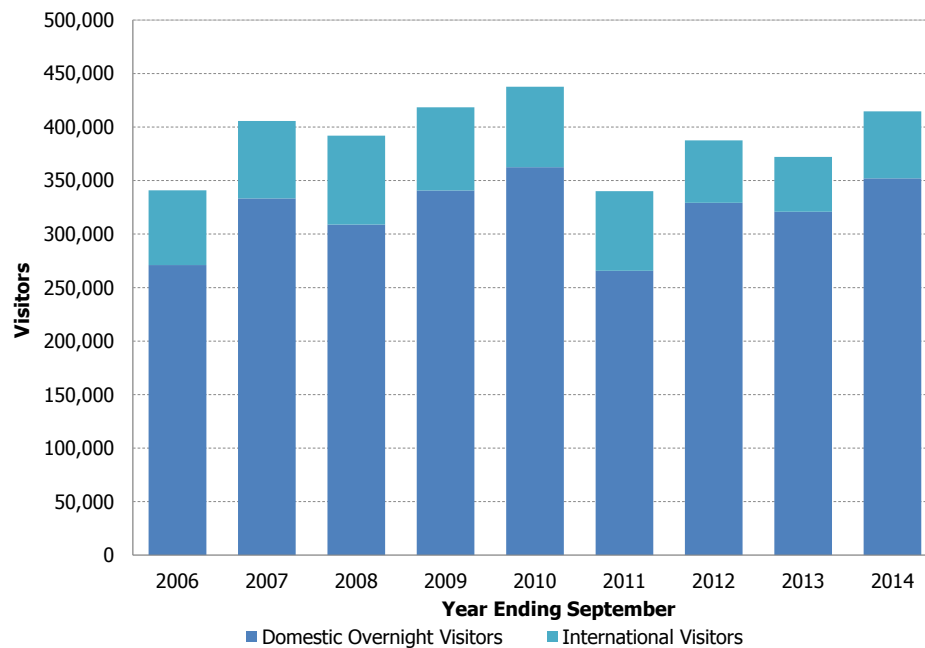
Unlike many capital cities that tend to rely on business travellers, Darwin is a leisure tourism destination, with 46% of all visitors (staying in commercial accommodation) travelling to Darwin for leisure or holiday purposes. Darwin has always been the distribution centre for numerous national parks in the Northern Territory as well as other iconic tourism destinations, such as Uluru (Ayer's Rock).

In terms of the short-stay accommodation sector, Darwin is a domestic overnight destination with only 15% of overnight visitation (staying in paid accommodation) originating from international source markets (Figure 2.1). While this proportion has changed over time, it has remained relatively consistent. Equally, the short-stay accommodation sector has also remained largely a leisure market, however, the trend has changed over time, with business visitation playing a much larger role (in terms of demand for short-stay accommodation). While the Darwin region remains a leisure dominated market (in terms of accommodation), the proportion of business visitors has increased markedly over the last decade (Figure 2.2). In terms of visitors staying in paid accommodation, leisure visitors make up 45% of total and business visitors contribute 43%. Business visitation (for short-stay accommodation) has increased 14% per year over the last three years. In terms of domestic source markets, the short-stay market is very diverse, with a true mix of visitors from all around Australia (Figure 2.3).

Key market segments for the Darwin accommodation market include:

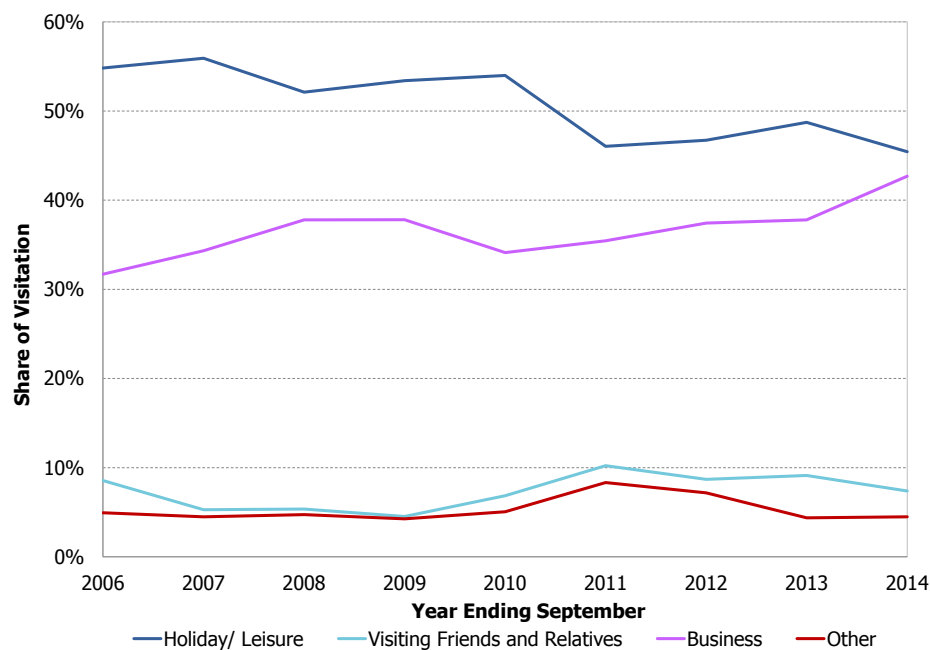
- **Leisure visitors:** Leisure visitors represent the majority of total visitors in Darwin as well as those visitors staying in paid accommodation. The Darwin region is a critical and central point for leisure visitors to the Northern Territory who seek the quintessential 'Australian' experience. The Northern Territory offers considerable, significant and (often) nationally iconic tourist attractions and Darwin is the often the central distribution point for access to these attractions and experiences.
- **Business visitors:** Business visitors include a variety of travellers including those travelling for government business, business events or other 'typical' business travellers as well as those related to the oil and gas industry. The range of industries and businesses is significantly diverse, given the relatively remote location of Darwin and the fact that many businesses chose to service Darwin (and the Northern Territory) from offices in Brisbane, Sydney and other parts of Australia, thereby increasing the annual number of business travellers to Darwin.
- **Northern Territory residents:** Given the nature of the Northern Territory with a significant land mass and a dispersed population, it is not surprising that an important part of the short-stay accommodation market in Darwin is made up by residents of the Northern Territory that must travel to Darwin for health, education or other reasons. These visitors make up approximately 10% of the total market.

Figure 2.1. Visitors (Staying in Paid Accommodation), Darwin Region, by Type



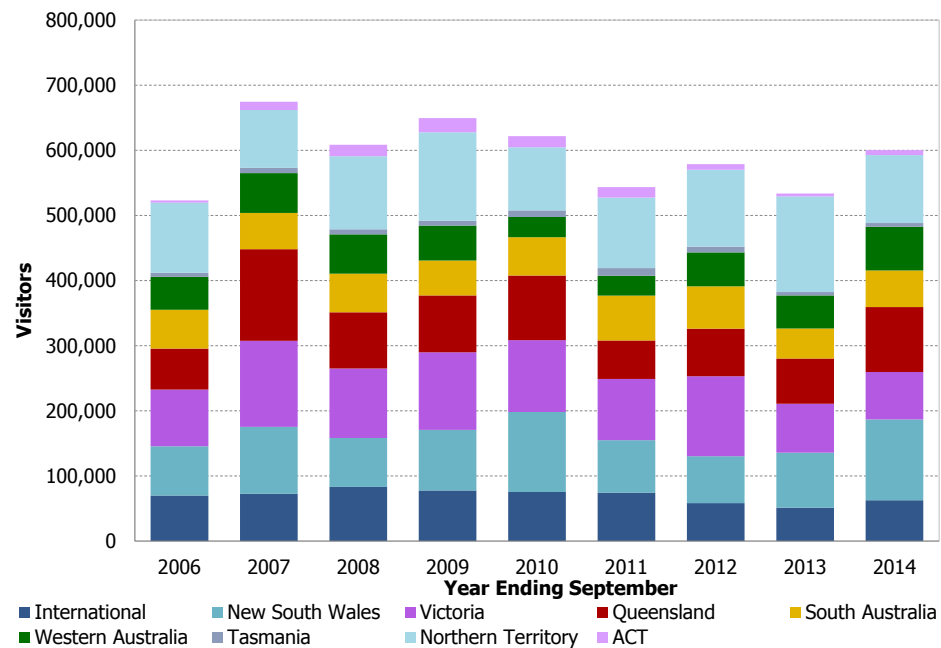
Note: year ending September.
Source: AEC; TRA (2015)

Figure 2.2. Visitors (Staying in Paid Accommodation), Darwin Region, by Purpose of Visit



Note: year ending September.
Source: AEC; TRA (2015)

Figure 2.3. Visitors (Staying in Paid Accommodation), Darwin Region, by Source Market



Note: year ending September.
Source: AEC; TRA (2015)

3. Accommodation Profile

3.1 Accommodation Audit

AEC conducted an audit of short-stay accommodation market in the Darwin region, which identified a total of 4,011 rooms. The market is fairly evenly split between hotel, motel and resort rooms and serviced apartment establishments, however, in terms of rooms, the market is dominated by traditional style hotels, motels and resort type of rooms.

The market is characterised by a number of older hotel type properties as well as a large number of new serviced apartment buildings (refer to Section 4.3 for further discussion).

Table 3.1. Darwin Region Accommodation Audit, June 2015

	Establishments	% of Total	Rooms	% of Total
Hotels, Motels and Resorts	24	55%	2,678	67%
Serviced Apartments	20	45%	1,333	33%
Total	44	100%	4,011	100%

Source: AEC; Tripadvisor (2015); Hotels.com (2015); Individual Company websites

It should be noted that a number of backpacker establishments and other accommodation (most notably chalet/cabin accommodation provided in caravan parks) were also found. These establishments were not counted in the audit due to a lack of suitable information regarding room numbers and the fact that this type of accommodation (i.e. backpacker, caravan park, etc.) does not typically compete for the same market as hotels and serviced apartments. In total, 16 other accommodation establishments (i.e. backpackers, caravan parks, etc.) were found with a minimum of 300 rooms (the true amount of rooms or room equivalents would be much higher, as many of these establishments do not publish their rooms numbers). This category of accommodation can house a significantly higher amount of people (given the relatively high number of beds per room. However, again, this type of accommodation is usually for certain niche markets that would not easily transition into a short-stay accommodation environment (i.e. hotels, motels, resorts or serviced apartments).

Additionally, holiday homes or informal accommodation options also exist. A search on airbnb¹ identified 262 houses or private rooms available in the market. This room stock would compete for the same or similar market as other short-stay accommodation, however, given the nature of this supply, it remains very difficult to quantify it on an annualised basis.

Published Data: ABS Tourist Accommodation and STR Global

The Australian Bureau of Statistics (ABS, 2014) has conducted a quarterly accommodation survey for many years. This survey tracks accommodation establishments with 15 or more rooms and represents the most current, significant and accurate source for accommodation statistics in Australia (particularly in regional areas). This survey has recently transitioned into an annual release of data and the most current data available is June 2014.

The ABS survey only considers establishments with 15 or more rooms and often under counts the available supply. While the number of establishments and rooms may differ between AEC's audit and the ABS, the trading results of the survey (refer to Section 3.2) are likely unaffected and provide an accurate reflection of the current market.

STR Global is a privately owned corporation that focuses on market research for the hotel industry. STR Global's service includes providing data (supply, demand, occupancy, ADR, RevPAR, etc.) for properties that subscribe to the service. Essentially, subscribers provide STR Global with their daily trading figures and STR Global (2015) provides a snapshot of the subscriber's property in relation to a competitor set or the market. STR Global data remains very current but only 16 properties (or 2,675 rooms) in Darwin subscribe to this service (representing approximately 37% of total establishments and 70% of all rooms, according to the ABS data set).

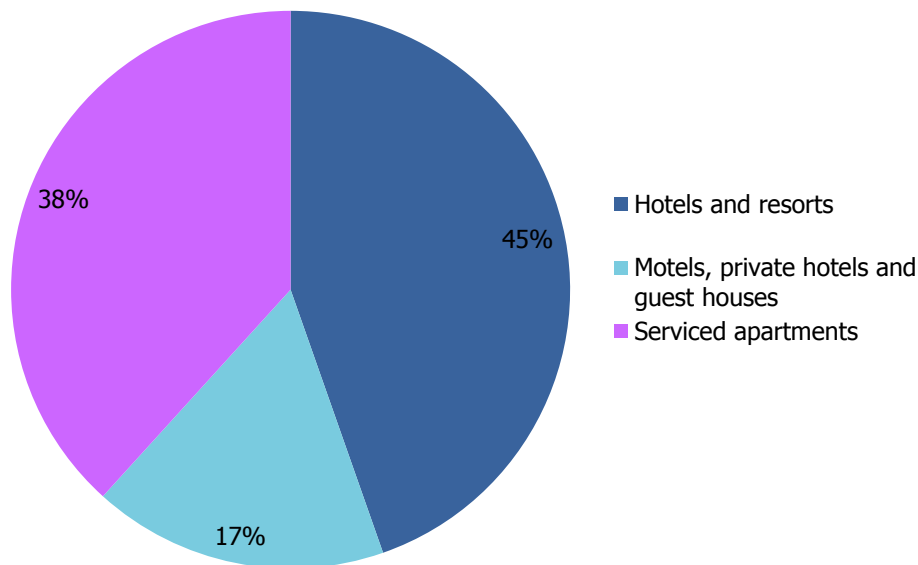
¹ www.airbnb.com.au

3.2 Accommodation Product Mix

The ABS Survey of Tourist Accommodation (2014) captures information regarding the type and quality (i.e. star rating) of rooms in the short-stay accommodation market (in establishments with 15 or more rooms). The Darwin Tourism Region² is dominated (71%) by four star (up-scale) rooms split mostly across hotels and resorts as well as serviced apartments (Figure 3.1 and Figure 3.2).

While the split across the type of short-stay accommodation rooms (i.e. hotels, serviced apartments, etc.) is similar to other capital cities, the Darwin Tourism Region has a much lower representation of 5 Star (luxury) rooms, compared to other regions (Figure 3.2).

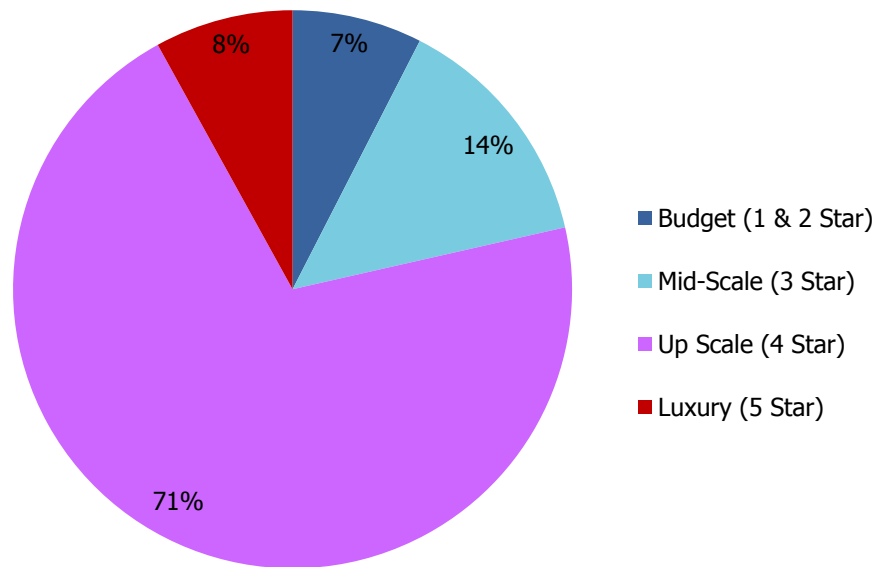
Figure 3.1. Short-Stay Accommodation Rooms, Darwin Tourism Region, by Type (2014)



Note: year ending June.
Source: ABS (2014)

² The boundaries for the ABS Darwin Tourism Region differ from the Tourism Research Australia definition and the Darwin region as defined for this project. The region is larger, however, properties outside of the Darwin region are minimal and unlikely to skew the results.

Figure 3.2. Short-Stay Accommodation Rooms, Darwin Tourism Region, by Quality (2014)



Note: year ending June. Includes all accommodation types.
Source: ABS (2014)

Accommodation Product Quality

The quality of accommodation product is often graded by a star rating (i.e. 3 Star, 4 Star, 5 Star, etc.). Alternatively, many statistical data sources rate accommodation product as per budget, mid-scale, up scale and luxury.

In terms of the star grading, accommodation properties can be accredited with a specific star rating that is based on a set of selection criteria and a thorough investigation of the property. Recently, many properties have elected to 'self rate', which means that they determine their star grading based on their own set of criteria and determination.

The ABS Survey of Tourist Accommodation has historically captured star rating and recently changed this system and converted to budget, mid-scale, up scale and luxury. It should be noted that for the ABS, all property types are included in the quality grading of properties (i.e. hotels, resorts, serviced apartments, etc.).

Table 3.2. Short-Stay Accommodation Rooms, Selected Capital Cities ^(a), June 2014

	Darwin	Sydney	Melbourne	Brisbane	Perth
Number of Rooms					
Budget (1 & 2 Star)	273	1,235	1,390	304	370
Mid-Scale (3 Star)	504	6,759	5,047	3,742	3,649
Up Scale (4 Star)	2,556	18,431	16,706	7,729	5,648
Luxury (5 Star)	290	7,417	4,807	1,340	1,547
Total	3,623	33,842	27,950	13,115	11,214
Room % of Total					
Budget (1 & 2 Star)	8%	4%	5%	2%	3%
Mid-Scale (3 Star)	14%	20%	18%	29%	33%
Up Scale (4 Star)	71%	54%	60%	59%	50%
Luxury (5 Star)	8%	22%	17%	10%	14%
Total	100%	100%	100%	100%	100%

Note: (a) Based on tourism region as defined by the ABS.
Source: ABS (2014)

3.3 Current Trading Levels

The Darwin short-stay accommodation market has performed well over the recent past (Table 3.3, Figure 3.3 and Figure 3.4). Occupancy rates have generally been maintained around 70% or above, signalling a healthy level of trading (the Australian average during this time period fluctuated around 65% occupancy). Both average daily rate (ADR) and revenue per available room (RevPAR) have increased at an average annual rate above 3% (4.7% and 6.1%, respectively), demonstrating real net growth over time. The YE June 2013 saw very strong growth with demand increasing 6.9% and ADR and RevPAR growth of 11.4% and 17.5%, respectively. This growth is largely due to the additional demand in the market to support the recent major projects in the oil and gas sector (refer Section 5 for further discussion).

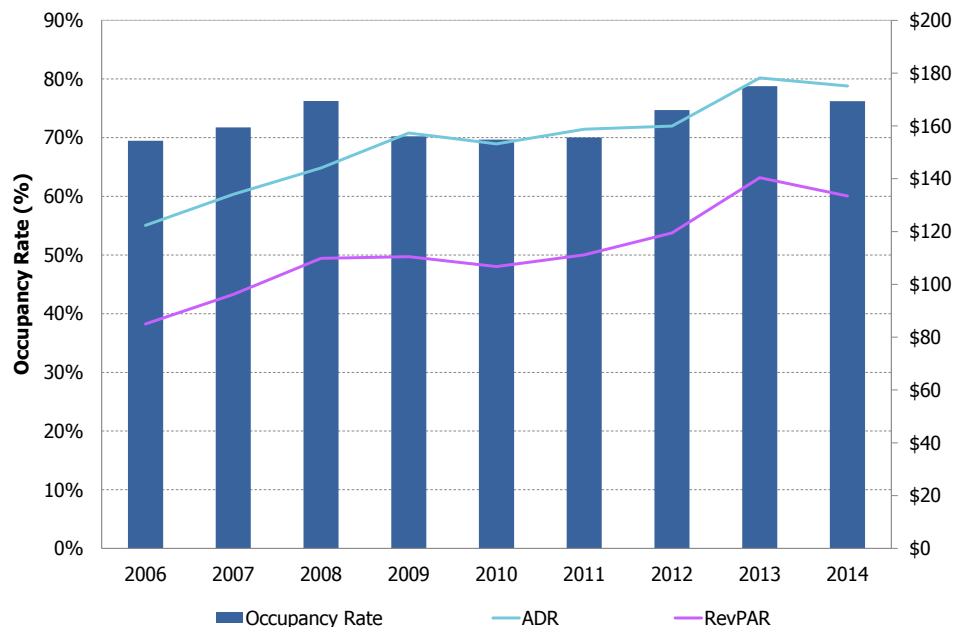
Table 3.3. Short-Stay Accommodation Market Indicators, Darwin Tourism Region ^(a)

Year Ending June	Rooms	RNS	Occupancy Rate	ADR	RevPAR
2006	2,902	736,008	69.5%	\$122.37	\$85.02
2007	2,882	754,916	71.8%	\$134.06	\$96.20
2008	2,840	790,264	76.2%	\$144.10	\$109.88
2009	3,513	900,370	70.2%	\$157.34	\$110.49
2010	3,753	954,405	69.7%	\$153.20	\$106.74
2011	3,724	951,721	70.0%	\$158.77	\$111.18
2012	3,523	960,706	74.7%	\$159.95	\$119.49
2013	3,570	1,026,652	78.8%	\$178.17	\$140.38
2014	3,622	1,007,383	76.2%	\$175.13	\$133.45
<i>Change (2006-14) No.</i>	<i>720</i>	<i>271,375</i>	<i>6.7 pts</i>	<i>\$52.76</i>	<i>\$48.43</i>
<i>Change (2006-14) %</i>	<i>24.8%</i>	<i>36.9%</i>	<i>9.7%</i>	<i>43.1%</i>	<i>57.0%</i>
<i>Average Annual Change (%)</i>	<i>3.1%</i>	<i>4.1%</i>	<i>1.3%</i>	<i>4.7%</i>	<i>6.1%</i>

Note: There are two breaks in the time series data in the table above due to boundary changes made by the ABS. These took place between the December 2008 and March 2009 quarter as well as between the December 2011 and March 2012 quarter. (a) Based on the Darwin tourism region as defined by the ABS.

Source: ABS (2014)

Figure 3.3. Short-Stay Accommodation Market Indicators, Darwin Tourism Region ^(a)



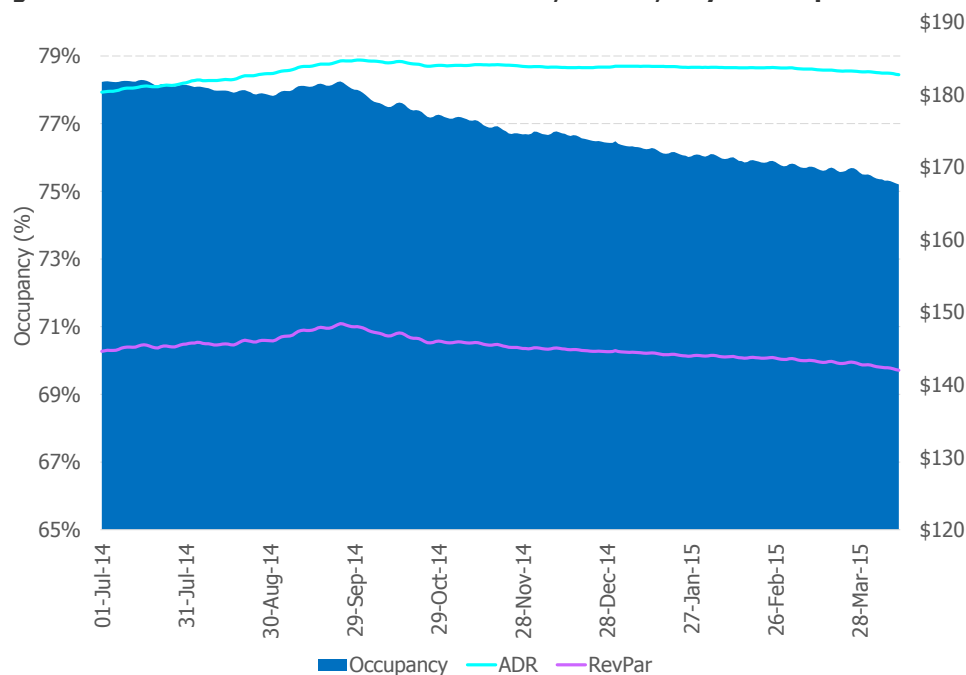
Note: year ending June. (a) Based on the Darwin tourism region as defined by the ABS.

Source: ABS (2014)

Unfortunately, the ABS series only provides data until June 2014. In order to understand the more recent movements in the market, data from STR Global was analysed (Figure 3.4). Since June 2014, market performance has softened, with occupancy moving from an annual average of 78%-79% to 75% (April 2015). At the same time, it would appear that ADR (and RevPAR) peaked in September 2014 and have trended marginally lower to at the end of April 2015, a reduction of just over \$2 or 1%.

While lower (and certainly trending downward), the Darwin market is maintaining relatively 'healthy' trading levels, rather than demonstrating a significant correction. As a benchmark, occupancy rates above 70% tend to show a healthy market. Nationally, Darwin's ADR is in line with other major capital cities. It should be noted that at these 'healthy' levels, most operators should be able to generate a profit from operations. However, the profit generated at these metrics may not be sufficient to trigger new investment.

Figure 3.4. Annualised Hotel Market Indicators, Darwin, July 2014-April 2015^(a)



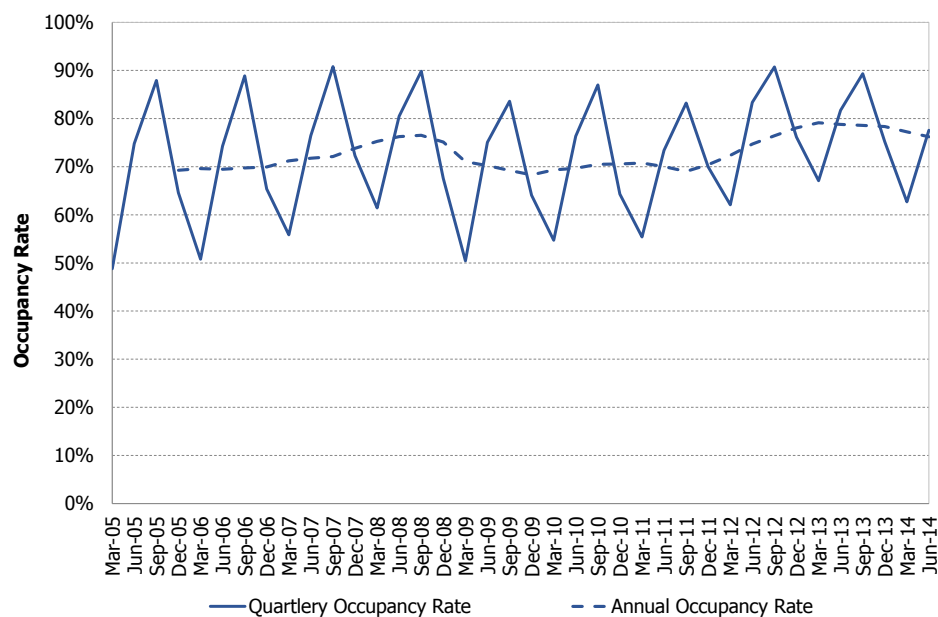
Note: Figures represent daily 12 month moving average. (a) Based on 16 properties in Darwin.
Source: STR (2015)

3.4 Market Drivers

One of the single largest drivers in the Darwin short-stay accommodation market is the seasonality within it and the considerable swings in terms of demand between 'the wet' and 'the dry' seasons (Figure 3.5). The peak season is the September quarter, which can generate occupancy rates of 90%, with the low season in the March quarter that often sees occupancy rates between 50%-60%. The March quarter in 2013 and 2014 was higher than historic norms, which was likely caused by the increased demand generated through the recent major projects in the oil and gas sector (refer to Section 5 for further discussion).

The seasonality of demand impacts ADR as well as occupancy. Historically, there has been an average \$57 movement in ADR from peak to trough (or an average reduction of 47%). These types of massive swings in demand and pricing greatly impact annual trading figures and the ability of properties to generate a return on investment (ROI) to trigger new investment. Essentially, 'the dry' season has to generate significant occupancy and ADR in order to ensure that the property can make up for the lull experienced during 'the wet' and generate an annual profit.

Figure 3.5. Quarterly and Annual Occupancy Rates, Darwin Tourism Region (a)



Note: (a) Based on the Darwin tourism region as defined by the ABS.
Source: ABS (2014)

The following market drivers also impact the Darwin short-stay accommodation market:

- **Economic Growth:** General economic growth at the local, state and national level impacts demand for short-stay accommodation. Business is a significant market segment for Darwin, so overall business conditions and the prevalence for general business travel will greatly impact the market. The recent major projects in the oil and gas sector are another example of how economic growth can impact the local short-stay accommodation market (refer Section 5 for further discussion).
- **Disposable Income:** Most leisure travel is paid for through disposable income, so levels of disposable income across Australia will have an impact on the Darwin short-stay accommodation market and consumers' ability to travel and consume leisure tourism product. Leisure is an important market segment for Darwin, so fluctuations in disposable income levels will impact the local market.
- **Business Events:** Business events can drive visitation from delegates that typically provide a high yield (i.e. expenditure per visitor/visitor night). Specific events can drive significant demand for accommodation, albeit only over the short-term for the duration of the event (usually 2-4 days).
- **Defence Related Activity:** Darwin has a significant defence presence with various military installations, including the recently increased US Marine presence. While defence force personnel are all housed on base, any sort of military training exercise, particularly an international one, will drive significant demand for accommodation for its duration.
- **Airline Routes and Prices:** Given the relative remote location, Darwin relies heavily on its airport for tourism visitation. As such, airline routes and pricing will have an impact on the overall short-stay accommodation market, impacting both leisure and business market segments. Leisure travellers are in particular price sensitive, so movements in airline pricing can impact the market.
- **Government Policy:** Federal Government policy has been known to impact the local accommodation market as shifts in policy has resulted in increased levels of Federal Government employees and contractors to Darwin and the Northern Territory.
- **Marketing:** Marketing in key source markets has been shown to have an impact on demand and lead to a driver in the short-stay accommodation market.

- **Population Growth:** Population growth is a driver for the VFR market segment. While relatively small for Darwin, this segment will be impacted by future growth in population.
- **Growing Wealth in Asia:** Over the last two decades, most economies across Asia have grown significantly, which has created a significant transition as these economies become more sophisticated. As they evolve, they have generated rapidly increasing levels of wealth for many residents, with a strong middle class often evolving as the economy grows. This growing wealth has translated into people's ability to travel internationally. Australia has seen dramatic growth across most Asian source markets, particularly China. As Australia's market share of international visitation from Asia grows and markets mature, these visitors can become a driver for the international market in Darwin.
- **Global Economy:** Economic conditions in other countries will directly impact disposable income levels in these countries, which then impacts the ability of these residents to travel internationally. As economic conditions have improved in Europe and the United States (and coinciding with a depreciating Australian dollar), Australia is experiencing growing visitor numbers from these traditional source markets. In this manner, global economic conditions can impact international visitation to Darwin and the short-stay accommodation market.



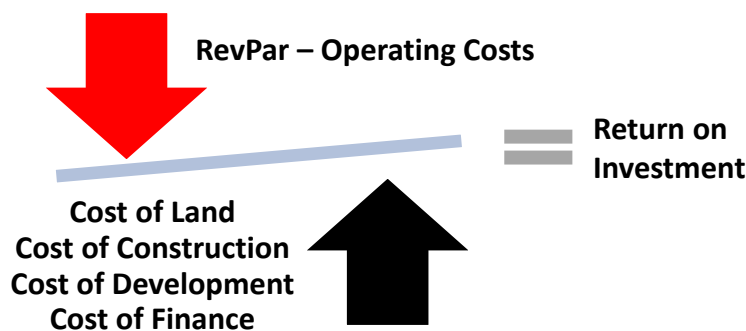
4. Hotel Development

4.1 The Hotel Investment Decision

Hotels are different from other property asset classes. The value of a hotel asset is based on the business that operates within that asset as opposed to the asset itself. For traditional commercial or retail property, the leasing risk that is involved is traded for an operational risk in the business. Additionally, hotels operate within the tourism industry, which is volatile and changes often, with many of the fundamental market drivers out of the control of the hotel owner or operator.

The decision to invest in a new hotel is based on the potential for a return on investment (ROI) that justifies the capital expense. Essentially, the future revenue minus the operating costs must be sufficient enough to outweigh the cost of land, development, construction and finance (Figure 4.1). Complicating the decision process further is the fact that RevPAR will be defined through supply and demand (and the resultant occupancy rate) as well as ADR. As new rooms enter the market, the market 'resets' as supply increases, thereby putting downward pressure on occupancy and ADR (if demand remains constant). Additionally, there are a number of local development and operational barriers that are faced by hotel development (refer to the next section).

Figure 4.1. Hotel Investment Decision Factors



Source: AEC

4.2 Barriers to Hotel Development

There are many barriers to short-stay accommodation development, which generally include planning, economic, financial and market constraints. These barriers often make the feasibility of new development very challenging by placing constraints on the development and operational aspects of short-stay accommodation.

Development Barriers

- **Competition with Other Land Uses:** Short-stay accommodation demands prime real estate that is often highly sought after for other uses. Potential short-stay accommodation developments therefore usually compete for the same parcel of land with other uses, including high rise residential, commercial office or mixed use developments. These other types of developments are often easier to finance and enjoy perceived lower development and investment risk than short-stay accommodation. Additionally, from a purely development perspective (i.e. excluding longer term capital growth/operating returns), accommodation projects are often not the highest and best use of land in pure financial/profit terms.
- **High Land Costs:** Successful short-stay accommodation operations are site specific and require a central location, relatively high visibility, access to 'demand drivers' and convenient access and egress, all of which equate to prime real estate. High land costs inevitably attached to these specific sites (due to the competition for them) makes achieving a suitable return on investment hurdle rate more difficult.

- **Access to Finance:** It is typically more difficult to source hotel development and/or investment finance than it is for alternate property types, such as residential or office. Developers can more readily obtain development finance with residential pre-sales or office/retail lease pre-commitments.

New hotel developments or longer term accommodation investments, almost always require debt. In order to procure debt funding, banks inevitably demand specialist hotel valuations. Hotel valuations are heavily impacted by the current (and likely future) hotel operating environment. Factors that may impact the likely future operating environment and cause occupancy, ADR and RevPAR to fall will negatively impact future hotel cash flow (and profitability) of new or existing properties. This reduction in cash flow in turn reduces the valuation, making it more difficult to meet lender criteria for debt funding. Likely future supply increases are a major factor in the determination of a hotel development's value.

- **Higher Construction Costs:** Hotels have proportionally higher construction costs than other property assets (on a sqm basis), adding additional development cost and creating further pressure on viability. In order to comply with the Building Code of Australia, hotels (as Class 3 buildings) must have additional amenity and safety features (with additional cost), which are not required in a residential building (Class 2).
- **Development Timeframes:** There is a significantly long lead time before a new hotel's underlying operating business performs at a 'normalised level'. Generally, the development and construction phase is at least 2-3 years followed by an additional 2-3 years after opening before the property reaches its 'normal' trading level. Therefore, it can be up to six years or more, before a newly built hotel is able to provide financial returns to begin to pay back investment and financing costs. By comparison, residential, retail and commercial properties typically pay back these costs much quicker (i.e. at the end of construction period or beginning of operations).

Operational Barriers

- **High Fixed Costs:** A relatively large proportion of short-stay accommodation operating costs are fixed (i.e. not relative to demand). Such fixed costs are generally minimal in the operating phases of other property types (i.e. residential or commercial). While short-stay accommodation assets have high fixed operating costs, there can be significantly large fluctuations in demand (and hence in revenue to pay the fixed costs).
- **Tourism Infrastructure Investment:** The short-stay accommodation sector benefits greatly from investments in tourism infrastructure and new tourism product that contribute to driving demand for visitation. A lack of investment can have a negative impact on demand.
- **Revenue Volatility:** There are a diverse range of factors that influence demand for short-stay accommodation. Variation in demand can be considerable, translating to fluctuations in revenue. As discussed above, short-stay accommodation establishments have a high fixed cost operating base, so volatility in revenue greatly impacts cash flow, profitability and ROI. The potential for extreme fluctuations in future revenues and ultimately return on investment can deter investment in short-stay accommodation.
- **Long-term Performance:** Given the historic volatility in the sector, it is not surprising that long-term investment performance can vary. Because the value of the short-stay accommodation asset is based on the cash flow and current (and expected future) profitability of the operation, short-stay accommodation assets can undergo large swings in capital value (up and down). This volatility in capital values can make it more difficult for investors to understand the long-term value and has historically deterred institutional investors from the asset class.

4.3 Recent Supply Increases in Darwin

Despite the numerous challenges with short-stay accommodation development, the Darwin market has delivered numerous recent developments, including:

- **C2:** 120 residential units delivered in 2012, with a portion of these rooms offered as serviced apartments in the short-stay accommodation market.
- **H2O:** 110 residential units delivered in 2013 that were specifically delivered to house workers associated with the recent major projects in the oil and gas sector.
- **H Hotel:** 4 star, 186 room hotel, delivered in May 2013, complete with a restaurant and bar as well as all typical hotel amenities.
- **Elan Soho Suites:** 301 rooms, delivered in October 2014 as a blend between hotel rooms and serviced apartments, complete with business events space as well as ground floor café/restaurant.
- **Quest Berrimah:** 4 star, 88 room property delivered in September 2014.
- **Darwin Waterfront Stage 2:** A luxury residential development delivered in the first half of 2015, with 12 rooms offered as serviced apartments in the short-stay accommodation market.

In total, over 750 rooms have been delivered in the market since 2012. This represents an increase of over 20% (based on 2012 levels). The most significant increase has taken place within the current financial year with over 400 new rooms in the market, a single year increase of over 10%. These increases are significant in the context of the size of the overall Darwin market. While the average annual increase in supply is just over 5%, the cumulative impact is significant. This increase in supply (particularly over the last 12 months given the decreasing demand) has increased competition significantly, with many operators discounting rooms heavily. This level of competition has also forced many existing operators to conduct or plan refurbishments of their properties to be better placed to compete for the existing demand.

It is noteworthy that most of the projects above were delivered as residential apartments that are offered as serviced apartments. Construction costs are much cheaper to deliver a residential building compared to a traditional, full service hotel. Additionally, the ability to sell residential units would also help to off-set infrastructure costs (on a per room basis given the higher margin on residential product), make financing easier to access and help to lower the project's overall risk.

A number of the projects listed above were fully or partly developed to service demand stemming from the recent major projects in the oil and gas sector. The ability to 'lock' in occupancy and ADR through contracts with contractors or other companies involved in the construction of the LNG processing plant in Darwin is a significant advantage and would help to underwrite the development and construction of these properties.



5. Impact of Recent Major Projects in the Oil and Gas Sector

5.1 Ichthys LNG Project

The Ichthys LNG Project is a joint venture between INPEX group companies and numbers energy companies, which will produce 8.4 million tonnes of LNG, 1.6 million tonnes of LPG and more than 100,000 barrels of condensate per day. Gas from the Browse Basin will be shipped 889 km via a pipeline to Darwin for processing (INPEX, 2013).

The project would reportedly represent \$33 billion in capital investment in the Northern Territory and Western Australia (ABC, 2012). The project's Social Impact Management Plan (SIMP) highlighted a peak construction workforce at more than 4,000 and a temporary worker accommodation village to house 3,500 fly-in/fly-out (FIFO) construction workers (INPEX, 2013). The project is one of many LNG projects currently under construction in Australia.

Table 5.1. Selected Comparison of LNG Projects Currently Under Construction

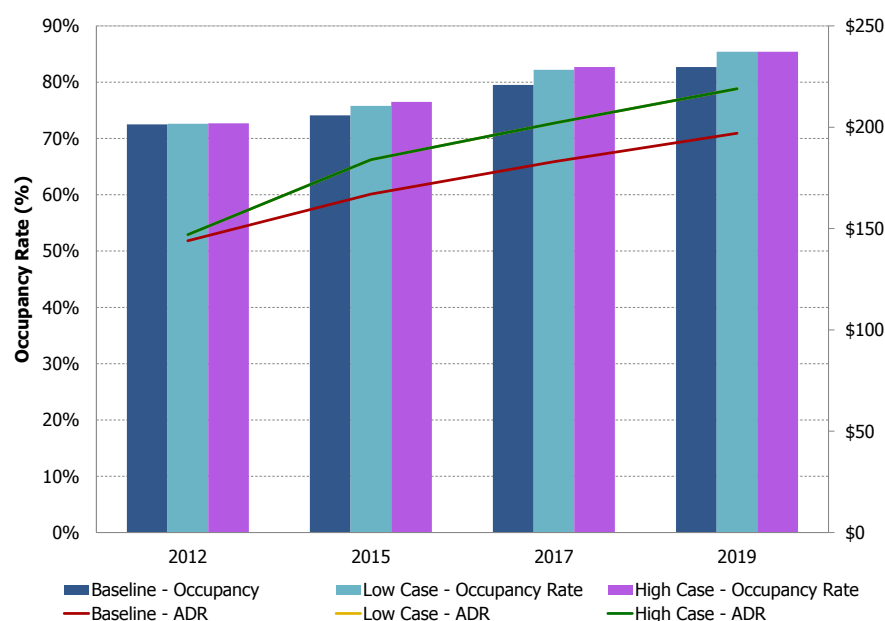
	GLNG	QCLNG	APLNG	INPEX
Production (million tonnes)	7.8	8.5	9.0	8.4
Construction Start	2011	2010	2011	2012
Peak Construction Workforce	6,000	5,000	3,500	4,000
Operational Workforce	1,000	1,000	300	700
Temporary Worker Accommodation	1,800	1,700	2,900	3,500

Source: AEC from company Websites.

5.2 Initial Projections of Impact

Deloitte Access Economics (2012) was commissioned by the Northern Territory Government to explore the impacts of the INPEX project on the local accommodation market. Their modelling identified a slight variation in terms of occupancy and ADR (Figure 5.1). By 2017, the project was expected to increase occupancy rates between 2-3 pts and ADR by roughly 10% (or \$19).

Figure 5.1. INPEX Impact on Key Tourism Accommodation Indicators (2012)



Note: Low case and high case ADR were projected to be the same.
Source: Deloitte Access Economics (2012)

The analysis expected the INPEX project to deliver demand for between 50-100 visitors per night under the low and high case scenario. At the same time, the analysis used key fixed parameters to identify potential increases in rooms supply, based on the demand from INPEX. A target occupancy rate of 80% and target RevPAR of \$140 were used to calculate subsequent increases in room supply. The analysis identified the need for between 822-988 rooms in the market. Interestingly, these rooms were added in 2017 and 2019 (as opposed to before 2017). The analysis included the delivery of the H Hotel and new rooms at SkyCity in this analysis.



5.3 Case Study: Gladstone



In order to inform the analysis of impacts from the recent major projects in the oil and gas sector on the short-stay market in Darwin, case study analysis was performed reviewing the Gladstone, Karratha and Port Hedland accommodation markets in order to try and isolate the impacts in these markets from major projects (including LNG). Gladstone was the only market that provided specific insights into the local accommodation market. Karratha and Port Hedland had too many different projects occurring at different times, which made it impossible to isolate individual project impacts.



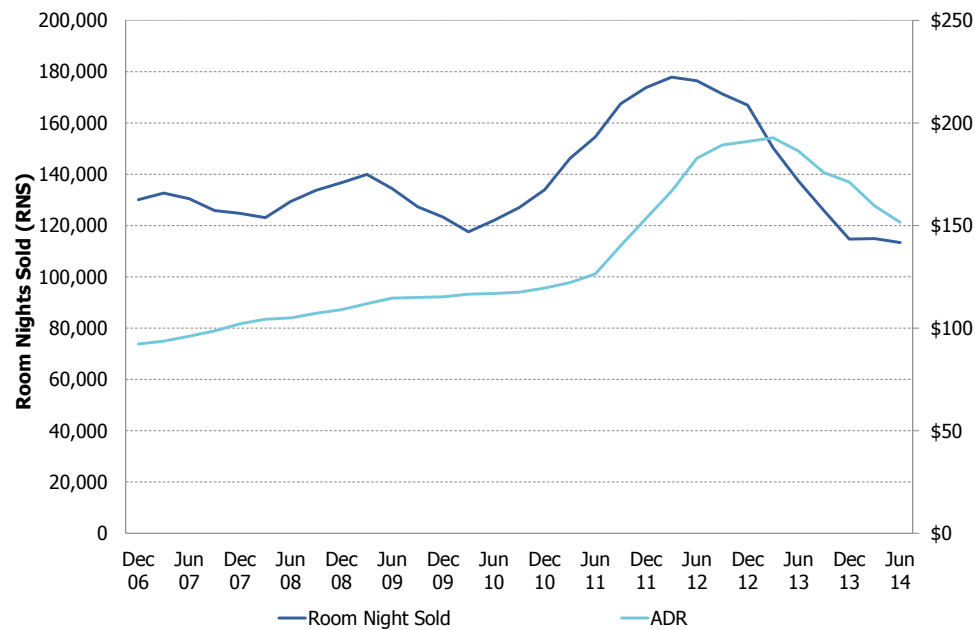
The Gladstone case study provides insights into the type and nature of the impact of the construction phase of a large LNG project. Construction of the Gladstone LNG projects started prior to the activity in Darwin so additional observations can be made as to the impact over time. Gladstone is a very different accommodation market to Darwin in its size (much smaller), make-up (considerably less leisure visitation) and role (Gladstone is not a capital city). Additionally, Gladstone has had three LNG projects (GLNG, QCLNG and APLNG) of relatively equal size compared to just the one project in Darwin. Regardless of these differences, the experience in Gladstone provides insights into the impact of a LNG project on the local accommodation market.

Considering the experience in Gladstone (Figure 5.2), the following observations can be made:

- Demand begins to rise at beginning of construction.
- As demand fills the available occupancy/rooms, price begins to rise dramatically.
- Demand peaks roughly in line with opening of temporary worker accommodation.
- After demand begins to taper off, prices begin to fall.
- Prices peak roughly one year after demand peaks.
- Demand returns to pre-construction levels, however, prices remain above pre-construction levels, indicating a level of demand from the LNG projects remain (as evidenced by their ability to pay higher ADR).
- The ramp up of demand takes place at a faster rate than the decline (after peak).
- The demand curve was roughly two years in duration (trough to peak).

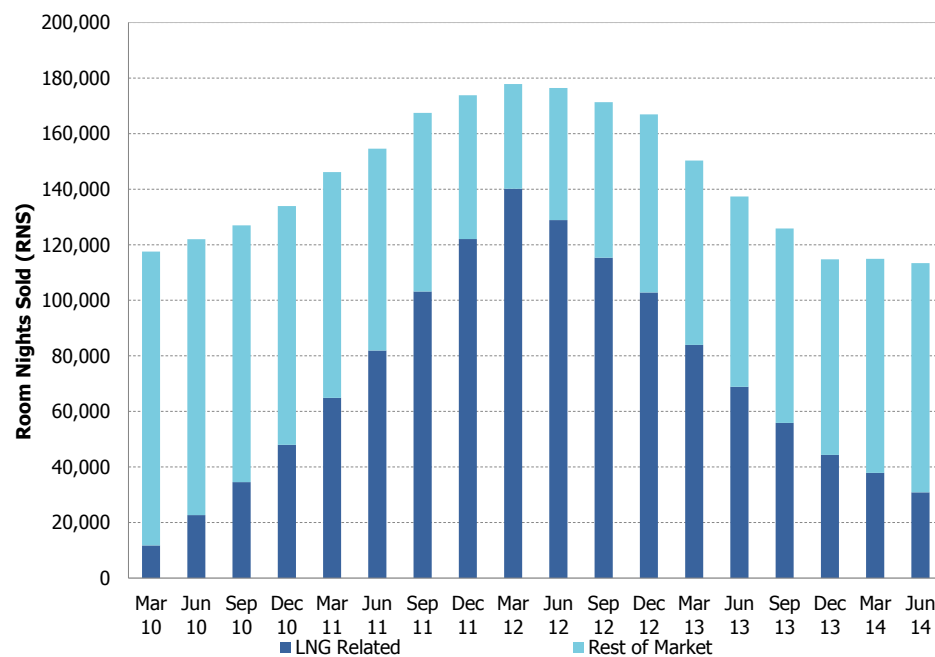
At peak, it is estimated that 85% of total demand in the market was related to the LNG projects (Figure 5.3). In reality, the total demand was beyond what the market could handle (only 500-1,000 rooms in the market, depending on how they are counted), so demand was pushed out to smaller communities around Gladstone as well as to the next regional town (Rockhampton), approximately 110 km away. In this example, the demand from the LNG related activities not only displaced leisure visitation but other business visitors, VFR and most other market segments.

Figure 5.2. Gladstone Accommodation Demand (RNS) and ADR, 2006-14



Note: Rolling annual quarterly data.
Source: ABS (2014)

Figure 5.3. Gladstone Accommodation Demand (RNS) LNG and Rest of Market



Note: Rolling annual quarterly data.
Source: AEC; ABS (2014)

5.4 Analysis of the Impact of Recent Major Projects in the Oil and Gas Sector

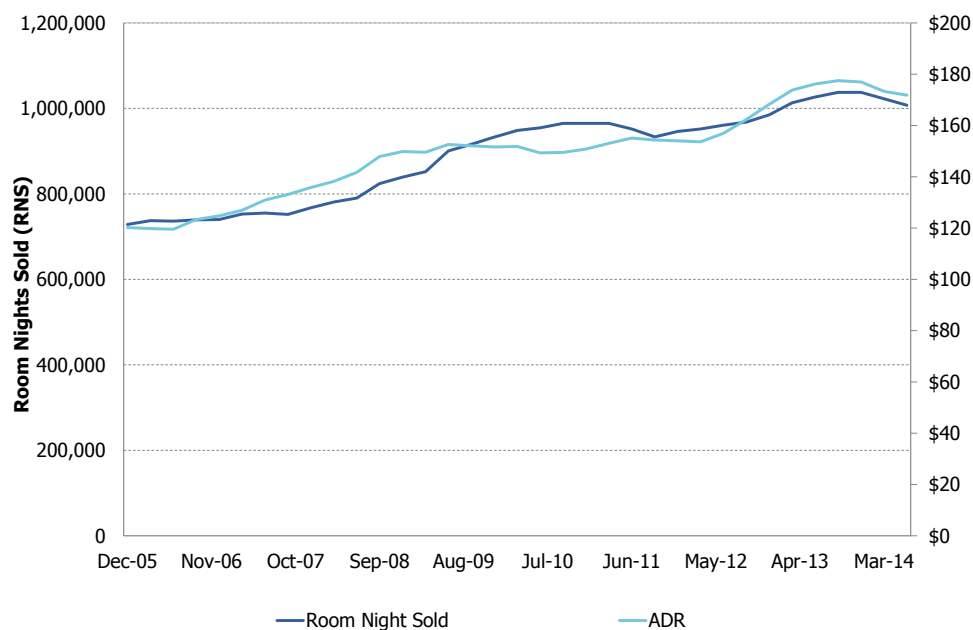
In order to identify the impact of recent major projects in the oil and gas sector on the Darwin short-stay accommodation market, a review of market indicators was undertaken. Due to data constraints, this analysis was undertaken for the Darwin Tourism region (as defined by the ABS). This analysis focused on demand and price as indicators, given these

are the two areas of the market that a project such as recent major projects in the oil and gas sector would impact most significantly.

The same indicators identified in Gladstone have been identified for the Darwin Tourism Region (Figure 5.4 and Figure 5.5). Considering this data and the experience in Gladstone, the following observations can be made:

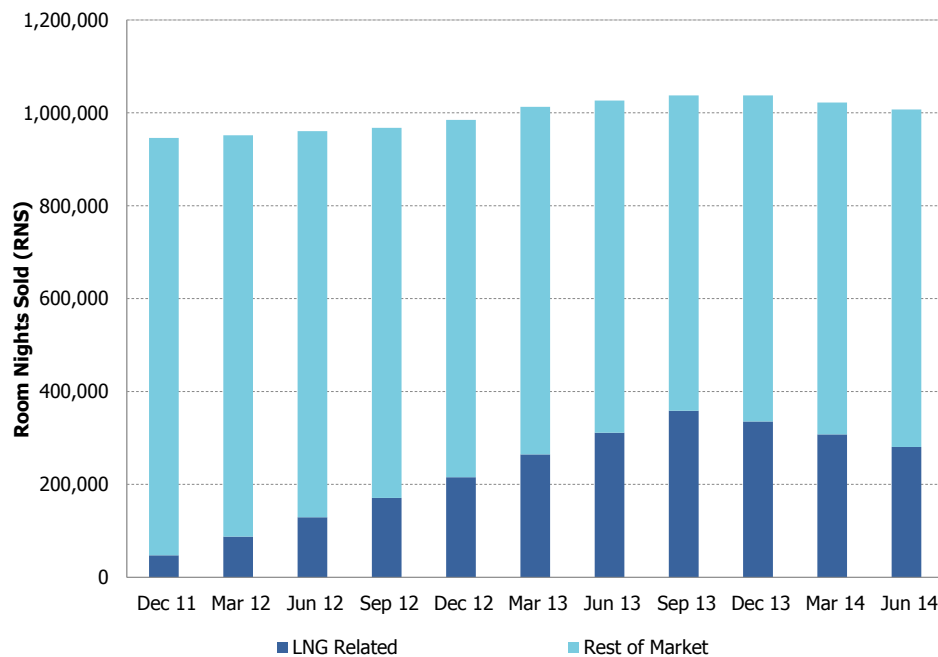
- The Darwin market is experiencing similar types of trends as demonstrated in Gladstone, as there is an increase in demand that corresponds with the start of construction on the LNG processing plant in Darwin.
- After the demand filled existing occupancy, price (ADR) started to increase rapidly.
- Due to the earlier start date of construction, Gladstone is further progressed in the demand curve than Darwin (i.e. Darwin has further declines in terms of LNG related demand as the demand in Gladstone has plateaued already).
- Only one LNG project is being constructed in Darwin, compared to the three projects in Gladstone, so the overall profile of demand differs greatly.
- Darwin is a much larger accommodation market than Gladstone with a very large leisure tourism segment (relative to Gladstone) and as such, Darwin was better placed to absorb the demand generated by the LNG project.
- The temporary worker accommodation (TWA) camp in Darwin is significantly larger than any individual TWA in Gladstone, meaning that Darwin could accommodate a larger number of construction workers than the Gladstone market could (on a per LNG project basis).
- Similar to Gladstone, the increase in demand from the LNG related activities has displaced demand from leisure, business and other market segments, however, given the size of the existing supply as well as the significance of these other market segments, the level of displacement in Darwin has been less than Gladstone.
- At its peak (YE September 2013), the recent major projects in the oil and gas sector supported approximately 358,500 room nights or 982 short-stay rooms (on an annual basis), which represents just under 35% of total demand.
- As at YE June 2014, the recent major projects in the oil and gas sector supported approximately 281,000 room nights or 769 short-stay rooms (on an annual basis).

Figure 5.4. Darwin Tourism Region Accommodation Demand (RNS) and ADR, 2005-14



Note: Rolling annual quarterly data.
Source: ABS (2014)

Figure 5.5. Darwin Accommodation Demand (RNS) LNG and Rest of Market



Note: Rolling annual quarterly data.
Source: AEC; ABS (2014)

5.5 Residential Development in Darwin

Anecdotal evidence suggests that some of the demand for accommodation from the Recent major projects in the oil and gas sector spilled over from the short-stay market into the residential market, with frequent visitors preferring to lease a residential apartment on a 6-monthly or annual basis.

As highlighted above (Section 4.3), much of the new supply into the short-stay accommodation market has been through new residential buildings that provide serviced apartments. According to the Department of Lands, Planning and the Environment (DLPE, 2015), there has been a total of 1,761 residential units delivered to the market from 2011 until YE June 2015 (863 residential units were delivered from 2011 until YE June 2014). The serviced apartments highlighted above (Section 4.3) are included in these figures.

Analysis of population trends for the Darwin SA3 (CBD and immediate surrounds) would seem to indicate that dwelling supply has outstripped dwelling demand (Table 5.2). It should be noted that this analysis simply uses population growth for Greater Darwin (as published by the Northern Territory Government), applied to the Darwin SA3 population at the time of the 2011 Census and including 2.3 persons per household (as per 2011 Census) to determine dwelling demand. This analysis does not consider any trends of residents moving to or from the CBD (from other parts of Darwin) nor the likely lower persons per household that these new units may be attracting.

While anecdotal evidence from real estate agents would indicate that the market for residential units in the CBD has fallen off significantly, analysis of recent sales data shows that the market maintains positive momentum. Data from REINT (2015) shows that Inner Darwin recorded 206 sales of residential units in the March 2015 Quarter and an annual 2.5% increase in median prices. The current lack of activity could be an early sign that the market is starting to shift. Falling prices and sales volumes could be an indicator of oversupply.

Potential oversupply of residential units in the CBD is a possible issue for the short-stay accommodation market, as evidence from other capital cities shows that when residential units are not required for residents, they can easily transition into the serviced apartment market, thereby increasing supply and competition for finite amount of demand. In other markets, the increase of short-stay accommodation supply through residential units

transitioning into the market has meant reductions in occupancy and ADR for these markets.

Table 5.2. Supply and Demand of Residential Units, Darwin CBD

Year Ending June	Supply	Demand	Annual Surplus/Deficit	Cumulative Surplus/Deficit
2012	218	175	43	43
2013	266	312	-46	-3
2014	379	87	292	289
2015	898	222	676	965

Note: CBD defined as Darwin SA3

Source: AEC; ABS (2012); NT Government (2015); DLPE (2015)

Table 5.3. Median Residential Unit Sales, Darwin

Location	Sales (Volume)	Median Price	Annual Change (%)
Darwin Overall	328	\$500,000	-4.8%
Inner Darwin	206	\$566,500	2.5%
Marrara	13	\$530,000	23.5%
Nightcliff	38	\$465,500	36.0%
Sanderson	13	\$455,000	11.2%
Palmerston	58	\$430,000	-12.2%

Source: REINT (2015)

5.6 Impact of Recent Major Projects in the Oil and Gas Sector on the Darwin Accommodation Market

The recent major projects in the oil and gas sector has had a significant impact on the Darwin short-stay accommodation market in a number of ways, including:

- Generating a cumulative total of approximately 860,000 room nights over the last four years (YE March 2015) or the equivalent of 215,000 room nights per year on average.
- Significantly increasing demand (and associated occupancy rates) to a point where considerable upward pressure was applied to ADR (i.e. ADR increased at a rate above the increase in demand or occupancy).
- The increase in occupancy and ADR (and subsequently RevPAR) would have generated considerable profits for existing operators (based on industry benchmarks), thereby increasing local asset values.
- The increase in demand (and the nature of the demand increase) underwrote numerous new projects that have been delivered into the market, thereby expanding the local short-stay accommodation supply and providing brand new stock into the market.
- The increase in demand from recent major projects in the oil and gas sector displaced leisure and other business travellers (mainly through an 'overcrowding' effect) during the week, particularly during the dry season.
- The increase in demand from recent major projects in the oil and gas sector increased demand, occupancy and ADR during the wet season, thereby lifting annual trading performance.
- Peaking in the September Quarter 2013, demand related to the recent major projects in the oil and gas sector is expected to continue its decline until it plateaus sometime during the 2016 calendar year.
- Analysis shows that overall demand in the market has dropped to 974,000 rooms nights (YE March 2015), which is similar to demand levels at the end of 2012, and with the overall increases in supply, occupancy rates are likely now below 70%, a level that has not been experienced consistently since 2009 and 2010, which supports current anecdotal evidence in the market place of significant discounting (in an effort to gain occupancy).
- A level of demand associated with the recent major projects in the oil and gas sector is expected to permanently remain in the market as part of the business visitor segment.

- The lasting impact of the will be the supply increases in the short-stay market over the last four years, many of which were partly made possible through contracts executed with contracting firms and others engaged in the recent major projects in the oil and gas sector. This level of supply increase would have been very difficult to delivery without a major demand driver like the recent major projects in the oil and gas sector.
- The new supply is beneficial from a tourism perspective in the sense that new product is now available in the market to attract visitors. Additionally, many segments of the tourism market (i.e. leisure and business events visitors) are very price sensitive and at current pricing in Darwin, the analysis assumes that growth from many of these other segments will return (as the demand from recent major projects in the oil and gas sector continues to trend down).



6. Future Supply & Demand

6.1 Future Supply

There are currently 481 hotel rooms under construction that will be delivered to the market in the future, which represents an increase of 12.6% above current levels.

Table 6.1. Future Hotel Supply, Darwin Region

Project	Rooms	Expected Delivery
13 Shepherd Street	101	2015
105 Mitchel Street	180	2016
15 Maluka Drive	200	2016
Total	481	

Source: AEC through interviews with proponents; TNT (2015)

There are considerably more projects than this that have been muted or proposed, many of which are advanced in the planning process, however, only the projects above are currently under construction and thus counted as future supply.

6.2 Future Demand

In order to identify future demand, various scenarios were developed to evaluate various potential future outcomes:

- **Future trend without the 'boom':** This scenario considers the growth trends leading into the recent major projects in the oil and gas sector and smooths the future growth to arrive at the current level of demand and then grows future demand based on historical visitation growth from 2006 until the beginning of the construction of the LNG processing plant in Darwin.
- **Tourism Research Australia:** This scenario uses the most recent forecasts for visitor nights in paid accommodation for both domestic and international visitors in Australia (June 2014). These growth rates were applied on a weighted basis between domestic and international visitors in the Darwin region.
- **2020 Target:** This scenario uses the target of new hotel rooms in the Northern Territory by 2020 (i.e. 9,260, as published by Tourism NT). The current proportion of hotel rooms in Darwin vs. the Northern Territory was held constant and a straight line growth curve in terms of future room supply growth was applied to a constant 'sustainable' occupancy rate of 70%. The resultant demand (in terms of RNS) demonstrates the level of demand required to sustainably add future hotel room supply to the market.
- **Reactive Future:** This scenario considers movements in both supply and demand (as a reaction to future occupancy and ADR levels). Essentially, this scenario considers the likely departure of rooms from the market in the future (in light of low occupancy rates and associated low ADR) as well as a rebound in demand based on the low prices and new room stock. This scenario mimics a likely future market scenario in reaction to existing and future likely market conditions.

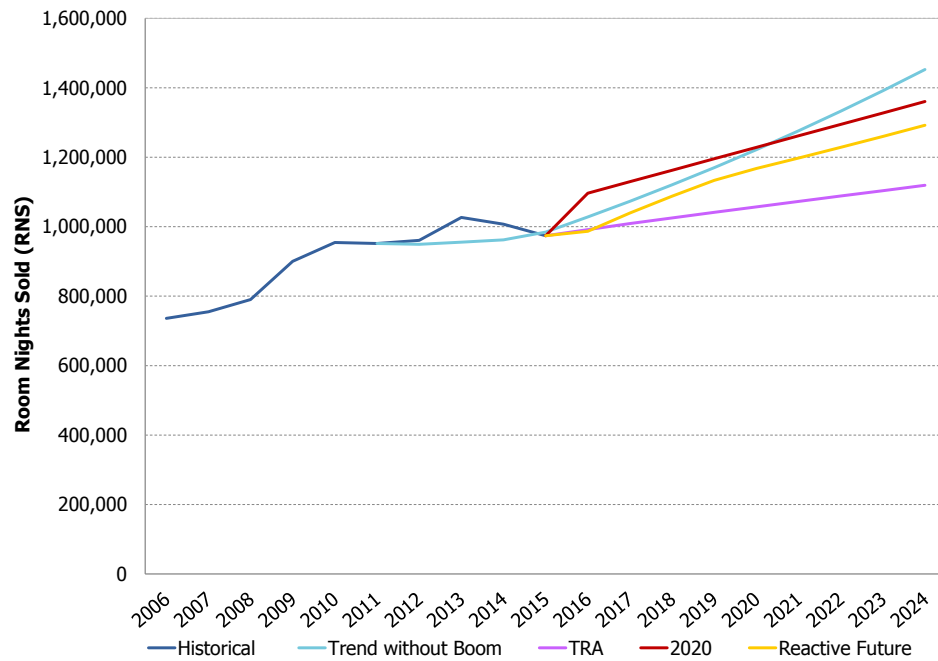
These scenarios are meant to provide a perspective on future potential development, based on the individual assumptions within the scenarios. As such, they are meant to provide indicative insights into characteristics of the market as opposed to future projections of future economic conditions.

Future Projections and ABS/STR Global Data

For all projections, an estimate of YE June 2015 was developed applying the change in occupancy rate from the STR Global data series for the time period June Quarter 2014 to March Quarter 2015 to the identified hotel room supply, which was identified from the ABS series and included the identified recent additions in the market. To estimate the final June Quarter 2015, a simple trend was calculated from the previous seven quarters.

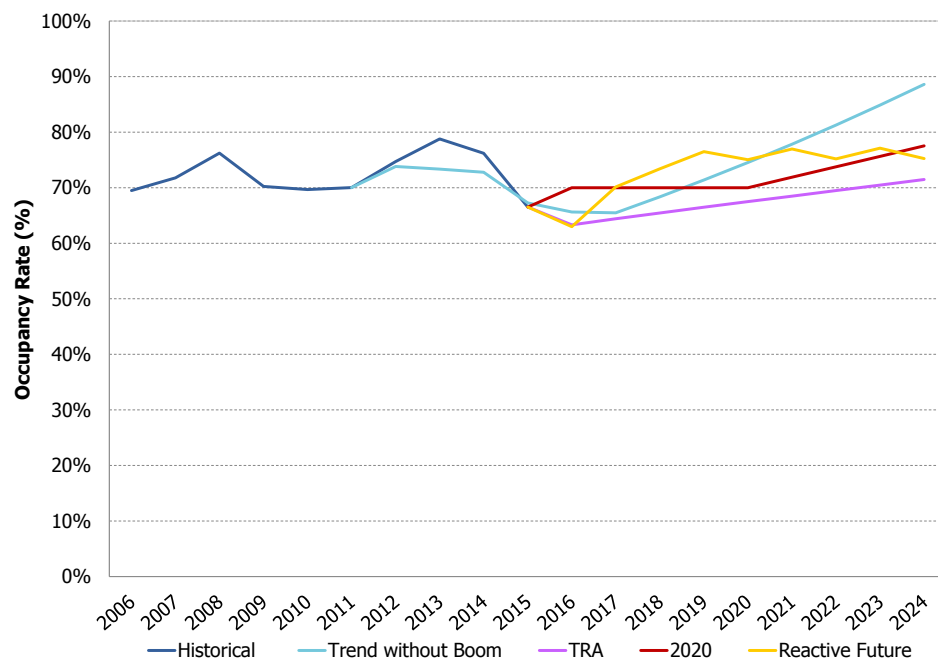
As such, the STR Global data was used to inform hotel performance during the 2014-15 year.

Figure 6.1. Future Short-Stay Accommodation Demand Scenarios, Darwin Region



Note: Year Ending June.
Source: AEC

Figure 6.2. Future Short-Stay Accommodation Occupancy Scenarios, Darwin Region



Note: Year Ending June.
Source: AEC

Table 6.2. Future Short-Stay Accommodation Scenarios, Darwin Region

	Trend without Boom	TRA	2020	Reactive Future
Room Nights Sold				
2014	962,322	1,007,383	1,007,383	1,007,383
2019	1,170,383	1,041,610	1,195,605	1,133,701
2024	1,452,704	1,119,542	1,360,604	1,292,410
Occupancy				
2014	72.8%	76.2%	76.2%	76.2%
2019	71.4%	66.5%	70.0%	76.5%
2024	88.6%	71.5%	77.5%	75.2%

Source: AEC

This analysis provides numerous indicative insights into the future market, including:

- In terms of demand, the market is likely to 'bottom' out during the calendar year 2015 as the demand from recent major projects in the oil and gas sector continues to decrease and other market segments begin to come back. In terms of occupancy rate, the market will likely bottom out in 2016 (given future supply coming to the market).
- The pace at which the market rebounds can vary considerably (and will be impacted by numerous external factors).
- The future anticipated supply increases (combined with the recent additions) would see lower occupancy rates in the market through to 2016 and 2017. The rate at which occupancy recovers will be a function of the increase in demand as well as the level of potential market exits (in light of low occupancy and associated low ADR).
- If additional supply (above what is expected) were to come on to the market over the next year or two (in the case that an oversupply of residential and new serviced apartments enter the market), a low occupancy rate environment (and associated low ADR) may be extended. Similarly, if demand levels do not increase during the 2015-16 year, then the market will suffer lower occupancy and ADR

This analysis has been conducted using the best information available at this time. If other major projects were to kick off in the short-term, much of the available supply could be used and occupancy (and ADR) would rise above projections. Equally, if this dry season does not produce typical peak season results, then there would be downward pressure on occupancy and ADR, extending the decline in the market and pushing back the rebound until 2016-2017.

7. Strategic Recommendations

Tourism NT, together with Department of Lands, Planning and the Environment, Chief Minister and other stakeholders, should consider the following two actions:

1. **Drive Demand:** The short-stay accommodation supply increase provides critical infrastructure to facilitate future demand increases. This increase has coincided with the recent redevelopment of Darwin Airport. There should be a concerted, coordinated and significant marketing drive to increase demand across a number of visitor segments to leverage this expanded tourism infrastructure, including:
 - **Business events:** Business events bring high value visitors (in terms of yield). One significant factor in terms of selecting destinations is the accommodation and general amenity offer. Given the recent developments over the last 5-10 years, Darwin has considerable amenity (in terms of the Waterfront Precinct and various other leisure tourism attractions) and new accommodation stock as well as a significant asset in the Darwin Convention Centre. Cost is another competing factor for attracting events and current (and future) pricing in Darwin is likely to be very competitive. Securing major events can take between 2-3 years, so marketing and business development activities must ramp up immediately.
 - **Leisure visitors:** Leisure visitors should be aggressively lured back into the market particularly now that there is new accommodation product, more availability and lower pricing. Increased efforts are required now in terms of marketing to attract significant increases in leisure visitors back to Darwin and the Northern Territory. The market will likely need some time to adjust to the new levels of occupancy and pricing as well as require fresh messages to dispel recent perceptions of affordability and availability.
 - **International visitors:** Australia is experiencing record levels of international visitor arrivals. Considerable efforts should be made to leverage key international markets. The Northern Territory has some of the nation's most well-known tourism assets and icons, which international visitors are coming to experience. Darwin is the central distribution point for these visitors, so increases in international visitors should drive accommodation in Darwin.
 - **Existing NT visitors:** There are a variety of leisure visitors that are attracted to the Northern Territory to experience any number of natural attractions outside of Darwin. Efforts should be made to capture more visitor nights from these visitors in Darwin (as opposed to losing them immediately into the regions).
2. **Continue to Attract Investment:** Simply because there has been a recent expansion of the short-stay accommodation market, on-going efforts to attract tourism investment into a variety of tourism infrastructure and new product is necessary. Tourism is one of the most competitive industries in Australia and continual change and improvement is required.

New tourism product and experiences can also help to drive demand to fill the expanded short-stay accommodation supply. Additionally, the breadth and depth of the accommodation offer nationally is continually changing with more unique and specifically targeted product being developed across the market, including new brands and accommodation models being introduced. There is likely still a place for a more diversified accommodation product mix and offer in Darwin to include boutique, higher end quality and other specifically targeted accommodation product. It takes 2-3 years (minimum) to deliver an accommodation development so on-going efforts today can deliver additional supply 2-3 years into the future (or longer).

Efforts should be made to market Darwin and the Northern Territory for future tourism investment, including the full spectrum of infrastructure, accommodation as well as new tourism experiences. For example, becoming the home port or base for a cruise ship would generate significant accommodation directly pre and post cruise. Finally, securing another major project would likely provide the most significant boost to short-stay accommodation demand. Driving demand through the attraction of another major project to Darwin would create considerable value for the local short-stay accommodation market.

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Appendix A: Darwin Region

Unless otherwise noted, the Darwin region has been used for this assessment. This region can be defined by the following suburbs:

- Buffalo Creek
- Charles Darwin
- Coconut Grove
- Darwin CBD
- East Arm
- Jingili
- Karama
- Leanyer
- Lyons
- Malak-Marrara
- Millner
- Moil
- Nightclifee
- Rapid Creek
- Tiwi
- Wagaman
- Wanguri
- Wulagi
- Howard Springs
- Humpty Doo
- Koolpinyah
- Virginia
- Weddel
- Bakewell
- Driver
- Durack – Marlow Lagoon
- Gray
- Moulden
- Palmerston –North
- Palmerston – South
- Rosebery – Bellamack
- Woodroffe
- Darwin region (nfd)





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Melbourne	Level 13, 200 Queen Street Melbourne VIC 3000	GPO Box 4500 Melbourne VIC 3001	T +61 3 8648 6586
Perth	Level 2, 580 Hay Street Perth WA 6000 Australia	PO Box 2576 Perth WA 6000 Australia	T +61 8 6555 4940
Sydney	Level 3, 507 Kent Street Sydney NSW 2000	PO Box Q569 QVB Post Office Sydney NSW 1230	T +61 2 9283 8400
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