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# Global brands rush to Australia's island state

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AccorHotels, IHG and Marriott have either opened or planned development of hotels in Tasmania, Australia's southern island state, which could indicate growing developer interest in the region as tourist arrivals continue to grow.



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GLOBAL REPORT—As Tasmania's popularity as a destination for meetings and tourism soars and with room rates and occupancy steadily on the rise, many developers are seeing market opportunities down under 'Down Under.'

Australia's southernmost state welcomed 1.28 million visitors over a 12-month period ending September 2017, which is an 8% year-over-year increase and more than double the number of visitors from two decades ago, according to statistics from Tourism Tasmania. More than a quarter of those travelers were international visitors that staying an average of eight nights. Tasmania Premier Will Hodgman, wrote in a government report ([https://www.t21.net.au/\\_data/assets/pdf\\_file/0005/48929/T21-May-2017-progress-report\\_final.pdf](https://www.t21.net.au/_data/assets/pdf_file/0005/48929/T21-May-2017-progress-report_final.pdf)) that the target is "to grow annual visitor numbers to Tasmania to 1.5 million by 2020."

Major global hospitality brands are coming into the state like never before, according to sources, and are primarily targeting Hobart, Tasmania's capital, where developments worth more than \$855 million are either underway or planned.

According to data from STR (<http://www.str.com>), parent company of Hotel News Now, a total of 13 properties comprising 2,674 rooms are in the pipeline as of November 2017, which represents a 35% increase on the state's existing supply of 174 properties and 7,582 rooms.

In 2017, Tasmania saw the opening of the 296-room Ibis Styles and the 114-room docklands design hotel, MACq 01. Hyatt Hotels Corporation, InterContinental Hotels Group and Marriott International each have properties in development.

"To have so much interest in investing in Tasmania, especially by some of the global hotel chains, is a feather in the cap for the industry and government," said Steve Old, Tasmanian Hospitality Association CEO, who added better government promotion and investments have reaped record visitor numbers even in winter.

"With an upcoming state election looming, we hope to see even more focus on growing the state's tourism and hospitality industries," he said.

### Development differences

The flurry of development proposals has created an uproar in Hobart—Australia's second oldest city—which is highly protective of its buildings and cultural heritage. Development of

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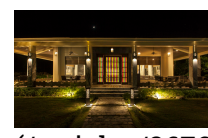
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modern buildings, including hotels, could be delayed due to resident complaints of too much high-rise development. Following the July opening of the 11-story Ibis Styles, Singaporean property tycoon James Koh and his company Fragrance Group delayed two development projects as city residents demanded a referendum on the issue.

Meanwhile, Koh is steering the development of the 221-room Hyatt Centric Hobart, which is under construction in the city's main transport hub. The property is due to open in early 2019.

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All these projects are set to change the face of the capital city, sources said, yet even leading hoteliers want the city's character protected.

Don Neil, owner of Hobart's Old Woolstore Apartment Hotel and Hadley's Orient Hotel, has called on the city council to stick to its current planning scheme's height limit of around 150 feet rather than surrender to developer demands to lift that to near 250 feet. In the case of the Hyatt Centric, Hobart city officials approved plans for a 206-foot-tall property against the developer's wishes to develop a 262-foot-tall hotel.

"That's almost double what the planning scheme allows," Neil said, who added many other developers are currently being "courted" by the government to invest in Tasmania.

"I don't blame the developer, because the council have opened the gate, but it's left to ratepayers and the community to defend that position," he said.

Steve Yannarakis, director of St Andrews Estate Agents, said Hobart shouldn't be built up like other major cities.

"Geographically and heritage-wise, Hobart is very different from every other mainland capitals, you can't just build willy nilly," he said. "A lot of buildings have historical significance, so there are constraints on sites, on setbacks, and they all come into play."

The downside Yannarakis said is the uncertainty and obstacles developers face over planning schemes.

"It is difficult to find sites that are clean from heritage issues, plus the height limits, which economically provide challenges for people trying to get a return," he said. "Yet construction costs here are as high as anywhere else in Australia, and that could turn off some investors."

Other hoteliers are happy to lose an investor here or there to protect the city's heritage.

"The industry has to grow, but it has to grow responsibly," said Ralph Freckelton, GM of Hotel Grand Chancellor Hobart—which opened as a Sheraton in 1987—who cites Marriott (<https://www.marriott.com/marriott/aboutmarriott.mi>) for "doing it responsibly."

"We're a destination," Freckelton said. "It's the heritage and atmosphere that are driving the visitation. We're not like the Gold Coast, which has beach and water and that's what attracts people. If we build too many large hotels, we are going to damage the location and the visitation."

### **Supply outlook**

The question looming for many in the market is can Hobart absorb the new supply?

"I think in the short term there is a urgent need for more beds as occupancies are very high, but we have to be very careful (not) to drive ourselves into a boom-bust cycle ... that developers rush in and that will damage occupancies," Freckelton said. "For Hobart, given its location being an island state, the recovery from that would be longer and more difficult. Sydney and Melbourne have large corporate and government markets, which takes up some of the demand, creates the demand, whereas in Hobart it entirely depends on tourists."

According to STR, full-year 2017 numbers show Tasmania's hotels reported occupancy decreased 0.7% year over year to 76.9%, while average daily rate rose just 0.2% to 162.73 Australian dollars (\$131.14) and RevPAR dropped 0.4% to AU\$125.19 (\$100.89).

Yannarakis said there's "no risk of surplus beds" with demand continually on the rise and infrastructure improvements on the horizon.

"This, Marriott, Crowne Plaza—these people are not investing in this for nothing," he said. "Now there's news of the runway extension (at the Hobart International Airport) and new flights."

New hotel supply in Hobart should have a negative impact on home rental platforms like Airbnb, Yannarakis said.

"If anything it might just take a little wind out of the sales of the Airbnb juggernaut, which has been quite a phenomenon in Tasmania like the rest of Australia ... and put a bit of equilibrium back in the rental market," he said.

Talk of Hobart securing direct flights to New Zealand and possibly Europe, Asia and the U.S. by 2020 will spur demand growth and make the city more attractive for development, according to Marriott's Sean Hunt, area VP for Australia, New Zealand and the Pacific. Marriott plans to open The Tasman, a Luxury Collection Hotel, in Hobart in late 2018 that Hunt said will further "increase demand as well as bring in international visitors" with its meetings facilities.

"Next thing is an international airlift because we have this 100-million-loyalty-member program, which we would love to bring to the city of Hobart," he said while visiting the site of the future seven-story, 128-room hotel last year. "We believe this will especially resonate with the Asian market."

IHG plans to debut its Crowne Plaza brand at downtown Hobart's new Icon Complex. Initially scheduled to open in 2017, the project has experienced delays and is now due to open in early 2019.