

Market Reports

Melbourne, Sydney lead Australia's new hotel supply

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Australia will see a record number of hotel rooms open in 2019 and 2020, but not all markets are reacting well to the incoming supply, as Melbourne leads the charge in KPIs and openings while Sydney is lacking in luxury product.



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REPORT FROM AUSTRALIA—Australia's pipeline will soon bring a significant increase of new hotel supply in the next two years, and sources said the three markets to watch are state capitals Hobart, Melbourne and Sydney.

But oversupply is a risk in some parts of Australia.

Drawing on data from [STR](#), the parent company of Hotel News Now, a January 2019 joint report from Tourism Research Australia and The Australian Trade & Investment Commission, also known as Austrade, stated that nearly 8,000 new hotel rooms will come online this year, an approximately 19% increase over 2018.

"This will be a record year for Australia in new openings," said Sydney-based Matthew Burke, STR's regional manager, Pacific. "The previous peak was 7,093 rooms in 2016."

Burke added that approximately 11,500 rooms are expected in 2020. About 33% of Australia's new supply in 2019 across 49 hotels will fall in the upscale to upper-upscale segments, while 22% will be shared between the midscale and luxury classes.

Through February, Melbourne dominates the 2019 pipeline with 2,243 room openings, representing a 5% increase in inventory and the majority of the 2019

total of 2,388 rooms and 14 hotels for the state of Victoria.

Eight hotels with a combined total of 1,095 rooms will open in the state of New South Wales in 2019, and in 2020, the 586-room W Hotel Sydney is scheduled to open its doors. In Hobart, the capital of Tasmania, the 128-room The Tasman will open in 2019 as part of Marriott International's Luxury Collection.

According to STR, Australia's 2018 hotel occupancy dipped 0.2% to 75.3%, average daily rate increased 1.4% to 188.67 Australian dollars (\$135.31) and revenue per available room rose 1.2% to AU\$142.09 (\$101.90).

"Capital cities Sydney, Melbourne and Hobart recorded over 80% occupancy," Burke said, who added this is also true of Cairns in the state of Queensland, the gateway to the Great Barrier Reef.

David Brown, general manager of View Hotels Group, an independent chain with three properties in Sydney, Melbourne and Brisbane, said the increased demand for rooms and general rosy outlook for Australian hotels is riding on growth in both domestic and international visitor numbers.

National variations

Brown said the picture does show some variation around Australia.

"There are certain markets we probably wouldn't be actively looking in," Brown said. "Perth is on the downward stage of the market with oversupply. In Brisbane, (occupancy is) in the low 70s but stable after a slate of new hotels ... which is a bit of a hindrance on RevPAR growth (but) with just one more hotel on the agenda this year, it will have a chance to catch up with a supply."

But some markets appear healthy.

"Melbourne has been on a very strong growth curve, and supply is surging with a number of planned openings, several—about a third—in the luxury sector (but) demand has also improved," Brown said. "We predict fairly good performance there as (2018)'s supply is absorbed. The market is very well-served in the midmarket range. Now as we move to a more luxury-sector focus, Melbourne will become Australia's biggest market in the next couple of years."

Sydney, like Melbourne, is benefiting from "very strong economic fundamentals" and continuing to be Australia's gateway city, Brown said. He touted Sydney's strong domestic market, healthy leisure and corporate demand, and several upcoming, major infrastructure projects.

Paucity of luxury

But while Sydney is thriving with high occupancy and ADR growth, some analysts feel what its hotels offer is not on par with the city's tourism image.

"There is a lack at the luxury end of the market for such a gateway city," said Gus Moors, head of hotels and based in the Sydney office of business advisory Colliers International. "Considering Sydney's occupancies have hovered in the mid to high 80% range for the best part of a decade suggests it has sufficient ability to take on more supply. That pipeline will emerge with 2,000 rooms under construction in and around the city."

A "historical scarcity of five-star hotels" in Sydney, Moors added, is seeing room values soar to more than a million Australian dollars per key, egged on by the office real estate class winning favor among investors because of higher yields and lower risks.

"Developers have probably steered more to office development, so that has kept the (hotel) pipeline in Sydney under constraint," Moors said.

Burke said Sydney definitely has some catching up to do.

"Very little new supply has come into that market for 10-plus years," he said. "It is finally starting to come now."

James Shields, general manager of growth at Melbourne-based Quest Apartment Hotels, said change is coming to Sydney in the form of infrastructure improvements.

"A wave of strategic planning initiatives in Sydney will address constraints on inner-city development," Shields said. "In contrast to Melbourne, Sydney is more geographically constrained, so there is an added premium on the pockets of land that are available for commercial development. Projects such as the Sydney Metro will open up the potential for large-scale mixed-use development in areas that are currently difficult for developers to unlock."

Burke added pipeline growth hinges on the surge of demand from business travelers, general population growth, and booms in infrastructure and tourism in metropolitan areas, especially Sydney and Melbourne.

Shields expects hotel development to ramp up in both cities' suburbs.

"The supply of hotel accommodation in Melbourne has increased, as the metropolitan area expands, (and) the demand for extended-stay accommodation in suburban and regional centers has grown," Shields said.

New emphasis has been put in the market with the arrival of the International Convention Centre at Sydney's Darling Harbour.

Australia will also benefit as more airlines add routes to regional destinations, sources added.