

CAPA Australia Pacific Aviation and Corporate Travel Summit

Where will fares and rates go in 2018 – What are the current trends and indicators?

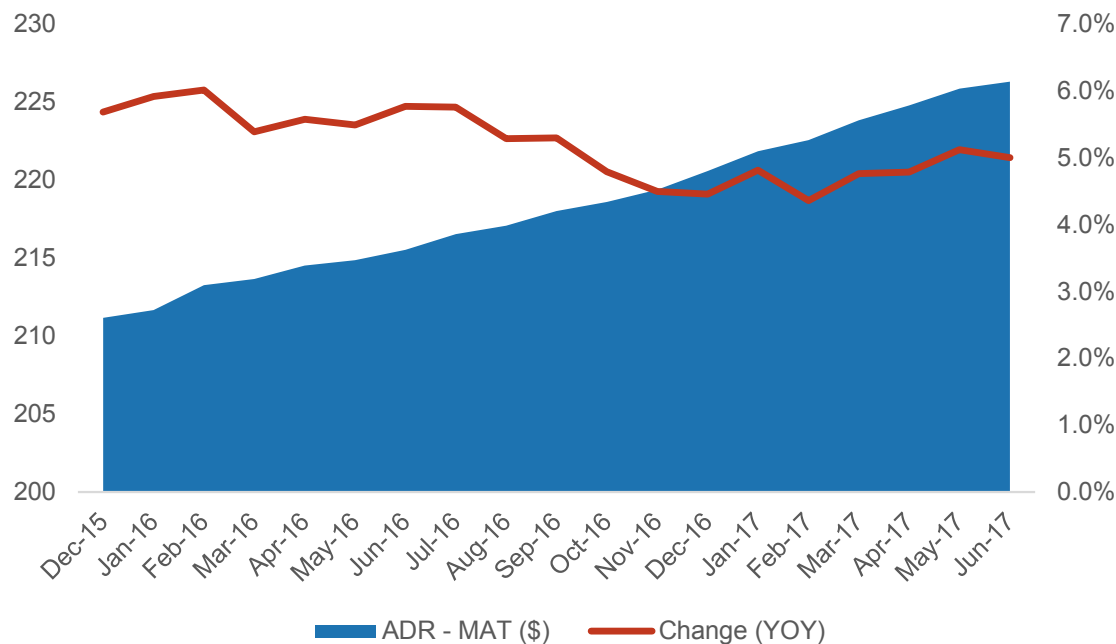
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Content

- Domestic Hotels – How are the cities shaping up in terms of Room Rates?
- Domestic Airfares – What should be expect?
- International Airfares – What next?

Domestic Hotels – Sydney

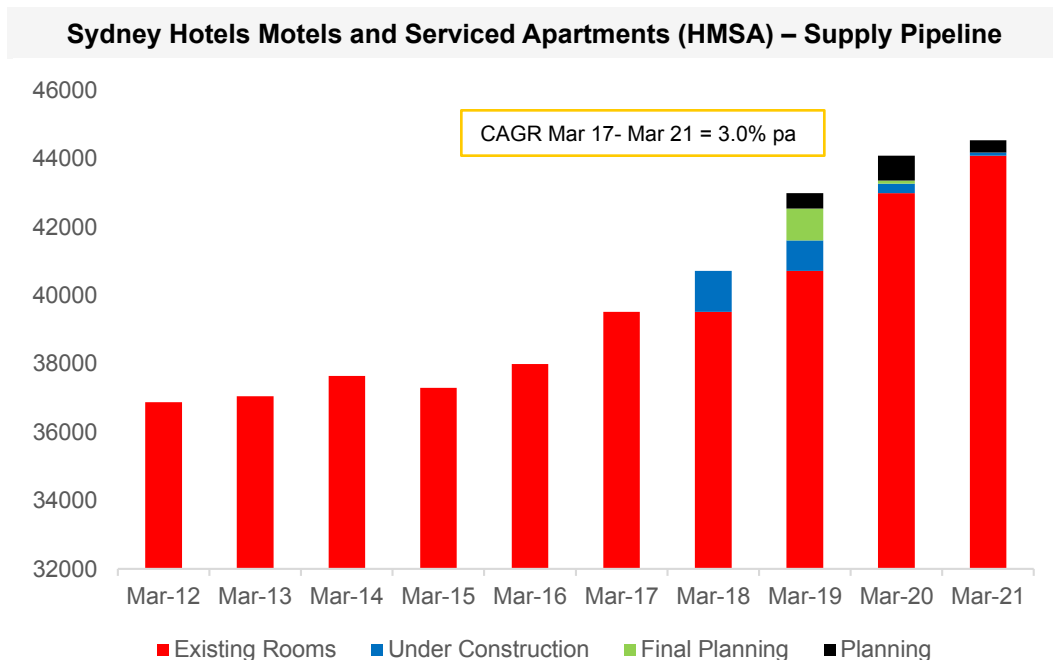
Sydney Hotels Motels and Serviced Apartments (HMSA) – Average Room Rate



- Sydney Hotels rates have grown strongly over recent years with annual growth rates in the 5-6% range
- Demand has clearly exceeded supply with strong growth in Asian Inbound adding to the dynamic

Source: STR

Domestic Hotels – Sydney

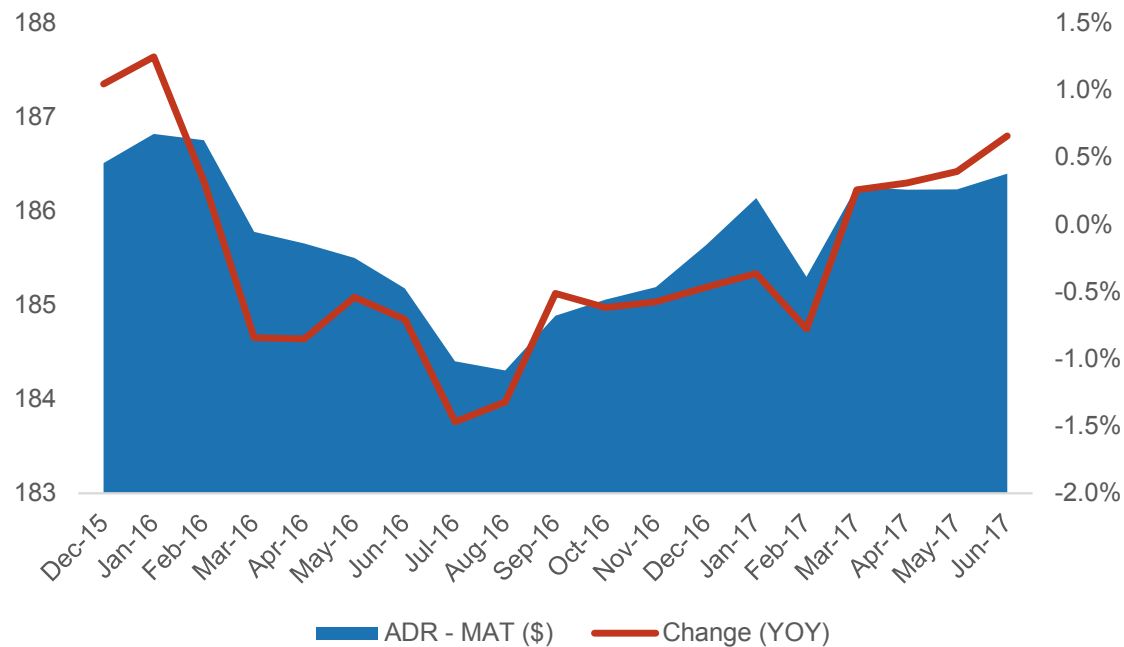


- Lack of new supply over recent years given superior returns on offer from other property alternatives (residential and now commercial)
- In the next 4 years room supply is expected to grow at a CAGR of 3.0% pa well below expected demand growth (ICC adds to this)
- Upward pressure on rooms rates with DHR forecasting inner city room rates to increase by an average of 6.6% pa across FY17-FY19

Source: STR

Domestic Hotels – Melbourne

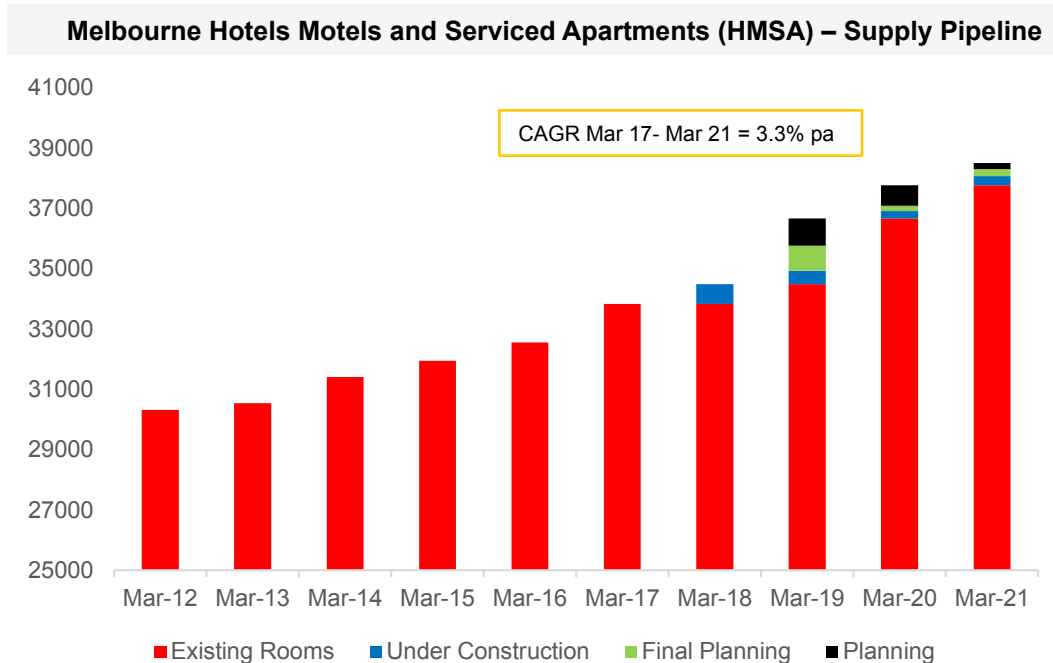
Melbourne Hotels Motels and Serviced Apartments (HMSA) – Average Room Rate



- Melbourne Hotels rates have tended to trade within a relatively narrow band over the last 18 months but trended higher over the last 6 months
- Melbourne rates tend to be more event driven (sporting and other) and hence more volatile or unpredictable

Source: STR

Domestic Hotels – Melbourne

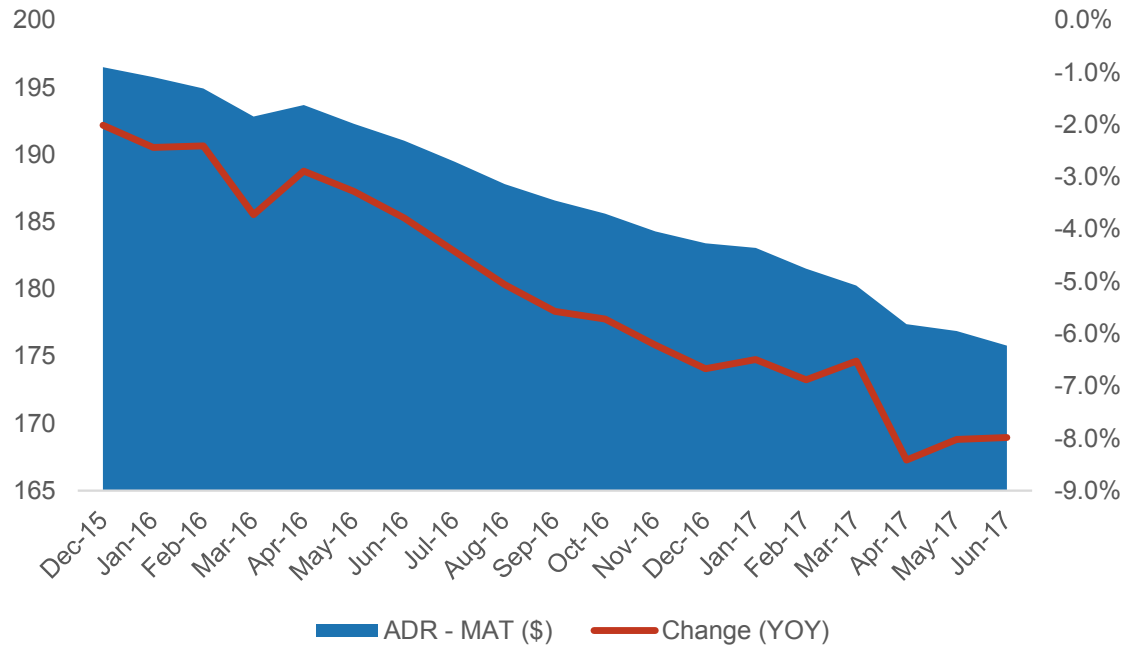


- Also Lack of new supply over recent years given superior returns on offer from other property alternatives (residential and now commercial)
- In the next 4 years room supply is expected to grow at a CAGR of just 3.3% pa but demand is expected to remain strong
- Upward pressure on rooms rates with DHR forecasting inner city room rates to increase by an average of 4.3% pa across FY17-FY19

Source: STR

Domestic Hotels – Perth

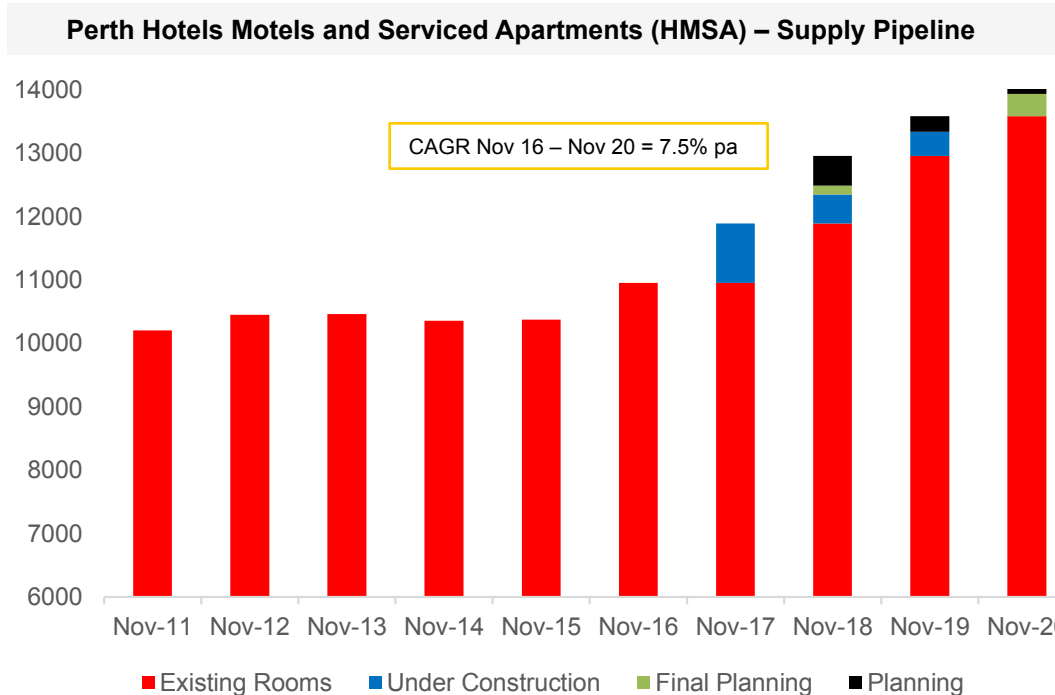
Perth Hotels Motels and Serviced Apartments (HMSA) – Average Daily Rate



- Material decline in demand post the mining boom has had a material impact on room rates
- Evidence suggests this still may have further to play out

Source: STR

Domestic Hotels – Perth

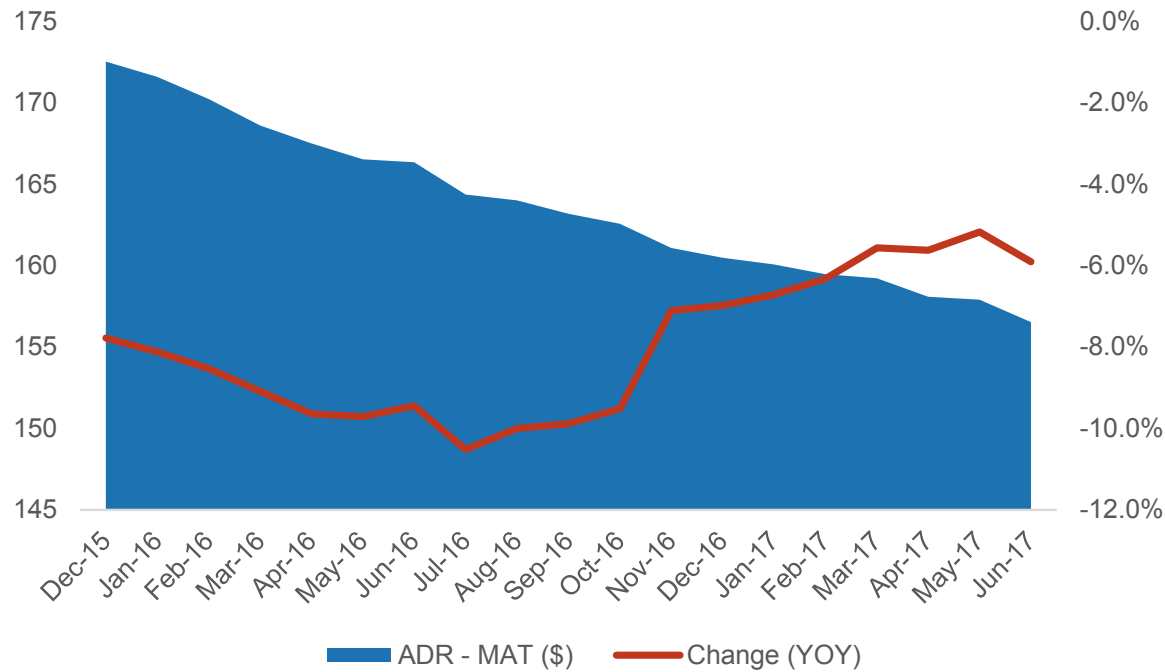


- Considerable new hotels were planned/started during the mining boom
- In the next 4 years room supply is expected to grow at a CAGR of 7.5% pa (well above likely demand growth)
- Downward pressure on rooms rates with DHR forecasting inner city room rates to decline at an average rate of 2.5% pa across FY17-FY19 but watch for impact of QAN direct flights to London (France, Germany next?)

Source: STR

Domestic Hotels – Brisbane

Brisbane Motels and Serviced Apartments (HMSA) – Average Daily Rate

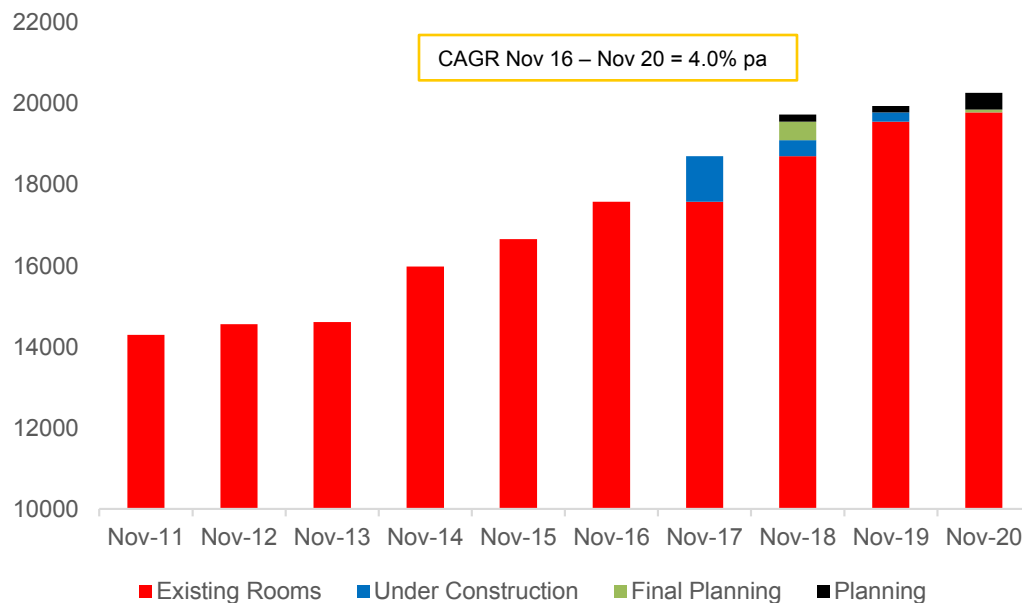


- Brisbane room rates under downward pressure in recent times given end of mining boom
- Recent signs suggest the worst may be over given rate of decline is slowing?

Source: STR

Domestic Hotels – Brisbane

Brisbane Hotels Motels and Serviced Apartments (HMSA) – Supply Pipeline

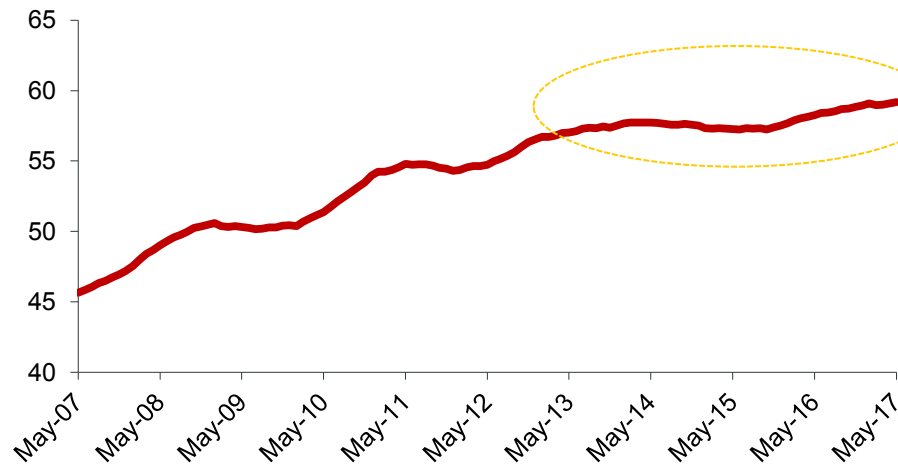


- Some new supply over the last few years – this was needed during the mining boom but less so now
- In the next 4 years room supply is expected to grow at a CAGR of 4.0% pa but most expected in the next two years
- Expect gradual absorption of new supply but DHR still forecasting Average Room Rate to decline by an average of 1.3% pa over FY17-FY19

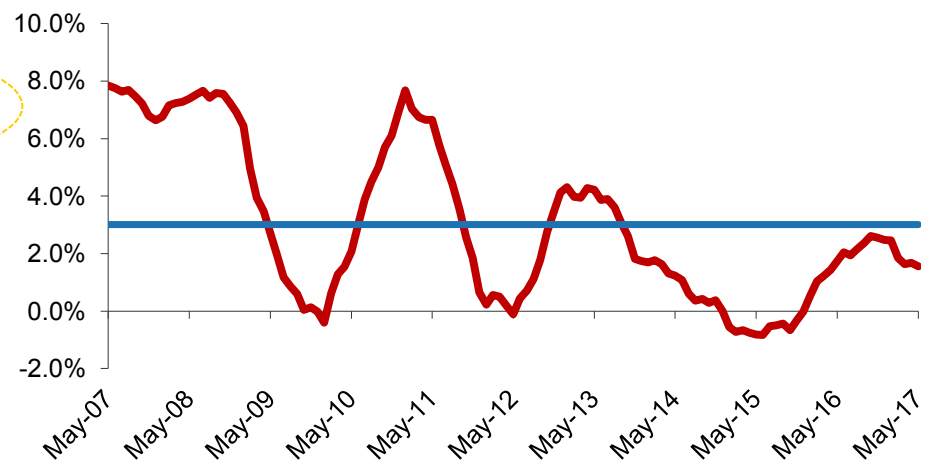
Source: STR

Domestic Airfares

Domestic Airline Passengers MAT m



Domestic Airline Passengers MAT growth



- Domestic Airline passenger growth remains modest reflecting a subdued Corporate market and an uncertain Leisure segment
- The current Domestic Airline passenger growth rate of 1.6% is well below the 10 year average of 3.1% and follows a slow recovery from the post mining boom adjustment given the material cuts to airline capacity within these regions
- Business and Consumer Confidence the key to the Outlook for Corporate and Leisure passenger growth respectively – recent indicators here have been mixed

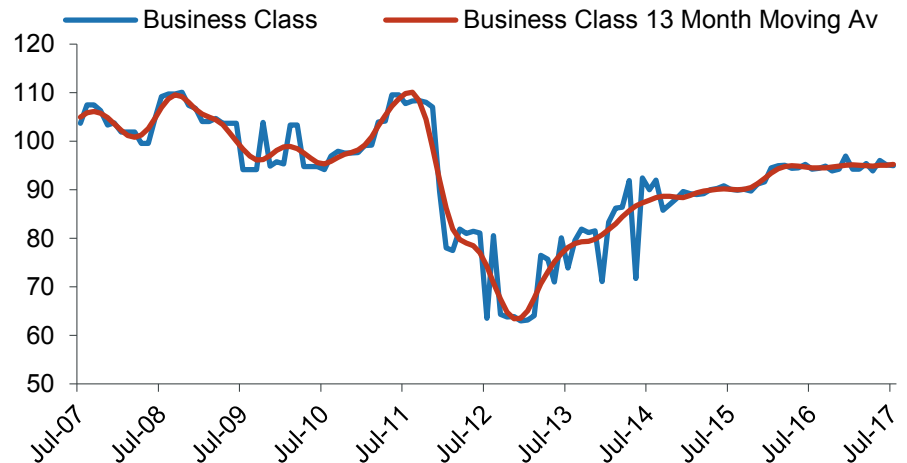
Source: BITRE

Domestic Airfares

Restricted Economy Airfare Index



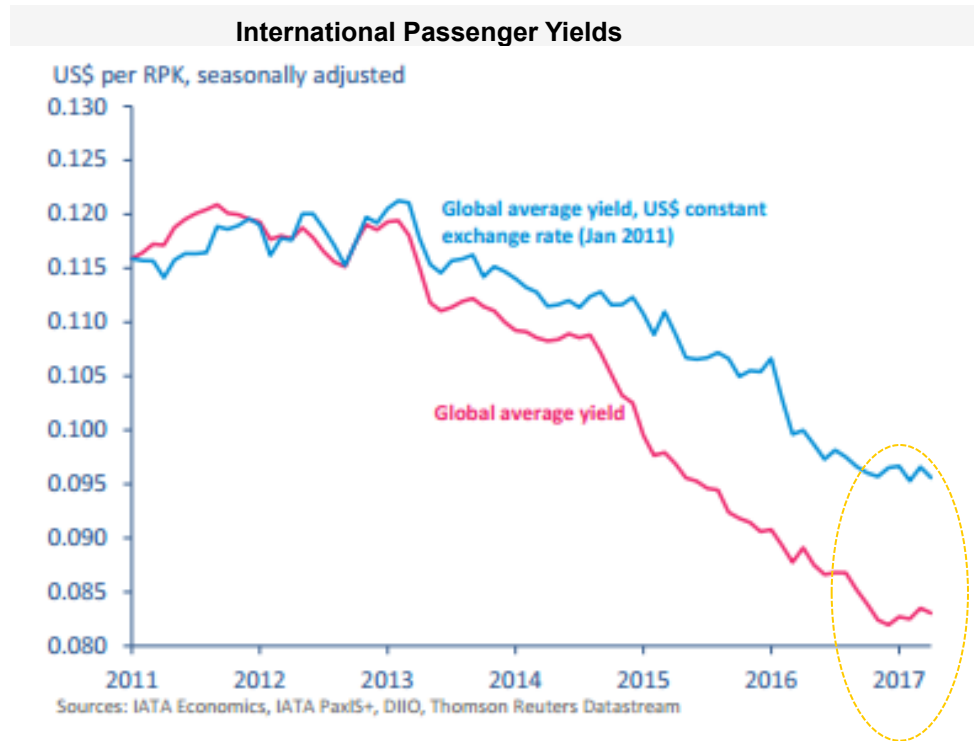
Business Class Airfare Index



- Domestic Airfares have remained subdued in recent times given the relatively soft demand environment from both the Corporate and Leisure segments
- But the trend appears to be changing with 4th Dimension recently forecasting a 2-5% increase in both Business and Economy Airfares in 2017
- Golden Triangle (Syd/Melb/Bris) likely to be the prime beneficiary with resource cities still under some pressure

Source: BITRE

International Airfares

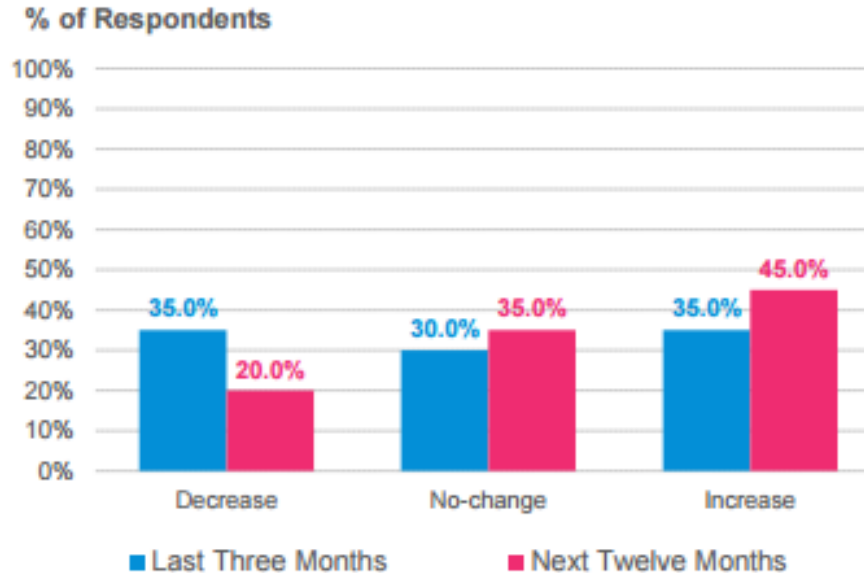


- Material decline in International Airfares over the last 5 reflects strong growth in LCC's, the increasing completion provided by Middle East Carriers and a clear government focus on encouraging Inbound Tourism via air capacity
- In recent months we have seen some evidence that we may be past the bottom or at the very least the rate of decline appears to be slowing – Has Trump caused a re-think from some Middle Eastern Carriers or has the industry realized that things have gone far enough?

Source: IATA

International Airfares

Recent and expected changes in Yields – Survey of Global Airline CFO's



- The current level of international airfares are simply unsustainable for the industry
- Oil prices and other key input costs clearly a major driver of International Airfares but in more recent times it is the strong rate of capacity growth that has driven prices lower
- Most recent survey of global airline CFO points supports “the yields may have bottomed” thesis

Source: IATA

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