

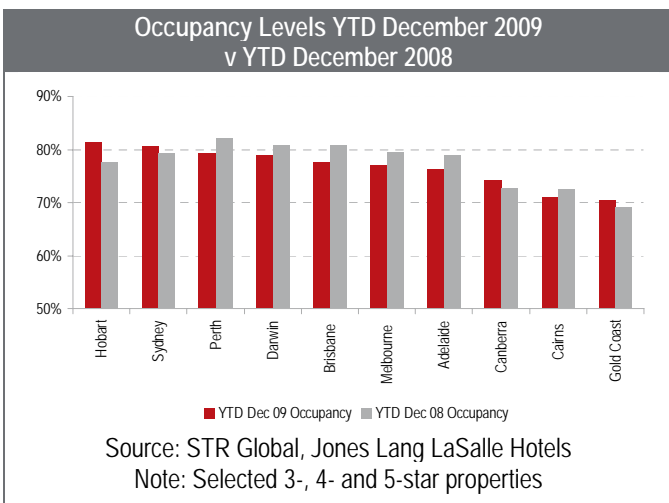
Early signs of trading recovery in Australia's hotel market

Just sixteen months after the collapse of Lehman Brothers and when some of the most significant financial events in generations were occurring, we are starting to see the first signs of recovery. Australia's key hotel markets are showing early signs of bottoming out, with some markets posting higher occupancies over the last four months relative to the corresponding period in 2008.

Nine markets posted improved occupancy levels in December 2009 (the exception being Perth), ranging from +12% in Sydney to 0.9% in Hobart - whereas Sydney, Canberra, Gold Coast and Hobart also recorded growth in September, October and November. All Australian markets posted occupancy levels above 70% in December ranging from 81.4% in Hobart to 70.3% on the Gold Coast.

In the context of the global financial crisis, the H1N1 flu and occupancy declines around the world, Australia's capital city markets have shown considerable resilience during 2009. Four markets have posted slightly higher occupancy levels compared to 2008 - Hobart (+3.7 pts), Canberra (+1.4 pts), Sydney (+1.3 pts) and Gold Coast (+1.2 pts) - whereas declines have averaged just -2.3 pts, ranging from -2.8 pts in Perth to -1.4 pts in Cairns. Consequently occupancy levels remain high.

Seven markets achieved occupancy levels above 75% during 2009 - the level at which room rates typically start to increase. The exceptions were Canberra (74.0%), Cairns (71.0%) and Gold Coast (70.3%). A high dependence on weekday government business in Canberra and weekend leisure business in Cairns and the Gold Coast means that occupancy levels are typically lower in these markets.

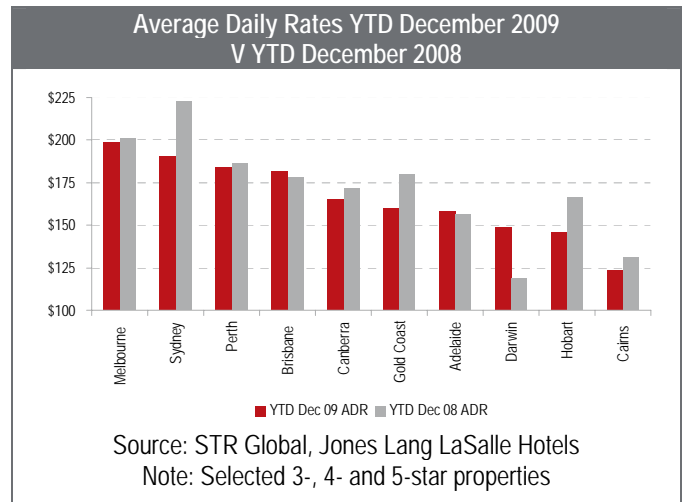


'Australia's key hotel markets are showing signs of bottoming out, with some markets posting higher occupancies over the last four months relative to the corresponding months last year.'

'Sydney is the stand-out performer having posted seven months of occupancy growth on a moving annual average basis since bottoming in May 2009 at 77.6%.'

Needless to say, occupancies have been bolstered by operators discounting room rates to substitute the slow down in corporate and conference demand throughout 2009. Declines in the average rate have ranged from -9.7% in Sydney to -0.5% in Hobart.

At \$199, rates in Melbourne are now 4.2% higher than the \$191 being achieved in Sydney. A smaller number of large 5-star hotels in Melbourne means that there is less of a need to discount heavily to achieve a base level of occupancy, a strategy which can have a cascading effect on the whole market.



We expect capital city occupancies to generally bottom out around the mid 70% level which compares favourably compared to as low as 55% in some markets during the depths of the early 1990's recession. The fact that the next cycle will be starting from much stronger occupancy levels combined with very limited new supply in the pipeline in the majority of markets bodes well for the medium term prospects of our key capital city markets.

**Australia's Major Accommodation Markets
YTD December 2009 Trading Performance**

	Dec YTD 2009					
	Occ	% Chg	ADR	% Chg	RevPAR	% Chg
Adelaide	76.1%	-3.3%	\$158	-1.6%	\$120	-4.8%
Brisbane	77.7%	-3.8%	\$181	-6.0%	\$141	-9.6%
Melbourne	77.0%	-3.1%	\$199	-4.6%	\$153	-7.6%
Sydney	80.5%	1.6%	\$191	-9.7%	\$154	-8.2%
Perth	79.3%	-3.4%	\$184	-2.2%	\$146	-5.5%
Gold Coast	70.3%	1.7%	\$160	-6.0%	\$113	-4.3%
Cairns	71.0%	-1.9%	\$124	-9.0%	\$88	-10.8%
Darwin	78.8%	-2.5%	\$149	-5.7%	\$117	-8.1%
Canberra	74.0%	1.9%	\$165	-2.9%	\$122	-1.0%
Hobart	81.4%	4.8%	\$146	-0.5%	\$119	4.2%

Source: STR Global, Jones Lang LaSalle Hotels
Note: Selected 3-, 4- and 5-star properties

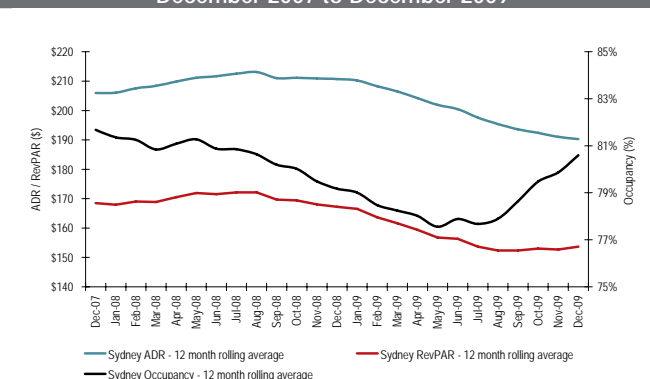
Spotlight shines on Sydney

Occupancies in October, November and December were a robust 90.2%, 89.3% and 82.3% respectively. This compares to 80.2%, 84.6% and 73.5% in 2008 and represents an increase of 13 pts in October, 6 pts in November and 9 pts in December relative to last year.

Despite the global financial crisis bearing down hard on Australia's financial capital and last winter having benefited from World Youth Day, Sydney has now posted seven months of occupancy growth on a moving annual average basis since bottoming in May 2009 at 77.6% as shown in the chart following. RevPAR has also stabilised averaging \$153 over the last four months.

'Staycationing' and a raft of promotions has seen weekend trading boom as Sydneysiders have rediscovered the delights of their city and its hotels, but these tactics have resulted in some sharp falls in the average daily rates (ADR) from 2008 peak levels. The rate of ADR decline on a moving annual average basis has moderated during the last three months and RevPAR recorded its first sequential month of growth in October and an early indication that the market may have bottomed.

**Sydney Accommodation Market – 12 Months Rolling Average
December 2007 to December 2009**



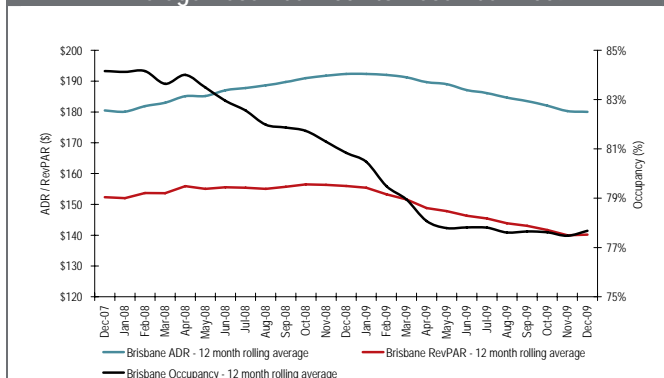
Source: STR Global, Jones Lang LaSalle Hotels
Note: Selected 3-, 4- and 5-star properties

Brisbane bounces along the bottom

Occupancies in Brisbane were quite buoyant in October and November at 84.6% and 81.8% respectively, which represented a slight decrease in both months compared to 2008 but recorded growth in December, up 2.4 pts. While not exhibiting the same early signs of growth as in Sydney, moving annual average occupancy levels have remained static since May 2009 at an average of 77.7%.

Sydney was the first market to feel the impact of the global financial crisis with the other State capitals experiencing a more lagged impact.

**Brisbane Accommodation Market – 12 Months Rolling
Average December 2007 to December 2009**

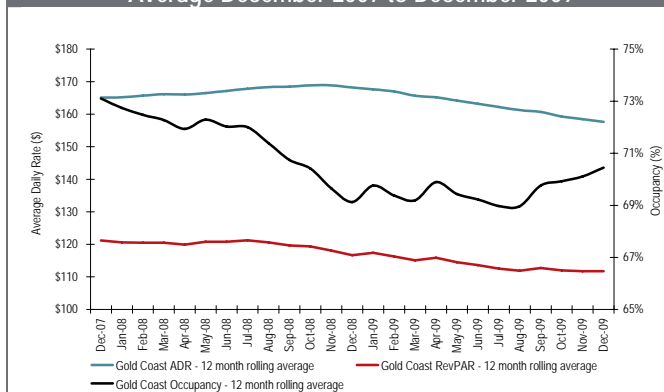


Source: STR Global, Jones Lang LaSalle Hotels
Note: Selected 3-, 4- and 5-star properties

Gold Coast

The Gold Coast has had mixed fortunes over the past year. Occupancies began to slide in mid 2008, however, the onset of the global financial crisis and slowdown in the domestic economy has seen occupancy levels increase in the peak school holiday periods during 2009. Moving annual average occupancies have recorded three consecutive months of growth since bottoming in July and August at 69.0%. The introduction of flights from mid-December by Tiger Airways from Sydney to the Gold Coast may also provide a welcome boost to demand through the summer period.

**Gold Coast Accommodation Market – 12 Months Rolling
Average December 2007 to December 2009**



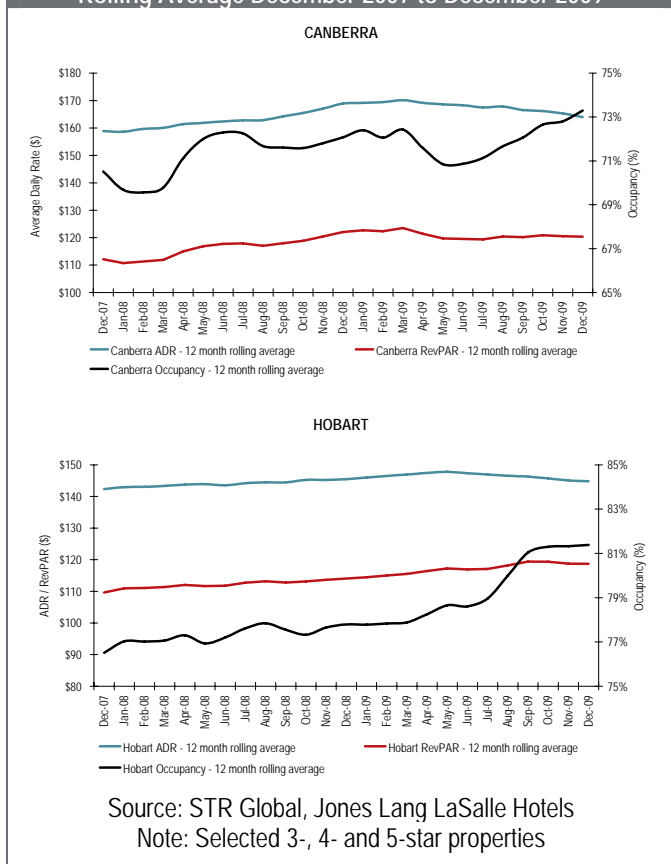
Source: STR Global, Jones Lang LaSalle Hotels
Note: Selected 3-, 4- and 5-star properties

Canberra and Hobart show greatest resilience

While both fairly small samples, the hotels we track in Canberra and Hobart have shown considerable resilience in the wake of the global financial crisis.

While occupancy levels declined during the first half of 2009 in Canberra, they have been strong in the second half averaging 77.1%. Demand conditions have been similarly robust in Hobart with occupancy levels averaging 84.0% during the last four months. Business travel has been less affected than in the State capitals and leisure travel has remained strong. Hobart in particular has also benefited from some large conferences over the course of 2009.

Canberra and Hobart Accommodation Markets – 12 Months Rolling Average December 2007 to December 2009



The more recent transactions are summarised in the following table:-

Property	Price A\$	Price per room A\$	Buyer
Lilianfels Blue Mountains	\$21m	\$247,059	Domestic private
Four Points Sydney	\$185m	\$293,651	Asian private
Surfers Paradise Marriott Resort	\$75m	\$227,964	Asian private
Rydges Townsville and Gladstone	\$34.2m	\$177,202	Domestic operator
Crest Hotel Sydney	\$72.0m	\$317,181	Domestic private
Novotel Atrium Darwin	\$24.0m	\$171,429	Domestic private
Holiday Inn Adelaide	\$34.9m	\$192,818	Asian operator
Holiday Inn City Centre Perth	\$44.0m	\$243,094	Domestic private
Mantra Southbank	\$36.5m	\$226,708	Asian private

Transactions surge as confidence recovers

Non Committal Approach

Investors understandably adopted a non committal approach during the depths of the global financial crisis, with very few hotel transactions taking place during the first half of 2009. This acute lack of confidence and comparable market evidence was best demonstrated by the fact that barely \$80 million worth of hotels sold up to June this year compared with almost \$900 million during the first half of the peak 2007 year.

In the second half of the year transactions surged tenfold to finish the year at \$873 million. This turnaround has been underpinned by confidence in the medium term outlook for Australia's key hotel markets that are largely characterised by a dearth of new supply, along with the macro indicators of an improving global economic outlook, a strong share market rally and the resilient Australian economy.

Having spent most of the past five years on the sidelines as domestic investors dominated, Asian investors have re-emerged as a driving force in 2009. Asian investment has totalled \$500 million which represents the strongest level of Asian investment since 2004. Much of this investment has been underpinned by the inclination of such investors to make balance sheet backed, long term investments at cyclical lows when debt is difficult to secure.

Domestic investment has been mostly dominated by private groups generally trading in the sub A\$50 million market with interest from this sector being motivated by high yielding returns or future development opportunities. Lowly geared domestic operators have also moved to secure strategic assets, taking advantage of the more subdued investment environment to lock in high yielding acquisitions.



Real value in a changing world

For more information, please contact:

Karen Wales

Senior Vice President Research
Asia Pacific
karen.wales@ap.jll.com
+61 2 9220 8779

Troy Craig

Executive Vice President
Strategic Advisory Australia
troy.craig@ap.jll.com
+61 2 9220 8788

www.joneslanglasallehotels.com.au
www.research.joneslanglasallehotels.com