REPORT

STUDY:	Greenfield Study into Short Term Accommodation Development in Australia
PREPARED FOR:	Tourism Australia
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1 Executive Summary

The hotel and resort market is affected by the performance of the general property market, as it impacts investors' level of perceived risk and return. Hotels can offer an attractive proposition with higher yields and the opportunity for income growth. Consistent with investment grade real estate, hotel yields have contracted over the last ten years. Whilst to some extent correlated, this also represents a re-grading of the hotel sector by investors and their perception of its' relative risk. Historically, these characteristics have kept many investors at bay however the acceptance of tourism a strong contributor to the global economy and improved market transparency has seen new investor types move into the sector and increased cross border capital flows.

Over the past fifteen years, investment in Australian hotel real estate has been dominated by investment funds, hotel operators and private investors and with investment fairly evenly split between domestic and offshore parties. Offshore investment has been dominated by Asian family owned companies who have proven to be countercyclical investors, buying in the trough of the market and achieving a strong capital gain. Cross border investment is heavily influenced by perceived discrepancies in asset valuations and relative cost of capital across borders and moves in long waves as the overhead costs of entering or leaving real estate markets are relatively high. The ability to broaden the investment pool to attract new capital sources and investor groupings can provide a free kick for existing assets in terms of capital growth and indirectly improve the viability of new accommodation development by placing downward pressure on investment yields, at least until new projects materialise.

Alternatives to the traditional debt and equity funding have also emerged where the property is divided into multiple parcels of direct property ownership or the 'right to use' the property, most commonly in the form of strata-titled serviced apartments. This type of development has dominated in Australia over the past fifteen years and resulted in the rapid expansion in supply of this sector relative to hotels. Collectively, strata owners are now the largest owner of Australian accommodation real estate.

The development of hotels and resorts is generally considered high risk with few "traditional" styled projects providing reasonable profit or return on capital over the past fifteen years as hotel values have not kept pace with the rapid growth in construction and underlying land costs. Offshore investor appetite for accommodation development in Australia remains largely benign given this paradigm, as well as the additional country and currency risk from not operating within your own domicile. Capital is therefore being directed towards established assets. Notwithstanding the general lack of viability, offshore investors who have acquired an established asset as an entry point investment have shown a greater willingness to consider short term accommodation development or refurbishment, once they have become more comfortable with the country's accounting, legal, tax and compliance regulations, as well as having developed a better understanding of the local operational and investment markets.

Australia, and specifically Sydney, remains a primary target for many global investors however projects need to be economically viable for groups to develop. Analysis of the current construction and operating dynamics in London, New York and Singapore highlights the extent to which development capital is likely to be directed towards London or Singapore rather than Sydney (or New York) given the apparent higher return with Sydney (and Australia) being a high cost (construction and operating costs) but low RevPAR environment. However, whilst acting as a barrier to new supply, it is these very factors which currently underpin Australia's allure as a global hotel investment destination as the current market dynamics provide a compelling story. Any significant change to these industry fundamentals could result in capital being directed elsewhere.

In our opinion, efforts should focus on investor education (i.e. how it can be done, who can help, partners etc.) whilst also promoting the benefits of investing in Australia's short term accommodation sector by making information about the operational and investment markets available (or links to consultants who have the knowledge to assist).

Where specific short term accommodation development opportunities are to be promoted, it would be preferable if these were internally graded or verified with respect to their overall viability and that only the most viable projects are offered. These projects will have a greater probability of advancing and are more likely to attract sophisticated well-capitalised investors rather emotive, opportunistic one-off investments which will ultimately enhance the chance of success, whilst also broadening the investor pool to new capital sources which may invest in multiple projects over the medium to long term.

1.1 Stakeholder Consultation

As part of our primary research we surveyed 100 industry stakeholders from around the world about the attractiveness of Australia as an investment destination for accommodation real estate, as well as their opinion on a range of factors impacting the future development of the short term accommodation market. The following table highlights Australia's key strengths, weaknesses, opportunities and threats as an accommodation investment destination, listed in order of the strength of opinion.

Strengths	Weaknesses
• Risk profile • Capital growth potential • Political environment • Liquidity • Income growth potential	• Labour costs • Energy costs • Refurbishment costs • Market size • Government marketing support
Opportunities	**Threats**
• Current industry fundamentals • Increased visitation from Asia and in particular China • Mid market / limited service hotels and mixed use developments • Refurbishment of existing assets and repositioning opportunities • Yield seeking investment	• Labour costs, productivity and inflexible work ethics which result in low service experience, particularly compared to Asia • High or increasing operating and refurbishment costs • Strength of the Australian dollar • Inconsistent policy, poor planning and bad governments leading to build up of supply and volatility in accommodation markets • High cost of development and poor quality accommodation product

Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

Other key findings from our consultation include:

- Overwhelmingly investment returns and growth potential are ranked as the two greatest considerations when investing in a particular country or location followed by a transparent real estate market and the availability of information on which to base investment decisions;

- Australia is ranked very highly as a global investment destination with no markets thought of as a more attractive investment destination;

- The majority of stakeholders think that Australian capital city hotel property investment values are in the early upturn phase of the cycle;

- The majority of stakeholders are planning to increase their exposure to accommodation real estate in Australia's state capitals over the next ten years and notably over the medium term (three years). Appetite for increased investment in the state capitals is three times stronger than for key leisure centres and four times stronger than for regional Australia;

- Most stakeholders are targeting new hotel acquisition opportunities, the refurbishment of existing stock and new management opportunities. Results show that conversion opportunities are likely to be considered ahead of new accommodation development given the perceived lower risk;

- Sydney, Melbourne, Brisbane and Perth are the most favoured accommodation markets whereas mixed use developments and select service hotels are the most favoured accommodation segments;

- Broadly city accommodation markets are thought to be moderately undersupplied and are expected to remain so until 2015-2017 when markets will move towards a neutral positioning until 2020;

- Select service, budget and mixed use accommodation development is thought to be viable with viability peaking between 2015 and 2017. Stand-alone luxury and upscale hotel development is expected to remain unviable over the long term with stakeholders noting that the low average room rates in Australian cities does not support the higher cost of construction for these product types;

- The high cost of construction was highlighted as the single greatest impediment to new accommodation development, as well as the better returns offered by higher alternate use and the fact that operating costs are too high. Impediments prohibiting new accommodation development in Australia are thought to be greater than for other real estate asset classes and in other jurisdictions;

- Feasibility concerns were most commonly highlighted as the primary reason why accommodation development projects did not progress as planned;

- Australia ranked better than other jurisdictions for investment advice and understanding of the tourism industry, but considerably worse for assessment timeframes, consistency between government departments, local government advice and town planning schemes;

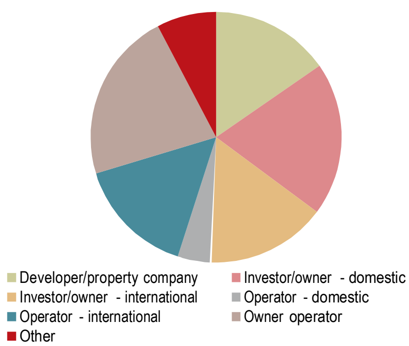
- A funding gap persists between current and optimal LVRs (loan to value ratios) offered by financiers of -7.5 points for existing assets and -12.1 points for new development; and

- Three quarters of respondents are in favour of federal, state and local government policy initiatives being used to stimulate accommodation development. Incentives most favoured by stakeholders are payroll tax reform, better terms offered by financiers, concessions on long term ground leases, accelerated depreciation for accommodation assets and incentives for heritage conversion to tourism use.

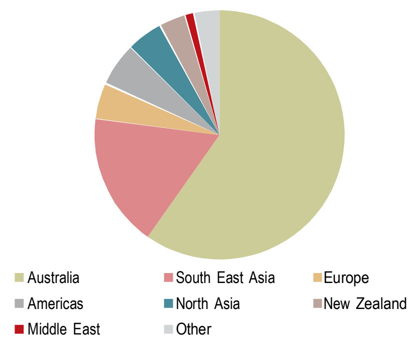
2 Stakeholder Consultation

The following charts provide a profile of the 100 survey respondents, which included a mix of international and domestic developers, owners and operators from companies headquartered around the world.

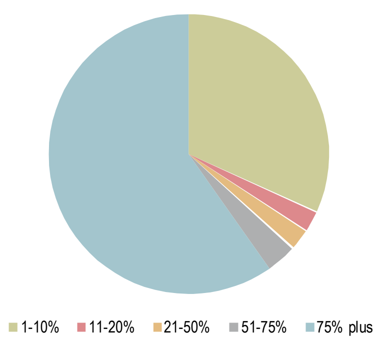
Investor Type



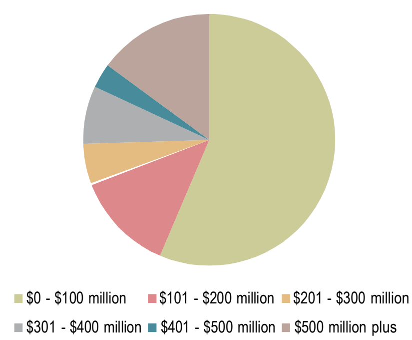
Company Headquarters



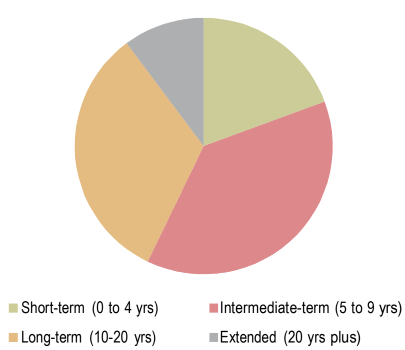
PPN of Accommodation Real Estate Invested in Australia



$ Value of Accommodation Real Estate in Australia



Investment Horizon



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

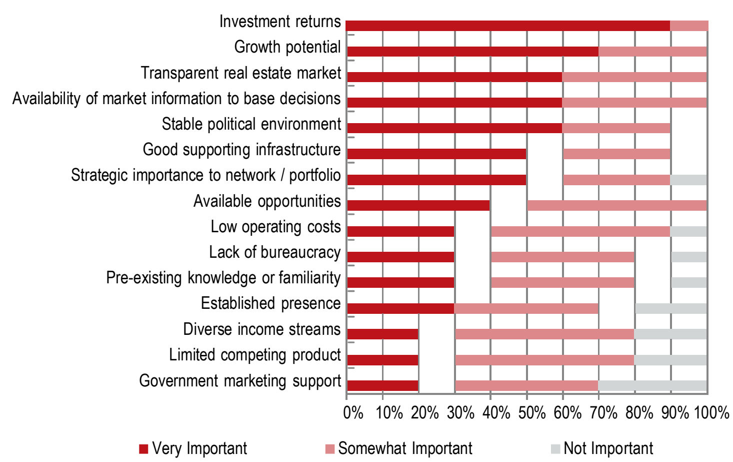
2.1 Attractiveness of Australia as an Investment Destination

The Australian hotel investment market has experienced strong capital inflows over the past four years with offshore investors accounting for 67% of capital invested in the sector during this time. Capital is primarily being sourced from Asia, notably Singapore, Hong Kong and Malaysia, but with growing investor enquiry from China as well as select interest from global and sovereign wealth funds seeking large-scale core plus opportunities.

2.1.1 Primary Considerations

Overwhelmingly investment returns and growth potential are ranked as the two greatest considerations when investing in a particular country or location with both being rated as very important by the majority of stakeholders (89.3% and 71.4% respectively) and somewhat important (10.7% and 28.6%% respectively) by the others. This was followed by a transparent real estate market (61% and 37% respectively) and the availability of information on which to base investment decisions (60% and 38%) as shown in the chart below.

Accommodation Investment
Stakeholder's Primary Considerations



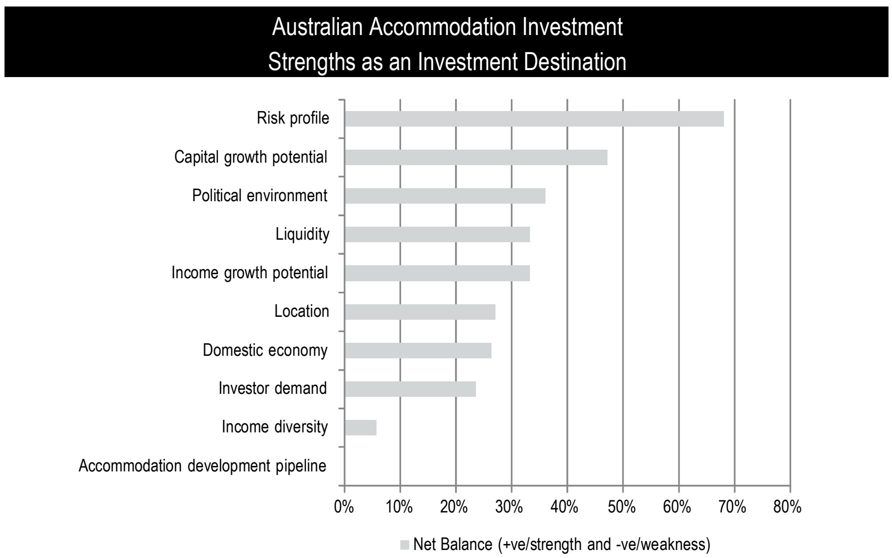
Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

Australia has been ranked no.1 in Jones Lang LaSalle's real estate transparency index for over a decade and investment in the accommodation sector has been underpinned by a long-standing continuous data series which tracks hotel trading performance including changes in supply and demand and dates back to 1989 in most markets. This has enabled industry participants to analyse historical market cycles and identify lead and lag indicators for accommodation performance as highlighted in Section Three. The recent decision by the ABS to discontinue this thirty year quarterly survey in July 2013 and replace it with an annual survey (lagged by 15 months) therefore represents a major backwards step for the Australian hotel investment market and will act as a disincentive to future capital inflows to the sector.

2.1.2 Strengths & Weaknesses

We asked survey participants to highlight Australia's key strengths and weaknesses as an investment destination for accommodation real estate from a range of twenty possible reasons. On balance, nine were highlighted as strengths, ten as weaknesses and one neither a strength nor weakness.

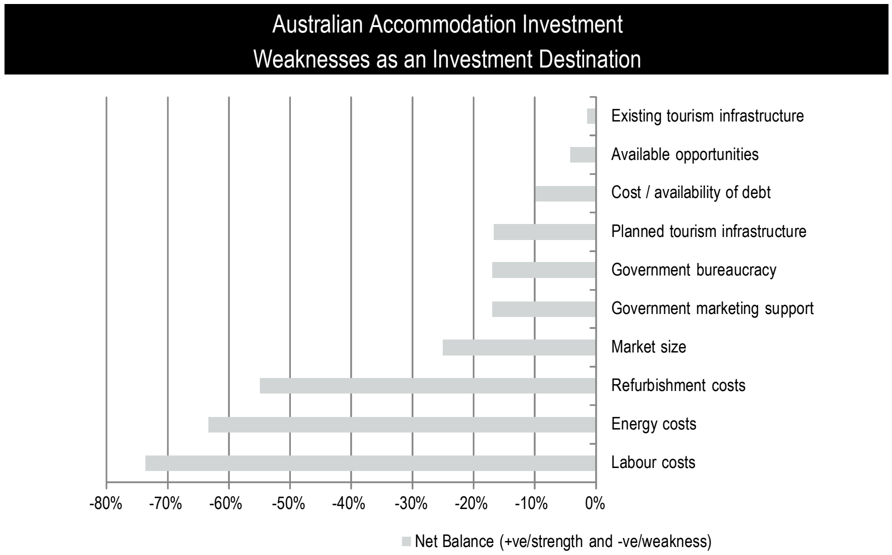
The country's risk profile (68.1%), capital growth potential (47.2%) and political environment (36.1%) were rated as the greatest strengths, closely followed by liquidity (33.3%) and income growth potential (33.3%) as shown in the table below. Interestingly, location (27.1%) was also highlighted as strength.



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

High operating costs were noted as the greatest weaknesses, in particular labour (-73.6%), energy (-63.4%) and refurbishment (-54.9%) costs as shown in the chart following. The (small) size of the accommodation market (-25.0%) and government marketing support (-16.9%) were also highlighted as weaknesses for the country as an investment destination for accommodation real estate.

Jones Lang LaSalle's Hotels & Hospitality Group estimated that were around 170,000 'investment grade' accommodation rooms at the end of 2011 or approximately 75.0% of the total Australian room supply representing an investment sector of $38.4 billion, albeit with 70% of stock located in five markets – Sydney, Melbourne, Brisbane, Gold Coast and Perth.



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

2.1.3 Opportunities & Threats

We also asked survey respondents to identify the greatest opportunities for domestic and foreign direct investment in Australian accommodation real estate over the coming decade: These have been grouped together and are summarised in the table below in order of magnitude.

Opportunities
• Current supply, demand and pricing fundamentals
• Increased visitation from Asia and in particular China
• Mid market and limited service hotels, upscale mixed use developments
• Refurbishment of existing assets and repositioning opportunities
• Yield seeking investment
• Certainty of surety & market stability
• Setting a clear and compelling long range tourism strategy for Australia, and having a dedicated Tourism minister with a budget equal to the countries' ambitions to have tourism as a central pillar to economic growth.
• Hybrid hotel products - low service, high quality finish, low cost to build
• Domestic hotels / business travel
• Under performing leisure markets in Queensland if international promotion, appropriate town planning & air transport links are significantly improved
• Mining towns
• Government incentives (very cheap land) for new build hotels.

- Lower Australian dollar to attract international tourists
- Open up Federal Aviation policy to attract more foreign airlines
- Internationally branded hotels for investment by international REITs and sovereign wealth funds
- Fresh air, fresh food and fun things to do
- Spatial distribution of population growth

Threats

- Labour costs, low productivity and inflexible work ethics which result in low service experience particularly compared to Asia
- High or increasing operating and refurbishment costs
- Strength of the Australian dollar
- Political chaos, inconsistent policy, poor planning and bad governments leading to build up of supply and volatility in markets
- High cost of development and poor quality accommodation product
- Mining slowdown or instability in the global economy
- Insufficient investment in tourism and related infrastructure
- Oversupply, particularly in small state capitals (e.g. Brisbane & Perth)
- Increasing bureaucracy, red tape
- Changes to tax regime

2.1.4 Comparison to Competing Investment Destinations

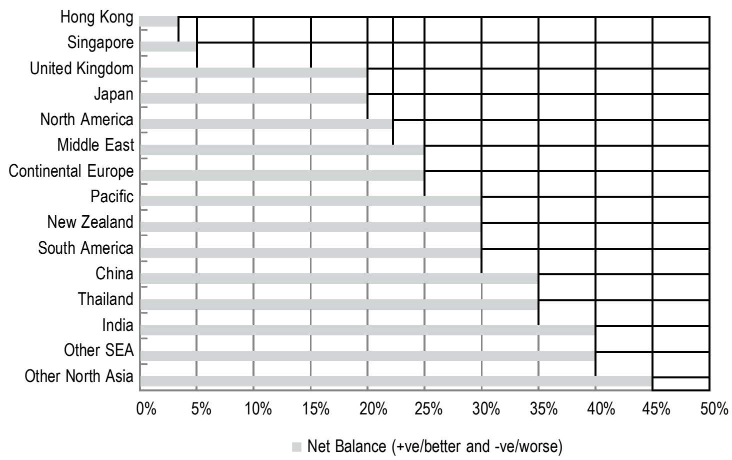
We asked survey participants to rank the attractiveness of Australia as an accommodation real estate investment destination relative to competing global destinations with the net balance of opinion shown in the chart below.

Net balance is the percentage of respondents who respond positively minus the percentage of respondents who respond negatively. The maximum score of + or – 100% indicates that all respondents have given a positive or negative response respectively. A score of 0% indicates the same number of positive and negative responses to a particular question.

Stakeholders rate Australia very highly with only Singapore and Hong Kong as well-regarded with the majority of respondents advising a neutral positioning for these markets albeit with responses weighted slightly in favour of Australia. The low ranking of some premier international markets located further afield is thought in part to reflect the predisposition of stakeholders to the Asia Pacific region.

Jones Lang LaSalle

Investment in Accommodation Real Estate
Comparison to Competing Destinations for Investment Capital



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

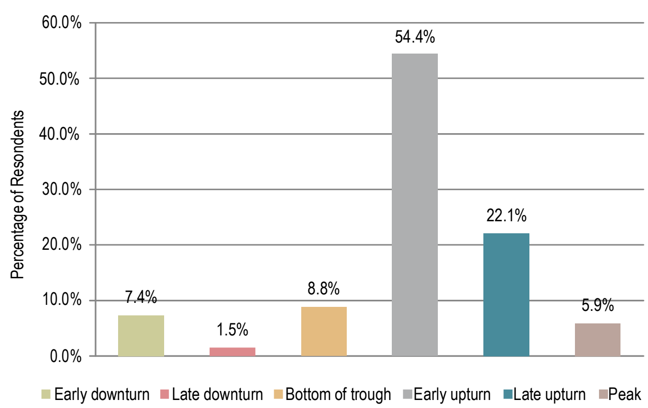
2.2 Investment Intentions

With operational and investment strategies broadly aligned to hotel market cycle as outlined in Section Three, we asked stakeholders a range of questions regarding their short and medium term investment strategies.

2.2.1 Stage in the Property Cycle

Overwhelmingly, industry participants believe that Australian city accommodation markets are in the upturn phase of the cycle with more than three quarters of respondents stating this, and with the majority anticipating that markets are in the early upturn phase as shown in the chart following.

Stage in the Property Cycle
Australian Capital City Accommodation Real Estate

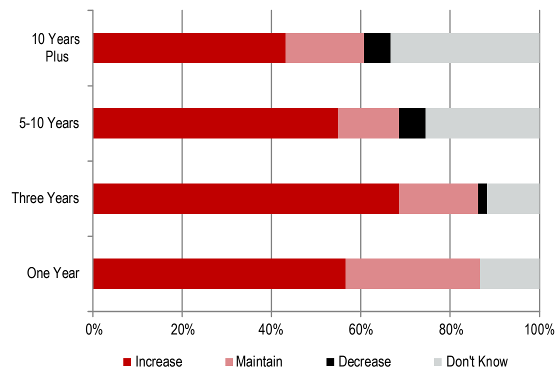


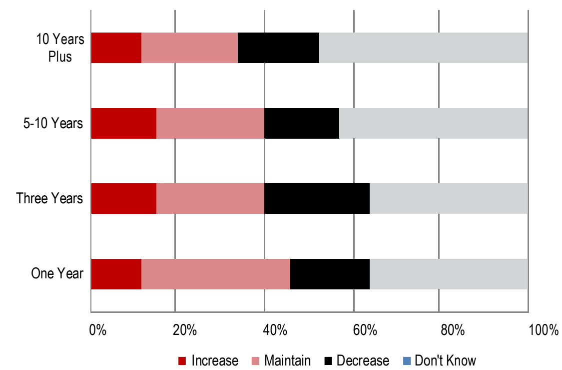
Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

2.2.2 Change in Investment in Accommodation Real Estate

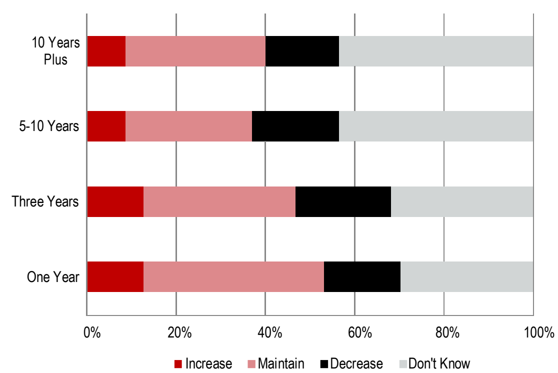
With Australian capital city hotel markets largely understood to be in the early upturn phase of the property cycle, it is not surprising that the majority of investors (60% to 80% excluding those who stated 'don't know') are looking to increase their exposure to accommodation real estate in these locations over the next ten years with appetite strongest for increased investment over the next three years with almost 80% of investors looking to increase their portfolio holdings at this time as shown in the chart following.

Major Cities	Leisure Centres





Regional Centres	



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

Conversely investment in key leisure centres and regional Australia is likely to remain low by comparison with 20%-30% of stakeholders looking to increase their level of investment in major leisure destinations and 15%-20% in regional Australia. Whilst the survey results indicate that capital targeting regional Australia is likely to peak over the next three years, increased investment in the key leisure destinations will come later peaking between the next five and ten years.

2.2.3 Nature of Planned Investment

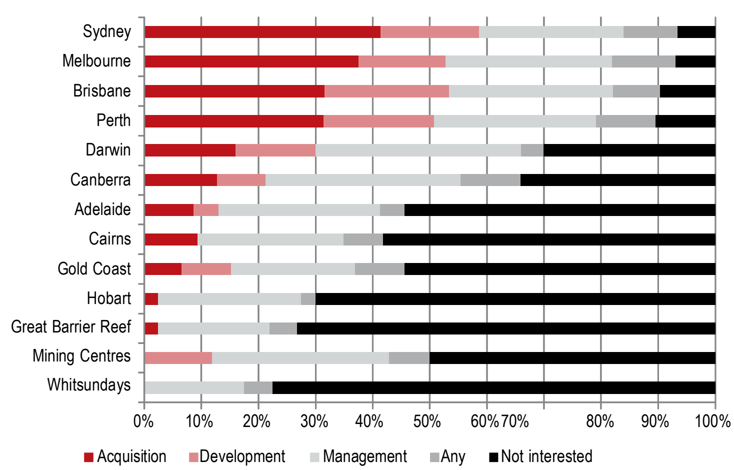
Reflecting the current stage in the property investment cycle, the majority of stakeholders are targeting new hotel acquisition opportunities (20.9%), as well as the refurbishment of existing stock (19.0%) which reflects the fact that many hotels have traded at high occupancy levels for an extended period of time, and new management opportunities (18.4%). Results show that conversion of building use opportunities (17.7%) are likely to be considered ahead of new accommodation development given the perceived lower risk associated with this type of development with only a small proportion of stakeholders targeting the purchase and/or development of existing owned land (12.7% and 11.4%).

Factor	% of Respondents
New hotel acquisition opportunities	20.9%
Refurbishment of existing stock	19.0%
New management opportunities	18.4%
New conversion acquisition opportunities	17.7%
Land purchase and development	12.7%
Development of existing land	11.4%
Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey	

2.2.4 Markets of Interest

With trading in Australia's accommodation markets having recovered at varied rates over the past few years, we asked stakeholders which markets were of most interest and what the likely nature of their investment would be i.e. acquisition, management or development. The results are shown in the chart following.

Accommodation Investment
Australian Markets of Interest



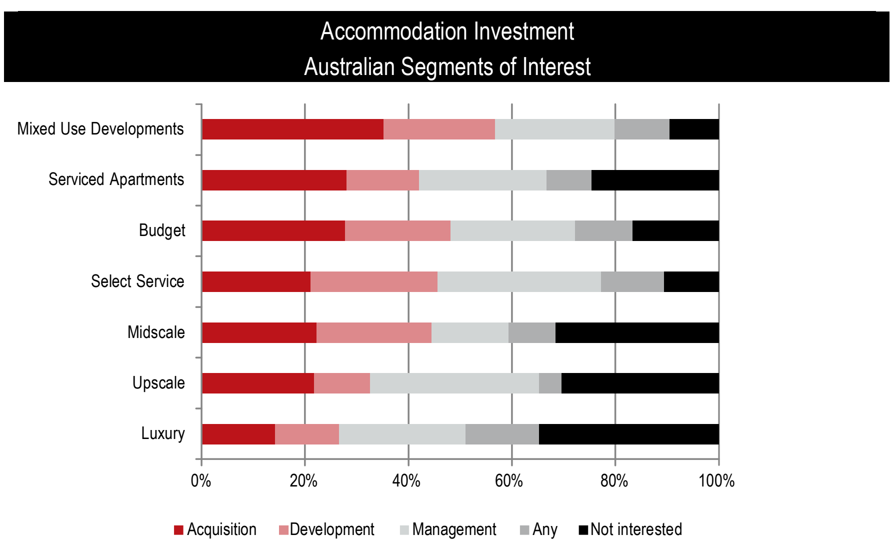
Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

Sydney and Melbourne were the most highly rated with 90% of stakeholders favouring investment in these cities and across the full spectrum of investment options. This was followed closely by Brisbane and Perth. Of these four markets, Melbourne ranked lowest for development and Brisbane highest. Darwin and Canberra were the next most favoured markets with around 70% of stakeholders looking to invest albeit primarily targeting new management opportunities. Opinion was split for Adelaide, Cairns and the mining centres with about half of respondents keen to invest, albeit dominated once again by participants seeking new management opportunities. With limited quality stock available in Australia's mining centres, new development is favoured over the acquisition of established stock. Hobart, the Great Barrier Reef and Whitsundays all ranked very low for acquisition and with no stakeholders expressing an interest in developing in these three markets.

2.2.5 Segments of Interest

We also asked stakeholders to comment on which segments were of most interest and what the likely nature of their investment would be i.e. acquisition, management or development. The results are shown in the chart following.

Mixed use developments and select service hotels were the most highly rated segments with around 90% of stakeholders favouring investment in these. Whilst mixed use developments were most favoured for acquisition (35.1%), select service hotels were being targeted for management (31.6%) and with both being rated highly for development (21.6% and 24.6% respectively). Other segments favoured for development included midscale (22.2%) and budget hotels (20.4%) as shown in the chart following.



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

Appetite for the luxury and upscale segments was low by comparison with one third of stakeholders stating that they were not interested in these segments and with both most favoured for management opportunities at 24.5% and 34.6% respectively. The proportion of investors looking to develop was low at 12.2% and 10.9% respectively and with serviced apartments recording a similarly low level for development (14.0%).

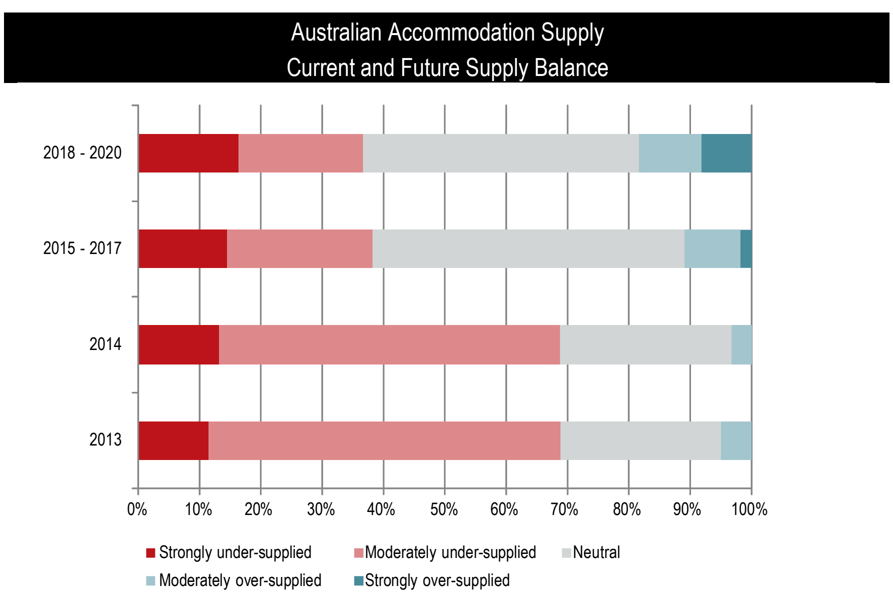
2.3 Accommodation Development

The fact that many of Australia's key city hotel markets are now trading at or above the pre-global financial crisis RevPAR (Revenue per Available Room level) poses the question as to why the feasibility gap is still constraining new accommodation supply. We asked stakeholders to comment on a range of issues regarding accommodation development including the current and future supply imbalance, the viability of developing new accommodation product and the current impediments to doing so.

2.3.1 Accommodation Supply

We asked stakeholders broadly how they perceived the current and future supply of short term accommodation in Australia's major cities over the period to 2020. Broadly markets are understood to currently be moderately undersupplied and are expected to remain so until 2015-2017 when markets will move towards a neutral positioning with wholesale development continuing to be held back by market forces. This situation is expected to persist to 2020, albeit ultimately determined by the level of investment returns and performance trends in alternate uses and what this does for underlying development land value. As seen in the international case studies in Section Four for London, a change in these two metrics can influence the extent of accommodation development pipeline considerably.

On the whole it was noted that until ADR growth was apparent in Australia's accommodation market that any increases in supply would have a detrimental effect on property returns as Australian hotel ADR is very volatile and prone to over react. Some stakeholders noted that Sydney, Perth, Brisbane and Darwin were the most undersupplied, whereas Adelaide is thought to be oversupplied (and with a strong development pipeline). The size of Sydney's accommodation supply pipeline with new projects currently timed to come on line at the same time was also highlighted as a concern with new development underpinned by factors outside of hotel development feasibility. It was also noted that the use of residential apartments (not purpose built serviced apartments) was not an appropriate substitute for attracting investment and developing tourism.



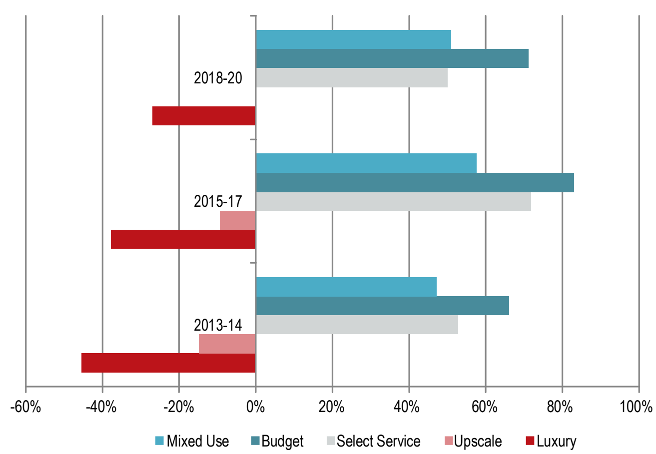
Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

2.3.2 Viability of New Accommodation Development

We also asked stakeholders to comment on the viability of accommodation development across the various segments and with the net balance of opinion shown in the chart below. Generally stakeholders believe that select service, budget and mixed use developments are currently viable and are expected to remain so over the period to 2020. The viability of new accommodation development is expected to peak between 2015 and 2017, which is in line with current industry consensus about the timing of the next development cycle. Viability will reduce thereafter as new accommodation product comes online.

Stand-alone luxury and upscale hotel development is expected to remain largely unviable over the period to 2020 as stakeholders noted that the low average room rates in Australia do not support the higher cost of construction for these product types. Further, that upscale hotels will only be viable if the land is offered at a discount or is leased or is built as part of a larger mixed use development (see Section Six).

Australian Accommodation Supply
Viability of Developing New Accommodation Product



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

Some stakeholders noted that the introduction of modular construction techniques in Australia would assist in making mid-market and budget hotel development more viable although these construction techniques are generally not thought appropriate for higher grades of accommodation development. Globally, there have been only a few sales of modularly constructed hotels and whilst initial indications are that there is not difference in pricing for these assets, it remains to be seen how investment yields will compare over the medium to long term.

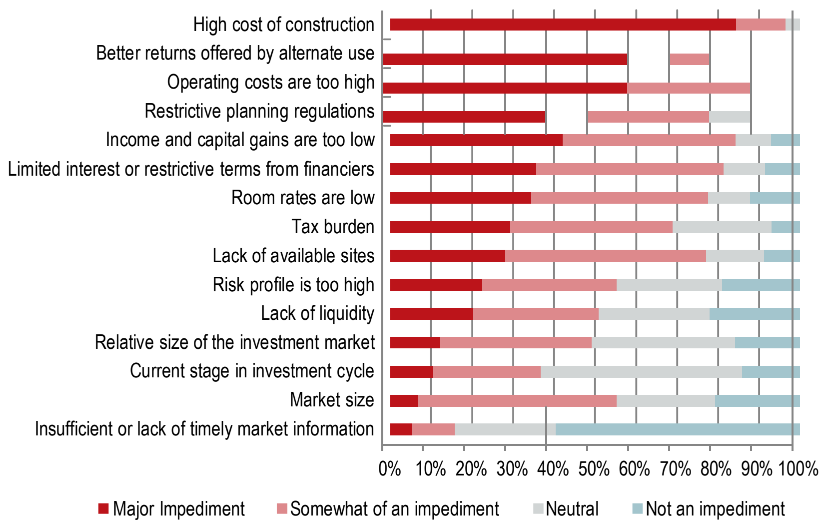
2.3.3 Impediments to New Supply

JLL's Hotels and Hospitality group estimate that Australia's major capital cities are currently three quarters of the way through an extended period of below average annual supply increases which on the basis of current projections is expected to run for around sixteen years between 2001 and 2016. Whilst in part reflecting the magnitude of supply increases during the previous two cycles, this also highlights the impediments which currently and are expected to continue to hold back new accommodation supply. We asked stakeholders to comment on these market forces as shown in the chart following.

The high cost of construction was highlighted as the single greatest impediment with 84.5% of industry participants ranking it as a major impediment and a further 12.1% as somewhat of an impediment. Put simply by one stakeholder - there is plenty of land, there is plenty of capital but hotel development is not viable at current room rates compared to the level of construction costs. Other major impediments highlighted by stakeholders include the better returns offered by higher alternate use and the fact that operating costs are too high.

Whilst gains in residential real estate have remained fairly muted in the post-GFC era, any significant change in the coming years could result in another period of supply withdrawal as was evident at the turn of the century when a number of hotels closed for residential conversion. All major accommodation markets except for Melbourne recorded a reduction in accommodation room supply in one or more years between 2001 and 2006 as the residential property sector boomed.

Australian Accommodation Supply
Impediments to New Supply



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

Hotels have also come under increasing cost pressures in recent years from higher labour, distribution, energy and insurance costs which is being compounded by increased refurbishment costs from trading at very high occupancy levels for an extended period of time as well as the old age of existing accommodation product. JLL estimate that around one quarter of investment grade accommodation rooms are aged 20 years plus and that this poses a problem for the industry over the coming decade. It is generally accepted that the sustainable life for a real estate building is around 30 to 40 years before extensive refurbishment and replacement works are required. Technology is becoming a key differentiator as it requires significant investment in infrastructure (e.g. cabling, wireless hot spots, bandwidth and functionality), which can be difficult to in old real estate product without extensive refurbishment.

On the whole industry participants believe there are more impediments prohibiting the development of hotels in Australia compared to other real estate asset classes (office, retail & industrial) with which they are familiar (66.7% of stakeholders) and more than in other jurisdictions (58.7% of stakeholders).

2.3.4 Stalled Accommodation Developments

Notwithstanding all of the impediments outlined above, tourist accommodation development approvals have totalled $13 billion since June 2000 (ABS, building approvals). This represents an average of $86 million per month however we estimate that only around 50% of these projects have progressed (33,000 rooms) with others stalling at various points in the development process (as outlined in Section Five). Whilst opinion between stakeholders is quite varied, feasibility concerns (23.5%) were most commonly highlighted as the primary reason why accommodation development projects did not progress as planned, followed by better returns from alternate use (19.3%) and lengthy and onerous approval processes (19.3%) as shown in the table below.

Factor	% of Respondents
Feasibility concerns	23.5%
Better returns from alternate use	22.9%
Lengthy and onerous approval processes	19.3%
Difficulty in sourcing bank funding for tourism projects	18.7%
Lack of cohesion across government departments	15.1%
Lack of operator interest	0.6%
Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey	

2.3.5 Development Approval Processes

We asked stakeholders to rate the development approval processes in Australia against a range of factors compared to other jurisdictions with which they were familiar. The net balance of responses is provided in the table following with a negative ranking indicating where stakeholders rated that factor poor compared to the other jurisdictions (and positive therefore being good).

Factor	% of Respondents
Development assessment timeframes	-41.5%
Consistency between government departments	-34.6%
Local government advice	-34.0%
Town planning schemes	-28.8%
Understanding of development financing issues	-1.9%
Understanding of the tourism industry	5.7%
Investment advice	26.4%
Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey	

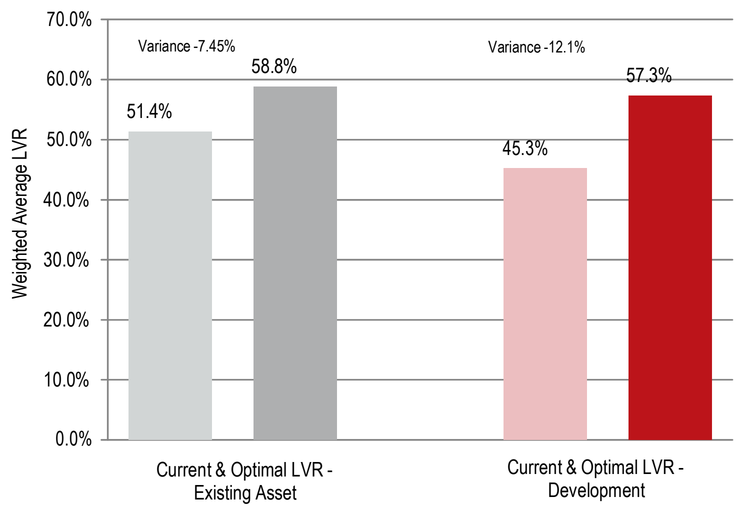
Australia ranked better than other jurisdictions for two factors – investment advice and understanding of the tourism industry, but considerably worse for factors relating to the overall process and interaction with government departments, notably assessment timeframes, consistency between government departments, local government advice and town planning schemes. Improvements to the development process to reduce assessment timeframes and re-orientate the service to focus on working with proponents to progress projects may result in more accommodation development projects coming to fruition. Whilst some stakeholders felt that the level of service and understanding varied between the states, the response was not overwhelming.

2.4 Debt Financing

Limited interest or restrictive terms from financiers was highlighted as the sixth greatest impediment to new accommodation development with more than 80% of stakeholders stating such, albeit with the majority stating it was somewhat of an impediment (45.8%).

We asked investors their opinion on what level of debt funding was currently available and what was the optimal level for financing existing and the development of new accommodation product. A weighted average across all responses was calculated as shown in the chart following. This highlights how the gap between current and optimal terms is greatest for accommodation development at -12.1 points compared to -7.5 points for existing assets. It was noted that there legacy issues from previous cycles continue to hold back accommodation development LVRs in Australia.

Stakeholder Consultation
Current and Optimal Level of Accommodation Debt Funding in Australia's State Capitals



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

2.5 Policy Initiatives

In order to promote hotel development and overcome their general lack of viability, Australian governments and/or planning authorities have in the past provided one or several of the following:

- Permitted increased development area on land through higher floor space ratios;
- Allowed development to be strata titled;
- Offered development land at a price or lease terms consistent with hotel use rather than for an often higher commercial office or residential use; and
- Allowed the hotel to be developed in conjunction with more viable residential, retail, or office use.

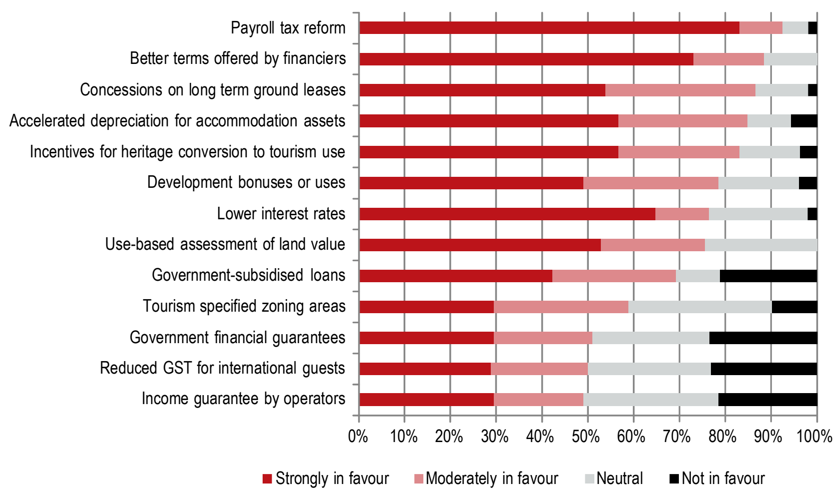
Policy initiatives seek to narrow the financing gap between the value of the property and the development cost by shifting some portion of the investment risk from the developer to the public sector (which may be better positioned to accept such risk) as outlined in Section Six.

Almost three quarters of respondents (73%) believe that policy initiatives should be used to stimulate the development of tourist accommodation in Australia.

2.6 Incentives

Incentives most favoured by stakeholders include payroll tax reform, better terms offered by financiers, concessions on long term ground leases, accelerated depreciation for accommodation assets and incentives for heritage conversion to tourism use with more than 80% of stakeholders either strongly or moderately in favour of such incentives as shown in the chart following.

Stakeholder Consultation
Incentives to Encourage Accommodation Development in Australia



Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey

2.7 Role of Government

Whilst quite varied, stakeholders believe that the best way that the Federal Government can make Australia a more attractive place for tourism investment/development in the period to 2020 is to improve planning and policy to make investment easier (17.9%). Better promotion of Australia as a tourist destination (16.3%) and the development of associated tourism infrastructure (16.3%) were also highlighted as the other key activities that the Federal Government should focus on as shown in the table following.

Factor	% of Respondents
Improve planning and policy to make investment easier	17.9%
Better promotion of Australia as a destination	16.3%
Development of associated tourism infrastructure	16.3%
Work with the private sector to maximise investment opportunities by offering incentives	15.0%
Make sites available at reduced land cost	14.6%
Regular and detailed communication about potential opportunities	10.6%
Better access to information to support investment decisions	9.3%
Source: JLL/TA Short Term Accommodation Stakeholder Consultation Survey	

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