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Tourism and Hotel Market Outlook

Executive summary

Edition 2 2021

Deloitte Access Economics

About the tourism and hotel market outlook

The Deloitte Access Economics **Tourism and Hotel Market Outlook** provides insights into the issues facing the Australian tourism and hotel sectors, including in-depth analysis of recent trends and their underlying drivers across the domestic and international tourism markets.

Against the backdrop of Deloitte Access Economics' latest economic forecasts, projections are provided for domestic and international tourism over the next three years.

Building on projected travel demand and an assessment of the hotel pipeline in Australia, detailed three-year forecasts are provided for occupancy, room rates and RevPAR for 11 of the country's major hotel markets - including all capital cities, Gold Coast, Tropical North Queensland and Western Sydney.

While our forecasts are based on a forecasting methodology and a hotel market model developed over 15 years, due to the COVID-19 pandemic, we have overlayed our forecast with bespoke behavioural and operational adjustments including short and long-term consumer sentiment indicators.

The Tourism and Hotel Market Outlook is designed for a general audience. Please contact us to discuss how this capability can be tailored to a bespoke market or market segment.

The hotel forecasts in the 2021 editions of the Tourism and Hotel Market Outlook are now delivered in an interactive Tableau dashboard format.

The Tourism and Hotel Market Outlook dashboard covers a series of topics, including a recovery tracker, the macroeconomic outlook, the market performance and the hotel market outlook for each of the eleven hotel markets.

We look forward to client feedback on this new output format to refine in future editions.

Executive summary

The Australian tourism sector has grappled with the devastating impacts of the global COVID-19 pandemic for over 18 months, a much longer period than many have anticipated. The success of Australia's vaccination program has provided confidence to State and Territory governments to plan for borders re-opening to welcome back interstate and, eventually, international visitors. Despite this, the journey to rebuild the tourism sector remains highly uncertain. The unknowns around the omicron variant have rattled the tourism sector and add yet another layer of uncertainty to economic and tourism recovery, and by extension to the forecasts included in this publication.

The economic context

While the disruption caused by COVID-19 has temporarily modified the framework for forecasting tourism demand, the underlying macroeconomic drivers of demand remain a critical pillar for the forecasts. Expectations for the rebound of economic activity, measured by income, population, inflation, international trade and exchange rates underpin the expected recovery of the tourism sector. The outlook for these variables are featured in this section.

With travel restrictions gradually easing for most parts of the country and the lifting of the international travel ban in Australia, the recovery of the tourism sector and hotel industry can now move forward more swiftly. That said, the measures put in place by governments to bring the pandemic under control have remained far longer than expected, with the effects of the health crisis on the tourism sector to continue much further even with the relaxing of restrictions.

There remains a certain degree of uncertainty as tourism recovery is highly dependent on several interrelated external factors, one of which is the rebound of economic activity in Australia and in its respective international tourism source markets.

The first section below discusses the economic conditions in Australia and globally measured by GDP, unemployment rate, household savings, spending and, of particularly importance to Australia, population growth which has historically been driven by international migration. How quickly these key economic drivers bounce back to pre-pandemic levels will underpin the recovery journey of the tourism sector along with the key decisions that businesses and government make to facilitate the return of travel.

Global economic conditions

The developed world's economic recovery is solidifying in 2021, in large thanks to COVID-19 vaccines enabling them to open back up. However, the populations of low-income countries remain largely unvaccinated. Vaccination disparity will continue to pose a risk to the global economic outlook as it leaves open the possibility for new mutations to develop and spread across the globe.

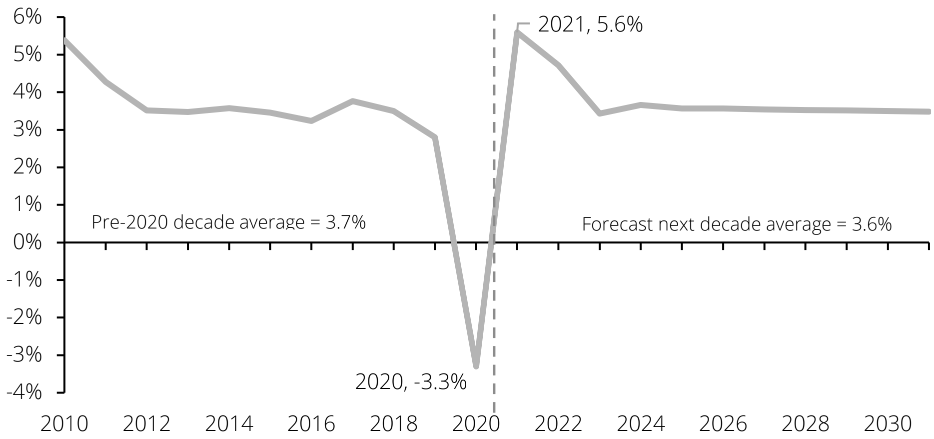
Thus, global economic growth is forecast to be two-track, with advanced economies recovering further through 2022, while low-income nations continue to feel economic pain into 2023.

The bulk of global economic activity will continue to be driven by large high-income nations (the United States and much of Europe) as well as the emerging powers of India and China.

Chart i shows that following an estimated fall of 3.3 per cent in global economic growth in 2020 (measured by real GDP), a rebound of 5.6 per cent is estimated for 2021.

The post-pandemic rebound will continue to influence global economic growth in 2022, forecast to be 4.7 per cent. This figure boosts the average annual rate of global economic growth forecast for the next decade to 2031) to 3.6 per cent, slightly lower than pre-2020.

Chart i: Annual global economic growth forecast, worldwide real GDP



Source: Deloitte Access Economics, Business Outlook September 2021

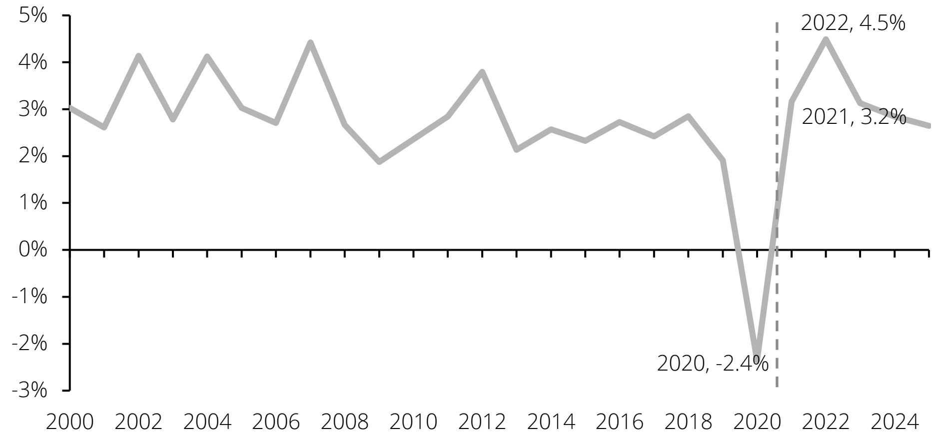
Domestic economic growth

2021 was expected to be the year of economic resurgence for Australia following the toll of COVID-19 and associated lockdowns in 2020. This was the case through the first half of the year, but then the Delta strain took hold, particularly in New South Wales, Victoria and the ACT. However, this time around we have vaccines, something not available to us in 2020.

The rapid pace of vaccination take-up in the most COVID-affected states and territories has enabled the opening-up of most sectors once again. While there will be lasting economic scars for some businesses and households, the effects of relatively high vaccination rates combined with the ability of the Australian economy to bounce back much faster than expected in early 2021, will likely see the size of the Australian economy in 2021 end up 3.2 per cent larger than in 2020.

Chart ii shows that a further resurgence in national economic growth is forecast to take place in 2022 (4.5 per cent). This will be driven by New South Wales and Victoria, as the country's two largest states continue to recover from their mid-to-late 2021 waves of COVID-19.

Chart ii: Annual Australian economic growth forecast, real GDP



Source: Deloitte Access Economics, Business Outlook September 2021

Chart iii shows the Northern Territory is also forecast to achieve very strong growth in 2022, but this is driven by the Territory's small size and the impact of changes in its commodity trade exports causing large fluctuations in total growth as a result.

Australia's largely COVID-free states are expected to have experienced the fastest rates of economic growth in 2021 and will likely settle back to more 'normal' rates of growth in 2022.

Chart iii: Economic growth forecasts by state and territory, real GDP

Source: Deloitte Access Economics, Business Outlook September 2021

Exports

Prior to the global spread of COVID-19, Australian exports were a key driver of the nation's overall economic growth. In the decade preceding COVID, growth in exports accounted for about 40 per cent of Australia's total economic growth. While the majority of Australia's export growth came from goods and commodity exports, about one fifth (20 per cent) was driven by growth in service exports.

As international borders closed and trade disruptions emerged through 2020, exports were one of the hardest hit components of Australia's economy, contracting through the year by 10 per cent (a much larger fall than the 2.4 per cent contraction of the whole economy). Unsurprisingly, service exports were the hardest hit of all export categories bearing the brunt of the impacts of border closures.

Goods exports have already recovered back to well above pre-COVID level thanks to booming demand for some commodities. Service exports, however, will remain under pressure until borders are open and the relatively free flow of persons into Australia is able to resume.

Deloitte Access Economics forecasts the value of Australia's service exports could return to pre-COVID levels by early to mid-2023.

The coming resurgence in international travel and subsequently Australia's service exports is expected to coincide with a moderation in global demand for Australia's commodities. This could see services take over from goods and commodities as the key driver of overall exports growth, at least for the next 2 years.

Jobs and unemployment

2021 has been a rollercoaster for the labour force. Jobs growth in early 2021 defied even the most positive of expectations, with national employment surging back above pre-pandemic levels in February 2021.

As national jobs growth continued into mid-2021, the unemployment rate dropped to 4.5 per cent in August 2021, its lowest rate since late-2008.

But long-lasting lockdowns in New South Wales, Victoria and the ACT from July to October saw national employment decline once again, alongside people dropping out of the labour force altogether.

As these states and territories emerge from lockdown, the hope is that jobs will resurge one again. Deloitte Access Economics forecasts that by the end of 2021, 350,000 more people will have jobs than a year earlier, and an additional 120,000 will come in 2022.

Income and savings

Amidst the height of the initial impacts of COVID-19 in Australia, the household savings ratio spiked up from 5 per cent at the end of 2019 to a record-high 22 per cent in June 2020. Uncertainty about the future had the households that could afford to do so holding tightly onto their incomes.

Once Government stimulus measures kicked-in, economic conditions improved and jobs bounced-back, the household savings ratio dropped back but remained elevated relative to historical rates at 10 per cent in June 2021. The savings ratio is likely to have ticked back up again in the September 2021 quarter (for which data is yet to be released) but is then forecast to decline again as locked-down states and territories open up and economic conditions improve.

Deloitte Access Economics forecasts the household savings ratio could fall back to pre-pandemic levels (about 5 per cent) by 2023. This will occur as uncertainty declines and consumers become both able and willing to spend more of their current income once again.

Average per capita household disposable incomes have been falling through 2021. This isn't due to any declines in economic or jobs conditions, but rather is a return to more 'normal' levels of average disposable incomes off the back a surge in 2020 driven by Federal Government stimulus measures.

Following declines through 2021, per capita household disposable incomes are expected to grow again from late 2021 onwards as national economic and jobs conditions improve.

Household spending

Elevated levels of disposable income offset high household savings ratios in the second half of 2020. This saw household spending rebound by 13 per cent. Growth in household spending continued through the first half of 2021 as the Australian economy rebounded from the 2020 impacts of COVID-19.

Levels of household spending had reached within 0.5 per cent of pre-pandemic levels in the June quarter of 2021. But while we don't yet have data available for the September 2021 quarter, it is expected spending will have declined due to the COVID outbreaks and lockdowns in New South Wales, Victoria and the ACT. However, Deloitte Access Economics estimates the September 2021 quarter fall in household spending is likely to be less than one third of the size of the spending falls experienced in the first half of 2020.

From here on, national household spending is forecast to bounce back, especially through the first half of 2022 when it is expected to reach pre-pandemic levels.

Population

The global pandemic and international border closures have taken away a key driver of Australia's economy – international migration fuelled population growth. Current population growth in Australia is the lowest it has been since troops departed to Europe for World War I.

Along with posing a constraint on the level of domestic demand for products and services in Australia, effectively non-existent international migration has led to staff shortages, including in the tourism exposed sectors of hospitality and recreation.

Even once borders open again and the flow of people across countries returns, the population growth that Australia would have experienced if the pandemic had not occurred cannot be made up for. Deloitte Access Economics forecasts that after international borders have opened, the Australian population will remain between 750,000 and 1 million people smaller than it would have without the pandemic.

COVID-19 disruptions to the tourism sector

Global context

Since the onset of the COVID-19 pandemic, tourism has been one of the most affected sectors. Travel restrictions implemented across almost all countries have led to thousands of planes grounded, hotels closed and significant loss of businesses and jobs across the tourism sector. There were 1 billion fewer international arrivals globally in 2020, a devastating 74 per cent decline from 2019.[1]

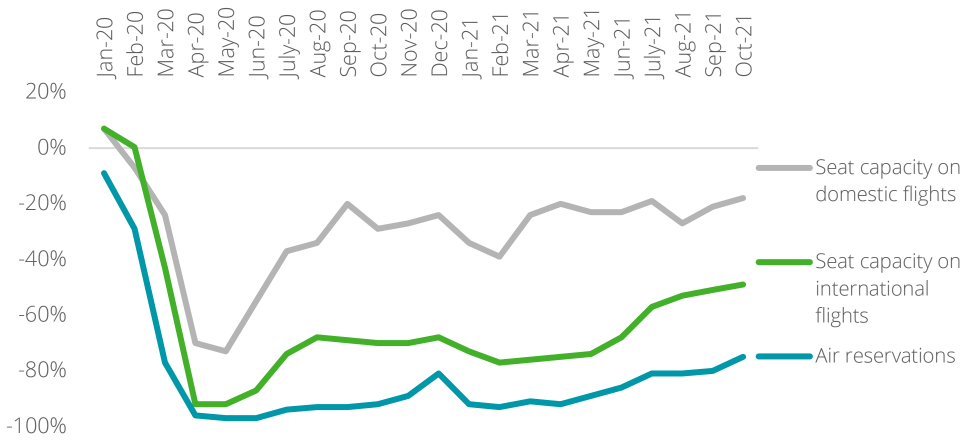
With countries experiencing subsequent waves of the pandemic due to the more infectious Delta variant, tourism remained largely at a standstill for the first half of 2021. Over the nine months to September, global international tourist arrivals are still 76 per cent below pre-pandemic level in 2019.[2]

Countries in the northern hemisphere started to open their borders for international travel from mid-2021. In response, airlines were swift to respond by reintroducing capacity into their networks to meet growing travel demand. As seen in Chart iv, air reservations have been steadily increasing since June 2020, though still well shy of pre-pandemic volume.

[1] UNWTO, *COVID-19 and tourism: an update*, June 2021.

[2] UNWTO, *World Tourism Barometer,* November 2021

Chart iv: Change in number of air reservations, compared to 2019 levels



Source: United Nations World Tourism Organization Tourism Recovery Tracker (2021)

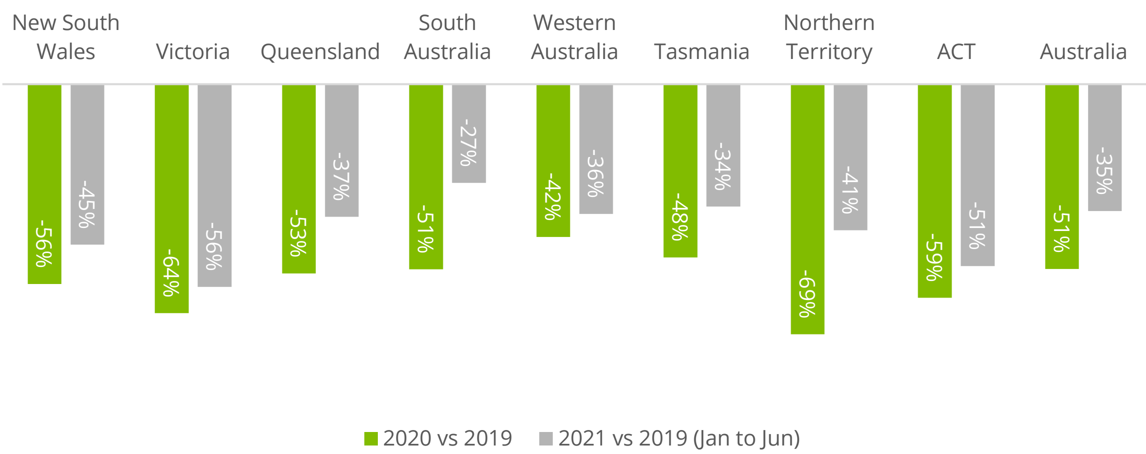
Australian tourism

Throughout 2020 and most parts of 2021, travel restrictions and border closures continued to disrupt travel. As outbound travel only resumed (for some residents) in November 2021, international travel into Australia was essentially cut off with the exception of repatriation flight or essential travel since March 2020. Recovery of domestic travel was interrupted with a series of lockdowns and snap border closures from late 2020 which further dampened consumer confidence.

Since the start of the pandemic, total international and domestic visitor expenditure losses till June 2021 reached $106 billion, relative to prior expenditure levels. International tourism into Australia recorded a devastating loss of $56 billion during this period with international borders closed to non-essential travel. Domestic tourism suffered a total loss of $50 billion ($38 billion from overnight travel and $12 billion from day trips).

The impact of the decline in tourism activity has been uneven across Australia. States that are more reliant on international and interstate travel have suffered more severe losses. Jurisdictions such as Western Australia and South Australia which have higher proportion of their tourism demand from intrastate travel have been able to withstand the disrupted period with less significant losses by tapping into local residents' pent up demand for travel (Chart v).

Chart v: Declines in total visitor spend across state and territories



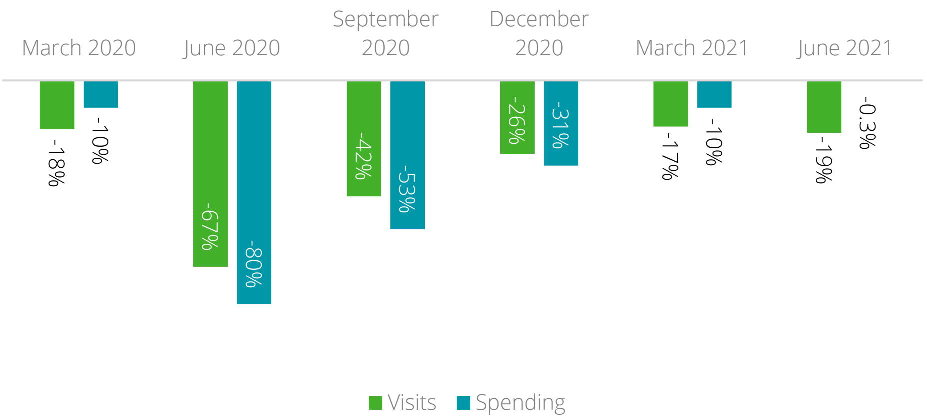
Source: Tourism Research Australia

Domestic tourism

COVID-19 has been the greatest challenge Australia's domestic tourism sector has ever faced. As states and territories shut their borders to non-essential trips in March 2020, there was an immediate decline in domestic tourism, with overnight trips and spend down by 67% and 80% respectively in the June quarter as seen in Chart vi.

There were early signs of recovery from the September 2020 quarter as restrictions began to ease in some states. This momentum continued through to the December 2020 quarter, and to most of the June 2021 quarter before the start of lockdowns in New South Wales, Victoria and a wave of snap lockdowns for other jurisdictions. These lockdowns across the country to contain the spread of the Delta variant and subsequent border closures have significantly impeded the momentum in domestic tourism recovery. At times in the second half of 2021, around 70 per cent of the Australian population were living under strict lockdown conditions.

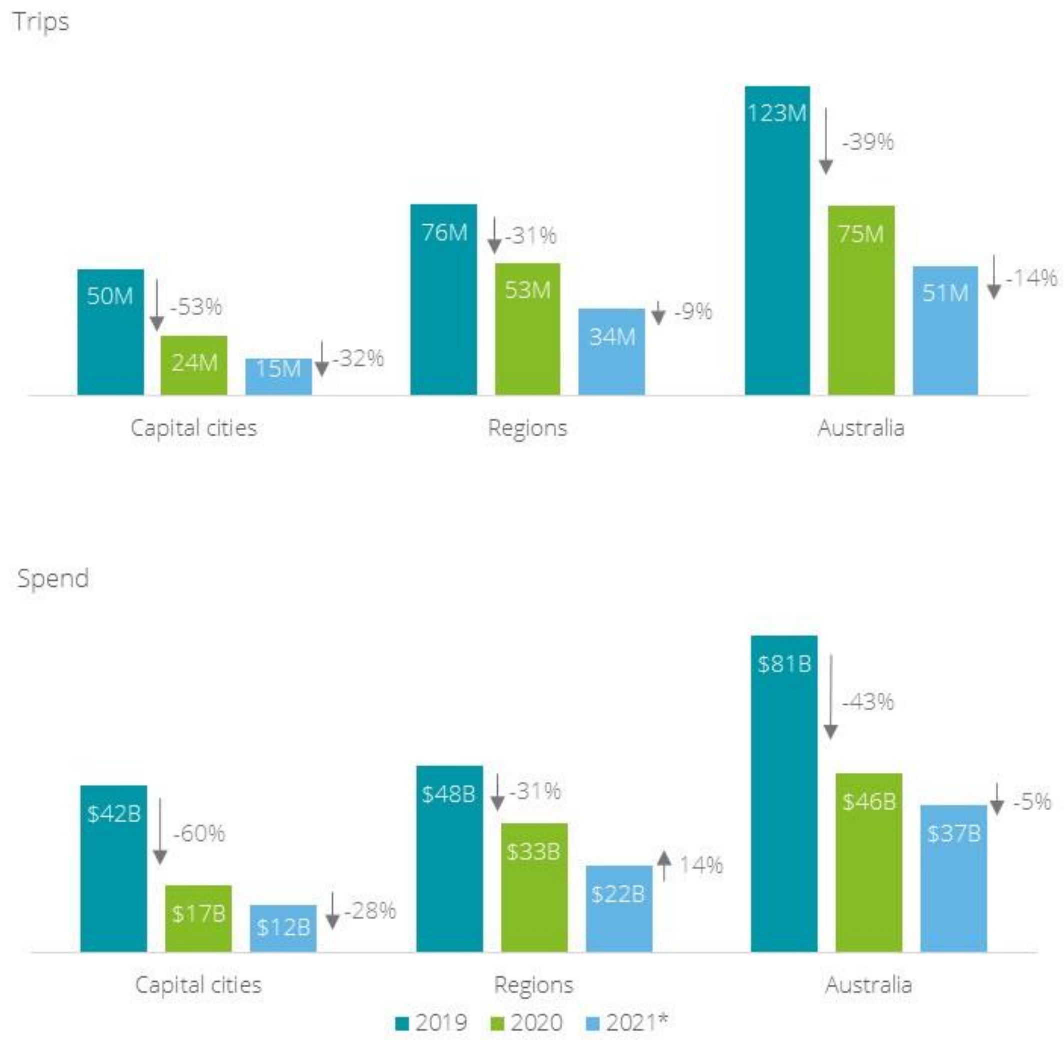
Chart vi: Change in domestic overnight trips and spend by quarter, compared to same period in 2019



Source: Tourism Research Australia

Capital cities attract a greater share of interstate and international travellers than regional destinations. With Australia's international travel ban and restrictions on interstate travels, capital cities suffered significant losses in both overnight trips and spend – down 54 per cent and 60 per cent respectively in 2020. This trend persisted in the first half of 2021, with capital cities continuing to register major declines, down 32 per cent and 28 per cent compared to the same period in 2019.

Chart vii: Domestic overnight trips and spend in capital cities and regions, 2019-2021



Source: Tourism Research Australia. Note: Data breakdown for capital and regional is not available for Tasmania and the NT. Figures for 2021 are for January to June and percentages reflects change from similar period in 2019

Since the start of the pandemic in March 2020, Australians have been lured to holiday at home.

In fact, some of Australia's regional destinations were spared from the sharper decline in tourism activity experienced in capital cities as those who reside in city centres looked to escape to the regions for holidays.

In the first half of 2021, regional destinations continued to fare better than capital cities with total domestic overnight trip spending 14 per cent higher than pre-pandemic levels (as shown in Chart vii).

Capital cities attract a greater share of interstate and international travellers than regional destinations. With Australia's international travel ban and restrictions on interstate travels, capital cities suffered significant losses in both overnight trips and spend – down 54 Chart vii). Regional Queensland (excluding Gold Coast) and South Australia in particular have seen a more than 15 per cent increase in domestic overnight trip spend from pre-pandemic levels, with domestic border closures keeping residents within the state. Another factor impacting capital cities is their relatively higher level of exposure to business travel.

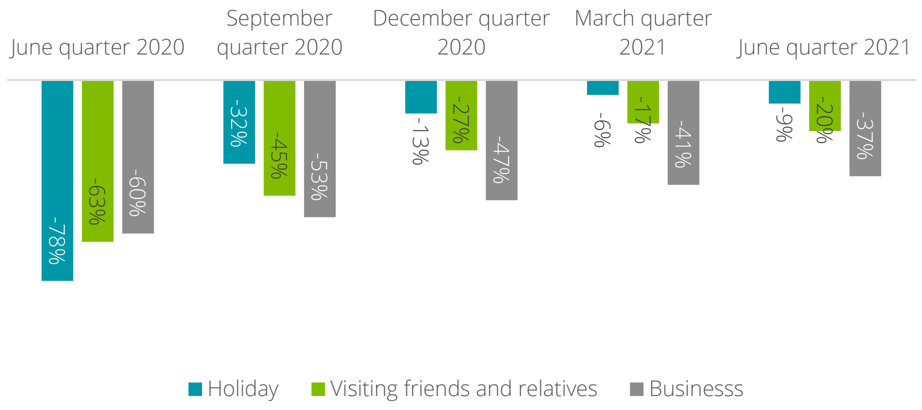
per cent and 60 per cent respectively in 2020. This trend persisted in the first half of 2021, with capital cities continuing to register major declines, down 32 per cent and 28 per cent compared to the same period in 2019.

At the onset of the pandemic in March 2020, many companies cut back business trips due to travel restrictions and safety concerns, leading to a 60 per cent decline in business travel volume in the June 2020 quarter.

Chart viii, the return of business travel was lagging behind leisure travel, which had started to bounce back from September 2020 quarter when some level of domestic travel was permitted after the end of the first wave of the pandemic in Australia.

As videoconferencing and virtual meeting tools becoming the new norm, it may take longer for business trips to resume and fully recover. In the first half 2021, business overnight trips were at just 60 per cent of pre-pandemic levels.

Chart viii: Change in domestic overnight trips by purpose of travel, compared to same period in 2019

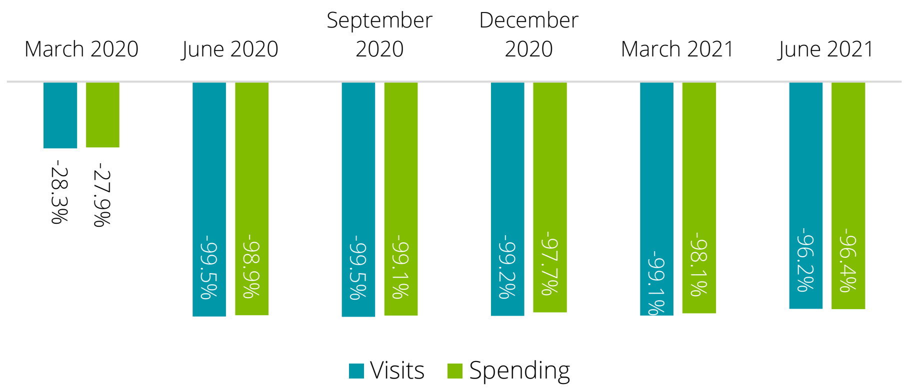


Source: Tourism Research Australia

International tourism

Since 20 March 2020, international borders have remained closed to all arrivals other than Australian citizens, permanent residents and essential travellers. The border closure imposed an immediate halt to international tourist arrivals. Since the June 2020 quarter, there have been only 10,000 to 20,000 international visitors entering Australia every quarter. This compares to around 2.4 million international visitors spending $5 to $10 billion per quarter in 2019.

Chart ix: Change in international visits and spend by quarter, compared to same period in 2019



Source: Tourism Research Australia

The international travel ban has also had severe consequences for the international education sector. The number of international students on shore in Australia in 2021has halved from 2019. While education is the primary reason for their stay in Australia, students are also likely to be motivated by the travel opportunities available to them during their studies. For the tourism sector, international students are a critical source of demand, as this group not only contribute to domestic tourism, they also attract friends and relatives while they are studying in Australia. International students help to build Australia's cultural capital and diversity and benefit cross-cultural knowledge exchanges. Post-study, migration pathways can offer further benefits to Australia's productivity and skilled workforce.[3]

[3] Deloitte and Tourism Australia, *The Value of Tourism*, June 2021

Global tourism recovery

COVID-19 has had devastating impacts on the global tourism industry. After six decades of strong growth, the sector was brought to a standstill by the pandemic. With vaccinations being rolled out in most developed economies, some destinations, primarily those in the northern hemisphere, have been gradually reopening their borders to tourists from mid-2021.

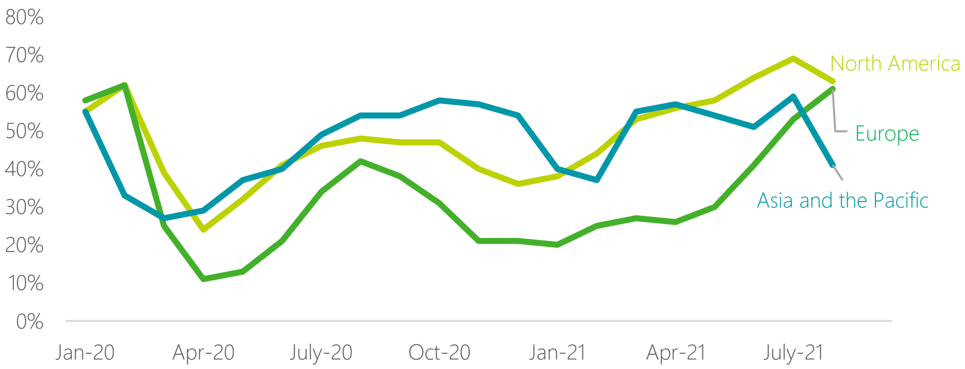
The European Union (EU) lifted border restrictions partially and allowed arrivals from its member states and the United States. According to data released by the European Commission, some tourism regions, particularly coastal destinations, saw a recovery close to pre-pandemic levels. Throughout the EU, hotel bookings picked up from mid-June and the industry experienced a revenue increase of 68 per cent from same period in 2020.[4]

The recovery momentum is once again disrupted with the region currently experiencing another surge of COVID-19 cases, with a number of countries seeing record numbers of any infections.

The United States remained shut to international travellers until recently. From 8 November 2021, fully vaccinated travellers were able to visit the U.S. without quarantine measures. Nonetheless, the U.S. domestic tourism sector experienced a strong recovery during the summer season. Hotel bookings in June were 7 per cent higher than 2019 levels, with occupancy rates reaching the highest level in July since the pandemic, at 70 per cent.

Asia Pacific destinations did not experience the same level of recovery as the region battled the Delta variant. Some markets with a large reliance on international tourism, such as Thailand and Indonesia, also struggled with their vaccine rollout due to supply shortages and under-resourced public health systems. Hotels in this region continues to struggle with occupancy rates at around 40 per cent in August 2021.

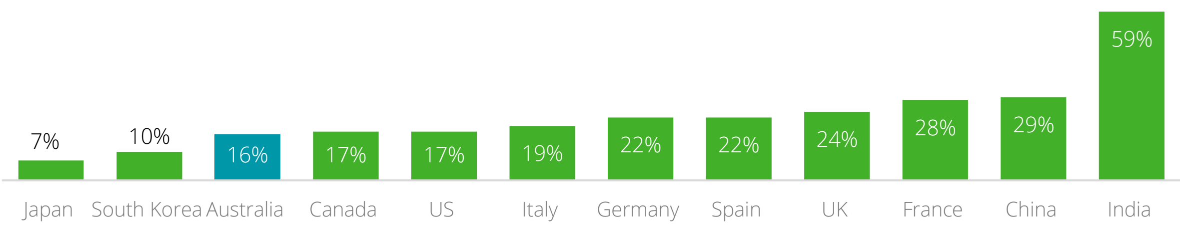
Chart x: Hotel occupancy rates, January 2020 to August 2021



Source: United Nations World Tourism Organisation Tourism Recovery Tracker (2021)

Across Australia's key source markets, there remains a significant share of consumers not ready to undertake international travel. Other than India, less than 30 per cent of consumers across key sources markets are likely to travel internationally for leisure purposes, an indication that the effects of the pandemic on global tourism will take some time to unwind, resulting in an uneven recovery across various source markets.

Chart xi: Likelihood to take an international flight, selected source markets



Source: Deloitte Global State of the Consumer Tracker, April 2020 to October 2021.
Question: How likely are you to do the following for leisure travel in the next three months? (% Very likely/Somewhat likely)

[4] European Commission, *Summer of '21: European tourism taking off again*, October 2021.

Recovery of tourism in Australia

The recovery of the tourism sector in Australia will depend on a range of factors, including economic conditions here and overseas, travel restrictions in Australia and in respective international source markets, government responses to manage the health crisis and, importantly, consumer confidence to resume travel again.

In 2020, Deloitte Access Economics developed and released a set of three COVID-19 tourism recovery scenarios (Chart xii) for Australia, which included mild, harsh and severe scenarios.[5]

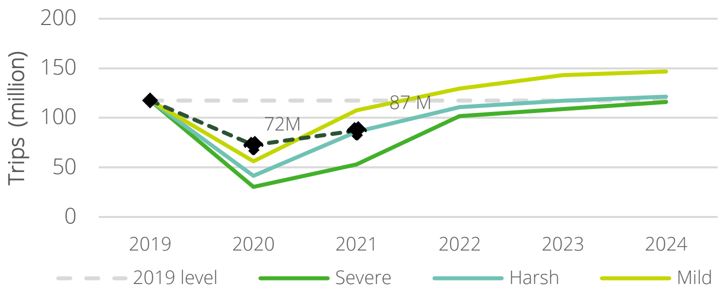
Domestic tourism recovery was expected to return to 2019 level as early as 2021 in the mild scenario or as late as 2024 in the severe scenario.

The recovery of international tourism was always expected to take longer, returning to 2019 level as early as 2022 in the mild scenario or beyond 2024 in the severe scenario.

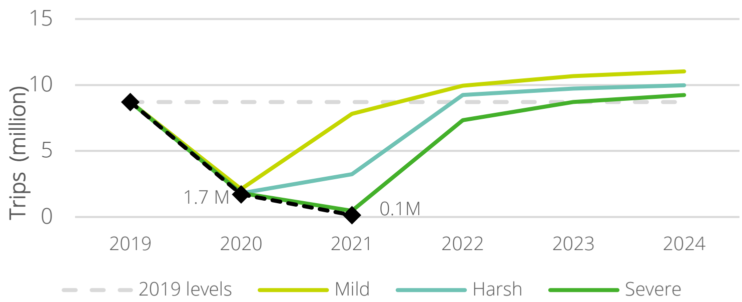
Throughout the pandemic, Deloitte closely monitored key indicators underpinning international and domestic tourism recovery pathways.

Chart xii: Scenarios of domestic and international tourism recoveries

Domestic tourism recovery (overnight trips), millions



International tourism recovery, millions



Source: Deloitte Access Economics, *COVID-19 recovery for the tourism sector: How are we tracking?*, January 2021
Note: 2021 figures are as at year ending June 2021

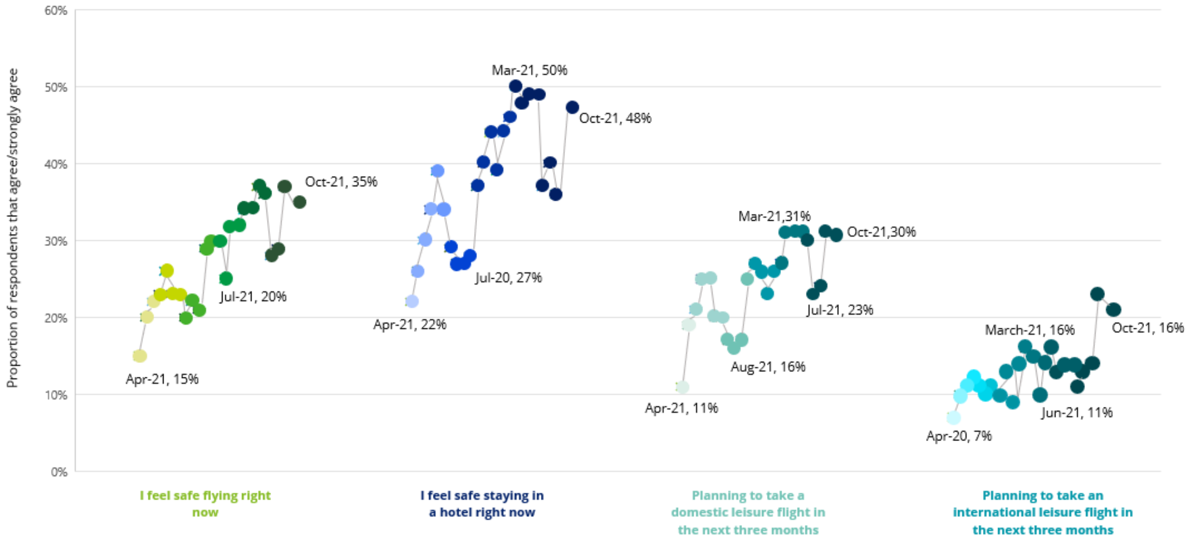
Outlook for Australian tourism

There is increasing hope for the tourism recovery to pick up pace in Australia given the relatively high vaccination rates being achieved across the country and states and territories announcing their respective COVID-19 re-opening plans. Looking ahead, there is anticipation that with Australia reopening international borders to fully vaccinated travellers without the need to quarantine, pent up demand would further fuel tourism recovery.

Even as travel restrictions ease and borders start to open, the pace of tourism recovery will also be reliant on consumer confidence to undertake travel and travellers' capability and willingness to spend on travel. There remains a significant part of the population hesitant to travel, with over half indicating reluctance to undertake travel-related activities based on data collected in the October 2021wave of Deloitte's Global State of the Consumer Tracker (Chart xiii).

[5] Deloitte Access Economics, COVID-19 recovery for the tourism sector: Scenarios for restarting tourism, June 2020

Chart xiii: Consumer sentiment around travel related activities

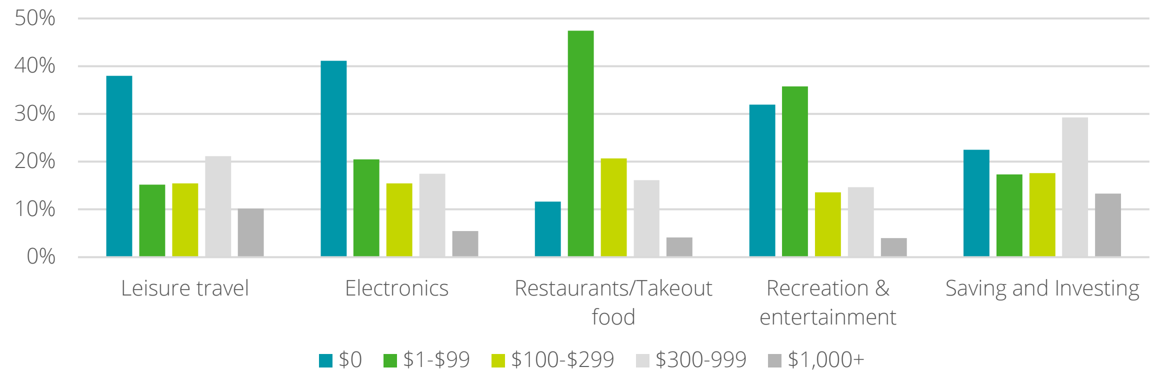


Source: Deloitte Global State of the Consumer Tracker, April 2020 to October 2021.
Question: How likely are you to do the following for leisure travel in the next three months? (% Very likely/Somewhat likely)

In Australia, consumer sentiment towards travel-related activities has improved considerably since September 2021 and is likely to keep rising, a positive sign heading into peak summer holiday months. Despite this upward trend, there remains a portion of the population who are not comfortable to travel, with only around 40 per cent planning to take a domestic leisure flight in the next three months and only 50 per cent feel safe to stay in a hotel.

In addition to concerns around the health crisis, confidence relating to personal finances will influence consumers' willingness to spend on leisure travel. Approximately 35 per cent of Australians' share of wallet goes to discretionary items such as recreation and entertainment, restaurants, and savings and investment. There has been growing prioritisation around savings among Australians. When asked about their short-term travel plans, almost 40 per cent has no intention to spend on travel in the near future.

Chart xiv: Share of wallet on discretionary spending



Source: Deloitte Global State of the Consumer Tracker, October 2021. Question: Over the next month, roughly how much do you expect to spend on the following?

The return of travel will be uneven with some segments of the market expected to recover more quickly than others. Holiday and visiting friends and family (VFR) segments are expected to lead the recovery of tourism, in particularly from short haul source markets in the region. The ease and efficiency of virtual meeting technologies, cost savings and organisations' growing consciousness around sustainability will see corporate travel face a slower return than leisure travel. [6]

Deloitte Access Economics continues to monitor the demand driving factors and market conditions to inform the forecast in the Tourism and Hotel Market Outlook

Domestic tourism

With most domestic borders opening by the end of 2021 and the demand for overseas travel likely to be muted for some time, there is expected to be pent up travel demand in the marketplace to support the recovery of Australia's domestic travel sector.

Domestic overnight trips in Australia are forecast to grow to 94 million trips by the end of 2021, a drop from the forecast in the previous edition. The setback to the domestic recovery momentum due to long periods of lockdowns in the second half of 2021 is anticipated to be temporary with the growth trajectory picking up pace in 2022, in line with the mild recovery scenario. Domestic overnight trips are forecast to surpass 2019 levels, reaching 124 million trips by end of 2022 and 132 million trips by 2023.

International tourism

The strict travel restrictions of many countries including Australia across the Asia Pacific have led to a slower restart of international tourism compared to markets in the northern hemisphere. That said, with more countries working towards reducing quarantine requirements to support the safe restart of international travel, international tourism to Australia is anticipated to resume slowly from late 2021.

The recovery of international tourism to Australia is forecast to trend towards the severe recovery scenario, with arrivals reaching around 6.6 million by the end of 2022 (76 per cent of 2019 levels).

This early recovery growth stimulated by pent up demand is expected to moderate after 2022, with international arrivals then reaching 7.3 million by 2023 (84 per cent of 2019 levels) and forecast to return to 2019 levels in 2025, a year later than forecast in the previous edition.

The international travel segment is a valuable part of the Australian tourism ecosystem. The halt of international tourists to Australia since the onset of the pandemic has resulted in an immense economic loss. While we expect the domestic market to rebound in 2022, the international market is of critical importance to Australian tourism. To offset the shortfall in international visitor spend, any increase in domestic travel by Australians needs to be above already high levels of domestic tourism activity. It would take around seven domestic overnight trips to generate the equivalent spend of one international visitor.[1] And this would need to be in addition to the average 14 domestic trips Australians typically take in a year. Furthermore, international tourism plays an important role in supporting Australia's growth agenda, positively impacting on the development of international trade links, investment attraction and the desirability of Australia as a place to do business and attract skilled migration.

Hotel market in Australia

The COVID-19 health crisis has had a profound impact on every industry serving the tourism sector. The hotel industry has been among the hardest hit. Hotel occupancy rates across the world plunged to record lows in April 2020 with a second low in early 2021 as many countries in North America and Europe experienced the second surge in the pandemic.

In Australia, the impact has been uneven with accommodation in some regional destinations experiencing strong demand as visitors from capital cities looked to the regions for their holidays. On the other end of the spectrum, travel restrictions imposed to manage the COVID-19 health crisis have resulted in record low hotel occupancy rates over the last 18 months in Australian capital cities where hotels are more dependent on demand from international, interstate travel, and corporate travel markets.

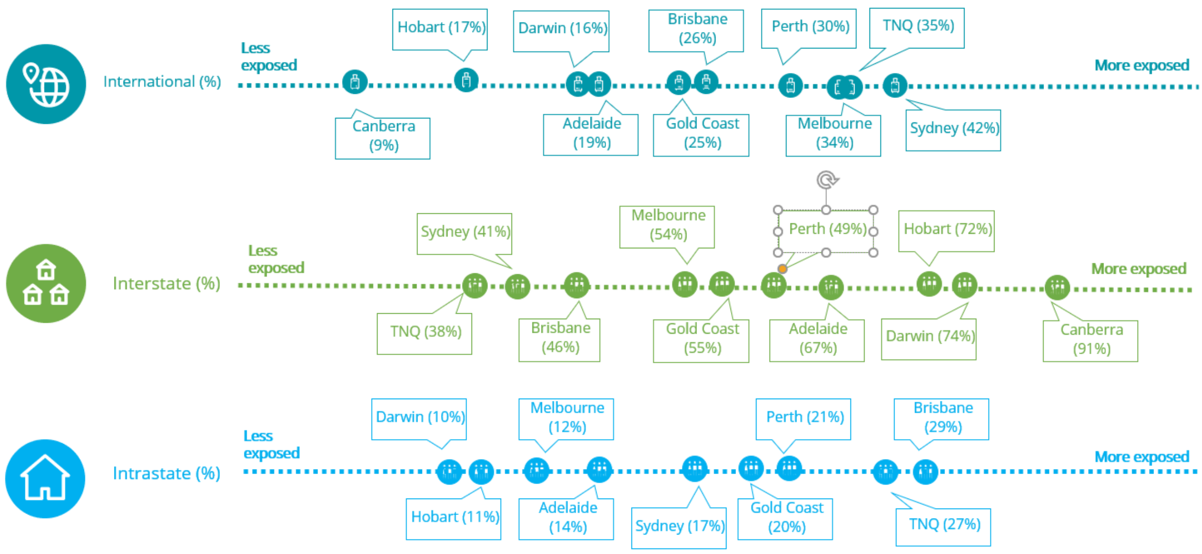
[6] CAPA, *Asia Pacific Travel Recovery Report*, second edition, November 2021

A look at 2021: COVID-19 continues to cause disruptions

Until recent announcements from the Australian government regarding the recommencement of international travel for vaccinated travellers, the tourism sector and hotel industry were largely not expecting international tourists, other than from New Zealand, to return till 2022.

The severity of the COVID-19 impact will depend on each hotel market's exposure to respective sources of demand – across source markets and purpose of travel. Figure i shows the exposure of capital cities to the various sources of demand.

Figure i Exposure of market by demand market source



Source: Deloitte Access Economics and Tourism Research Australia
Note: Figures in chart is based on 2019 data.

State and territory governments around the country have implemented various incentive schemes to encourage residents to travel and support local tourism businesses. Examples of schemes targeting to support the hotel sector include:

- Tourism incentives offered by the South Australian government, with the first round offering $100 vouchers for use at hotels in metro areas and the second round providing a separate allocation for interstate travellers
- The 'Make Yourself at Home" scheme by the Tasmanian government which included accommodation and experience vouchers valued from $150 per adult to $550 per family
- The 'Stay, Play and Save' campaign by the Western Australian government which offered a $200 discount on a two-night consecutive hotel stay in Perth with a minimum spend of $400.

The incentive schemes offered by state and territory governments to encourage residents to travel within their home states have assisted to lift hotel performance in some capital cities in first half of 2021. States with targeted incentives saw occupancy rates reached close to 70-80 per cent of pre-pandemic levels. In Hobart, occupancy rates reached a high of 80 per cent in March 2021, while hotels in Adelaide recorded a 70 per cent occupancy in the same month. Occupancy rates in Darwin were at a high of 74 per cent in May, surpassing the average of 57 per cent in 2019.

In Sydney and Melbourne, where hotel demand leans more heavily on international and corporate travel markets, hotel occupancy did not recover as well as the other markets in the first half of 2021. This is despite these markets benefiting from quarantine demand. Average occupancy rates for hotels in Sydney during the January to June 2021 period were around 50 per cent of 2019 levels, and only about 30 per cent in Melbourne.

The Delta lockdowns in Sydney and Melbourne devastated the hotel markets in these cities. The lockdowns also placed further pressure on hotel markets with a smaller population base, such as Adelaide, Canberra, Darwin and Hobart, which are more dependent on interstate travel demand. With domestic border closures, these markets are particularly exposed with only demand from intrastate travel (see Figure i).

Across the 11 hotel markets[7] covered in the *Tourism and Hotel Market Outlook*, room rates in the first half of 2021 have remained steady, hovering around the same level seen in 2019. This was driven in parts by the temporary recovery of domestic holiday travel in early 2021,

The growing incidence of COVID-19 cases around Australia from mid-2021 resulted in state and territory governments introducing lockdowns to control the spread of the virus. This eventually led to extended lockdowns in New South Wales and Victoria, putting the brakes on the recovery of domestic travel which was starting to pick up pace over the first half of 2021, with average occupancy and room rate reaching 67 per cent and 95 per cent of 2019 level as shown in Table i.

Table i: Key hotel performance metrics

Metrics	2019	2020	Change over 2019	Jan to Jun 2021	% of 2019 level
Room occupancy	77%	42%	-24pp	52%	67%
Room rate	$196	$156	-21%	$186	95%
RevPAR	$151	$70	-54%	$96	63%

Source: Deloitte Access Economics and STR Global

The lockdowns in Sydney and Melbourne pulled down hotel occupancy to as low as 21 per cent and 29 per cent in July 2021[8] respectively in these markets. Sydney and Melbourne, as Australia's most populous cities, also contribute a large portion of travel and hotel demand for other cities especially with the international border closed. The lockdowns in both cities have stopped nearly half of Australia's population from travelling, which as a result has led to average hotel occupancy rates to dip back down to below 40 per cent, and to as low as 21 per cent in July 2021 in Canberra.

Outlook for the Australian hotel market

Despite the persistent disruptions caused by the pandemic, a number of projects which were in development in the years preceding have seen the hotel market increase by around 3,700 new rooms in 2021 including several high end hotel properties. In Melbourne, new brands included the W Hotel which opened in early 2021 and the Hyatt Centric to come online in December, each adding almost 300 new rooms to the market. Hobart is welcoming The Tasman, a luxury collection from the Marriott group, adding 150 new rooms to the city. Sofitel made its debut in Adelaide opening a 257-room property in the heart of the city in November.

Looking ahead, there is the potential for around 15,000 new rooms in likelihood adjusted terms[9] to be added to the room stock across the 11 markets in the coming years, with almost a third (5,000 rooms) expected to open in 2022. The pipeline is weaker than in the previous edition in April of this year, due to a shift of a selection of developments from hotels to residential and delays in commitment from investors of projects not yet in final stages of planning or construction.

The majority of the new stock remains concentrated in Melbourne, Gold Coast and Sydney, which combined contributes over 60 per cent to new inventory across the 11 markets.

The pace of recovery for hotels will vary across the city markets. Brisbane, Perth, Gold Coast, Canberra and Darwin are expected to see occupancy rates returning to 2019 levels by 2023. Hotels in Sydney will take a little longer, nearing 2019 levels by 2024, with hotels in Melbourne forecast to achieve occupancy rates similar to 2019 levels beyond 2024. This is due to Sydney and Melbourne having high pre-pandemic occupancy rates, their greater dependence on demand from international tourists and the corporate travellers which will take longer than domestic leisure travellers to recover along with relatively significant new supply coming online.

Average room rates across the 11 markets are expected to recover to pre-pandemic levels more quickly than occupancy, returning to 2019 levels ($194) by end of 2022 for all markets. Average occupancy rates are expected to take a while longer to recover, returning to 2019 level in 2024. This reflects that hotels mostly maintained rates even in periods where demand was restricted. The strong hold of room rates is likely to continue with some pockets of travel demand expected to return quickly given the strong vaccine take ups, and the promise to the end of lockdowns bringing greater confidence to travellers.

[7] Sydney, Melbourne, Brisbane, Perth, Adelaide, Darwin, Hobart, Canberra, Gold Coast, Tropical North Queensland and Western Sydney.

[8] Data from STR Global up till July 2021 is used as inputs to forecast for this edition of the Tourism and Hotel Market Outlook.

[9] This refers to Deloitte Access Economics' assigned probability of new hotels opening, depending on the state of the development at the time of undertaking this forecast.

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