



**Tourism and hotel
market outlook**

Executive summary
Edition 1, 2021

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).

The 2021 edition of the Tourism and Hotel Market Outlook has introduced an interactive dashboard for each of the hotel market forecasts. We look forward to client feedback to refine in future editions.

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 bespoke behavioural and operational adjustments such as short and long term sentiment indicators, and quarantine requirement implications on demand for hotel nights. 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.

Forward

Australia has endured unprecedented hardships over the summer of 2019-20 including the summer bushfire season and the subsequent COVID-19 pandemic. While now deemed an overused term, the challenges of 2020 have truly been unprecedented.

Australia enters 2021 in a much-envied position, with low manageable virus cases, and a stronger than expected economic rebound which looks to continue. Despite delays, the vaccine roll-out is expected to positively influence both consumer and business confidence. Australia's success on the health and economic fronts has come with a particularly heavy burden on the country's tourism sector.

The operating environment for tourism businesses across many regions of the country continues to be extremely challenging. The tourism sector was the first to be impacted by measures introduced by governments in response to the COVID-19 pandemic and will be among the last to recover.

These testing and uncertain times provide the backdrop for this 2021 edition of the Deloitte Access Economics *Tourism and Hotel Market Outlook*.

The projections in this publication also reflect the continued global uncertainties around the COVID-19 pandemic. With countries at different stages in containing the virus and in rolling out their vaccination program, the outlook for the return of international travel to Australia remains highly uncertain. At the time of writing this publication, international tourism is unlikely to return in any meaningful way until early 2022, with the exception of travel bubble with New Zealand in the first instance.

The uncertainty around the timeframe for lifting international travel restrictions represents a significant variable in the current forecast, and material shifts in timeframes will impact the forecasts presented.

The recovery of the sector will also be affected by capacity challenges, including aviation capacity, tourism business viability in the short to medium term and the loss of human capital, along with consumer confidence and travel sentiment.

When international travel restrictions lift, Australia will face an extremely competitive landscape with countries looking to reactivate their tourism industries as part of the recovery from the impacts of the pandemic.

Given the anticipated prolonged uncertainty that Australia and the rest of the world face during these difficult times, this edition of the *Tourism and Hotel Market Outlook* provides the best view at the time of preparing the publication. The forecasts, while providing a prediction of likely future performance levels, need to be considered alongside the challenges and many unknown factors discussed. The forecast is best used as a reference guide as the tourism and hotel industries navigate out of the pandemic.

Executive summary

Hearteningly, the roll out of vaccines underway across the globe are bringing greater hope that the health impacts of COVID-19 can be brought under control, and that economies and communities hard hit by the dual crises will make strides on their recovery journey.

For the tourism sector, the path and pace of recovery remains highly uncertain, with the outlook depending on a wider range of factors than in past years – requiring consideration of economic conditions here and overseas, ongoing government responses to manage health crisis, consumer and business confidence, travel sentiment and whether some of the changes in travel patterns we’ve seen in 2020 are here to stay.

With international borders expected to remain shut for the much of 2021, the outlook for the tourism sector in the short term is almost entirely dependent on the domestic market.

The economic context

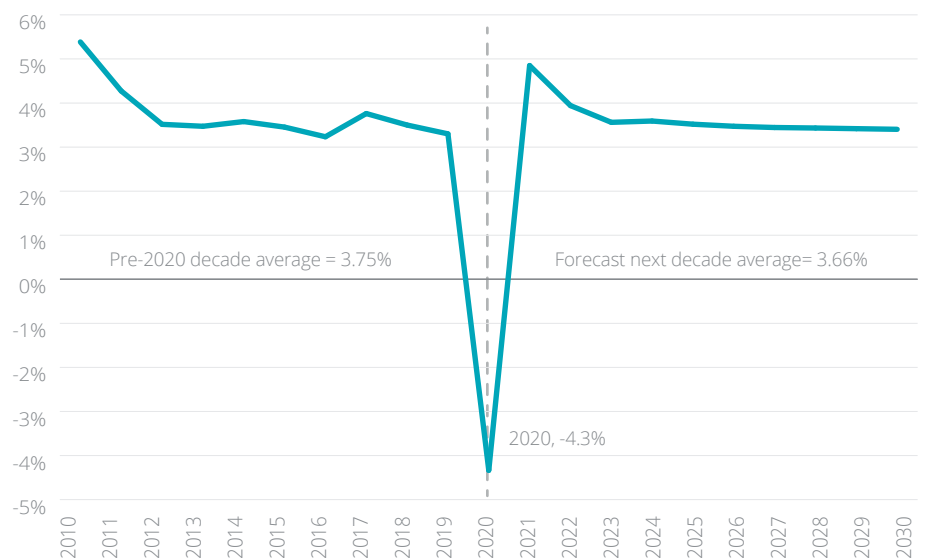
Global economic conditions

The world is looking to 2021 to be a year of recovery and this will likely be the case as COVID-19 vaccines roll out and the growth in cases around the world slows.

However, the global economic recovery will extend well beyond 2021 as there remain considerable challenges ahead including the more difficult than expected logistics for large-scale vaccine rollouts, new COVID-19 variants on top of fraught geopolitical conditions. There will also be lingering economic scars, particularly when it comes to unemployment which is set to stay high for a number of years.

Chart i shows that following an estimated fall of 4.3 per cent in global economic growth (measured by real GDP) in 2020, a rebound of almost 5 per cent is forecast for 2021. Including 2021’s strong rebound, global economic growth over the coming decade is forecast to average an annual rate very similar, but just slightly lower, than pre 2020.

Chart i Annual global economic growth forecast, worldwide real GDP



Source: Deloitte Access Economics, Business Outlook January 2020.

Domestic economic growth

Following the recession that occurred as a result of COVID-19 and the restrictions that pandemic control necessitated, the Australian economy had already started to recover in the September 2020 quarter. Victoria’s emergence from its second-wave lockdown added further momentum to this recovery, seeing Australia stepping into 2021 with an economy about the same size as it was pre-pandemic.

This bodes well for near-term economic growth which Chart ii shows forecast to rebound sharply in 2021 (4.3 per cent) before settling back into a more ‘typical’ pace of growth.

Both the speed and size of Australia’s recovery thus far have come as a pleasant surprise. Australia’s success in suppressing the virus has been a key driver, as has the fiscal stimulus provided by federal, state and local governments.

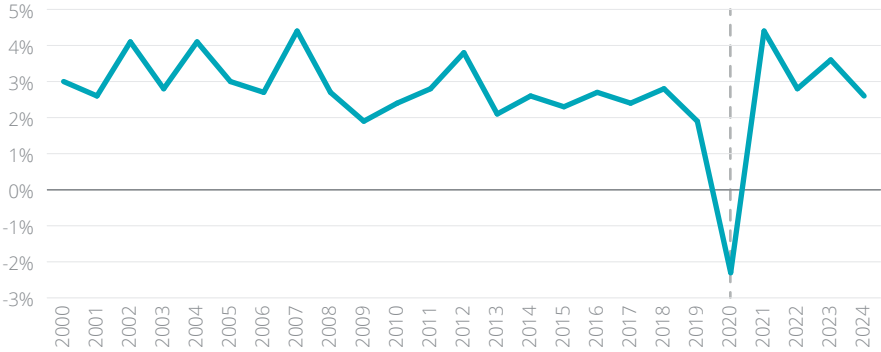
At a state level, those hardest hit in 2020 can expect the largest recoveries in 2021. This is shown in Chart iii, with Victoria forecast to have the strongest economic growth in 2021.

Jobs and unemployment

Along with economic growth will also come jobs growth. More than 270,000 people are forecast to gain jobs in 2021, followed by 140,000 more in 2022. And this is off the back of nine out of every ten jobs lost in Australia during the pandemic already having been gained back by the end of 2020.

Unfortunately, the jobs recovery has not been as positive across all industries. At the end of January 2021 there were just 1.7 per cent fewer jobs in Australia than in mid-March 2020. However, in the three industries most exposed to tourism¹, there were still 7.8 per cent fewer jobs.

Chart ii Annual Australian economic growth forecast, real GDP



Source: Deloitte Access Economics, Business Outlook January 2020.

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



Source: Deloitte Access Economics, Business Outlook January 2020.

¹ Accommodation & food services, arts & recreation services, and transport, postal & warehousing.

Incomes and savings

While there were widespread disruptions to employment across the year, the disposable income of Australian households grew strongly through 2020 due in part to the coronavirus supplement for JobSeeker recipients, greater than usual wages for some workers receiving JobKeeper in the initial round of the scheme and tax relief and moratoriums on rental increases and debt repayments for some households.

Household disposable income is expected to fall through 2021, a reversion to more 'normal' levels as Government support measures wind back and the impacts of record low wages growth set in. From 2022 onwards, continued economic growth and falls in the unemployment rate are expected to see growth in household disposable income return.

Alongside an increase in household disposable income in 2020, there was an increased propensity to save with the household savings ratio skyrocketing to an astonishing 22 per cent in June 2020. Australians that could afford to were holding tightly onto their incomes amid high levels of uncertainty about future economic conditions and job security. The savings ratio has since fallen but is expected to remain at a fairly high level over the next three years. A continued degree of caution around spending, combined with changes to consumer spending patterns, could serve as a drag on the recovery of domestic tourism expenditure.

Household spending

Despite record high savings rates, household spending rebounded with strength from the impacts of COVID-19. Government stimulus keeping employees connected to their employers and ensuring them a wage (the JobKeeper scheme) along with increased payments to the unemployed (JobSeeker coronavirus supplement) helped boost consumer confidence as COVID-19 case numbers fell and restrictions were eased. In fact, consumer confidence in Australia hit a ten-year high at the end of 2020² which flowed through to a rebound in household spending.

While household spending has returned, the things they are spending on have changed. Australian households have shifted their spending away from transport and hospitality, and into rent, food, furnishings and household equipment.

Population

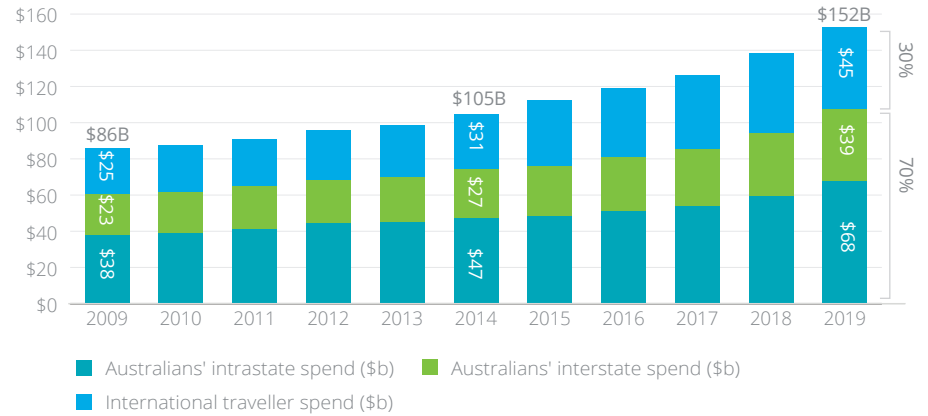
A lingering impact of the pandemic and associated restrictions will be its impact on the size of the Australian population. With international migration having been a major driver of Australia's population growth in recent decades, growth has been severely limited by the closure of international borders. Even once borders open and migration returns, the reduction in population growth through 2020 and 2021 will leave a permanent gap between the actual size of our population and what it likely would have been in the absence of the pandemic.

Slower population growth has a marked negative impact on levels of tourism demand. Unfortunately, given the perishable nature of tourism product and experiences, losses caused by the closure of international borders and limited migration cannot be recovered at a later date.

Australian tourism prior to COVID-19

Prior to the COVID-19 pandemic, the growth in Australia’s tourism sector was outpacing growth in the wider Australian economy. From 2009 to 2019, tourism expenditure in Australia increased from \$86 billion to \$152 billion, representing average annual growth of 6 per cent as shown in Chart iv. 2019 saw very strong growth in domestic travel demand – spending by intrastate and interstate visitors was up 14 and 13 per cent year-on-year to \$68 billion and \$39 billion, respectively. The growth in spending by international visitors, meanwhile, moderated to 3 per cent to reach \$45 billion in 2019.

Chart iv Pre-pandemic spend on tourism in Australia, by travel segment



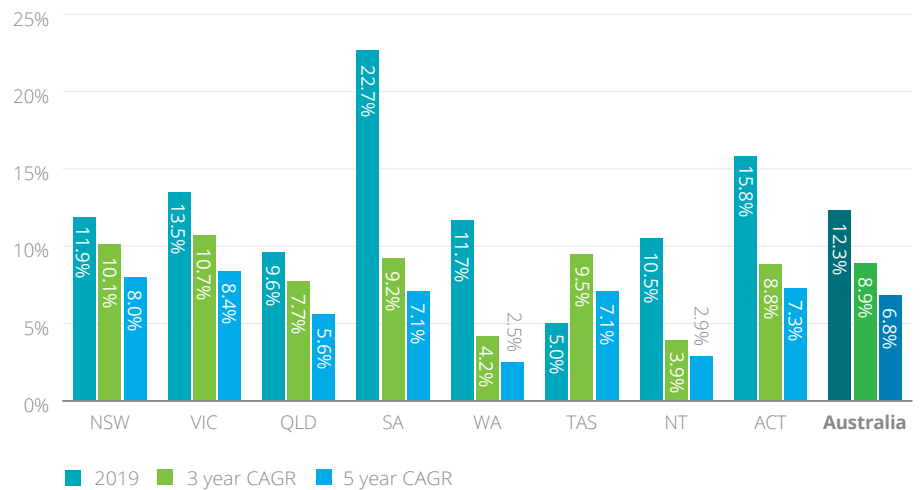
Source: Deloitte Access Economics, Tourism Research Australia.

Domestic market

The strong performance of the domestic tourism market in 2019 was evident across all states and territories. Total domestic trips grew 18 per cent in 2019, with overnight trips up 12 per cent.

South Australia led with the highest growth, a staggering 23 per cent, more than double the previous year. Chart v shows Victoria, NSW and Queensland also had above average growth of 13, 12 and 10 per cent respectively, above their longer-term averages. Tasmania is the only state whose growth in 2019 did not exceed the growth over the previous three- or five-year period. That said, Tasmania experienced strong double-digit growth in each of 2017 and 2018, with 2019 growth of 5 per cent reflecting that the state’s tourism sector may be resetting to a steadier and more sustainable growth rate.

Chart v Growth of domestic overnight visitors, by jurisdiction



Source: Deloitte Access Economics and Tourism Research Australia.

International market

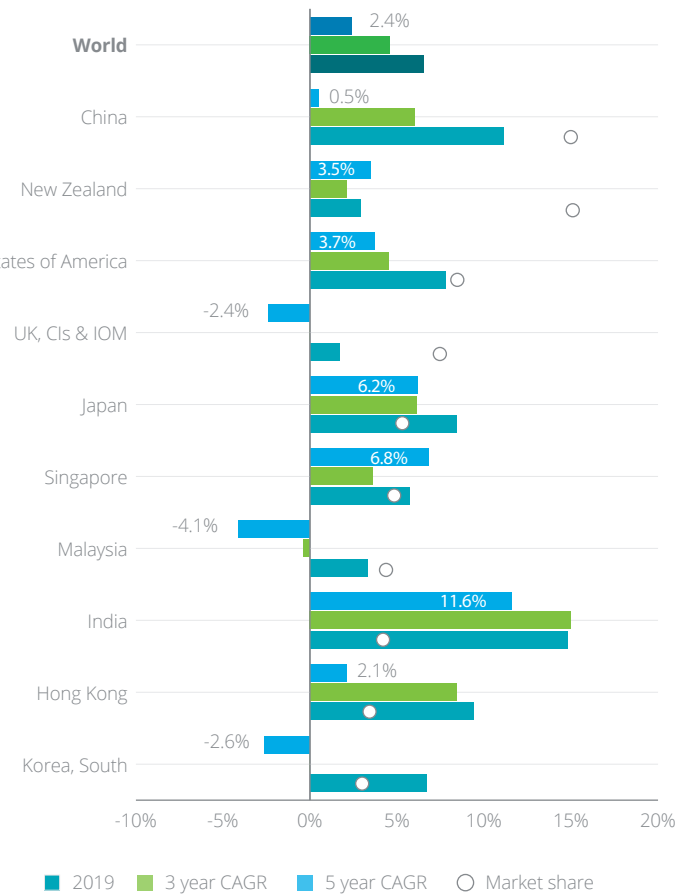
Against a backdrop of continued economic and political uncertainty in many of Australia’s key inbound tourism markets in 2019, growth in international arrivals moderated, up 2 per cent compared to average annual growth of 5 per cent and 6 per cent over the preceding three and five-years, respectively as seen in Chart vi. Nonetheless, Australia’s inbound arrivals had reached a record high of 9.5 million, with the 10 million arrival milestone looking to be an achievable target in the coming year or two.

Australia’s largest volume of international arrivals are from China, followed by New Zealand, each delivering over 1.4 million trips in 2019. The next largest markets for international arrivals to Australia are the US and UK, followed by Asian markets including Japan, Singapore, Malaysia, India, Hong Kong, and South Korea.

International visitor expenditure in Australia reached a peak of \$45 billion in 2019, up 3 per cent on the previous year. While international borders remain closed, the industry’s focus is on maintaining long-term demand, in particular from the holiday segment, which represents 38 per cent of international visitor spend.

International visitors spent on average \$3,610 and had an average length of stay of 32 nights. That said, spend – and length of stay – can vary widely based on the purpose of trip. While on average visitors from China spent the most at \$7,783 per trip, this was driven by the 275,000 Chinese education visitors (21 per cent of all visitors from China) studying in Australia who spent an average of almost \$25,000 during their trip. Chinese holiday visitors, on the other hand, spent approximately \$2,600 per trip.

Chart vi Growth in international visitor arrivals by country of origin



Source: Deloitte Access Economics and Australian Bureau of Statistics.

Among holiday visitors, travellers from South Korea were the highest spenders, spending on average \$3,500 per holiday in Australia, followed by visitors from China and the UK.

The Asian holiday market³ was a big source of revenue for Australia’s tourism sector at \$26 billion, representing 58 per cent of international holiday expenditure, and will most likely be the first source of international demand as borders gradually open.

³ The Asian market includes countries in Southeast Asia, South Asia, and North Asia

Australian travellers

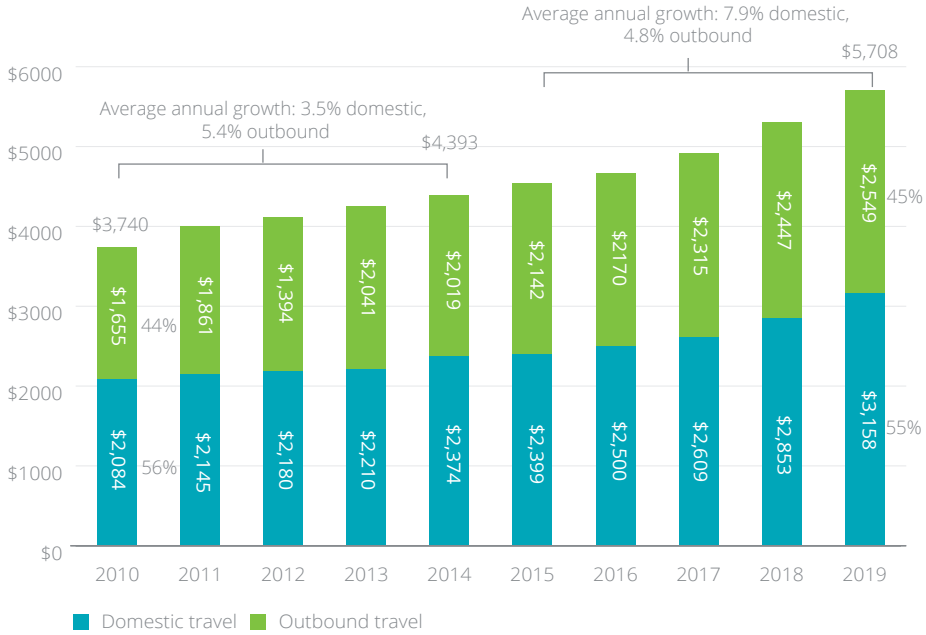
Australians are avid travellers. In 2019, Australians took a total of 366 million domestic trips, an average of 14 domestic trips per person – four overnight trips and a further ten day trips. Australians tend to travel within their home state, with intrastate trips representing 12 out of the 14 trips (85 per cent of domestic trips).

In 2019, Australian residents also took over 11 million overseas trips, or about one for every two residents.

The average spend on travel by Australians – including both domestic and overseas travel – was \$5,708 per capita, up 8 per cent or \$408 from the previous year. There has been strong growth in spending on travel for a number of years as shown in Chart vii, with spend up by \$1,167 or 26 per cent in the five years from 2015 to 2019 – outpacing the growth in household disposable income over the same period.

In 2019, 45 per cent of Australians’ travel expenditure was spent on overseas travel, with 55 per cent of their travel budget spent on domestic travel.

Chart vii Expenditure on domestic and overseas travel, per capita



Source: Deloitte Access Economics, Tourism Research Australia, and Australian Bureau of Statistics

A look at 2020: COVID-19 impacts on the tourism sector

Global context

The global tourism industry experienced its most challenging year in 2020, with one billion fewer international visitor arrivals across the globe than in 2019, a fall of 74 per cent. Tourism in the Asia Pacific region suffered the most with a fall in tourism revenue of 84 per cent, with it the first region to suffer the impacts of COVID-19 and the region to impose some of the strictest travel restrictions.⁴

The later onset and reaction to the pandemic in many countries (March/April 2020) somewhat masks the true impact of COVID-19 on the tourism sector in 2020. Data from the United Nations World Tourism Organisation (UNWTO) indicates that international tourist arrivals in the Asia Pacific region were down by 9 per cent and 54 per cent in January and February respectively, however from April to December arrivals were down by 95 per cent to 99 per cent.

The aviation industry was one of the first and hardest hit as a result of unprecedented travel restrictions imposed globally. Data from the International Air Transport Association (IATA) indicated that international passenger demand in 2020 was 76 per cent below 2019 levels, with domestic demand down 49 per cent.

Australian tourism

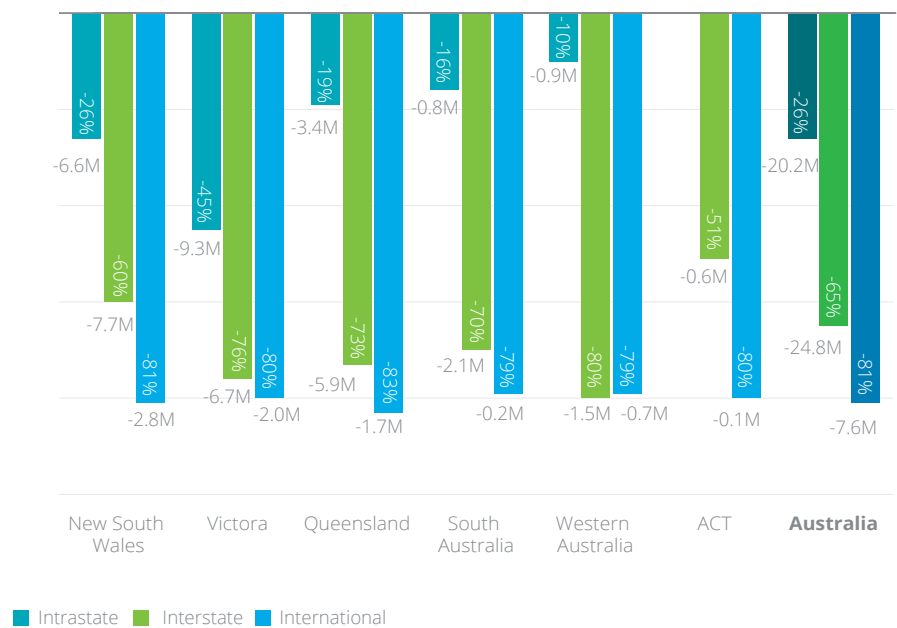
COVID-19 has had a drastic impact on Australia's tourism sector. Border closures have prevented international travel and a great deal of interstate travel in the country throughout 2020. As indicated in Chart viii, this has led to international and interstate travel reducing by 81 per cent and 65 per cent respectively, in 2020.

States that have taken a more hardline stance on borders have seen the greatest downturn in interstate travel. Victoria, Queensland, South Australia and Western Australia have experienced declines in interstate travel ranging from 70 to 80 per cent. New South Wales and the ACT saw smaller reductions in interstate travel of 60 per cent and 51 per cent respectively.

Most jurisdictions restricted intrastate travel at the peak of the first wave of COVID-19 but lifted restrictions as the risk declined. Victoria saw the most severe downturn in intrastate travel in 2020 as a result of its second wave and extended lockdown period. The downturn in intrastate travel in Victoria was 45 per cent, significantly above the national average of 26 per cent.

Overall, the declines correspond to 7.6 million fewer international arrivals to Australia, 45 million fewer domestic overnight trips and 84 million fewer day trips in 2020 compared to 2019. This results in a total combined loss of around \$85 billion in visitor spend, including \$40 billion in international and \$45 billion in domestic visitor spend.

Chart viii Loss in overnight domestic and international trips, 2019 to 2020



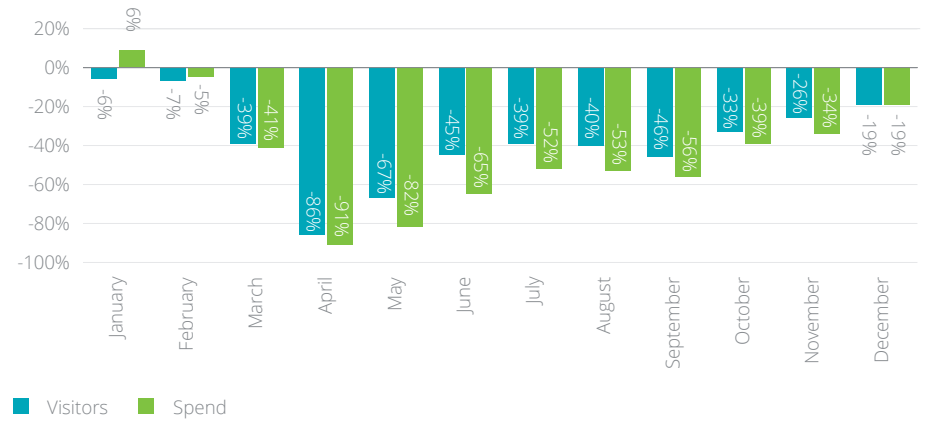
Source: Deloitte Access Economics, Tourism Research Australia, and Australian Bureau of Statistics. Data is not publishable for Northern Territory and Tasmania as the survey error is too high.

⁴ United Nations World Tourism Organisation, 2021, 2020: Worst year in tourism history with 1 billion fewer international arrivals.

Domestic tourism

Australia's domestic tourism sector faced state border closures throughout much of 2020, something which was unheard of prior to the COVID-19 pandemic. Almost all states and territories shut their borders to non-essential travel in April, as Australia was combatting the peak of its first wave of COVID-19. This led to a decline in domestic overnight visitors of 86 per cent and of 91 per cent in domestic travel spend the month of April as seen in Chart ix. Since April, the domestic tourism market has experienced a slow and stepped recovery, with a setback in August and September when Victoria was at the peak of its second wave.

Chart ix Change in domestic overnight trips and spend by month, Australia, 2020 vs 2019

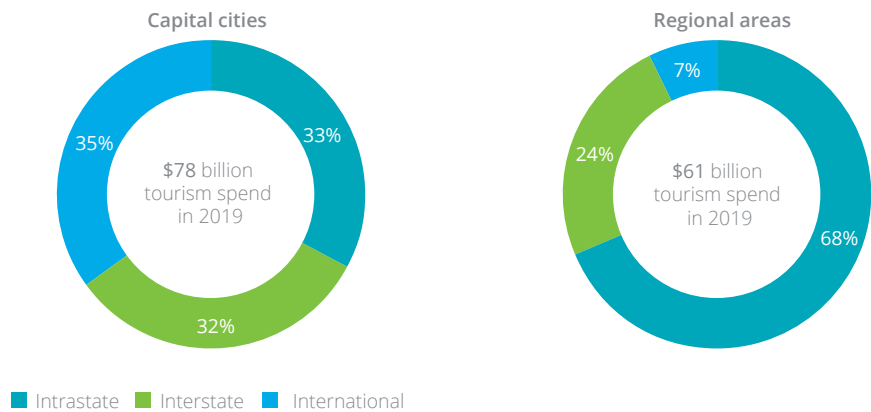


Source: Deloitte Access Economics and Tourism Research Australia.

Capital cities and regional destinations

As capital cities attract a much greater share of international visitors than regional destinations, they have faced a much greater decline in visitors and spend than has been the case in many regional areas – especially those within reach of large population centres.

Chart x Tourism expenditure in capital cities vs. regional destinations, 2019



Source: Deloitte Access Economics and Tourism Research Australia.

Chart x shows that, in 2019, international visitors contributed 35 per cent of the usual total visitor spend in capital cities but only 7 per cent of the spend in regional areas. Interstate visitors also made up a greater share of usual visitor spend in capital cities, at 32 per cent compared to 24 per cent of the visitor spend in regional areas. Conversely, intrastate visitor spending made up twice the share of spend in regional areas relative to capital cities.

These prior travel expenditure patterns leave capital cities much more susceptible to the impacts of state and international border closures.

International tourism

The first quarter of 2020 was the only quarter that resembled somewhat normal travel patterns, with international borders open until mid-March.

Despite the borders remaining open for most of this quarter, the bushfires and broader impact of global media coverage about the bushfires slowed arrivals to Australia in January and February ahead of the pandemic. There was a 28 per cent reduction in both the number of international visitor arrivals and spend in the first quarter of 2020. Thereafter, international travel to Australia essentially came to a halt with both June and September quarters recording almost 100 per cent reductions in international visitors and spend.

Recovery of the tourism sector in Australia

The recovery of the tourism sector in Australia post COVID-19 will depend on a range of factors, including economic conditions here and overseas, ongoing government responses to manage the health crisis, travel restrictions and consumer confidence and behaviour. Australia is in an enviable position when it comes to managing both the health and general economic impacts of the pandemic. This has, however, come with a heavy toll on tourism businesses, which have witnessed international and at times interstate travel coming to a standstill and have needed to adjust to meet evolving domestic traveller behaviour and changing health regulations.

Given the high levels of uncertainty in mid-2020, Deloitte Access Economics developed and released three COVID-19 tourism recovery scenarios encompassing mild, harsh, and severe scenarios. These scenarios were underpinned by the interaction between four key determinants – government regulations, economic conditions, tourism supply and consumer sentiment.⁵

Recovery of domestic tourism

Australia has fared relatively well against COVID-19, and, from a domestic tourism perspective, the sector is currently tracking just above the mild scenario.

However, even tracking in line with the mild scenario vi represents a devastating blow to Australia's domestic tourism sector. Relative to 2019, the number of domestic trips in 2020 declined 35 per cent, 45 million fewer overnight trips and 84 million fewer day trips, leading to a 41 per cent decline in spend, a loss of \$45 billion.

Tracking on this scenario, domestic overnight trips are expected to return to 2019 levels in 2022 as shown in Chart xi.

Recovery of international tourism

All three international tourism sector scenarios modelled anticipated a flatlining of international arrivals in 2020 following the international border closure in mid-March 2020.

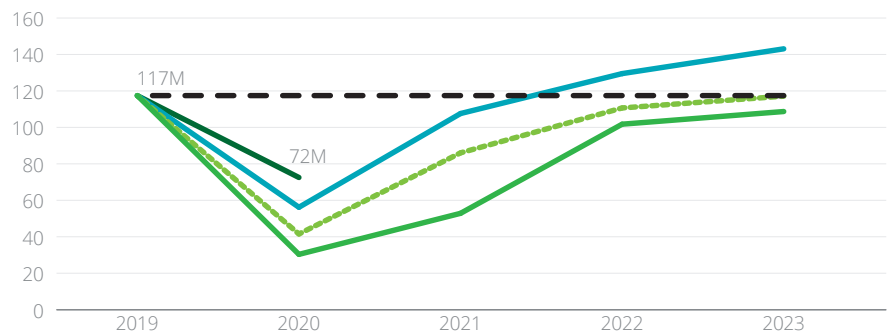
International arrivals to Australia in 2020 fell to a low of 1.8 million, with almost all arrivals occurring prior to the international border closure. Since that time, only a limited number of arrivals have been provided exemptions to enter the country.

The pace of recovery in the mild scenario factors in the rollout of vaccines, recovering economic conditions in source market countries, and lifting of travel restrictions starting in mid to late 2021, while the harsh and severe scenarios reflect more inhibiting conditions which push out the recovery pathways.

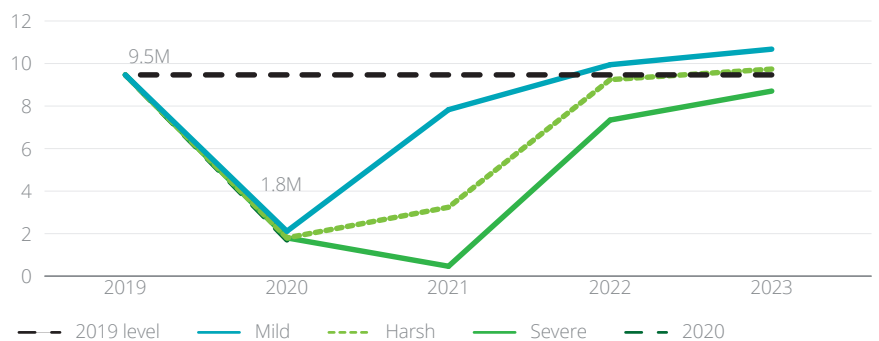
With vaccines starting to roll out in Australia in February 2021, there is the potential for the recovery of Australia's international tourism sector to track in line with the mild scenario – assuming that the lifting of the international border follows later in 2021.

Chart xi Scenarios of possible domestic and international tourism recoveries, relative to 2019 level

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

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

Outlook for Australian tourism

The impact of COVID-19 on the tourism sector has created significant disruption in the industry. Although Australia is currently tracking just above the mild tourism recovery scenario⁶ as a result of its success in mitigating the health crisis, this scenario still sees an unprecedented decrease in tourism relative to where the tourism sector was heading prior to the pandemic.

Deloitte Access Economics has examined a range of factors that will influence the recovery of tourism in Australia to determine the likely tourism demand outlook. Consumer sentiment and potential supply constraints will be among the key drivers to the rebound in domestic tourism demand. Health and financial concerns will also be important factors, impacting willingness to plan, undertake and spend on travel. Drawing on consumer and industry studies conducted over the past year, the forecast parameters have been adjusted to reflect consumer sentiment and willingness to travel.

Tourism operators such as airlines and hotels are expected to be responsive to the recovery in demand. However, some destinations, including the major centres and those more dependent on interstate and business travel are likely to continue experiencing significant and longer-lasting downturns in demand, particularly if labour and capital resources have been reallocated to alternate industries or regions.

On the international front, the lifting of travel restrictions and the development and adoption of vaccine passports and other facilitating measures, along with consumer sentiment, will drive the return of international tourism into Australia. With Australia a mid to long-haul destination for many source markets, concerns around the health risks of international flights and potential quarantine requirements could be around for a while still and will influence international travel in the short run.

Outlook for domestic tourism

Although Australia's domestic travel sector has experienced significant struggle in 2020, there is evidence of recovery underway through the first quarter of 2021. There is expected to be pent-up demand in the market given the travel restrictions that were in place for a big part of 2020, and some redirection of outbound international travel to holidaying at home. Should the pandemic remain largely in control (at least from an Australian context), including a smooth rollout of the vaccination program, domestic overnight trips are forecast to grow to 113 million trips by end of 2021, just under 2019 levels. This growth trajectory is expected to continue with domestic overnight trips reaching 125 million by end of 2022, and 134 million trips by 2023.

Outlook for international tourism

International tourism is unlikely to resume in any meaningful way until later in 2021, with the Australian Government in late February extending the travel ban until at least mid-June 2021 and actively managing expectations about the reopening of international borders.

International travel is not expected to recover to near pre-COVID levels until 2023, with current projections of international arrivals seven per cent higher than 2019 levels. This will be the result of pent-up demand stimulating strong demand in 2022 through to 2023. The outlook shows growth easing in 2024, with slightly lower visitation compared to 2023 reflecting the temporal growth over the next two years.

⁶ Deloitte Access Economics, *COVID-19 recovery for the tourism sector: How are we tracking*, January 2021

Hotel market in Australia

In 2019, Australia's tourism sector welcomed 126 million overnight visitors: 8.8 million international visitors and 117 million domestic overnight visitors. These visitors spent over 690 million visitor nights vi across country, representing growth of 7 per cent over the previous year and average annual growth of 6 per cent over the last three years.

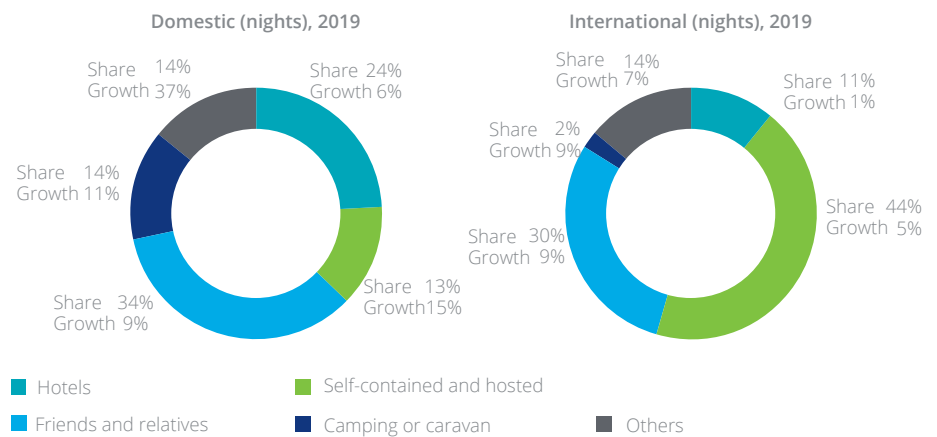
Around one in five visitor nights, or 130 million visitor nights in total, were spent in hotel accommodation. Domestic visitors accounted for approximately 100 million nights while international visitors represented a further almost 30 million nights. Prior to the onset of the pandemic, the hotel sector across the country was seeing average occupancy rates of around 74 per cent and room rates of \$186 in 2019. Both average occupancy and room rates had remained relatively flat over the previous three years.

Chart xii shows the distinct patterns regarding the choice of accommodation of domestic and international travellers in Australia prior to COVID-19. In 2019, almost a quarter of domestic visitor nights were spent in hotels, up 6 per cent on the previous year. The segment of domestic travellers staying with friends or relatives was the largest (34 per cent of domestic visitor nights), with growth of 9 per cent on the prior year.

Among international visitors, the share of visitor nights spent at both hotels or at the home of friends and relatives has remained similar over time, with almost three in ten nights spent with friends and family, and one in ten spent at a hotel. The propensity among international visitors to stay in self-contained and hosted accommodation has increased over recent years – sitting at 44 per cent of international nights (compared to 13 per cent of visitor nights in the domestic market).

Growth in visitor nights at hotels grew 4 per cent in 2019, driven by domestic demand. 44 per cent domestic visitor of nights spent in hotels were from interstate visitors. The number of international visitor nights at hotels was stagnant in recent years, growing just one per cent over the last three years.

Chart xii Breakdown of visitor nights by accommodation type, 2019



Source: Deloitte Access Economics and Tourism Research Australia.

A look at 2020: COVID-19 impacts on hotel market

Australia was reeling from the impacts of the summer’s bushfires at the start of 2020 even before COVID-19 started to take its toll on the tourism sector at the end of February 2020.

Travel restrictions imposed due to the pandemic led to national hotel occupancy falling to a low of 45 per cent in 2020, a decline of almost 30 percentage points on 2019. The average daily room rate decreased a more modest 12 per cent to \$165 across the nation.

Recovery of hotel market in Australia

The vaccine program now rolling out in Australia should provide a boost to consumer and business confidence. Considerable uncertainty will remain in 2021, including the potential for further travel restrictions at the state level in response to positive cases, and concerns around job security and financial status as government support measures such as JobKeeper come to an end. Overall, the tourism sector and the hotel industry are expected to continue to face headwinds in 2021 as consumers ease back to travel.

The recovery of individual hotel markets will depend on each market’s exposure to respective sources of demand – across source markets and purpose of visit.

Figure i shows the exposure of capital cities to the different sources of demand by visitor type. Given the remaining uncertainty around interstate travel and expectations that international travel will remain off the cards for most of 2021, markets whose usual demand is more heavily weighted to interstate and international visitors will take longer to recover, necessitating a greater focus on intrastate visitors in the short term (while incentivising interstate visitors).

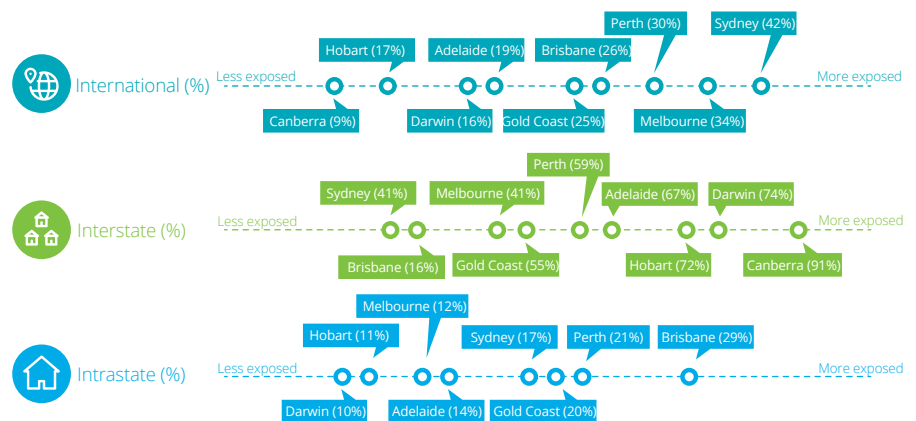
Not surprisingly, Sydney being one of the key international gateways into Australia is the most dependent on demand from international visitors among capital cities, with this segment accounting for 42 per cent of hotel nights in 2019.

Table i Key hotel performance metrics

Metrics	2020	Change over 2019
Room occupancy	44.6%	-30 percentage points
Room rate	\$164.60	-11.6%
RevPAR	\$73.50	-46.9%

Source: Deloitte Access Economics and STR Global.

Figure i Exposure of market by demand market source



Source: Deloitte Access Economics and Tourism Research Australia.

Hotels in Canberra and Hobart are less exposed to the disruption in international travel, with international visitors making up a smaller share of their room nights, 9 per cent and 17 per cent respectively. State border closures, on the other hand, would significantly impact hotels in Hobart, with over 70 per cent of visitor nights coming from interstate visitors.

Business travel grounded to a halt in 2020 with Australians encouraged and, in some states, required, to work from home if they could. The pandemic has led to the acceleration of digital transformation in businesses, including the rapid take up of telepresence technology supporting communication and collaboration with employees and clients while working remotely.

Markets where corporate travellers represent a relatively larger share of demand will face a significant task in the period ahead. Other than the Gold Coast and Hobart, other major hotel markets are relatively reliant on the corporate market, with demand from business travellers accounting for over 40 per cent of visitor nights.

In the short to medium term, hotels in the major capital cities will need to look at ways to encourage a greater volume of domestic holidaymakers to fill the gap from business travellers.

Outlook for the Australian hotel market

Despite the devastating operating climate in 2020, over 5,000 new hotel rooms were added to the market. In Sydney, Doma Group's Little National Hotel opened its doors in November and Crown Towers started to welcome guests in December. Accor's Movenpick Hotel and the Crown Plaza opened in Hobart with Vibe Hotel also making its debut in the city. Crystalbrook Collection opened its third five-star resort property in Cairns in November. With no new hotel stock in the market for a number of years, Adelaide welcomed three new hotels in 2020 - SkyCity's Eos, the Crown Plaza and the Oval Hotel.

Looking ahead, there is the potential for 32,250 new rooms in likelihood adjusted terms to be added to the national room stock, with around 40 per cent of these (or around 12,900 rooms) to open in 2022.

The majority of this new stock in capital cities will be concentrated in Melbourne, Sydney and the Gold Coast.

Average occupancy rates across the 11 markets covered in this publication will continue to be considerably lower than recent years, achieving 95 per cent of 2019 occupancy levels in the final year of the forecast horizon. This is in part influenced by the still strong national pipeline of new rooms, anticipated slow recovery of business travel and the stepped return of international tourism over the next three years.

The pace of recovery for hotels is different across the city markets. Brisbane and Perth are likely to see occupancy rates returning to 2019 levels by 2023, ahead of other markets. Occupancy rates for hotels in the Gold Coast, Adelaide, Hobart, TNQ and Western Sydney are expected to be the slowest to recover, largely due to the markets' greater exposure to business travel and/or international tourists, the two segments which will continue to experience challenges in the short term.

Room rates across the country held up better than did occupancy rates. In a period where demand was restricted due to health concerns, lowering room rates would not have generated much further demand. Having been able to maintain rates nearer pre-COVID levels than has been the case on occupancy has positioned the market on average to see room rates return more quickly to prior levels.

After a 30 per cent drop in rates during the initial lockdown period, rates increased in the next two quarters with average room rates at \$165 in 2020, down \$21 or 12 per cent over 2019. Average room rates across the country are expected to improve more quickly than occupancy levels, forecast to return to 2019 level by 2023.

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