



September 2019

## Tourism Resilience – Threats and Opportunities

**Tourism is known as a volatile sector, but the general trend, globally, nationally and on the Gold Coast, is for increasing visitor numbers and expenditure. The industry is also experiencing structural change, driven by new technology.**

Volatility in the tourism sector derives from both manmade and natural causes (for example, the pilots’ strike in 1990 and volcanic ash). Despite economic uncertainty related to the escalating trade war between the United States of America (USA) and China, IPK International predicted a 4% growth in global travel in 2019. This is down from 5.5% in 2018, with the slowdown due to lower economic growth and factors such as overtourism in cities such as Beijing, Mexico City, Venice and Amsterdam.

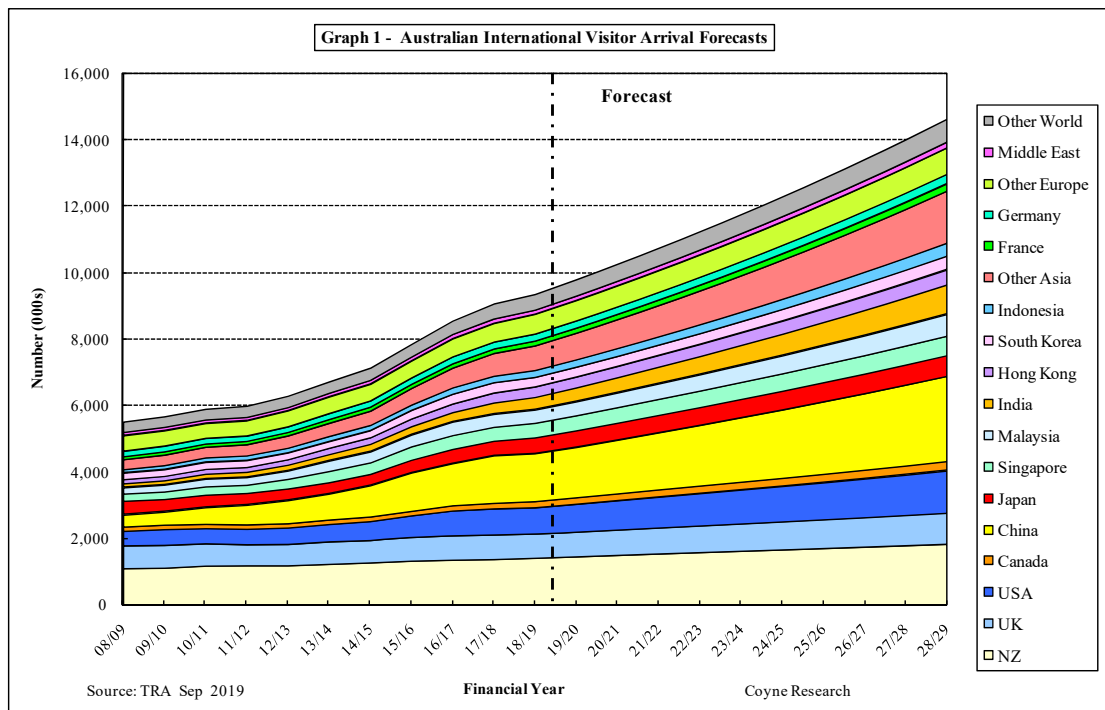
In 2018, Asia was the strongest source market, with a 7% growth in outbound trips, followed by Latin America (6%), North America and Europe (each 5%). For 2019, IPK International predicts growth in outbound trips of 6% for the Asia-Pacific, 5% for the Americas and 3% for Europe (source: press release ITB Berlin 2019 Conference, based on IPK International’s *World Travel Monitor*).

### Australia’s Third Export Industry

Australia receives significant benefits from international tourism, which accounted for 9.3% of exports in 2017/18, behind iron ore and coal. In the year to March 2019, there were 8.5 million international visitors to Australia, who spent 271 million visitor nights and total trip expenditure of \$44.3 billion – source: Tourism Research Australia (TRA).

The current visitation level is actually within 3% of what was predicted by the Tourism Forecasting Committee in November 2007 (8.8 million visitors for 2016, up from 5.5 million in 2006). This suggests that predicted long-term growth trends may be fairly reliable, although growth varies from year to year.

Graph 1 shows TRA’s most recent forecasts from September 2019 for the number of international visitors to Australia by source market.



**Table 1 - International Visitors to Australia Dominant Source Markets**

Source	2018/19 Estimate				Forecast for 2028/29			
	Visitors		Total Expenditure		Visitors		Total Expenditure	
	Number	% Change	\$ Billion	% Change	Number	% Change	\$ Billion	% Change
China	1,433,000	+ 0.8%	\$11,968	+ 6.3%	2,554,000	+ 5.9%	\$21,208	+ 5.9%
NZ	1,409,000	+ 2.8%	\$2,619	+ 2.8%	1,829,000	+ 2.6%	\$3,094	+ 1.7%
Japan	483,000	+ 9.2%	\$2,026	+ 14.8%	651,000	+ 3.0%	\$3,108	+ 4.4%
Singapore	453,000	+ 4.6%	\$1,611	+ 12.2%	594,000	+ 2.8%	\$2,209	+ 3.2%
Malaysia	399,000	+ 1.5%	\$1,394	+ 4.7%	653,000	+ 5.0%	\$2,385	+ 5.5%
India	372,000	+ 11.0%	\$1,848	+ 23.0%	879,000	+ 9.0%	\$4,679	+ 9.7%
Other Asia	1,556,000	+ 4.2%	\$6,914	+ 0.4%	2,833,000	+ 6.2%	\$12,001	+ 5.7%
USA	804,000	+ 2.1%	\$4,071	+ 10.8%	1,288,000	+ 4.8%	\$6,849	+ 5.3%
Canada	189,000	+ 9.4%	\$897	+ 8.4%	265,000	+ 3.4%	\$1,320	+ 3.9%
UK	721,000	- 2.9%	\$3,385	- 3.1%	940,000	+ 2.7%	\$4,311	+ 2.4%
Other Europe	948,000	+ 5.2%	\$5,324	+ 4.0%	1,301,000	+ 3.2%	\$7,433	+ 3.4%
Other World	590,000	+ 1.9%	\$2,897	+ 9.8%	851,000	+ 3.7%	\$4,850	+ 5.3%
<b>Total</b>	<b>9,359,000</b>	<b>+ 3.2%</b>	<b>\$44,955</b>	<b>+ 5.8%</b>	<b>14,639,000</b>	<b>+ 4.6%</b>	<b>\$73,447</b>	<b>+ 5.0%</b>

Source: TRA 2018/19 estimate, based on 9 months' data, plus estimate for the Jun Qtr 2019 - % change is from previous year; for 2028/29, average per annum for 10 years from 2018/19 estimate. Note: total real trip expenditure (base = 2017/18) includes prepaid international airfares, motor vehicles, other major equipment & 70% of prepaid package expenditure, so it does not match regional expenditure referred to elsewhere in this report.

Graph 1 shows that by 2028/29, Australia is expected to receive 14.6 million international visitors, reflecting an average growth rate of 4.6% per annum from 2018/19. In keeping with slower global economic growth, the USA-China trade tensions and moderating aviation capacity, the forecast total visitor numbers were below the 2017 TRA forecast. In 2019, international visitor nights were expected to increase by 5.1% per annum to 478 million nights and total expenditure by 5.0% per annum to \$73.5 billion.

It shows how China increased its market share over the decade to 2018/19, overtaking traditional source markets of the USA and the United Kingdom (UK). By early 2018, the number of visitors from China had also exceeded those from the traditional largest individual market of New Zealand (NZ). In the year to March 2019, China was the dominant market (15.6% of visitors and 27.0% of total expenditure). However various Other Asian markets together accounted for 34.2% of visitors and 30.3% of spending.

Table 1 shows the dominant source markets for international visitors to Australia, based on the TRA's estimates for 2018/19 and its forecasts for 2028/29. It highlights the recent weak growth in visitors from China, although expenditure remained strong. The UK saw negative growth in visitors and expenditure.

Some markets outperformed, notably India, Japan, Canada and Other Europe, reflecting visitors from France. China is expected to remain the largest market, albeit growing at more sustainable levels than past levels shown in Graph 1. India's high growth rates are boosted by its youthful workforce. By 2023/24, it is expected to become one of the top five source markets, overtaking Japan.

Other international visitor trends include:

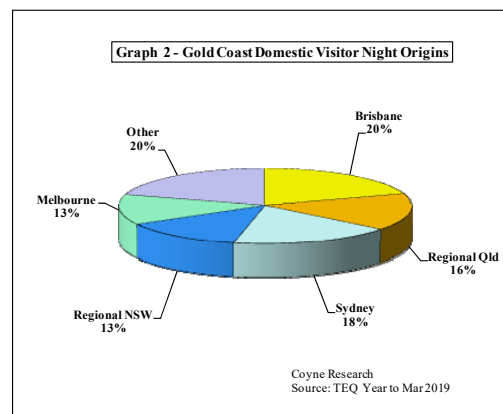
- The longer average length of stay by international visitors (31 nights in the year to March 2019, versus 3.5 nights for domestic visitors). This largely reflects the visiting friends and relatives (VFR) sector, which accounted for 26% of visitor nights and 17% of expenditure; and the education sector (28% of nights and 29% of expenditure);
- VFR was the main purpose of Indian visitors in the year to March 2019 (53% versus 30% for all international visitors). They stayed an average of 61 nights, but spent only \$81/night;
- In the year to March 2019, the **education sector accounted for 90% of the growth in Chinese visitors** (up by 19% on the previous year), while other sectors, including holidaymakers, business travellers and work-related travel, declined;

- At \$31.9 billion in 2017/18, the education sector was just behind tourism in its contribution to Australian exports (\$37.4 billion);
- In 2017, the education sector accounted for over half of expenditure from the emerging international youth market, aged 15-29 years;
- The youth market also includes working holidaymakers. Young travellers represented 45% of international expenditure in 2017/18. They are driving digital disruption (refer to page 7) and demand for authentic experiences;
- Although young people are budget travellers now, they will be the high yielding travellers of the future;
- In the year to March 2019, business travel was the highest yielding international market (average trip expenditure of \$374/night, versus \$208/night for holidaymakers);
- Visitors from the USA were among the highest spenders (\$305/night, compared with \$259/night for Singaporeans, \$210/night for Chinese and \$164/night for all international visitors); and
- The rise of middle classes in Asia has fuelled growth in these visitors, but only 26% of Asian visitors travelled to regional areas (outside of the capital cities and the Gold Coast), versus 41% of other international visitors. Regional dispersal by international visitors has been flat for a decade.

The \$AUD/\$US exchange rate has been falling over recent years, from over 90 cents in 2014 to its current level of around 68 cents. This has contributed to Australia’s capacity to attract international visitors and has encouraged locals to holiday at home.

#### Games Boost Domestic Travel

Domestic visitor nights were estimated to be up by 9.9% nationally in 2018/19, with Queensland and New South Wales (NSW) up by 10.6% on the previous year. Real expenditure nationally was up by 13.9%.



It is considered that the Commonwealth Games, held on the Gold Coast in April 2018, would have boosted domestic travel. Looking forward, the TRA’s 2019 domestic travel forecasts indicate subdued growth over the coming decade: day trips up by 1.0% per annum to 251.5 million by 2028/29; and visitor nights up by 1.2% per annum to 450.7 million nights.

The TRA’s forecasts by state show Queensland was expected to see annual growth of 4.9% for international visitor nights over the decade to 2028/29, just below NSW and Victoria (5.3% and 5.4%, respectively). Domestic visitor nights were expected to increase by 1.4% per annum in Queensland, below Victoria (1.5%), but above NSW (1.1%).

Of all overnight travel nationally in the year to March 2019, domestic visitors accounted for 59% of visitor nights and 71% of regional expenditure (or 76% of expenditure, taking into account daytrippers).

#### Record Gold Coast Domestic Visitors

Given it included the Commonwealth Games, it is not surprising that the Gold Coast saw a record four million domestic overnight visitors in the year to March 2019 (up by 16.8% on the previous year). These visitors spent 15.785 million visitor nights (up by 22.4%). Graph 2 shows the origin of domestic visitor nights.

Domestic overnight visitors to the Gold Coast accounted for \$3.6 billion in expenditure, or 62.5% of total expenditure. A total of eight million daytrippers spent \$803.2 million (13.9%). Many of these would have been from Brisbane.

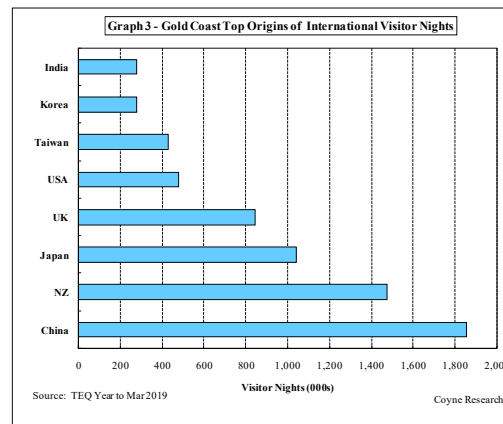
International visitors accounted for \$1.358 billion in expenditure in the year to March 2019 (23.6% of the total expenditure of \$5.76 billion). There were 1.027 million international visitors (down by 2.1% on the previous year), who spent 9.744 million nights (down by 0.6%).

The fall in international visitation was attributable to declines in visitors from China (down by 17.1%), the UK (down by 2.5%), the USA (down by 5.5%), India (down by 1.3%), Taiwan (down by 10.3%) and Hong Kong (down by 25.6%).

The fall in Chinese visitors may be related to Hong Kong Airways ceasing flights to the Gold Coast on 28 October 2018 – source: Tourism and Events Queensland (TEQ). This highlights the critical role of access in determining visitor numbers.

In keeping with the national picture, TEQ highlighted the important role of educational visitors to the Gold Coast. These accounted for 2.5 million visitor nights, up by 20.1% to 25% of all international nights. This is largely due to their longer length of stay (96.4 nights), compared with 9.5 nights for all international visitors to the Gold Coast.

The eight countries shown in Graph 3 accounted for 68% of the international visitor nights spent on the Gold Coast.



The strongest growth was for visitors from Japan (up by 38.3%), the UK (up by 19.6%) and India (up by 17.8%).

### Economic Threats

Despite the positive news for the future outlook at Gold Coast Airport (see below), 2018/19 saw a marginal decline in passenger numbers, mainly as a result of a 9.6% drop in international passengers – source: Bureau of Infrastructure, Transport and Regional Economics (BITRE).

Similarly, Australia’s leading domestic route, between Melbourne and Sydney, saw a 0.5% decline in passengers to 9.196 million in 2018/19, after average growth of 2.2% per annum over the previous four years.

### Access is Critical: Gold Coast Airport Terminal to Double in Size

Australia’s tourism destinations rely upon appropriate infrastructure and services to deliver visitors, especially regional locations. At Gold Coast Airport, construction has just begun on the 30,000 m<sup>2</sup> southern terminal expansion, due for completion in mid-2021. Doubling the footprint of the existing terminal, it will include aerobridges, additional retail space, a new departure lounge, baggage handling and border control facilities.

Together with the Rydges Airport Hotel, also under construction, there is \$500 million being invested. This is expected to create 1,500 jobs over two years, with 250 workers onsite at peak times.

From close to 6.6 million passengers per annum at the moment, the increase in capacity is expected to see numbers more than double by 2037.

Among new services added over recent months have been:

- Peak season additional domestic flights by Virgin Australia;
- 13,000 additional peak season seats by AirAsia X between the Gold Coast and Kuala Lumpur;
- 8,000 new seats added to the Gold Coast-Auckland route; and
- Additional services by Airnorth to Townsville and Darwin.

By late 2019, Jetstar will add a three times-weekly service to Seoul, delivering 52,000 additional seats to the Gold Coast annually (source: Queensland Airports Limited).

Upgrading of the southern part of the Pacific Motorway, Stage 3A of the Light Rail and the Coomera Connector are also needed projects.

### **Economic Threats Continued**

More recent BITRE data to September 2019 shows that the cheapest available return flights between Melbourne and Sydney had fallen during the calendar year to date to \$149, 2% down on 2018 and 5% on 2017 (year to September).

The BITRE's real domestic air fare index shows that the most significant falls in air fares have been for business travellers (a September 2019 index nationally of 83.6, down by 10% on September 2018). This correlates with reports of a softening domestic economy.

The *Monthly Business Survey* for August 2019, from the National Australia Bank (NAB) found the business sector continued to lose momentum, with confidence and conditions down. Mining went against the trend, with the highest levels of confidence and conditions.

Weak household consumption is a major factor in NAB's expectation of 2.0% growth in real Gross Domestic Product in calendar year 2019, rising to 2.4% in 2020. By early 2020, it is expecting the official interest rate to be cut to 0.5%, down from 1.0% currently. The unemployment rate is expected to rise to 5.5% by mid to late 2020.

These economic headwinds could see flat growth in domestic tourism over the coming year. Airlines are already under some pressure due to rising fuel prices. Virgin Australia is cutting 750 head office jobs and may reduce capacity on some routes.

### **Climate Change Threat**

Some of Queensland's tourism regions attract visitors, particularly from the USA and Europe, due to the appeal of the Great Barrier Reef. These regions include the Whitsundays and Tropical North Queensland, focused on Cairns. The world's largest coral reef stretches 2,300 kilometres from Cape York Peninsula to Lady Elliot Island in the Bundaberg region.

In 2016 and 2017, the northern and central parts of the Reef experienced coral bleaching, as a result of sea temperature rises due to climate change. Adverse publicity associated with this, together with damage in the Whitsundays from Cyclone Debbie, saw visitor days to the Great Barrier Reef Marine Park Authority (GBRMPA) region fall from a peak of 2.4 million in 2016 to stabilise around 2.24 million in 2017 and 2018.

It should be emphasised that **the Great Barrier Reef has a natural resilience**, and given time, has the capacity to recover from adverse events. Nevertheless, the GBRMPA's *Outlook Report 2019* highlighted the impact on coral reefs of climate change, as well as crown-of-thorns starfish outbreaks and land-based runoff.

Despite this, the GBRMPA's website indicates that the Reef remains "a vibrant, beautiful ecosystem of immense value to Australia and the world". In June 2017, Deloitte Access Economics indicated it contributed \$6.4 billion to the Australian economy in 2015/16 and provided 64,000 jobs, including 39,000 direct jobs.

Furthermore, in its recent annual report, the Australian Institute of Marine Science, which has been monitoring the Reef for 30 years, found conditions were mixed across the region. Despite widespread declines in coral cover across the Great Barrier Reef region, outer-shelf reefs of the Whitsundays saw increased coral cover and remained in good condition.

The outlook for the Whitsundays region was boosted earlier this year with the reopening of the Intercontinental Hayman Island Resort and of Daydream Island Resort (with its Living Reef attraction). The Whitsunday Coast Airport at Proserpine is expected to see an increase to 500,000 passengers, following a \$15 million Stage One expansion of the terminal, \$27 million upgrading of the runway and a higher marketing budget.

Nevertheless, the actual and reputational damage associated with climate change is a real threat to Queensland tourism's medium to longer term outlook.



*Artist's impression of The Star Residences and Dorset Hotel, under construction, and the Epsilon tower on the right, at Broadbeach (courtesy Destination Gold Coast Consortium)*

### **New Gold Coast Hotels**

Although there has recently been a substantial national pipeline of new hotels in Australian capital cities, especially ones completed in Brisbane, Sydney and Perth, to date the Gold Coast has seen limited new hotel completions. This is now changing, with several properties under construction and others proposed.

Among the hotels completed just before the Commonwealth Games were the 56-suite boutique hotel, The Darling, adjoining The Star Hotel and Casino at Broadbeach; Mantra at Sharks, with 120 rooms, adjoining the Sharks Football Club, located close to Griffith University at Southport; and The Woodroffe, a 103-room business hotel in Southport, purchased this year by a Japanese University, mainly for use by exchange students.

Hotels under construction include the Rydges Airport Hotel, with 192 rooms, due for completion in mid-2020; the Quest Robina (80 rooms) and Lucia Residences (24 apartments); Meriton's 76 storey Ocean at 84 The Esplanade, Surfers Paradise, with a 5 star, 446-suite hotel and 258 apartments, due to open in 2020; and Jewel on the beachfront at Surfers Paradise, including the Langham Hotel with 169 rooms and 521 apartments, now expected to be completed in mid-2020.

At Broadbeach, Destination Gold Coast Consortium has commenced construction of the \$400 million The Star Residences, with the 300-room, 4.5 star Dorset Hotel and 423 apartments, due for completion in early 2022. With a reported 93% of these apartments presold, marketing commenced earlier this year on the next stage of the proposed five new towers proposed for The Star Gold Coast's site.

The 63 storey Epsilon at The Star Residences will include a 210-room, 5 star hotel, 457 apartments and over 12,000 m<sup>2</sup> of retail and resort amenities across the two towers. Epsilon is reporting over 50% of apartments presold within three months of its launch. It is expected to be completed by 2024.

Each of the Destination Gold Coast Consortium towers is expected to create 1,800 construction jobs, with a total of 3,000 new operational jobs once the \$2 billion expansion is fully completed.

The Gold Coast hotel market has been performing well, with a 2017/18 room occupancy rate of 72.6% and an average tariff of \$198/night (source: TRA & STR Global). The under construction hotels identified above would represent around a 4% increase in supply during 2020. These projects are expected to attract additional visitors to the Gold Coast, so the recent occupancy level may be maintained.

The upswing in new apartment construction on the Gold Coast will add to the serviced apartment and holiday-letting supply, beyond the under construction projects noted on page 6. In its report to June 2019, Urbis identified around 2,000 new and off-the-plan apartments remaining for sale. A further 15 projects with 738 apartments were expected to launch over the coming six to nine months. With the widespread downturn in the investor market, developers have increasingly focused on larger apartments targeting owner occupiers.

### **Structural Change**

The construction boom of recent years in hotel accommodation nationally is being driven to a large extent by structural change in the industry. This is characterised by new technology, especially smart phones, and by expectations of authentic experiences from millennials. It has also been sparked by competition to hotels, motels and serviced apartments that has emerged over the past few years from online short-term holiday rental platforms (Airbnb and Stayz).

TRA's *Tourism Investment Pipeline 2017-18* identified a potential 50,000 hotel rooms nationally, with 17,380 under construction. This included 9,850 rooms proposed in regional locations. According to Tourism Accommodation Australia (TAA), 40 new hotels were opened nationally over the three years from 2016. This followed a period of little new supply during the previous 15 years.

One of the factors driving the trend has been the creation of boutique brands by major hotel operators. Mobile technologies have also changed the way people make travel decisions, travel and share their experiences (Instagram, traveller reviews).

Some of the new hotels are facilitating use of mobile technology for check-in, keyless entry, accessing services and operating room facilities. Hotel rooms are often smaller and foyers are being transformed as co-working hubs.

TAA's 2018 report, *The Innovation Revolution Transforming Australia's Hotel Industry*, identified trends such as localism (especially food and experiences), wellness, individualism (not only in design, but in ability of guests to customise services), art and sustainability - for example, the Schwartz Family Company (who earlier this year purchased the Hilton Surfers Paradise) has committed to adding solar plants and electric car battery chargers to most of its hotels.



*Mantra at Sharks at Southport*

### **Online Rental Platforms**

There are indications that the online short-term holiday rental platforms have disrupted traditional hotel models, not least by offering cheaper accommodation options, embedded in local communities. Supporters of these platforms highlight the benefits, such as income for hosts, bidirectional reviews and expansion of accommodation supply in peak periods. The impact of the latter can be that traditional hotels may find it harder to raise room rates during peak periods.

Regional areas may be experiencing the greatest impacts. In particular, some communities have seen the loss of permanent rental options for locals. For example, there is anecdotal evidence that this has been a problem at Byron Bay, pushing workers to live in nearby towns, such as Ballina.

The Accommodation Association of Australia has identified the issue of residential apartment blocks becoming quasi-hotels (without the building fire safety, insurance and disability access required for traditional accommodation operators). This may particularly apply in suburban locations in metropolitan areas.

### **Online Rental Platforms Continued**

It is not certain how widespread a problem this would be on the Gold Coast, as many apartment complexes along the coastal strip are operated as a mix of permanent residential and holiday-letting apartments.

A report on Airbnb earlier this year indicated most Gold Coast listings occurred in managed resorts or existing holiday accommodation. There were 6,000 active listings that attracted 254,100 guests in 2018, worth \$53.1 million (on average \$6,000 for each host and an average of 28 nights hosted) – source: *Gold Coast Bulletin* 22 January 2019.

### **The Spit Master Plan**

Perhaps the greatest challenge facing Gold Coast tourism is the need for constant renewal and addition of attractions. One of the most exciting proposals is a result of the approval of The Spit Master Plan. Funds to support infrastructure upgrades have been committed by the Queensland Government (\$60 million) and the City of Gold Coast (\$35 million).

This has facilitated Village Roadshow's \$50 million new theme park, The New Atlantis, with three new rides to be developed over the next 15 months, on a 1.5 hectare site adjoining Sea World.

The Gold Coast Waterways Authority is funding upgrades to existing ferry terminals in preparation for a new ferry service to The Spit. A new indigenous cultural centre is also proposed and the Southport Yacht Club is set to expand the capacity of its superyacht berths.

Arden Leisure has announced a \$50 million revamp of Dreamworld, following the opening of its Sky Voyager ride.

The City of Gold Coast's Home of the Arts (HOTA) project has its \$60.5 million art gallery and a Green Bridge to Chevron Island under construction.

### **GCECC Proposed Expansion**

Opened in 2004, the Gold Coast Exhibition and Convention Centre at Broadbeach is Australia's largest regional convention centre. In 2018, it hosted 150 events and injected \$360 million into the local economy. The City's leaders are calling for the State Government to support a proposed \$85 million upgrade, which could see it expanded by 30%, including a 1,500 m<sup>2</sup> convention hall and breakout rooms.

Others have highlighted the need for new attractions, such as the proposed Cableway to open up the Hinterland to more visitors.

### **Record Attendance at Events**

Over the past year, Gold Coast sporting and cultural events have seen record attendances, for example:

- Blues on Broadbeach, 200,000 attended over four days;
- Groundwater Country Music Festival - 73,000 people over three days, 20% up on 2018;
- Gold Coast Marathon – 60,000 attended, economic impact of \$32.5 million, up by 12%;
- Seafire fireworks in Surfers Paradise, 95,000 people over two nights, up by 33% on 2018;
- The Australian Surf Life Saving Championships at Burleigh Heads and Broadbeach – 6,000 competitors and 90,000 spectators, worth \$20 million to the economy;
- The nine-day Magic Millions Carnival saw 22,000 people attend the Saturday race day and achieved record sales of over \$182 million; and
- The 2018 biannual Pan Pacific Masters Games attracted 37,500 people (up by 16%), worth \$24 million to the economy (up by 28% on 2016).

The Commonwealth Games helped to put the Gold Coast on the map as an international sporting destination. The 18 new venues have delivered an additional \$100 million of new sporting events to Queensland. Other events, notably hosting the TV Week Logies, continue to bring important television exposure to the region (source: *Gold Coast Bulletin*, various issues).

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