



June 2008

Salt Village Resorts Offer Potential Upside

An investment in one of the Salt Village Resorts on the New Tweed Coast (NTC) offers some potential upside, but should still be viewed primarily as a lifestyle investment. This is the key finding from some indepth market research recently prepared for Salt Village Real Estate. The paper below summarises some of the highlights from a recent presentation to Salt Village Resort apartment owners.

Fresh New Destination

Upon opening in late 2004 and late 2005, Mantra on Salt Beach (formerly Outrigger) and Peppers Salt Resort & Spa and Peppers Balé (formerly Beach House), introduced a new standard of professionally-managed resort to Tweed Shire. Just south of Kingscliff on a greenfield beachfront site, the Salt Resorts are located on an unspoilt coastline.

They are in a locality recently branded with national landscape icon status. The Mt Warning Wollumbin Caldera is set to attract "experience seekers", travellers who "get off the beaten track", stay longer and immerse themselves in the local culture. (Source: Tourism Australia)

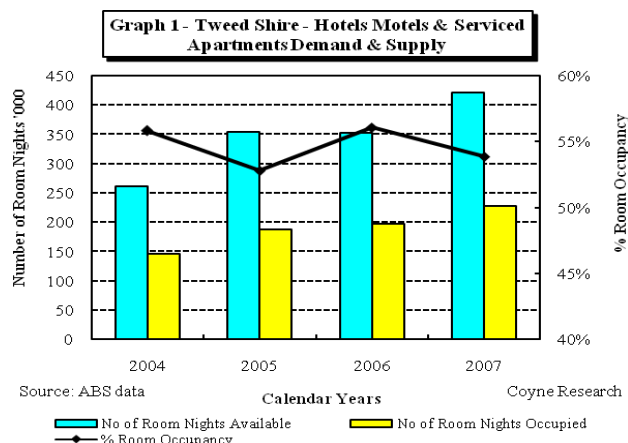
The Salt Resorts are easily accessible from South-East Queensland and, via Gold Coast Airport, from Sydney and interstate. The recent completion of the Tugun Bypass has cut up to 20 minutes off the travel time from Brisbane, making the Salt Resorts a realistic alternative to Noosa for holiday-makers.

Competitive Market

Together, the three Salt Resort properties represent 657 rooms, equal to half of the Tweed Shire supply of hotels, motels and serviced apartments, based on the Australian Bureau of Statistics (ABS) survey in December 2007. Graph 1 shows the Shire's average occupancy has ranged around 55%.

A review of apartments from Coolangatta to Cabarita indicates there have been over 1,000 other apartments completed since 2005 (not all of these are sold and occupied as yet). They include The Beach at Cabarita, Santai at Casuarina Beach, Azzura at Kingscliff, Harbour Tower at Twin Towns and Reflections 1 and 2 at Coolangatta. Unlike the Salt Resorts, where the zoning only permits tourism uses, some of these may be occupied by permanent residents.

A further 700 apartments are proposed in Tweed Shire, notably 129 apartments at Cotton Beach and 235 apartments at Tweed Ultima. While Cotton Beach will allow permanent residents, it will be operated as a luxury resort, representing direct competition to the Salt Resorts.



Comparative Studies

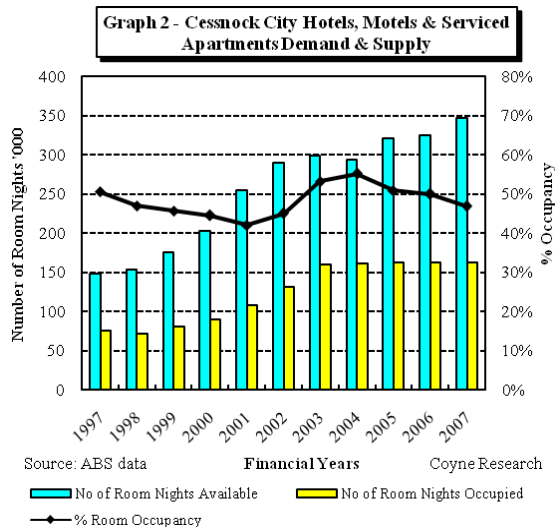
An important aspect of the research was an analysis of the performance of other areas where major new resorts were introduced to destinations characterised mainly by holiday apartment accommodation.

One of the key findings of this analysis was that continuously increasing supply can significantly delay the return to acceptable occupancy levels. This has implications for the Salt Resorts' capacity to improve occupancy levels.

The threat from increasing supply is illustrated by Cessnock City in the Hunter Valley. Graph 2 shows that over the decade to June 2007, the number of room nights available in hotels, motels and serviced apartments rose by 134% to 346,000 nights. Demand, represented by room nights occupied, doubled from 1998/99 to 2003/04, resulting in the occupancy level recovering to 55%.

Over more recent years, demand has been flat, partly as a result of high fuel prices, more people travelling overseas and workers not taking leave entitlements. These factors are now part of the national tourism market context.

The opening of the high profile Crowne Plaza resulted in Cessnock City's occupancy in 2006/07 falling to 47%, but also contributed to the average tariff rising by 8.2%, to \$184 per night.



A fundamental principle of establishing a successful tourism destination was stated by the Tourism Task Force, as follows: *Infrastructure + Access + Attraction = Opportunity*.

With the recent opening of the Tugun Bypass and Gold Coast Airport's extended runway and terminal upgrade underway, the NTC has the access. Salt Resorts, with their beachside apartments, conference facilities and The Golden Door Spa, provide the infrastructure and, together with the natural environs, the attraction. There is clearly the potential to build upon the success to date.

The Gold Coast City comparative study illustrates what can happen if favourable circumstances surround the introduction of new resorts. During the mid 1980s, the Gold Coast was transformed into an international destination, with over 2,000 hotel rooms opened over 18 months. Supply increased by 50%, demand by 49% and the average occupancy rose by 12.5 points to 67% over the two years to 1987/88. In 1988, demand was also boosted by Expo 88.

When recession and the pilots' dispute caused a downturn in 1990, occupancy levels took three years to return to 1988/89 levels (assisted by lower interest rates). Over this period, total takings from accommodation continued to grow and the average tariff rose by 11%.

This illustrates another key finding of the comparative studies: that average tariffs and average yields may sometimes increase, despite occupancy levels remaining flat.

As the Salt Resorts seek to capitalise on their strategic location and build the higher yielding conference business, there may be scope to raise tariffs. With careful cost control, returns may also improve.

Conference Business

One of the great strengths of the Salt Resorts is the capacity for the combined resorts to accommodate conferences with 800 delegates. Twin Towns, with a capacity for 300-400 delegates, has the only other notable conference facility in Tweed Shire (although a new 1,000 seat facility is also proposed for Twin Towns).

Conference delegates spend more than traditional domestic visitors, many of whom are retirees and families. The average expenditure by New South Wales business visitors in 2006 was \$214 per night. This is well above the average for domestic visitors to Tweed Shire (\$94 per night averaged over recent years). It also exceeds the average of \$183 per night for Gold Coast domestic visitors, a figure boosted by spending at the region's theme parks.

A major benefit of conference business is that it assists in evening out the mid-week and winter seasonal lows. This will also assist the growth of average occupancies. If Salt Resorts manage to maintain market share in the face of the expanding competition, the two main resorts may see the average occupancy rise to 60% over the next two to four years.

A Lifestyle Investment

Despite this potential upside, the conclusion from the study is that ownership of a tourism apartment at Salt Village should be regarded primarily as a lifestyle choice. In the context of rising fuel prices and uncertain economic times, as well as the competitive environment, income returns should not be the main deciding factor. Tourism returns can be volatile, subject to unexpected external shocks (for example the pilots' dispute, 9/11).

Salt Village Resorts offer the beach, patrolled 365 days a year, World Heritage National Parks, on-site resort pools and restaurants and The Golden Door Spa. This is an opportunity for a laid-back weekend escape with the family or a romantic getaway for couples. Salt Village has the necessary infrastructure, attraction and access, and is emerging as an exciting new Australian tourism destination.