There's Investment.. and Smart Investment

By Geoff Ellis, MR Sales

This month Deloitte Access Economics released their latest Tourism and Hotel Market Outlook and there is more good news about North Queensland.

The region has been enjoying very positive growth for some time now and Deloitte's report confirms that growth in North Queensland compares more than favourably with every other region in Australia.

Of particular note, Deloittes report that room rates across the country increased by 2.4% and that 'average room rates grew the most in the predominantly leisure focused Cairns and Tropical North Queensland market' – by 8.7% - nearing four times the national average!

Little wonder managers throughout the accommodation industry in FNQ are smiling. So what are the contributors to this outstanding performance?

Supply

Economics 101 on supply and demand tells us that in situations where growth in demand is outstripping growth in supply, prices must rise. In the wake of the GFC, developers and investors pulled back from investment in new accommodation in the regions and like lemmings decided to confine their activity to the big capital cities. Such was their enthusiasm in recent years that they continued investing in the big smoke to the point where a glut in supply was created. Of course, the first sign of a glut is when developers start going broke because there are not sufficient people willing to pay the prices developers need to keep the bank happy. Melbourne, Sydney and Brisbane have all long reached that point.

Meanwhile in North Queensland no new accommodation developments were started. Since the GFC wore off about 5 – 6 years ago, it has been hard to attract developers. They were all too busy preparing to go broke in the big city! As things stand today, there are just half a dozen cranes over new accommodation developments in North Queensland – and they all belong to just one developer – Crystalbrook Developments – who are building three new hotels in Cairns. They will not be ready for occupation for another couple of years but they will enjoy the fruits of tourism growth for some time before other new accommodation operators come along.

Owned by an international investor, Crystalbrook are smart for they have identified an opportunity in the Australian tourism scene long before any Australian based hotel developers. In fact Crystalbrook reportedly took a look at investing their $500M down in the big smoke long before they visited Far North Queensland. They quickly identified the best return on their investment was going to be in Cairns and Port Douglas. And they are investing long term.

Demand

Toward the end of 2017, Destination Queensland (the partnership between the Queensland government and the tourism industry) reported –

"*International visitation to Tropical North Queensland increased 7.2% to 890 000 visitors in the year ending March 2017, generating $1 billion in expenditure. International holiday visitors increased 6.6%, which contributed to Tropical North Queensland being the most popular destination in the State for international holiday travellers."*

I have to say, colleagues of mine down south break out in apoplexy when I remind them that Tropical North Queensland is the most popular destination in the State for international holiday travellers. Not the Gold Coast! Not the Sunshine Coast! Not Brisbane! Yet this situation has been trending for some time now. It is the sort of trend that Crystalbrook would have identified before committing their $500M.

The International Investor

"Sometimes it takes an outsider, someone with fresh eyes to see the truth." – Ally Carter

As outlined above, it is an international investor who in developing in Cairns, has stolen a march on Australian investors in tourism accommodation. Meanwhile many Australian based accommodation developers who could have invested in North Queensland have been beaten off by Crystalbrook. But there are other signs.

Hainan Airlines announced it would fly twice a week between Shenzhen and Cairns from December 2017 with the capacity to bring 15,000 additional Chinese visitors to Tropical North Queensland each year.

China Southern Airlines announced direct flights from Guangzhou to Cairns from December 2017. Three flights per week will deliver more than 33,000 seats to the region.

Hong Kong Airlines operated regular scheduled services connecting Hong Kong with the Gold Coast and Cairns.

Jin Air commenced direct seasonal flights from Seoul to Cairns from December to February which brought 6000 Korean visitors to the region, delivering a $9 million boost to the local economy.

Tapping into potentially the largest tourism market of all in China and Asia generally, are four Asian based airlines. No Qantas. No Virgin Australia. Both Australian airlines now beaten into following.

Just like Crystalbrook, it is the international investor who is identifying the opportunities for growth in North Queensland.

It is no coincidence that as broker handling inquiries for those wishing to invest in management rights and tourism in North Queensland, I am receiving a noticeable increase in inquiry from Asian investors. It is no secret that the Asian investor is more focused on ROI than many Australians, many of whom are more focused on being near family, friends and their footy club. The Asian goes into business to maximise returns. In the past year I have handled more inquiries from Asians than I have in the previous five years.

Noting the same things as Crystalbrook and the Asian airlines, these business investors can see at a glance that they will achieve a better return on investment coming to North Queensland.

It is where the smart money goes.

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