

AUSTRALIAN TOURISM & AVIATION INDUSTRY MARKET INSIGHTS

With the advent of the COVID-19 pandemic, our recent valuation and advisory engagements have required us to look closely at the potential and likely impact on hotel performance as a result of the current aviation restrictions due to both State and International Border Security closures.

We've also been in numerous discussions with our investor clients and hotel operators as to our views on what the likely impacts on the tourism sector for Australia is, post the current COVID-19 pandemic restrictions.

Based on our discussions and experience of other health and economic downturns, we are able to provide strategic consultancy advice for various asset classes and are delighted to provide an insight into the current aviation restrictions and likely impact on the tourism market below.

As Federal and State restrictions have been imposed across Australia in order to impede the spread of the COVID-19 virus, this meant that travel and aviation restrictions were also imposed on 20 March 2020 whereby only Australian citizens, residents and immediate family members can travel to Australia whilst from 28 March 2020, all travellers arriving in Australia are required to undertake a mandatory 14-day quarantine in their port of arrival.

Whilst uncertainty remains about the phasing and re-instatement of domestic and international air services, it is widely accepted that domestic restrictions will most likely be primarily lifted and international air services will follow within a reported/slatted indicative 12-month period.

Virgin Australia and Qantas ceased air services and operations in late March 2020, with both airlines stopping all international flights. Qantas recently announced that domestic air services may re-commence in late May/early June whilst international air services may re-commence in approximately 12 months, however, this is heavily reliant on the phasing of Federal and State imposed restrictions being lifted and other countries' COVID-19 status.

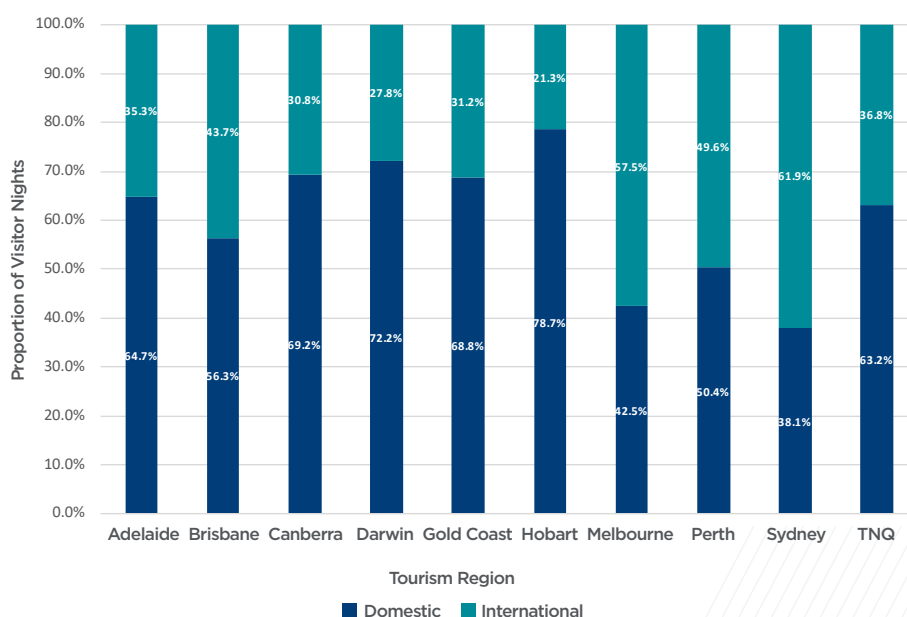
Inevitably, this has had impacts on not only the aviation industry labour force, with Virgin Australia and Qantas standing down 8,000 and around 20,000 staff respectively, but also direct impact on the tourism sector with room night demand decline affecting tourism

spend and consequently employment, with a number of hotels having closed and others considering temporary/partial closure or accepting essential services and/or quarantine and self-isolating business and associated contracts with minimal staffing levels.

In the year ending 31 December 2019, Australia's domestic versus international visitor nights was relatively evenly split with just over 50% of visitor nights being domestic (159.7 million visitor nights) and the remainder (156.3 million visitor nights) being international visitor nights.

When looking at Australia's major markets more specifically, in the year ending 31 December 2019, Sydney and Melbourne (excluding education) reported the highest proportion of international visitor nights at 61.9% and 57.5% respectively, followed by Perth (49.6%) and Brisbane (43.7%), meaning that such markets are more reliant on inbound business, indicating that any changes to inbound passenger movements may likely affect such markets.

Proportion of Domestic v International Visitor Nights (exc. Education)



Source: Tourism Research Australia

What is the current state of the Aviation Industry?

For markets where reliance on international source markets are predominant, it becomes increasingly important to understand the current aviation environment, not only for domestically based carriers such as Qantas and Virgin Australia, but also other major international airline carriers. British Airways flights were suspended in early April 2020, Emirates and Malaysia Airlines grounded air services to Australia in late March 2020, whilst Etihad Airways is servicing Melbourne up until April 21, we are aware that this is in relation to resident and citizen repatriation only. We note that Qatar Airways are currently the only airline servicing Sydney, Melbourne, Brisbane, and Perth to Doha daily however this is also for repatriating residents, citizens and immediate family members who had been stranded after foreign countries imposed travel and border restrictions as a result of COVID-19. Further, we are aware that air crew servicing cargo flights are also utilising hotel accommodation during this time.

In Australia, the aviation sector has been given circa \$715.0 million in aid, in the form of waived air service charges, aviation security charges, and taxes on fuel. This was followed by a further \$198.0 million package for regional airlines, and a further \$100.0 million in cash support for smaller regional carriers.

Major carriers such as Virgin Australia have requested a \$1.4 billion 'bridging' loan over a two/three year period that would convert to equity if left unpaid, however given that the airline is held by various international stakeholders being Etihad Airways, Singapore Airlines, Nanshan Group, HNA Group, and Richard Branson's Virgin Group, the Federal Government is not expressing immediate interest in providing financial assistance whilst the aforementioned owner/investors are also facing halted flights in other regions which is having implications on their cash flows, therefore, limiting ability to assist Virgin Australia financially.

Qantas, being a domestically owned company, has noted that should Virgin Australia receive a bridging loan, they would seek a proportionate loan of \$4.2 billion, given its relative size to its competitor. However, Qantas in contrast to Virgin Australia are relatively well positioned to withstand and endure current conditions as they have accumulated around US\$1.85 billion in assets.

We note that the Federal Government has granted \$165.0 million towards underwriting a range of flights for a period of eight weeks, to be serviced by Qantas and Virgin Australia which include key cities such as Melbourne, Brisbane, Sydney, Canberra, Gold Coast, Adelaide and Perth as well as domestic routes between major cities and regional centres, including Albury, Alice Springs, Broome, Coffs Harbour, Dubbo, Kalgoorlie, Karratha, Kununurra, Mackay, Mildura, Newman, Port Hedland, Port Lincoln, Rockhampton, Tamworth, Townsville and Wagga Wagga.

Regional airlines such as Regional Express ('REX') has reached an agreement with the Queensland government to continue a reduced schedule to a minimum of one return service a week which is underwritten by the State Government which gives

REX certainty to operate essential air services to regional and remote destinations in Queensland despite passenger numbers decreasing by 95% on most routes. Therefore, the announcement of the \$298.0 million Federal Government package will aid the airline to remain operational for circa 6 months as reported in media.

Assistance packages are imperative as they not only seek to keep essential air services from ceasing, but also tries to prevent the existing regional aviation providers from being dissolved. There are a further eight regional airlines – including Airlink Airlines, Aviair, Alliance Airlines, Chartair, Fly Corporate, Fly Pelican, Hardy Aviation and Sharp Airlines which are all reliant on such assistance packages.

Looking further abroad, a number of smaller airlines in remote and regional areas of Alaska, and the United Kingdom have already claimed bankruptcy whilst airlines in the United States of America will benefit from a \$94.0 billion assistance package. We note that Lufthansa is currently in the process of restructuring and has announced the permanent cessation of its domestic carrier 'Germanwings'. Whilst Malaysia Airlines are currently considering a US\$2.5 billion bid from Gold Skies Ventures.



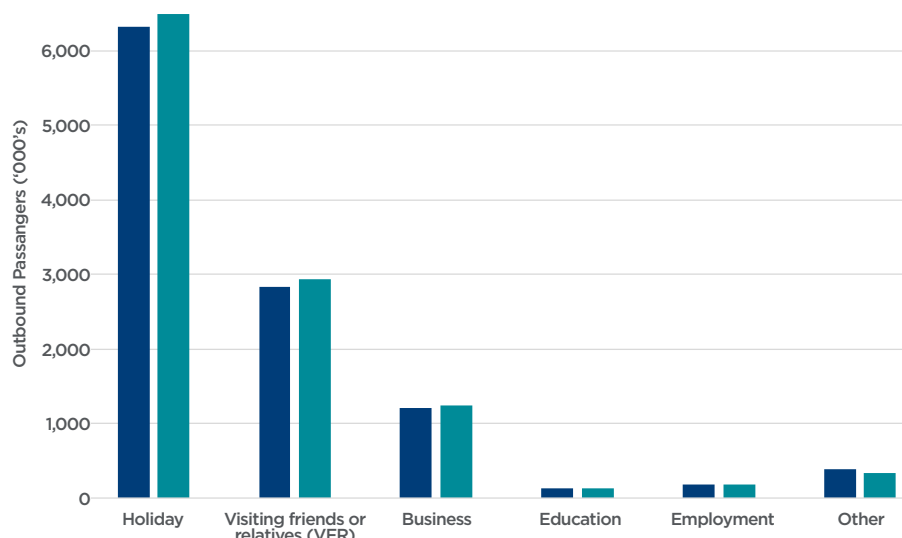
What is the likely outlook for Tourism?

Given the above, it is reported as likely that the aviation industry will see further restructuring, or potentially, further insolvencies which would likely have an adverse impact on recovery of global economies.

Whilst economic conditions and confidence will play a large role in discretionary spend for not only leisure but also corporate travellers, given the possible outlook with regards to the aviation industry and anticipated re-instatement of air services as restrictions are lifted, both domestically and internationally, it is highly likely that domestic travel will rebound at a quicker pace when compared to international passenger movements.

It is also very likely that traditional inbound and outbound passenger movements from Australia to other international markets will shift conventional overseas holiday travel patterns. According to Australian Bureau of Statistics, in the calendar year ending 31 December 2019, over 11.3 million Australian's travelled overseas for a short term (less than 12 months abroad) which is a 2% uplift year on year.

It is considered a likely trend will be Australian's who would potentially had the appetite to travel overseas, particularly for holiday and visiting family and friends, which accounted for 57% and 26% of total outbound



Source: Australian Bureau of Statistics

passengers in 2019 respectively, will seek to holiday at home providing some relief to the tourism sector nationally by way of additional room nights demand.

Whilst at present, it is difficult to ascertain the level at which business segments are likely to rebound which is interdependent on the phasing of State restrictions being lifted, to enable interstate leisure and corporate travel, anecdotally, intrastate travel is thought to rebound initially (provided the financial wellbeing of Australian residents and businesses likely to allow for leisure and discretionary spend),

benefitting regional and traditionally seasonal locations, followed by interstate leisure and corporate travel as air lines recommence major domestic routes to key cities, which is then anticipated to be followed by the return of international air services.

If you'd like to discuss our market insights further or wish to discuss how Cushman & Wakefield Valuations & Advisory can potentially assist you during these unprecedented times, please feel free to reach out to us or review our range of strategic consultancy services [here](#).

HOTELS TEAM Should you have any queries in relations to the above, please do not hesitate to contact the team.

Monika Mattczak
Divisional Director
National
monika.mattczak@
cushwake.com
+61 409 995 753



Alistair Bell
Divisional Director
National
alistair.bell@
cushwake.com
+61 405 146 200



Sean Ray
State Director
Western Australia
sean.ray@
cushwake.com
+61 424 728 906



Cameron Harris
State Director
Queensland
cameron.harris@
cushwake.com
+61 418 886 525



Kyle Newbery
Director
Queensland
kyle.newbery@
cushwake.com
+ 61 423 622 969

