

CROWN SYDNEY HOTEL RESORT



VOLUME 1B – ATTACHMENTS TO
THE PROJECT SUBMISSION

JUNE 2013



CROWN SYDNEY HOTEL RESORT AT BARANGAROO SOUTH (DESIGN IMAGE)





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CROWN SYDNEY HOTEL RESORT

1



Integrated Resorts and Asian Tourism – the Role of Crown Melbourne and Crown Perth - 2012

This report has been prepared for Crown Limited

26 October 2012

Disclaimers

Inherent Limitations

This report has been prepared as outlined in the Introduction Section below. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Crown Limited management and personnel consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

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KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

Third Party Reliance

This report has been prepared at the request of Crown Limited in accordance with the terms of KPMG's engagement letter dated 20 June 2012 and is solely for the purpose set out in the Introduction Section of this report. This report is for Crown Limited's information and is not to be used for any other purpose without KPMG's prior written consent.

Other than our responsibility to Crown Limited, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party, on this report. Any reliance placed is that party's sole responsibility.

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Executive Summary

Crown Limited (Crown) wholly owns and operates two integrated resorts in Australia: Crown Melbourne and Crown Perth. Both integrated resorts offer a wide range of entertainment services including casinos, restaurants, bars, hotels, theatres, convention centres, day spas and other recreational facilities. The resorts attract a substantial number of domestic and international tourists each year and make a strong direct contribution to their respective state economies as well as indirectly to the national economy.

KPMG has been engaged to update and extend its 2010 study undertaken for Crown – *Integrated Resorts and Asian Tourism – the Role of Crown Melbourne and Burswood* – with a particular focus on:

- the estimated economic impact of Crown Melbourne and Crown Perth (previously Burswood Entertainment Complex) to their respective state economies;
- tourism strategies in Asia, the role played by integrated resorts and the degree of government recognition and involvement in the sector; and
- a review of the current Australian national and state tourism strategies in the context of the regional tourism market outlook, and the position of Crown within these strategies.

Key Findings

- The total (direct and indirect) value-added impact of the operations and capital expenditure is estimated to be around \$2.1 billion for Crown Melbourne and \$800 million for Crown Perth in 2012¹.
- The overall employment impact associated with the operations and capital expenditure is estimated to be approximately 23,200 full-time equivalents (FTEs) associated with Crown Melbourne and almost 8,000 FTEs for Crown Perth.
- Crown has continued to invest in its Melbourne and Perth facilities – investment of \$2.0 billion was made between 2007 and 2012 – and additional capital expenditure is planned for the coming years.
- Crown Melbourne and Crown Perth are the largest private sector, single-site employers in the states in which they operate, and Crown invests in training provided to its employees.
- Visitor expenditure between 2010 and 2012 at Crown Melbourne and Crown Perth resorts increased by 18 per cent and 7 per cent, respectively. This is despite the general decline in tourism expenditure in Australia, suggesting that Crown increased its tourism market share.
- Crown's Melbourne and Perth integrated resorts make meaningful contributions to their respective economies. Given the potential to grow tourism demand from Asia in the medium to long term, particularly through demand for integrated resorts, Crown has the potential to continue to play a considerable role in both the Australian tourism sector and the economy more broadly.

¹ The operational impacts relate to 2012 while the capital expenditure impacts capture to the average annual impacts of the capital expenditure for 10 year period to 2015-16.

Economic Contribution

The operation of Crown Melbourne and Crown Perth contributes to the economies of Victoria and Western Australia respectively through three channels:



KPMG used Computable General Equilibrium (CGE) modelling to estimate the economic impact of Crown's operations and investment in facilities.

Value-added impact

The combined value-added impact associated with the capital expenditure, tourism exports and operations is estimated to be around \$2.1 billion for Crown Melbourne and \$800 million for Crown Perth in 2012.²

Employment impact

The overall employment impact associated with the capital expenditure and operations is estimated to be approximately 23,200 FTEs for Crown Melbourne and almost 8,000 FTEs for Crown Perth.

Crown Melbourne and Crown Perth Key Facts

- Crown Melbourne is a key tourist attraction in Australia. Crown Melbourne has received the second highest annual visitation, after the Sydney Opera House, for the last five years.
- Crown Melbourne and Crown Perth have invested \$2.0 billion over the period 2007 to 2012 in tourism infrastructure including entertainment options, accommodation, conference facilities, retail facilities and many dining options.
- Crown Melbourne and Crown Perth are the largest private sector, single-site employers in the states in which they operate:
 - Crown Melbourne employs around 7,600 employees on a FTE basis or around 8,800 on a headcount basis; and
 - Crown Perth employs around 4,200 employees on a FTE basis or approximately 5,600 on a headcount basis.
- Crown invests in its employees:
 - Crown College in Melbourne is a \$10 million purpose built facility that offers accredited courses through the School of Business, School of Hotels, School of Gaming, and School of Food and Beverage, as part of the Learning Pathways. More than 1,200 employees are currently undertaking training within the Australian Qualifications Framework; and
 - Crown Perth makes a strong commitment to training employees and apprentices. More than 720 apprentices and trainees are completing nationally accredited training and nearly 200 employees are participating in the Leadership Development Program.

² The operational impacts relate to 2012 while the capital expenditure impacts capture to the average annual impacts of the capital expenditure for 10 year period to 2015-16.

Tourism Strategies in Asia

Tourism strategies in the East Asian and South-East Asian regions show an appreciation of the economic significance of the tourism industry and strategies that incorporate urban tourism infrastructure, cultural and natural elements.

Asia-Pacific Tourism Market

The Asia-Pacific region has experienced growth of nearly 250 per cent in tourist arrivals between 1990 and 2010. In that period, Asia-Pacific countries were among the fastest growing regional destinations. A fundamental driver of the growth in tourism arrival numbers and expenditure in the Asia-Pacific region is the strong increase in Chinese per capita GDP, leading to a rapid rise in the Chinese middle class, which is expected to reach 800 million in 15 years. As part of this structural transformation of the Chinese economy and society, Chinese outbound travel is expected to grow by 17 per cent annually over the next decade.

Over the past decade, however, Australia has not shared equally in regional gains and in fact has experienced a decline in its share of global tourism. This decline is attributed in part to the structural rise in the Australian dollar over this period, but also to tourism strategies and policies.

Competition in the Asian integrated resort market continues to grow

Integrated resorts benefit the domestic economy directly through tourism spending in the resorts, employment and taxation revenues. Indirectly, integrated resorts also benefit the economy through tourism expenditure outside of the resort and the flow-on effects of that spending in the form of increased incomes to goods and services providers (which in turn are spent on broader consumption) as well as additional government revenues.

The success of integrated resorts in Macau at attracting Asian tourists continues to provide a model for other countries in Asia to develop similar offerings as a driver of growth in the tourism sector. Integrated resorts are now operational across Asia, in Malaysia, Macau, Singapore and the Philippines. In addition, Vietnam is due to enter the market in 2013 and Japan, South Korea and Taiwan are in various stages of planning for integrated resort developments.

Crown continues to play a considerable role in Australia's tourism sector

Crown's continued investment in accommodation facilities at Crown Melbourne and Crown Perth also expands the accommodation capacity of each city. This is expected to allow for further growth in tourism demand in the future. This is especially important in Perth where there is a well-documented tourism accommodation shortage.

Given the potential to grow tourism demand from Asia in the medium to long term, particularly through demand for integrated resorts, Crown has the potential to continue to play a considerable role in both the Australian tourism sector and the economy more broadly.

1 Introduction

Crown Limited (Crown) wholly owns and operates two integrated resorts in Australia: Crown Melbourne and Crown Perth. Both integrated resorts offer a wide range of entertainment services including casinos, restaurants, bars, hotels, theatres, convention centres, day spas and other recreational facilities. The resorts attract a substantial number of domestic and international tourists each year and make a significant direct contribution to their respective state economies as well as indirectly to the national economy.

KPMG has been engaged to update and extend its 2010 study undertaken for Crown – *Integrated Resorts and Asian Tourism – the Role of Crown Melbourne and Burswood* – with a particular focus on:

- the estimated economic impact of Crown Melbourne and Crown Perth (previously Burswood Entertainment Complex) to their respective state economies;
- tourism strategies in Asia, the role played by integrated resorts and the degree of government recognition and involvement in the sector; and
- a review of the current Australian national and state tourism strategies in the context of the regional tourism market outlook, and the position of Crown within these strategies.

1.1 Report structure

The remainder of this report is structured as follows:

- Section 2 presents the economic contribution of Crown Melbourne and Crown Perth;
- Section 3 provides an introduction to the Crown integrated resorts in Melbourne and Perth and an overview of recent developments and investments;
- Section 4 provides an overview of recent developments in integrated resorts throughout Asia;
- Section 5 summarises international tourism market trends;
- Section 6 considers the tourism policies in Australia and Asia and examines government support of integrated resorts in each country; and
- additional explanatory data is attached in the appendices at the end of this report.

2 Economic Contribution of Crown Melbourne and Perth

The operation of Crown Melbourne and Crown Perth contributes to the economies of Victoria and Western Australia through three channels:



This section discusses and presents the approach to estimating the economic contribution of Crown Melbourne and Crown Perth.

Key Findings

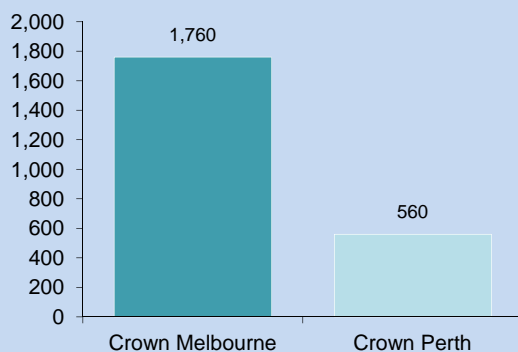
KPMG used Computable General Equilibrium (CGE) modelling to estimate the economic impact of Crown's operations and investment in facilities.

Overall, the combined value-added impact associated with the capital expenditure and operations is estimated to be around \$2.1 billion for Crown Melbourne and \$800 million for Crown Perth 2012³. The overall employment impact is estimated to be approximately 23,200 FTE associated with Crown Melbourne and almost 8,000 FTE for Crown Perth.

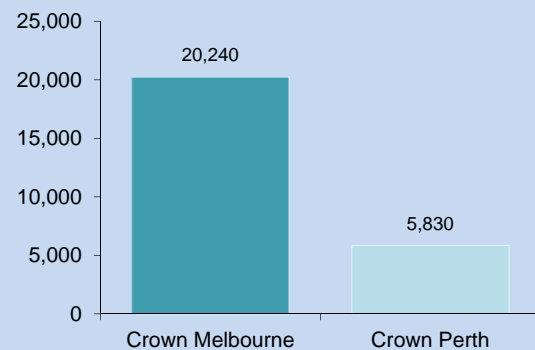
Taking into account both the direct and indirect economic contributions, the estimates of economic impact are set out below:

Economic contribution associated with Crown operations

Value-added (\$m) (2012 prices)



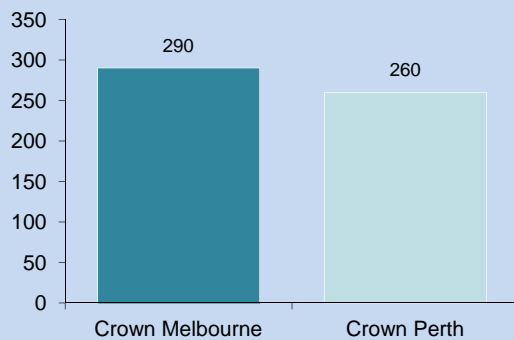
Employment (FTEs)



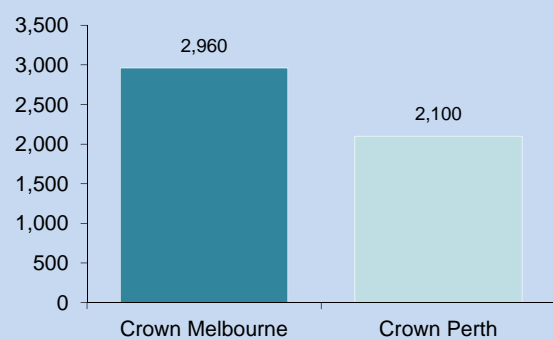
³ The operational impacts relate to 2012 while the capital expenditure impacts capture to the average annual impacts of the capital expenditure for 10 year period to 2015-16.

**Average annual economic contribution associated with capital investment
 (2005-06 to 2015-16)**

Value-added (\$m) (2012 prices)



Employment (FTEs)



The difference in flow-on impacts between Crown Melbourne and Crown Perth is driven by a number of factors:

- the estimated number of visits to Crown Melbourne is approximately three times that of Crown Perth;
- the level of international and interstate tourism for Crown Melbourne is approximately eight times that of Crown Perth - this results in a more pronounced impact on the total economic contribution;
- Crown Perth has a higher proportion of local visitors; consistent with consumer choice theory, expenditure by local visitors is assumed to take place irrespective of the presence of Crown and therefore, does not add to the economic contribution (that is, consumers would otherwise spend their income in the Perth economy on a substitute good/service); and
- the revenue associated with Crown Melbourne's operations is approximately two and a half times that associated with Crown Perth.

Creating further complexity, each state's tourism sector is comprised of different demand and supply chains that mean that the flow-on impacts of tourism expenditure will be quite different. For example, there is less reliance on imports for many goods in the tourism supply chain in Victoria relative to Western Australia, meaning the economic impact will be larger for Victoria as imported goods do not contribute to value-added.

2.1 Modelling approach

To estimate the economic contribution of Crown Melbourne and Crown Perth, multi-regional CGE modelling was employed. Multi-regional CGE modelling captures the region-wide flow-on impacts through inter-regional upstream and downstream production linkages.

The *total* economic contribution captures both the *direct* and *indirect* (or flow-on) impacts. *Indirect* impacts include:

- increased demand for goods and services that support the supply chains of Crown Melbourne and Crown Perth operations and capital expenditure; increased demand for consumer-orientated industries that cater to the spending of employees of Crown Melbourne and Crown Perth; and
- impacts on the cost of business inputs generated by changes in the price of some goods and services as a result of Crown Melbourne and Crown Perth operations.

Appendix A outlines a more detailed description of the CGE model used for this study.

2.2 Operational economic impact of Crown facilities

There are two components of the ongoing economic contribution of the operation of Crown facilities in Melbourne and Perth, namely:

- associated tourism (export) demand; and
- operational employment and expenditure.

The associated tourism demand is driven by expenditure by Crown visitors inside Crown facilities and induced expenditure by these visitors outside of Crown.

Expenditure within Crown facilities

Visitor spending within the Crown complex is derived from data provided by Crown. As shown in Table 2-1, in 2012 visitor expenditure at Crown Melbourne was just over two and a half times that of Crown Perth.

Table 2-1: Visitor expenditure at Crown facilities, 2012 (\$ million)

	Visitor expenditure (\$ million)	
	Crown Melbourne	Crown Perth
Crown facilities		
VIP gaming	486	154
Main floor gaming	992	441
Non gaming	451	217
Total complex	1,929	812

Source: Crown Limited

Visitor expenditure outside of Crown

Visitor spending outside of Crown is estimated based on data from TRA and Crown. TRA data indicates that there was a general decline in tourism numbers and expenditure over the last few years. This is also reflected in the number of, and expenditure by, tourists who visited a casino.

Table 2-2: Casino tourism visitors and expenditure, Australia, 2012

	2012	
	Number of visitors (no.)	Visitor expenditure (\$m)
International	796,400	\$4,081.6
Domestic Overnight	921,500	\$1,281.2

Source: TRA (unpublished data)

Crown estimates that approximately 25 million visitors visit the Melbourne and Perth facilities each year – approximately 18 million visitors to Crown Melbourne and seven million to Crown Perth. As visitors often undertake multiple activities when they visit a Crown facility, Crown's estimates of total visitor activities exceeds the total number of estimated visitors to the facilities.

Table 2-3: Number of visitor activities at Crown Melbourne and Perth

	Number of visitor activities, 2012			
	Crown Melbourne ('000)	Share	Crown Perth ('000)	Share
Local	26,477	80%	10,227	93%
Interstate	4,965	15%	360	3%
International	1,655	5%	493	4%
Total	33,096	100%	11,080	100%

Source: Crown Limited

The estimates provided by Crown (shown in Table 2-3) are not directly comparable to those obtained from TRA. Crown information represents an estimate of the number of *visitor activities*, while the TRA data reflects the number of *visitors*. As a visitor can visit multiple times during a trip, it is necessary to understand the number of visits per trip to compare the two sets of information. According to a report commissioned by the Australasian Casino Association⁴, the average number of visits to a casino by international visitors was 2.4 times in 2007-08. By applying this metric to the TRA estimates of number of visitors, it is possible to calculate the total visits to the casino.

Using the above analysis, total visitor spending outside of Crown can be estimated. However, this figure cannot then be used to estimate the amount of spending that international visitors make as a direct result of the Crown integrated resort. This amount must first be adjusted to only

⁴ Allen Consulting Group, 2009, *Casinos and the Australian Economy*, report prepared for the Australasian Casino Association, April.

capture the induced tourism spending due to Crown. Otherwise, the induced tourism impact would be overstated.⁵

In addition to international and domestic visitors, the Crown integrated resorts also attract a significant proportion of local visitors⁶. Spending by local visitors inside the Crown integrated resorts is obtainable directly from Crown, and it is assumed that any spending by local visitors outside the integrated resort would occur as part of their natural spending pattern and thus is not attributable to the integrated resort.

Finally, Crown Melbourne and Crown Perth generate revenue from two additional sources, including:

- income from rent and leasing of space to non-Crown businesses within each facility; and
- income from high roller international VIP players⁷.

The direct economic contribution of each facility is used as model inputs to estimate the total (direct and indirect) economic contribution of each facility to its respective state economy. These direct inputs are summarised in the following table.

Table 2-4: Total direct contributions – model inputs

	Crown Melbourne	Crown Perth
Employment (FTEs)		
Crown employees	5,546	3,243
Other	2,078	945
Total Employment	7,624	4,188
Visitor Expenditure at Crown (\$m)		
International	818	360
Domestic	114	127
Local	998	325
Total Spend at Crown	1,929	812
Induced Visitor Expenditure (\$m)	335	189

Source: KPMG estimates based on information supplied by TRA and Crown Limited.

⁵ For this analysis, it is assumed that the international visitor spending that is induced by the Crown integrated resorts is linked to the proportion of international visitors who choose to stay in an integrated resort hotel. Information supplied by Crown and sourced from TRA shows that around 26 per cent of international visitors to Crown Melbourne stayed at Crown Melbourne and 23 per cent of international visitors to Crown Perth stayed at Crown Perth.

⁶ “Local visitors” refer to visitors to each facility from within the state and who do not stay overnight.

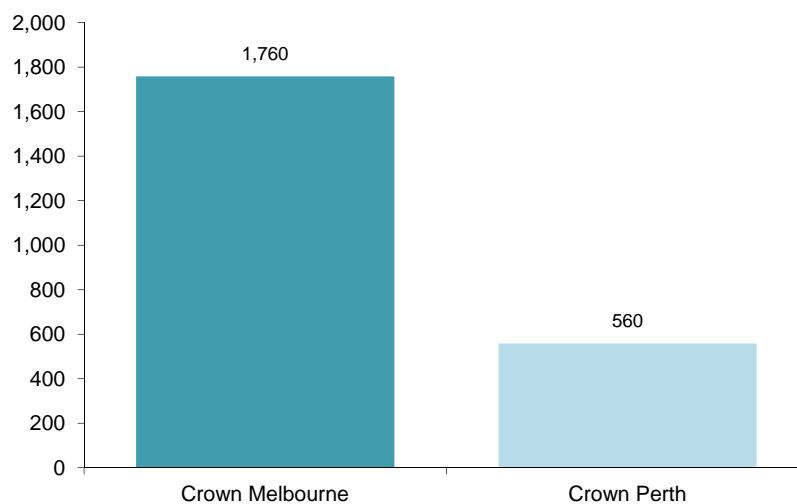
⁷ Crown revenue from international VIP gaming is accounted for separately to international tourism spending. Due to survey methods employed by TRA to gather tourism spending data, it is unlikely that international VIPs would participate in these surveys. Thus, their spending is not included in the international casino tourism spending supplied by TRA. In both these instances, data is supplied by Crown.

Value-added impacts

The economic impacts associated with higher tourism demand and the operation of Crown facilities are outlined in the following sections.

Chart 2-1 shows the positive impact on value-added in the Western Australian and Victorian economies from the operation of, and tourism demand associated with, Crown facilities. The rise in overall value-added impact in 2012 is the result of the increase in tourism visitor expenditures and an increase in operational activity and employment at Crown Melbourne.

Chart 2-1: Value-added impact of operation of Crown facilities, 2012 (\$m)



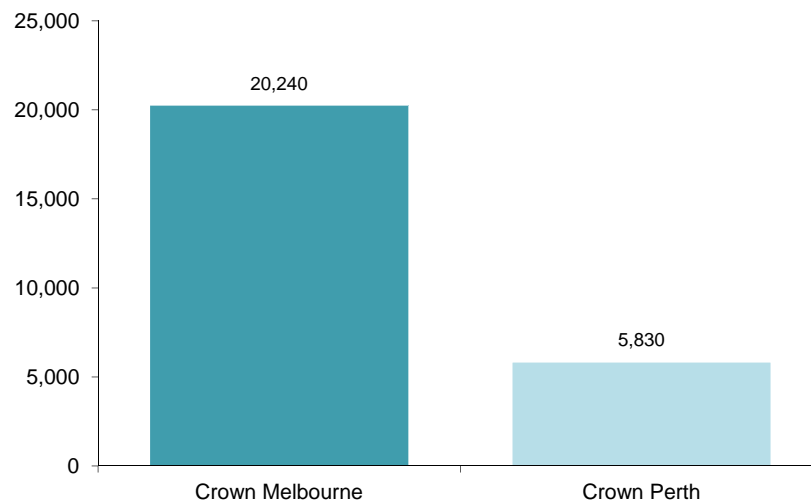
Source: KPMG analysis.

The industry distribution of the economic impacts is presented in Appendix B.

Employment impacts

In addition to raising value-added, the operation of Crown facilities is also expected to support employment in the broader Melbourne and Victorian economies. Estimates of total (direct and indirect) employment impacts are presented in Chart 2-2.

Chart 2-2: Employment impacts of operation of Crown Melbourne, 2012 (FTEs)



Source: KPMG analysis.

The industry distribution of the economic impacts is presented in Appendix B.

2.3 Impact of capital investment in Crown facilities

Crown has made substantial investment in facilities in Melbourne and Perth and additional capital expenditure is planned for the coming years. This capital investment is expected to stimulate short-run construction activity and to raise overall aggregate demand in the state economies of Victoria and Western Australia⁸.

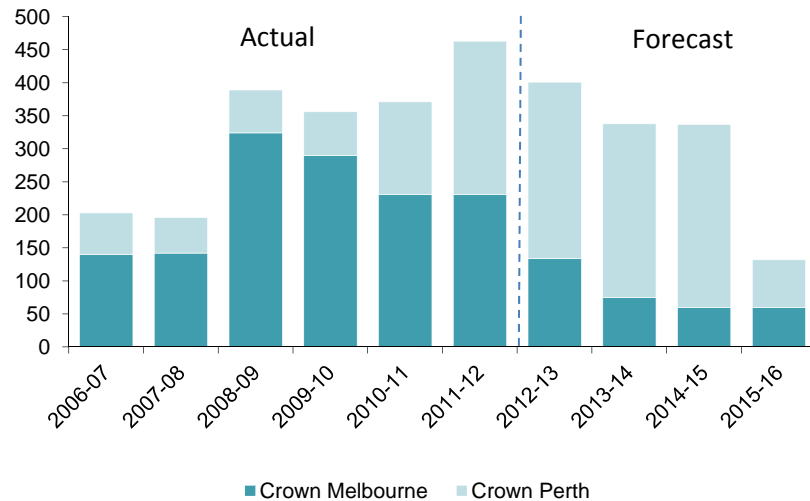
To capture the economic contribution of completed and planned capital expenditure, the economic impact of average annual capital expenditure was modelled. Historic and projected average annual capital expenditure for the 10 year period to 2015-16 at Crown facilities is estimated to be:

- \$168.7 million at Crown Melbourne; and
- \$149.9 million at Crown Perth.

The actual and forecast capital expenditure at Crown Melbourne and Crown Perth over the period 2006-07 to 2015-16 is illustrated in the following chart.

⁸ Crowding out effects occur when there is a large-scale project that results in a diversion of scarce resources to a project and away from other sectors. In the case of Crown, there is potential that construction and development of facilities may divert labour and other inputs away from other private sector projects including other construction activities. The potential for crowding out to occur can be assessed based on the size of the labour requirement relative to the size of the whole labour force in the economy. For illustrative purposes, KPMG conducted an analysis of the potential for crowding out impacts resulting from the investment in Crown facilities and found that the employment resulting from investment in Crown facilities accounts for a small proportion of total employment. Accordingly, it is not expected that the development of the facilities would cause significant crowding out effects on other sectors or other regions.

Chart 2-3: Construction expenditure, Crown, 2006-07 to 2015-16 (\$m)

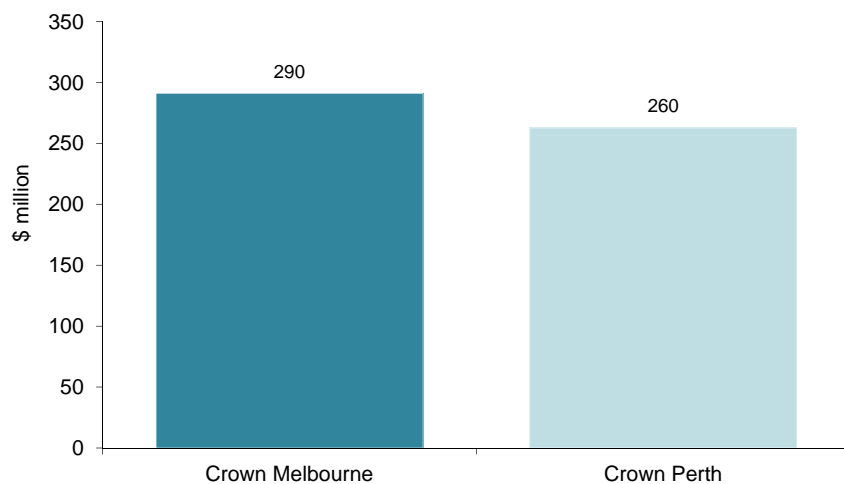


Source: Data provided by Crown Limited

Value-added impacts

The capital investment at Crown facilities is estimated to have a positive impact on value-added (the additional value to the economy in terms of wages and profit in each industry). The estimated impacts are outlined in Chart 2-4.

Chart 2-4: Average annual value added impact of capital investment in Crown facilities, 2006-07 to 2015-16 (\$m) (2012 prices)



Source: KPMG estimates based on information supplied by Crown.

The complete industry distribution of the economic impacts is presented in Appendix B.

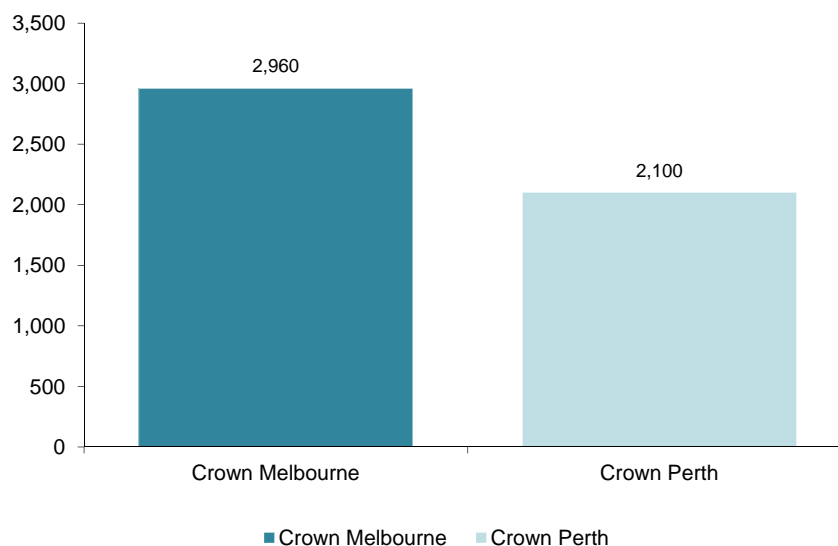
Employment impacts

In addition to boosting value-added, an increase in expenditure activity associated with capital investment in Crown facilities is also expected to lead to higher employment in Melbourne and Perth and their respective state economies.

Estimates of total (direct and indirect) employment impact of capital expenditure are presented in

Chart 2-5.

Chart 2-5: Average annual employment impact of capital investment in Crown facilities, 2006-07 to 2015-16 (FTEs)



Source: KPMG estimates based on information supplied by Crown..

A complete industry distribution of the economic impacts is presented in Appendix B.

3 Crown Melbourne and Crown Perth

Crown Melbourne and Crown Perth have continued to grow through an ongoing program of investment in infrastructure and employee development; they are important tourist destinations that make a strong direct contribution to their respective state economies as well as indirectly to the national economy.

Key findings

- Crown Melbourne is a key tourist attraction in Australia. Crown Melbourne has received the second highest annual visitation, after the Sydney Opera House, for the last five years;
- Crown Melbourne and Crown Perth have invested \$2.0 billion over the period 2007 to 2012 in tourism infrastructure including entertainment options, accommodation, conference facilities, retail facilities and many dining options;
- Crown Melbourne and Crown Perth are the largest private sector single-site employers in the states in which they operate:
 - Crown Melbourne employs around 7,600 employees on a full-time equivalent basis or around 8,800 on a headcount basis⁹; and
 - Crown Perth employs around 4,200 employees on a full-time equivalent basis or approximately 5,600 on a headcount basis.
- Crown invests in its employees:
 - Crown College in Melbourne, which is a \$10 million purpose built facility and offers accredited courses through the School of Business, School of Hotels, School of Gaming, and School of Food and Beverage, as part of the Learning Pathways. More than 1,200 employees are currently undertaking training within the Australian Qualifications Framework; and
 - Crown Perth's commitment to training employees and apprentices. More than 720 apprentices and trainees are completing nationally accredited training and nearly 200 employees are participating in the Leadership Development Program.
- Crown is committed to promoting diversity:
 - Crown's Indigenous Employment Strategy, which is recognised as a best practice model by the Australian Employment Covenant and GenerationOne; and
 - Crown's Disability Employment Plan, which was extended to Crown Perth in 2012.
- Crown contributes to the community, the arts and the environment through taxes paid, charitable donations, and sustainability measures.

⁹ Estimates of full-time equivalent (FTE) employees measures the total number of employees required on a full-time basis. Headcount estimates refer to the number of employees on either a casual, part-time or full-time basis.

3.1 Crown Melbourne

Crown Melbourne opened in 1997 as part of a program of urban renewal for Southbank, Melbourne, and served as a catalyst for both residential and commercial development of the area. Southbank is now one of Melbourne's primary business and entertainment precincts and the Southbank Promenade and Southgate Arts and Leisure Precinct are one of the major arts and cultural destinations in Melbourne.¹⁰

Crown Melbourne is comprised of a casino, hotels, function rooms, restaurants, shopping and entertainment facilities. These facilities act as a drawcard for visitors, as evidenced by Crown Melbourne's popularity as a tourist destination. For the last five years, Crown Melbourne has registered the second highest visitation of Australian tourist attractions, behind the Sydney Opera House.¹¹

Financial performance

In the 2012 financial year, Crown Melbourne had growth of 1.0 per cent in normalised¹² Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) compared with the 2011 financial year.¹³ This was comprised of:¹⁴

- gaming revenue growth of 6.6 per cent to \$991.9 million;
- VIP program play growth of 15.0 per cent to \$418.0 million; and
- non-gaming revenue growth of 1.9 per cent to \$372.1 million.

These results were achieved despite refurbishment disruptions, an increase in gaming machine tax and the effects of higher fixed costs associated with the facilities upgrade.¹⁵

¹⁰ Crown Limited, *Integrated resorts presentation*, May 2012.

¹¹ Euromonitor, *Passport: travel and tourism in Australia*, 2012.

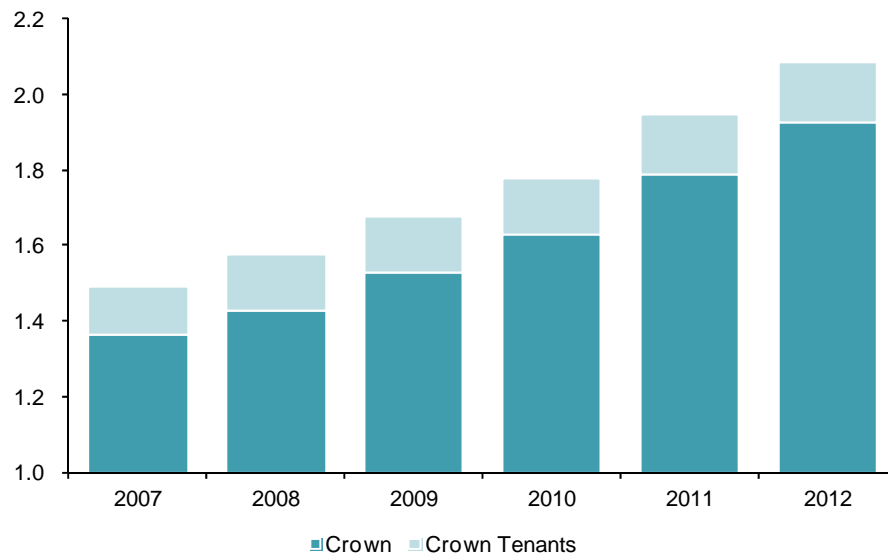
¹² Crown calculated normalised results with theoretical win rates. Normalised results are adjusted to exclude the impact of any variance from the theoretical win rate on VIP program play.

¹³ Crown Ltd. *2012 full year results presentation*, August 2012.

¹⁴ Ibid.

¹⁵ Ibid.

Chart 3-1: Revenue generated by Crown Melbourne (\$bn)



Source: Crown Limited; KPMG analysis

Crown Melbourne's annual revenue grew by a compound average growth rate (CAGR) of 7.2 per cent between 2007 and 2012, notwithstanding the Global Financial Crisis (GFC).

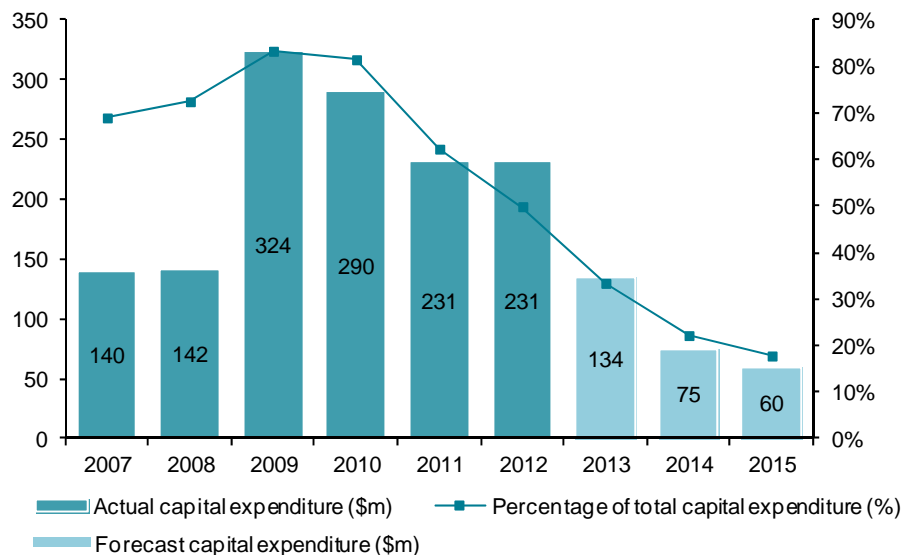
Capital expenditure

Crown Melbourne's capital projects contribute to the economy. The initial construction of the complex involved an investment of \$1.9 billion. This development on unoccupied industrial space contributed to the urban redevelopment of Melbourne.

Between 2007 and 2012, Crown invested approximately \$2.0 billion in Crown Melbourne and Crown Perth, of which approximately \$1.4 billion was spent on the upgrade and expansion of Crown Melbourne.¹⁶

¹⁶ Crown Limited, *About Crown: investing in large scale tourist attractions*, viewed on 12 August <<http://www.crownlimited.com/investing-in-Australian-resorts/>>

Chart 3-2: Capital expenditure at Crown Melbourne



Source: Crown Limited; KPMG analysis

Note: Capital expenditure is measured on the left axis; percentage of total capital expenditure is measured on the right axis.

Capital expenditure at Crown Melbourne has been significant in recent years. Between 2009 and 2011, capital expenditure at Crown Melbourne averaged 16 per cent of Crown Melbourne's operating revenue.¹⁷ As illustrated in Chart 3-2, Crown invested heavily in Crown Melbourne between 2007 and 2012. Thereafter, Crown has invested relatively more in Crown Perth.

Employment and training

Crown Melbourne is the largest single-site private sector employer in Australia,¹⁸ employing 7,600 employees on a full-time equivalent basis.¹⁹ In terms of headcount, Crown Melbourne employs more than 8,800 employees.²⁰ Between 2007 and 2012, the number of Crown Melbourne employees grew by an average 3.2 per cent per year. For the period 2007 to 2012, contractors to Crown Melbourne grew by 4.2 per cent per annum.

¹⁷ Crown Limited, *Annual report, 2009-2011*.

¹⁸ Crown Limited, *Annual Report 2012*.

¹⁹ Crown Limited, unpublished data.

²⁰ Crown Limited, *Annual Report 2012*.

Chart 3-3: Crown Melbourne workforce on a full-time equivalent basis



Source: Crown Limited; KPMG analysis

Crown Melbourne heavily invests in training its workforce, as exemplified by Crown College, a \$10 million purpose-built learning facility that:²¹

- provides accredited courses through the School of Business, School of Hotels, School of Gaming and School of Food and Beverage as part of the Learning Pathways program;
- is currently training more than 1,200 employees within the Australian Qualifications Framework;
- provided over 800,000 hours of training in the 2012 financial year; and
- saw a 12 per cent increase over the 2012 financial year, in the number of employees completing a Certificate III qualification.

The contribution that Crown Melbourne makes through its training and employment program has been formally recognised by government and industry, through the following awards:²²

- 2012 Victorian Training Award in the Apprenticeship Development category at the Learning Impacts Awards;
- Recommended Employer Award at the 2012 Australian Business Awards;
- Australian Employer of the Year Award 2010;
- Victorian Employer of the Year Award 2010; and
- LearnX Organisational and Staff Developments Award 2012.

²¹ Ibid.

²² Ibid.

Crown's employment contribution extends to providing community value through the continued promotion of diversity in the workplace. Crown Melbourne is one of the largest employers of Indigenous people in Victoria.²³

Crown recognises the importance of Asian visitors to its integrated resorts, by providing visitor services and facilities that are targeted towards Asian visitors. This includes investments in multi-lingual employees.

Facilities

The Crown Melbourne complex covers almost 11 hectares of land and attracts 18 million visitors a year. The integrated resort has many gaming and non-gaming facilities, including:²⁴

- 2,500 gaming machines and has approval to operate 500 table games;
- Crown Metropal Melbourne Hotel, which has 658 guest rooms;
- Crown Towers Melbourne Hotel, which has 480 guest rooms;
- Crown Promenade Melbourne Hotel, which has 465 guest rooms;
- Crown Conference Centre, which has 7,350 square metres of conference and meeting facilities across three floors;
- banqueting facilities including the Palladium's 1,500 seat ballroom and the Palms' 900 seat cabaret venue;
- more than 70 restaurants, food outlets and bars;
- international designer boutiques and retail outlets; and
- entertainment facilities including a cinema complex, a bowling alley, an interactive gaming centre, and two day spas.

In addition to these facilities, Crown is in the process of upgrading Crown Melbourne's main gaming floor.

Visitors to Crown Melbourne

Crown Melbourne is the second most visited tourist attraction in Australia after the Sydney Opera House, attracting approximately 18 million local, interstate and international visitors each year.²⁵ International visitors to Crown Melbourne increased by 14 per cent between 2007 and 2012,²⁶ while international visitation to Australia as a whole increased by 4.2 per cent in the same period.²⁷ The growth in international visitors to Crown Melbourne demonstrates that Crown Melbourne has been successful in increasing visitation despite little growth in the Australian tourism sector as a whole.

²³ Crown Limited, *About us: Indigenous employment*, viewed on 12 August 2012 <<http://www.crownlimited.com/indigenous-employment-achievements/>>

²⁴ Crown Limited, *Annual Report 2012*.

³¹ Ibid.

²⁶ Crown Limited, unpublished data.

²⁷ Australian Bureau of Statistics, *Overseas arrivals and departures: category number 3401.0*.

Other contributions

Crown Melbourne contributes to the community through taxes paid and through its sustainability commitments:

- taxes paid by Crown Melbourne have increased by approximately 64 per cent, over the period from 2003 to 2012;²⁸
- Crown Melbourne sponsors and hosts Starry Starry Night, which raised over \$700,000 for the Alannah and Madeline Foundation;²⁹
- Crown Melbourne donated \$500,000 to the 2011 Red Cross Victorian Floods Appeal;³⁰
- Crown donated \$300,000 to the Balibo House Trust;³¹
- Crown Melbourne raised more than \$72,000 for the Salvation Army Queensland Disaster Relief Appeal;³²
- charitable contributions to Make-A-Wish Foundation, KOALA (Kids Oncology and Leukaemia Action) Foundation via the Million Dollar Lunch, Open Family Australia, the Alannah and Madeline Foundation, Challenge, Kids Under Cover, the Blue Ribbon Foundation and the Heartwell Foundation;³³ and
- commitments to environmental sustainability including water conservation, waste minimisation, and energy efficiency, including:³⁴
 - an investment of over \$500,000 in a monitoring and reporting system that provides live data of electricity, gas and water consumption throughout the complex; and
 - the Carbon Offset Program for hotel guests, which was the first program in the hospitality and entertainment industry to be certified by the Australian Government's National Carbon Offset Standard.

3.2 Crown Perth

Crown Perth (previously Burswood Entertainment Complex) opened in 1985 and was acquired by Crown in 2004. Crown Perth is the only integrated resort in Western Australia. Attracting more than seven million visitors annually, Crown Perth is a major tourism destination in Western Australia.

Financial performance

In the 2012 financial year, normalised³⁵ EBITDA grew by 16 per cent to 226.3 million compared with the 2011 financial year.³⁶ This was an improvement on 2011 revenue results

²⁸ Crown Limited unpublished data.

²⁹ Crown Limited, *Annual Report 2012*.

³⁰ Crown Limited, *Annual Report 2011*.

³¹ Crown Limited, *Annual Report 2012*.

³² Ibid.

³³ Crown Limited, *About Crown: community and the environment*, viewed 25 September 2012 <<http://www.crownlimited.com/community/>>

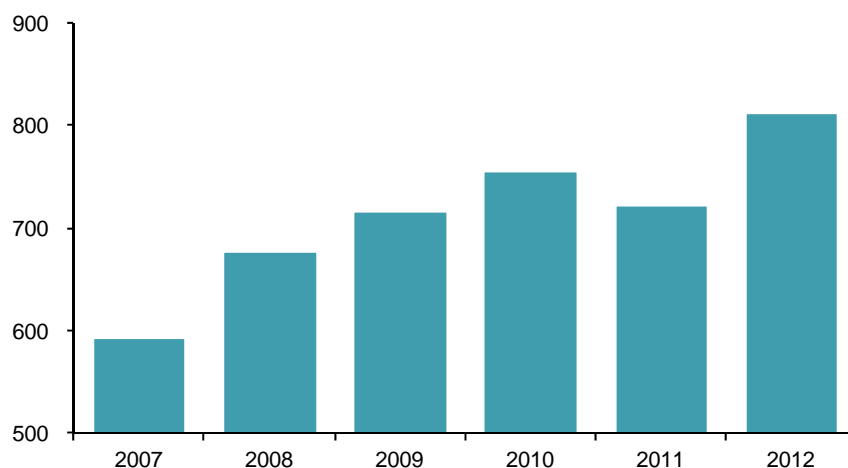
³⁴ Crown Limited, *Annual Report 2012*.

which were negatively affected by a reduction in VIP program play revenue, as a result of increased competition from the integrated resorts in Singapore and the impact of complex-wide renovations which reduced visitation.³⁷ The breakdown of revenue in 2012 was:³⁸

- main-gaming floor revenue which increased by 6.5 per cent to \$440.8 million;
- VIP program play which grew by 32.1 per cent to \$154.3 million; and
- non-gaming revenue which grew 12 per cent to \$190.0 million.

Annual revenue has grown by 118 per cent since Crown acquired the Burswood Casino. Revenue growth for Crown Perth was relatively unaffected by the GFC; however, revenue fell by 4 per cent in 2011, in response to increased international competition.³⁹

Chart 3-4: Revenue generated by Crown Perth (\$m)



Source: Crown Limited; KPMG analysis

Capital expenditure

In August 2012, Crown announced plans to build a \$568 million luxury hotel at Crown Perth. Construction of Crown Towers Perth will begin in early 2013 and is anticipated to be completed in 2016.⁴⁰ Crown Towers Perth will include 500 rooms as well as VIP gaming salons, restaurants, bars, resort and convention facilities.

Crown invested approximately \$620 million of capital expenditure in the Perth integrated resort between 2007 and 2012. The construction and opening of the two unique and exclusive VIP

³⁵ Crown calculated normalised results with theoretical win rates. Normalised results are adjusted to exclude the impact of any variance from theoretical win rate on VIP program play.

³⁶ Crown Limited, *2012 full year results presentation*, August 2012.

³⁷ Crown Limited, *Annual Report*, 2011.

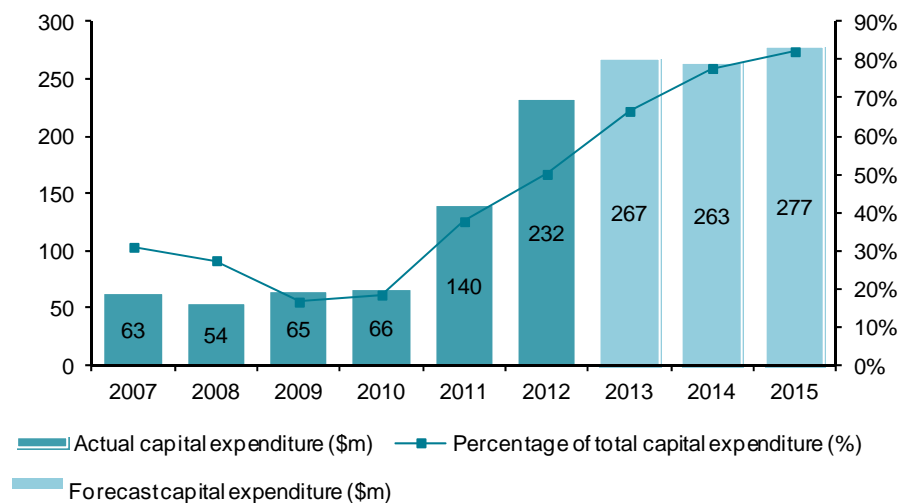
³⁸ Crown Limited, *2012 full year results presentation*, August 2012.

³⁹ Ibid.

⁴⁰ Crown Limited, *Crown Limited: 2012 full year results presentation 10 August 2012*, viewed on 25 September 2012 <http://afr.com/rw/Wires/Stories/2012-08-10/ASXAnnouncements/CWN_01321970.pdf>

Mansions at Crown Perth, the expansion of the main gaming floor and the enhancement of the food and beverage offerings were part of the investment in Crown Perth, which were intended to cement Crown Perth's ability to successfully operate in the international tourism market.⁴¹

Chart 3-5: Capital expenditure in Crown Perth (\$m)



Source: Crown Limited; KPMG analysis

Note: Capital expenditure is measured on the left axis; percentage of total capital expenditure is measured on the right axis.

Ongoing capital expenditure

In 2012, Crown Perth announced the development of Crown Perth Towers. Once complete, Crown Perth Towers will be the largest hotel in Perth and will increase the capacity of Crown Perth to 1,200 hotel rooms.⁴² Construction is expected to commence in 2013 and to be completed in three years.⁴³ Crown Perth Towers will be comprised of 500 hotel rooms, restaurants, bars and resort and convention facilities.⁴⁴

Crown Perth Towers will provide luxury accommodation and resort facilities, which cater for domestic and international business travellers and VIP guests.⁴⁵

Employment and training

Crown Perth is the largest single-site private sector employer in Western Australia, employing 4,200 employees on a full-time equivalent basis.⁴⁶ On a headcount basis, Crown Perth has more than 5,600 employees.⁴⁷

⁴¹ Crown Limited, *Annual Report 2012*.

⁴² Ibid.

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ Ibid.

Chart 3-6: Crown Perth workforce on a full time equivalent basis



Source: Crown Limited; KPMG analysis

The Crown Perth workforce has risen by approximately 21 per cent since 2007. The number of contractors grew by 13 per cent in 2011, due to the start of the large scale infrastructure development program.

Crown Perth currently has more than 720 apprentices and trainees completing nationally accredited courses, as well as nearly 200 employees completing the Leadership Development Program.⁴⁸ The objective of these training courses and programs is to develop employees who are knowledgeable and skilled in providing high quality services for local, interstate and international visitors.⁴⁹

Given the importance of Asian visitors to Crown's integrated resorts, Crown supports the diversity of its visitors by providing services and facilities that are targeted towards Asian visitors. This includes investments in multi-lingual employees.

Facilities

Crown Perth is located on the Swan River, approximately five minutes travel by car from the centre of Perth. The casino features the following gaming and non-gaming facilities:⁵⁰

- 2,000 gaming machines and 220 table games, as well as a VIP gaming area;
- Crown Metropolis Perth Hotel which has a capacity of 395 rooms;
- Crown Promenade Perth Hotel which has a capacity of 291 rooms;

⁴⁶ Crown Limited, unpublished data.

⁴⁷ Crown Limited, *Annual Report 2012*.

⁴⁸ Ibid.

⁴⁹ Ibid.

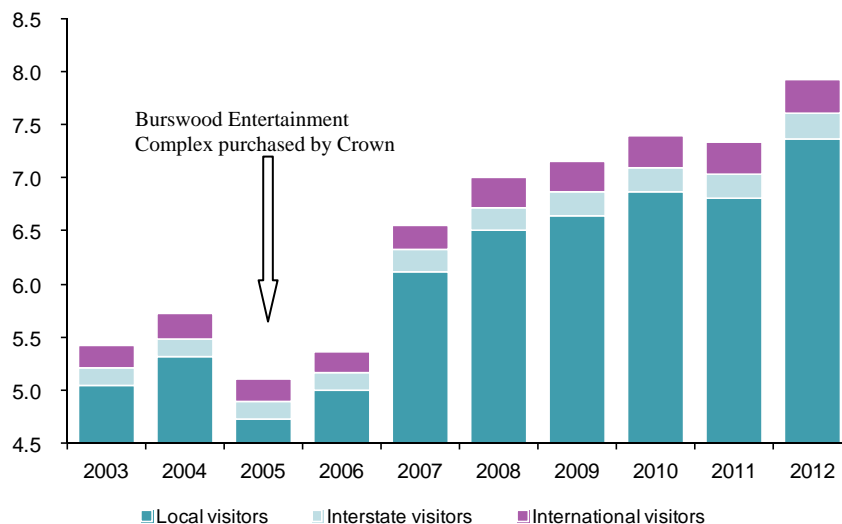
⁵⁰ Ibid.

- large scale entertainment facilities including the 20,000 seat Crown Perth Dome and the 2,300 seat Crown Theatre Perth;
- convention and events facilities; and
- 27 restaurants and bars, and a nightclub.

Visitors to Crown Perth

Between 2003 and 2012, the number of annual visitors to Crown Perth grew by 46 per cent. This growth occurred between 2007 and 2009, following a 5 per cent decline in visitor numbers between 2004 and 2006.

Chart 3-7: Visitors to Crown Perth (millions)



Source: Crown Limited; KPMG analysis

Other contributions

Crown Perth contributes to the community via taxes paid and through contributions to the arts and the environment. Crown Perth:

- paid \$240 million in taxes in 2012;⁵¹
- pledged \$1 million to the Telethon in 2012;⁵²
- provided support of \$100,000 to Parkerville Child Youth Care, to assist with the development of a new Youth Village;⁵³
- organised the Pink Poker Tournament which raised over \$25,000 for the National Breast Cancer Foundation;⁵⁴

⁵¹ Crown Limited unpublished data.

⁵² Crown Limited, *Annual Report 2012*.

⁵³ Ibid.

- contributed resources to the Australian Business Arts Foundation, Telethon, Speech & Hearing's 'Young Artists with Attitude' competition and the youth arts initiative 'Storm the Stage';⁵⁵
- provided soup to Foodbank Western Australia to support Perth's homeless;⁵⁶
- continued to reduce its water consumption;⁵⁷ and
- invested in energy efficient chillers, which are expected to substantially improve resource efficiency across the property.⁵⁸

3.3 Crown's investments in diversity

Crown's contributions extend beyond tourism and economic impacts, through Crown's employment initiatives that are aimed at promoting and supporting workplace diversity. The box below outlines Crown's investments in workplace diversity.

Crown's Indigenous Employment Program

Crown's Indigenous Employment Strategy, implemented in both Crown Melbourne and Crown Perth, is considered a best practice model by the Australian Employment Covenant and GenerationOne because:

- it has a high retention rate of Indigenous Australians, at over 50 per cent;
- Crown Melbourne and Crown Perth employ over 100 Indigenous people; and
- Crown was the first employer to sign the Australian Employment Covenant, which focuses on creating demand for Indigenous employment.
- Crown partnered with the National Centre for Indigenous Excellence in 2012 to train Indigenous people for the planned resort at Barangaroo. By 2020, Crown plans to train 2,000 people, predominately Aboriginal and Torres Strait Islanders, as part of this partnership.⁵⁹

The Indigenous Employment Strategy has received many industry and government accolades for training and diversity, including:

- Australian Business Awards' Community Contribution Award 2012;
- Diversity @ Work Award 2010 for "Employment and Inclusion of Indigenous Australians - Large Organisations";
- Diversity Award for 2011 from Fairfax Media in recognition of Crown's Indigenous Employment Program; and

⁵⁴ Crown Limited, *Annual Report 2012*.

⁵⁵ Crown Limited, *About us: Community and the environment*, viewed on 12 August 2012 <
<http://www.crownlimited.com/community/>>

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Andrew White, 'Packer rolls dice for Indigenous prosperity', *The Australian*, October 2012, <
<http://readnow.mediamonitors.com.au/ReadNow.aspx?1Tvasny8YTr>>

- the Wurreker Award 2011 for “Private Sector Employer Award” for achievements in Indigenous employment.

Source: Crown Limited, *About us: Indigenous employment*, viewed on 12 August 2012 <
<http://www.crownlimited.com/indigenous-employment-achievements/>>

Crown’s Disability Employment Plan

Crown Melbourne’s Disability Employment Plan was established in 2009 to assist people with a disability to gain employment at Crown Melbourne. The program has assisted almost 50 people gain employment at Crown Melbourne, and has achieved a retention rate of 95 per cent. The Disability Employment Plan was a finalist in the 2011 Diversity@Work awards in the category of Disability Employment.

In 2012, the Disability Employment Plan was extended to Crown Perth. Crown Perth has signed a Memorandum of Understanding with the National Disability Recruitment Coordinator service to facilitate the employment of people with a disability.

4 International development of the integrated resort market

The previous sections provided an overview of the Crown integrated resorts and discussed the contribution of Crown Melbourne and Crown Perth to the Victorian and Western Australian economies, including through its role as a significant tourist attraction.

Crown competes in the global integrated resort market. In particular, Crown faces competition from integrated resorts in the Asia-Pacific region. As well as competing for VIP clients⁶⁰, the integrated resort market is increasingly competing for middle class visitors from Asia and especially China.

This section considers developments that have occurred in the integrated resort market in Singapore and Macau, since the completion of the 2010 KPMG report, *Integrated Resorts and Asian Tourism – the Role of Crown Melbourne and Burswood*.

A discussion of integrated resorts in the Asia-Pacific region and further information regarding developments in progress is included in Appendix C.

Key findings

- The integrated resort market is increasingly competitive as a result of the expansion and upgrading of existing resorts and the opening of new developments.
- Integrated resorts in Asia continue to experience strong growth in visitor numbers.
- Government tourism policies in Singapore and Macau prioritise the use of integrated resorts as a driver of tourism growth.
- Governments in Singapore and Macau have provided support for integrated resorts through investments in infrastructure, as well as reviews of taxes, visa requirements and other policies which may impact the competitiveness of the integrated resorts.
- In Singapore, Resorts World Sentosa and Marina Bay Sands have both invested in new attractions since 2010:
 - According to the Singaporean Ministry of Trade and Investment, approximately 22,000 people are employed by the integrated resorts in Singapore. Collectively, the integrated resorts support more than 40,000 jobs throughout the economy in retail, food and beverage, and transportation. The construction of the two integrated resorts created an estimated 32,000 jobs during the building phase; and
 - The Singaporean Government has introduced changes to gaming laws, specifically licensing International Marketing Agents (IMAs) to act on behalf of the integrated resorts and introducing draft legislation to strengthen harm minimisation measures.

⁶⁰ “VIP clients” refers to clients of casinos with access to VIP gaming facilities as opposed to the public gaming floors. These clients may access these facilities through direct arrangements with the casino, or through intermediaries such as junket operators.

- The tourism sector is the main driver of the economy in Macau – in part due to Macau’s natural environment – and casinos and integrated resorts play an integral role in Macau’s tourism sector. Over the last 10 years, GDP growth in Macau has trended with visitor arrivals reflecting the importance of tourism and by implication gaming:
 - In Macau, Galaxy Macau opened in 2011 and Sands Cotai Central, part of the ongoing development of the Cotai Strip, opened in April 2012;
 - Additional developments in the Cotai Strip are expected to open between 2015 and 2020. This includes Galaxy Macau Phases 2-4, Wynn Cotai, Sands Site 3, Macau Studio City, SJM Cotai and MGM Cotai; and
 - In order to maintain a solid level of growth in the gaming sector, the Government of Macau has capped the number of gaming tables at 5,500 until 2013, with three per cent increases each year after 2013.
- Resorts World Manila in Newport City, was officially opened in November 2010. In addition, the Entertainment City development in Manila Bay is still under construction and is expected to add at least 3,200 five-star hotel rooms once complete.
- The Matsu Islands in Taiwan have approved a Government plan permitting casino gaming on the islands.
- Japan has renewed political discussions to legalise casinos to boost tourism in the wake of the Tohoku earthquake and tsunami.
- The Ho Tram Strip is under construction, and Phase 1 is due to open in 2013. US\$4.2 billion (A\$4.0 billion)⁶¹ has been invested in the entire development of the Ho Tram Strip.
- Planning for an integrated resort in South Korea is underway, to be built on Yeongjong Island.

4.1 Introduction - integrated resort sector in Asia

While the first integrated resort in Asia was opened in Malaysia in 1971, the sector did not begin to expand rapidly until the liberalisation of the gaming sector in Macau in 2002. The success of the developments in Macau provided a model for other countries in Asia to use integrated resorts as a driver of tourism sector growth.

Integrated resorts are operational in Malaysia, Macau, Singapore and the Philippines. In addition, Vietnam is due to enter the market in 2013 and Japan, South Korea and Taiwan are in various stages of planning integrated resort developments.

One of the findings of the 2010 KPMG report was the priority placed on integrated resorts by Asian Governments as part of their broader tourism and economic strategies. In particular,

⁶¹ All exchange rates in this report are closing rates on 27 September 2012 and have been retrieved from the Reserve Bank of Australia. The US dollar exchange rate used is A\$1:US\$1.04

regional governments are increasingly placing emphasis on the attractiveness of the non-gaming facilities of integrated resorts to business and leisure travellers.

Since the 2010 report was completed, the impact on the Singaporean economy of the opening of Marina Bay Sands and Resorts World Sentosa has become clearer. Given the success of the integrated resorts to date, Singapore is now considered a model for the development of integrated resorts in the region.

4.2 Singapore

In 2005, the Singaporean Government announced it would grant licences for the construction of Singapore's first two integrated resorts as part of its "Tourism 2015" plan. The plan was developed in response to a number of factors at the time:

- Slowing economic growth and increasing competition from rapidly developing neighbouring countries meant that growth in visitor numbers was low in 2002-2003.
- The development of low-cost airline carriers, increasing disposable incomes in India and China and changes to those country's outbound tourism policies, saw the opening up of new tourist markets.
- Other Asian countries attracting large amounts of foreign infrastructure investment.
- An estimated S\$1.8-S\$2.0 billion (AU\$1.4-AU\$1.6 billion) revenue was being lost annually as a result of Singaporeans travelling abroad to attend international casinos.

The integrated resorts constructed as part of the "Tourism 2015" plan were Resorts World Sentosa (RWS, developed by Genting Singapore) and Marina Bay Sands (MBS, developed by Las Vegas Sands Corporation)⁶². The Singaporean Government supported the introduction of integrated resorts with a focus on attracting a wide range of visitors from emerging countries such as China.

The 2010 report considered the opening of Singapore's first two integrated resorts in early 2010. RWS and MBS opened in February 2010 and April 2010, respectively.

While no new licences for casinos have been issued since 2010, the existing integrated resorts have continued to invest in their own facilities and attractions. This section discusses the impact of the integrated resorts on the economy of Singapore since they were completed in 2010. In addition, this section discusses:

- investments made by the Singaporean Government in supporting infrastructure for the integrated resorts; and
- recent reforms to gambling policy in Singapore.

Ongoing investments in the Singapore integrated resorts highlight the increasingly competitive operating environment in which Crown's Australian resorts operate. In order to remain competitive in this market, integrated resorts such as those operated by Crown are required to invest in new and existing facilities.

⁶² "Developing industries – integrated resorts", Ministry of Trade and Industry Singapore, <http://app.mti.gov.sg/default.asp?id=585>

Economic and tourism impacts

The 2010 report discussed the initial impacts of the opening of the integrated resorts on the Singaporean tourism market. However, information was limited as the integrated resorts had been open for a short period of time and in a limited capacity. Now that the resorts have been open for two years, the impact of the integrated resorts on the Singaporean economy and tourism sector can be discussed in more detail.

As discussed below, the growth in tourism, employment and GDP attributed to the integrated resorts has been significant. In general the observed growth in these indicators has been higher than official estimates made prior to the integrated resorts opening.

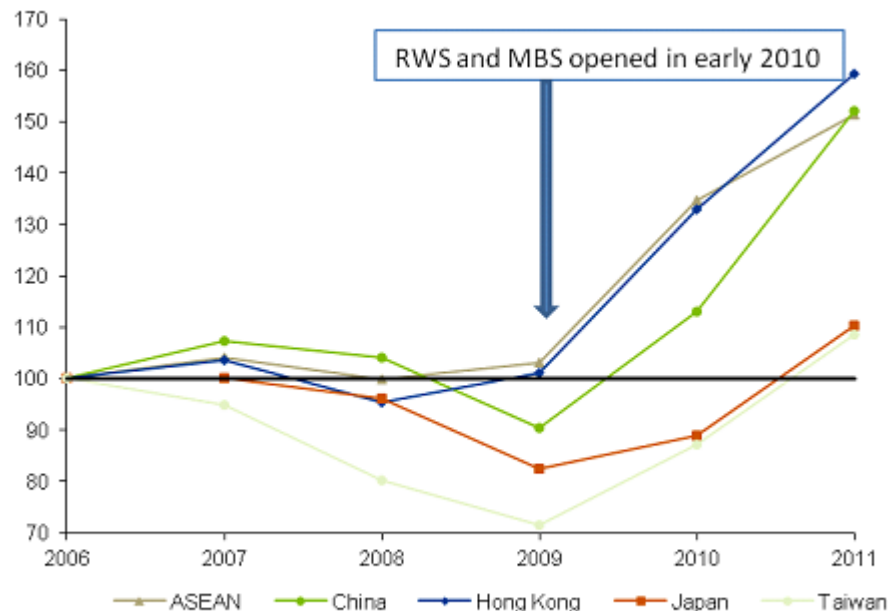
Tourism impacts

The 2010 report referred to a Ministry of Trade and Investment (MTI) statement that the two integrated resorts could attract an additional 2-3 million visitors to Singapore annually. The observed increases in tourism arrivals in Singapore exceeded these expectations. In 2010 — the first years of integrated resort operation — tourist arrivals increased by four million compared with the previous year, to 11.6 million. Tourist arrivals have continued to increase, with the Singapore Tourism Board estimating between 13.5 million and 14.5 million arrivals in 2012.⁶³

Singapore has been particularly successful in attracting intra-Asian travellers. Chart 4-1 below shows the growth in visitor arrivals for various Asian markets without integrated resorts since 2006. It shows an increase in arrivals since the Singaporean integrated resorts have opened in 2010 despite previously flat or declining visitor numbers.

⁶³ Business Monitor International Country Reports, *Industry Forecast – Singapore – Q3 2012*, July 2012.

Chart 4-1: Index of international arrivals to Singapore (2006=100.0)



Source: Statistics Singapore

In the first five months of 2012, almost 6 million visitors arrived in Singapore, a 12.3 per cent increase over the same time period in 2011. Tourists from China and Taiwan increased by 30.7 per cent and 32.8 per cent, respectively.

Integrated resorts have been credited as being a central part of the increase in Singapore's tourism.⁶⁴ In 2011, MBS received an average of 25,000 visitors daily (9.1 million visitors annually), two-thirds of whom were not from Singapore.⁶⁵ In 2011, RWS helped attract 19.1 million visitors to Sentosa.⁶⁶ The number of visitors to integrated resorts relative to total arrivals in Singapore highlight the importance of integrated resorts to the Singaporean tourism industry.

In 2010, Singapore earned S\$18.8 billion (A\$14.7 billion) in tourism receipts, a 49 per cent increase from 2009, exceeding previous forecasts of S\$17.5-18.5 billion (A\$13.7-14.5 billion).⁶⁷ Tourism receipts consisted mainly of expenditure on shopping, dining, admission fees and accommodation.

⁶⁴ HWANGDBS Vickers Research, *Sector Focus, Regional Gaming*, 14 June 2011.

⁶⁵ Channel News Asia, *Thousands flock to gamble at Integrated Resorts*, 3 February 2011.

⁶⁶ Sentosa Development Corporation, *Annual report 2010-2011*, viewed on 18 September 2012
http://www.sentosa.gov.sg/sentosaAR10_11/pdf/Sentosa_2011_AR-Annual_Report.pdf

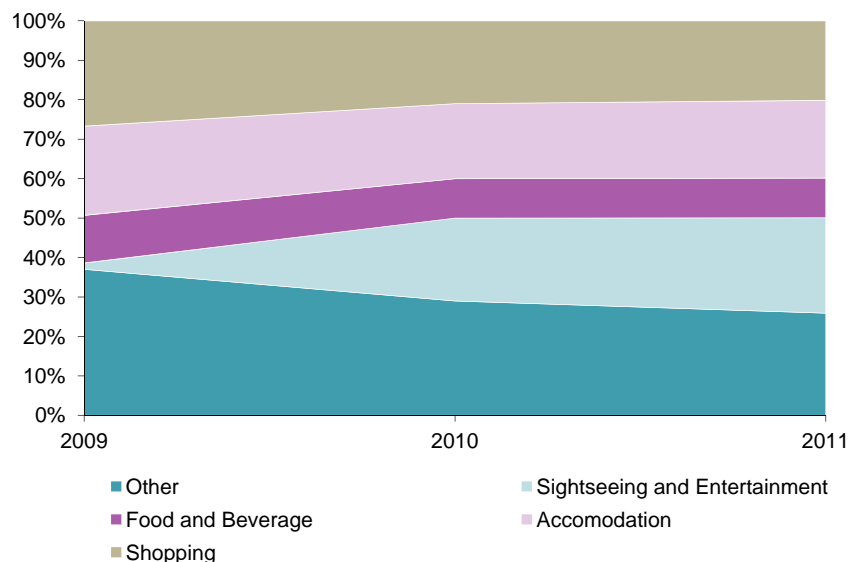
⁶⁷ ChannelNewsAsia, *Singapore's 2010 tourism receipts hit a 10 year high*, 10 February 2011.

The growth in tourism receipts was attributed to an increase in tourist expenditure, especially visitors from Indonesia, India and China, as well as an increase in international visitors due to positive economic sentiment and the opening of the two integrated resorts.⁶⁸

In 2011, tourism receipts grew an additional 18 per cent to S\$22.3 billion (A\$ 17.4 billion). The sightseeing and entertainment expenditure category, which includes gaming, grew 34 per cent. Sightseeing and entertainment makes up approximately one-quarter of all visitor expenditure.

As shown in Chart 4-2 sightseeing and entertainment has increased in importance relative to other expenditure categories over time. In 2009, sightseeing and entertainment accounted for less than 2 per cent of tourism receipts, compared to almost 25 per cent in 2011.

Chart 4-2: Tourism receipt shares



Source: Singapore Tourism Board, *Tourism Focus 2009 to 2011*

Employment Impacts

The construction of the two integrated resorts created an estimated 32,000⁶⁹ jobs in total, and the Singaporean Government stated that it expected the integrated resorts could generate as many as 35,000 additional jobs during operation.⁷⁰

According to the Ministry of Trade and Investment, approximately 22,000 people are employed by the integrated resorts in Singapore. Collectively, the integrated resorts support more than 40,000 jobs throughout the economy in retail, food and beverage, and transportation.⁷¹

⁶⁸ National Library Singapore, *Social and economic impacts of integrated resorts in Singapore*, March 2012.

⁶⁹ Information from <http://www.rwsentosa.com/> and <http://www.marinabaysands.com/>

⁷⁰ Speech by Dr V. Balakrishnan, Second minister for Trade and Industry, the Committee of Supply Debate, Ministry of Trade and Industry, 2006, as reference in KPMG Econtech, *Integrated Resorts and Asian Tourism – the Role of Crown Melbourne and Burswood*, November 2010.

⁷¹ <http://www.mti.gov.sg/MTIInsights/Pages/Integrated%20Resorts.aspx>.

Impact on GDP

When the decision was made to allow the development of the two integrated resorts, the Singaporean Government envisaged that the direct and indirect economic impact could be an extra S\$1.5 billion (A\$1.2 billion) in GDP per annum.⁷²

Over the five year construction phase of RWS and MBS alone, a combined S\$11.9 billion (AU\$9.3 billion) was injected into the economy.⁷³

In the first 9 months of 2010, the two integrated resorts contributed approximately S\$3.7 billion (A\$2.9 billion) to Singapore's GDP, making up approximately 1.7 per cent of GDP in 2010.⁷⁴ The contribution of the integrated resorts was expected to increase to S\$5.2 billion (A\$ 4.1 billion) in 2011.⁷⁵ In addition, strong growth of 12 per cent in the hotel industry, driven by increased demand from business visitors, translated to an occupancy rate between 80 per cent and 85 per cent in 2011.⁷⁶

Changes in Singaporean gambling policies

Prior to the opening of the integrated resorts in 2010, gambling options in Singapore were limited. In order to develop the integrated resorts, the Singaporean Government legalised casino gambling and released two casino licences. Since the opening of the market, the Singaporean Government has continued to review the regulatory landscape. This has led to the release of junket licences and proposed amendments to the *Casino Control Act*.

International Market Agent licences

Until March 2012, International Market Agent (IMA) licenses had not been issued in Singapore, making Singapore a unique case amongst Asian integrated resorts. IMAs in Singapore provide a similar function to so-called junket operators in other markets; however they are subject to additional regulation by the Casino Regulatory Authority and are unable to target Singaporean customers. IMAs and junket operators drive most VIP gaming in the Asian casino market by bringing in high-spending gamblers, issuing credit and collecting debts.

In 2012, the Singaporean Government approved two one-year licenses for IMAs agents working with Genting Singapore.⁷⁷ Ongoing competition from Macau, as well as greater regional competition from the Philippines and Vietnam and slower economic growth contributed to the decision to allow IMA activities for the first time.

⁷² Speech by Dr V. Balakrishnan, Second minister for Trade and Industry, the Committee of Supply Debate, Ministry of Trade and Industry, 2006, app.mti.gov.sg/data/article/2421/doc/2nd%20Minister%20speech%20at%20COS.pdf.

⁷³ CLSA, *Passport of Choice: Singapore – A New Brand Story*, September 2010.

⁷⁴ *Straits Times*, *Integrated resorts injected a higher than expected \$3.7 billion; contribution puts them well on track to hit \$5.4 billion target by 2015*, 18 February 2011.

⁷⁵ *Ibid.*

⁷⁶ *Ibid.*

⁷⁷ <http://www.theaustralian.com.au/business/wall-street-journal/singapore-makes-tentative-changes-as-casino-earnings-slow/story-fnay3x58-1226312182308>

Amendments to the Casino Control Act

The Singaporean Government has proposed amendments to the *Casino Control Act* to ensure that the casino regulatory regime continues to keep pace with developments in the industry and international best practice.⁷⁸

The amendments to the *Casino Control Act* aim to:

- better align the legislative framework with the original policy intent of introducing the integrated resorts in Singapore;
- enhance law enforcement levers;
- streamline regulatory requirements and operational processes so that they keep pace with international best practices and industry developments;
- strengthen social safeguards; and
- improve tax administration.

The amendments are due to be introduced to Parliament in late 2012. The amendments focus on harm minimisation policies. However, they also allow the Minister for Tourism to align the performance of integrated resorts in terms of stimulating tourism with licence application and renewal criteria. This aspect of the amendments is consistent with Singapore's view of integrated resorts as important to the overall tourism industry in Singapore.

Supporting infrastructure

In addition to direct policy support, governments provide support to integrated resorts in upgrading infrastructure that supports the integrated resorts. For example, the Singapore Government has supported the development of infrastructure which supports tourism in Sentosa and in Marina Bay.

The Sentosa Government has implemented a S\$300 million (A\$ 234 million⁷⁹) Transport Management Plan to improve inter-island and intra-island mobility and connectivity and to facilitate expected increases in island visitors.⁸⁰ The Transport Management Plan was undertaken to manage the anticipated increase in visitors to the island resulting from the opening of RWS. Key infrastructure developments, initiated through the Transport Management Plan, include:

- the Sentosa Boardwalk, opened in 2011, links Sentosa Island to mainland Singapore. An admission fee is applied;⁸¹
- a second vehicular bridge which doubled the road capacity to and from the island was built in 2009. A partnership of RWS and the Sentosa Government completed this project at a cost of S\$80 million (A\$ 62.5 million);⁸² and

⁷⁸ Singapore Government, Ministry of Home Affairs, *Public Consultation On Proposed Amendments To The Casino Control Act*, Press Release, 6 July 2012.

⁷⁹ Exchange rates in this report were applied as stated by the Reserve Bank of Australia on 5 September 2012.

⁸⁰ Sentosa Government, *Annual Report*, 2010, viewed on 6 September 2012 <

http://www.sentosa.gov.sg/sentosaAR09_10/pdf/Sentosa-AR-2010.pdf>

⁸¹ Sentosa Government, *New Sentosa Boardwalk poised to boost island resort's infrastructure and transportation network*, 2011, viewed on 7 September 2012 < http://www.sentosa.gov.sg/wp-content/uploads/Sentosa-Boardwalk_Media-release_FINAL.pdf>

- two new trains were added to the Sentosa Express fleet in December 2009, raising the total carrying capacity from 3,000 to 4,000 guests per hour in each direction.⁸³

These developments indicate that the Sentosa Government was actively addressing expected transport constraints, emanating from the anticipated growth in visitor demand resulting from the opening of RWS.

In Marina Bay, the Marina Bay Cruise Centre Singapore (MBCCS) was completed in May 2012. The MBCCS upgrades Singapore's capacity for cruise passenger arrivals. It has doubled the existing capacity and allowed Singapore to cater to the world's largest cruise ships.

4.3 Macau

In the 2010 report, KPMG discussed developments in the integrated resort market in Macau including the Venetian Resort Hotel Macau, Wynn Resort Macau, MGM Macau, The City of Dreams Macau, reforms in gambling policy, and infrastructure developments.

While no major developments have occurred in the integrated resorts surveyed in the 2010 report, two integrated resorts have since opened in the Cotai Strip of Macau. These are the Galaxy Macau and Sands Cotai Central. In addition, Macau has continued to invest heavily in supporting infrastructure.

This section proceeds with:

- analysis of the economic impacts of the integrated resorts in Macau;
- a summary of recent developments in gambling policies in Macau; and
- analysis of investments in infrastructure which supports visitation to integrated resorts.

Economic and tourism impacts

Macau's tourism sector is the main driver of the economy in Macau and casinos and integrated resorts are the main drivers of tourism in Macau. Integrated resorts also contribute to the stock of tourist infrastructure in Macau, which has an undersupply of accommodation options for tourists.⁸⁴

The gaming sector in Macau is more reliant on gambling revenues than the Singapore integrated resorts or Crown Melbourne and Crown Perth. The largest exposure to non-gaming activities is from Sands China, which generates 11.6 per cent of its revenue from non-gaming activities. In comparison, Crown Limited generates 21.4 per cent of its revenue from non-gaming activities.⁸⁵

This may be due to the close proximity of Macau to China which allows a large amount of day-trippers (52 per cent of visitors from Hong Kong and China)⁸⁶, visiting Macau specifically to gamble. In contrast, visitors originating from China and Hong Kong to integrated resorts in Singapore, the Philippines and Australia are less likely to arrive specifically to gamble. This

⁸² Ibid.

⁸³ Ibid.

⁸⁴ CLSA, *Still Raining Cash*, September 2012.

⁸⁵ Platinum Broking, *Macau Gaming Sector Update*, February 2012.

⁸⁶ DBS Group, *Regional Industry Focus – Macau Gaming*, June 2010.

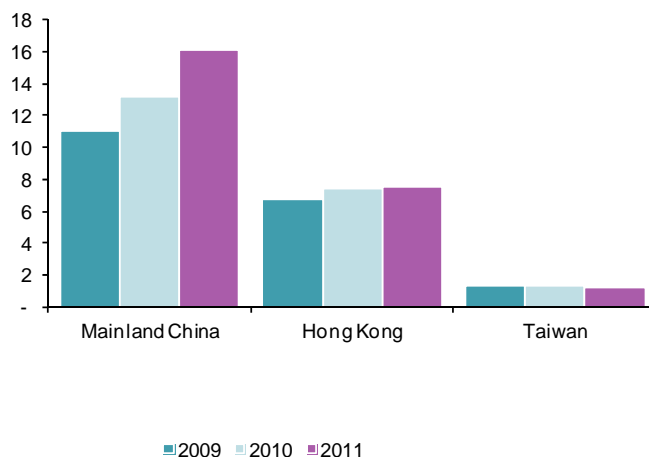
provides incentives for integrated resorts in these countries to offer additional non-gaming attractions.

Tourism impacts

The 2010 report identified an increasing trend in visitors to Macau. This included a peak in visitors in 2007 that coincided with the opening of The Venetian, Wynn Macau and MGM Macau. Since the 2010 report was completed, tourism arrivals have continued to increase. In 2011, Macau attracted 28 million visitors, up from just over 25 million in 2007.⁸⁷

Despite strong growth for 2011 as a whole, in late 2011 and 2012, visitation to Macau slowed. This is largely due to economic conditions in China which is the origin of between 85 and 90 per cent of visitors to Macau. Macau's three main tourism source markets are presented in the chart below. In the year to August, visitor growth from China increased by 6.6 per cent compared with the same period in 2011, down from double digit growth over the same period in 2010 and 2011.

Chart 4-3: International arrivals, (millions)



Source: Statistics and Census Service, Visitor arrivals

Nearly 90 per cent of arrivals come from China, Hong Kong and Taiwan, of the Chinese visitors; almost half arrive from neighbouring Guangdong province, highlighting the importance of Macau's location in attracting visitors.⁸⁸ The share of Asian arrivals is increasing, due to the increasing share of tourists from Mainland China. Over the period 2009-2011, the Chinese visitor market grew by 47.1 per cent.

⁸⁷ South China Morning Post, *Hiring crisis threatens Macau*, June 2012.

⁸⁸ CLSA, *Still Raining Cash*, September 2012.

Impact on GDP

GDP in Macau was 33 per cent higher in the second quarter of 2012 when compared with the same time in 2010.⁸⁹ Over the last 10 years, GDP growth in Macau has trended with visitor arrivals reflecting the importance of tourism and by implication gaming.

Total revenue in the Macau gaming market was HK\$260 billion (A\$32.2 billion) in 2011, a year-on-year increase of 42 per cent. This is in part due to continued growth in visitors from China, up 22 per cent year-on-year to 16.2 million where they now represent close to 60 per cent of all visitors. The market is evolving with mass market gaming becoming more prominent and experiencing accelerating growth.⁹⁰

KPMG notes that recent data suggests a slowing in visitor growth. In August 2012, visitor numbers were 0.6 per cent lower compared with the same month of 2011. The impact of weak visitor numbers is yet to be released in national accounts information.⁹¹ Despite the recent information showing weakness in the Chinese economy and tourist arrivals to Macau, estimates for growth in gaming revenue in Macau are still high; between 8 and 13 per cent for the years 2012-2014. Drivers of these estimates include reduced barriers to gaining visas for Chinese tourists, the impact of infrastructure projects coming online and the still low number of Chinese tourists relative to the total population of China.⁹²

Gambling policies in Macau

In 2010, the Government of Macau introduced a cap on the number of gaming tables allowed in the territory at 5,500 until 2013, with annual increases of three per cent in following years. The policy was intended to ensure a healthy level of growth in the industry. At the end of 2011, there were 5,302 tables in Macau.

The policy is not expected to negatively impact gaming in Macau, as it has been suggested that there is scope for casinos and integrated resorts to increase the utilisation of current tables, given the increase in capacity of recent years.

Supporting infrastructure

Macau has invested heavily in supporting infrastructure in order to increase the attractiveness of Macau for Chinese tourists (over 80 per cent of visitors are from China or Hong Kong) and the capacity of Macau to cater for visitors. Examples of this infrastructure are included in the sections below.

⁸⁹ Government of Macau SAR, Statistics and Census Service. GDP in chained 2010 dollars.

⁹⁰ http://www.galaxyentertainment.com/uploads/investor/465_f0633.pdf

⁹¹ Government of Macau SAR, Statistics and Census Service.

⁹² CLSA, *Still Raining Cash*, September 2012.

Guangzhou-Zhuhai mass transit rail

In January 2011, a mass transit rail link between Guangzhou and Zhuhai (North of Macau) was opened. A connecting link between Zhuhai and the Gongbei border gate is due to open late in 2012.⁹³ The opening of this line will reduce travel times between Guangzhou (a city of 12.8 million people and GDP of A\$163.6 billion) and Macau to 55 minutes.

Taipa Ferry Terminal

Since 2004, the Government of Macau has planned for additional ferry infrastructure to cater to the increased visitors arriving in Macau. The ferry terminal was due to open in 2007 but was delayed when it became clear that the initial design would not be sufficient to cope with demand.

Macau-Zhuhai-Hong Kong Bridge

The Macau-Zhuhai-Hong Kong Bridge is an infrastructure project linking the three cities on the Pearl River Delta. The combination of bridges and tunnels is expected to reduce travel time between Macau and Hong Kong from over three hours to half an hour.

Construction of the Bridge began in 2011 and is scheduled for completion in 2016. It is estimated that capital expenditure spent on the bridge will be US\$11 billion (A\$10.7 billion).⁹⁴ The improved accessibility of Macau is expected to have a positive impact on the Macao gaming industry.

⁹³ CLSA, *Still Raining Cash*, September 2012.

⁹⁴ Ibid.

5 International tourism market trends

Increasingly, tourism is recognised as a potential driver of economic growth via the channels of employment, enterprise and export revenue generation, and infrastructure development.⁹⁵

The box below presents some key trends evident in international tourism markets.

Key findings

- Globally, tourism has increased since the 2010 report was completed in terms of number of travellers and expenditure, following a sharp downturn in response to the Global Financial Crisis (GFC).
- Asia is an emerging region with particularly strong potential as a source of tourism demand due to:
 - changing preferences and demographics of tourists and the emergence of the fully independent traveller (FIT) from Asia who travels independently of organised tours and plans their travel according to individual preferences;
 - growing incomes in emerging economies; and
 - growth in intra-regional tourism.
- Tourism is Australia's sixth largest export generating \$23 billion in exports in 2011.⁹⁶
- Australia's ranking in terms of destination attractiveness has fallen in recent years. This has resulted in a fall in Australia's share of global tourism and as a result, a fall in tourism as a share of Australia's exports and GDP.
- Research by TRA indicates that international incomes have a larger impact on tourism demand than prices, suggesting factors other than the high Australian dollar and relative costs have played a significant role in the decline of tourism exports.
- Japan was the largest contributor to tourism in Australia in the late 1980s and 1990s but has since fallen in terms of arrivals and expenditure. The compound annual decline of Japanese tourist arrivals was 6.8 per cent in the period between 2001 and 2011. The patterns of Japanese tourist arrivals to Australia reveal that the:
 - promotion of a narrow subset of Australia's tourist destinations and a mismatch between marketing and infrastructure development has also been identified as contributors to the decline in Japanese arrivals to Australia; and
 - economic downturn in Japan contributed to the decline in Japanese arrivals to Australia in the 2000s.

⁹⁵ UNWTO *Tourism highlights: 2012 edition*, 2012 viewed on 23 July 2012 at <https://s3-eu-west-1.amazonaws.com/storageapi/sites/all/files/docpdf/unwtohighlights12enlr_1.pdf>

⁹⁶ Tourism Research Australia *Factors affecting the inbound tourism sector: the impact and implications of the Australian dollar*, 2011 viewed on 26 July 2012 at <http://www.ret.gov.au/tourism/Documents/tra/Snapshots%20and%20Factsheets/2011/Factors_Affecting_the_Inbound_Tourism_Sector_FINAL_2_June.pdf>

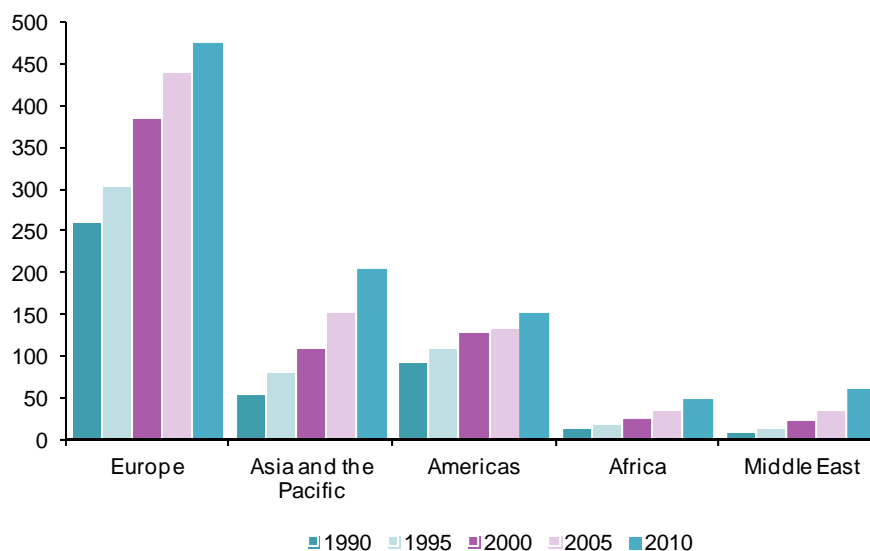
The remainder of the section is structured as follows:

- Section 5.1 discusses the growth in international visitor arrivals and expenditure, particularly in the Asia-Pacific region, and examines factors that may influence the size of the regional tourism market.
- Section 5.2 then considers whether Australia is realising its international tourism potential, as indicated by tourism market trends identified in Section 5.1. Importantly, this section assesses international demand for Australian tourism services. The discussions do not incorporate findings in relation to intra- or inter-state tourism, the drivers of which display some distinct differences.

5.1 Inbound arrivals and visitor expenditure

In 2011, global tourism resumed its upward trend after setbacks experiencing a slowdown in 2008 and 2009 in the wake of the GFC. International tourist arrivals grew by 4.6 per cent in 2011 to around 980 million, up from 940 million in 2010.⁹⁷ Europe and the Asia-Pacific had the largest shares of global tourist arrivals in 2011. The Asia-Pacific share was affected by the earthquake and tsunami in Japan, which led to a significant decline in inbound and outbound tourism in that country.⁹⁸

Chart 5-1: International tourist arrivals (millions)



Source: UNWTO Tourism Highlights 2012

Europe consistently had the largest share of international tourist arrivals over the period 1990 to 2010. Asia-Pacific overtook the Americas between 2000 and 2005 to become the second largest region for international tourist arrivals. While all regions consistently experienced positive growth over the period, Asia and the Pacific and Europe experienced the fastest growth.

⁹⁷UNWTO Tourism highlights: 2012 edition, 2012 viewed on 23 July 2012 at <https://s3-eu-west-1.amazonaws.com/storageapi/sites/all/files/docpdf/unwtohighlights12enlr_1.pdf>

⁹⁸ Ibid.

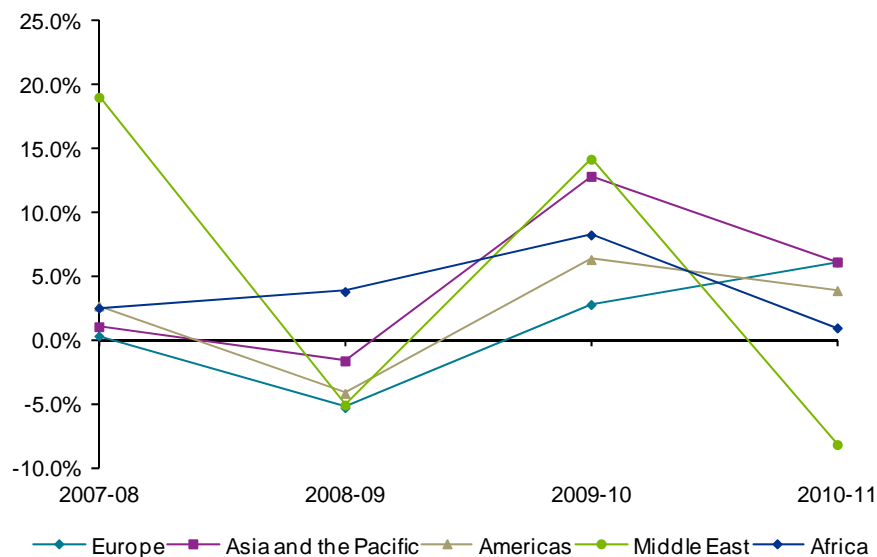
In 2010-11, international tourism receipts were just under A\$1 trillion. Europe accounted for almost half of all tourism receipts in 2011, while Asia-Pacific accounted for almost one-third.

International tourism receipts grew more slowly than the number of international arrivals in 2011, reflecting a decline in spend per visitor.

Annual growth in tourism receipts in the period 2007 to 2011, broken down by regions, is presented in Chart 5-2. Since 2009, most regions have returned to growth following downturns caused by the impact of the GFC.

Europe and the Asia-Pacific experienced growth in receipts of approximately 15 per cent in 2010-11. This is consistent with the growth in arrivals to the two regions.

Chart 5-2: Annual percentage growth in tourism receipts by region



Source: UNWTO Tourism Highlights 2007-2012

While Europe remains the most significant tourism market in terms of arrivals and share of receipts, the Asia-Pacific region is growing rapidly, in part due to the strength of demand from emerging Asian economies.

The market share of global tourism arrivals captured by emerging economies has increased from 30 per cent in 1980 to 47 per cent in 2011, and is expected to reach 57 per cent by 2030, equivalent to over one billion international tourist arrivals.⁹⁹ Three factors underpin this trend:

- growing incomes in emerging economies;
- changing preferences and demographics of tourists; and
- growth in intra-regional tourism, which has been particularly strong in Asia and Latin America.

⁹⁹ Ibid.

Changing preferences and demographics of tourists

There has been an increasing focus in tourism literature on the mobilisation of Chinese travellers who represent a considerable source market in terms of visitor numbers and expenditure. While securing the Chinese tourism source market will support a vibrant, profitable tourism sector, exclusively focusing on this market ignores trends in other growing source markets including growing incomes elsewhere in the region.

Globally, tourism preferences have been shaped by the growth in online services and low-cost airlines, which have made international tourism more accessible. As a result, there has been growth in the lower cost segment of the tourism market with short-haul, low cost travel increasing. Conversely, the growth of niche and luxury travel, as evidenced by the growth in luxury tourism in Europe and which emphasises authentic, ethical and environmental travel, exemplifies growing demand in luxury tourism.¹⁰⁰

Increasingly, travellers are tailoring their travels according to their personal tastes, as demonstrated by the fast growth of individualised travel and the emergence of the Fully-Independent Traveller (FIT) with increased education, wealth and sophistication, who forego organised group travel for independent travel.¹⁰¹

The incidence of retirees and young people travelling is increasing. Leisure travellers from traditional source markets are aging.¹⁰² However, young adults, especially from emerging source markets, are more inclined to travel and perceive work as “sporadic and merely a means to undertake a new journey”.¹⁰³ Increasing travel amongst young people is unrelated to socioeconomic status.¹⁰⁴

The New Chinese Tourist

The Chinese middle class is expected to reach 800 million in 15 years. As part of this structural transformation of the Chinese economy and society, with its associated growth in incomes and aspirations, Chinese outbound travel is expected to grow by 17 per cent annually over the next decade. For the next 10 years, there will be 25 million first time Chinese travellers annually.¹⁰⁵

The major consumer segment driving growth in the Chinese outbound market is young professionals with high incomes. This market has been termed the “New Chinese Tourists”. This group is comprised of people under the age of 45 who are travel-savvy, knowledgeable, and sophisticated.¹⁰⁶ New Chinese Tourists are demanding higher quality services and moving towards more individual experiences rather than tour groups as exemplified by their desire for “deeper experience and closer contact with host populations”.¹⁰⁷

¹⁰⁰ FutureBrand, *Country brand index 2011*.

¹⁰¹ Ibid.

¹⁰² Tourism New South Wales *Tourism towards 2020: the New South Wales Tourism Industry Plan 2010*.

¹⁰³ FutureBrand, *Country brand index 2011*.

¹⁰⁴ Ibid.

¹⁰⁵ Arlt, G. ‘Outbound tourism’, , *Essential China travel trends: dragon edition*.2012.

¹⁰⁶ Ibid.

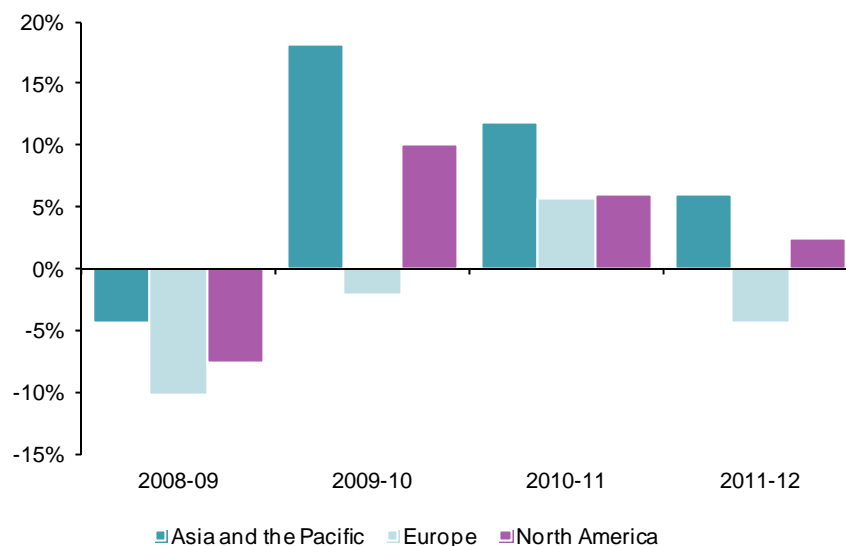
¹⁰⁷ Ibid.

Growing incomes in emerging economies

With growing disposable incomes, emerging Asian and Latin American economies have experienced fast growth in outbound tourism,¹⁰⁸ creating 700 million new travellers.¹⁰⁹ Per capita incomes in the Asia-Pacific region have grown by 8 per cent between 2008 and 2012. While this growth was primarily driven by China, Indonesia, Japan and Vietnam also showed solid growth over the period.¹¹⁰

The growth of Asia-Pacific incomes is relatively large when compared to income growth in Europe and North America in the same period. Per capita incomes in Europe remained stagnant over the period, while North American incomes grew by 3 per cent.

Chart 5-3: Annual growth in regional per capita income



Source: International Monetary Fund, World economic outlook database, April 2012.

Faster income growth in Asia and the Pacific, relative to Europe and North America, has facilitated Asian outbound travel. This is supported by evidenced from Tourism Research Australia which found that a major driver of tourism demand to Australia was income growth.¹¹¹ This suggests that regions experiencing relatively larger income growth will become relatively more important tourism source markets for Australia (and elsewhere).

¹⁰⁸ UNWTO *Tourism highlights: 2012 edition*, 2012 viewed on 23 July 2012 at <https://s3-eu-west-1.amazonaws.com/storageapi/sites/all/files/docpdf/unwtohighlights12enlr_1.pdf>

¹⁰⁹ FutureBrand, *Country brand index 2011*.

¹¹⁰ International Monetary Fund, *World economic outlook database*, April 2012.

¹¹¹ Tourism Research Australia *Factors affecting the inbound tourism sector: the impact and implications of the Australian dollar*, 2011 viewed on 26 July 2012 at <http://www.ret.gov.au/tourism/Documents/tra/Snapshots%20and%20Factsheets/2011/Factors_Affecting_the_Inbound_Tourism_Sector_FINAL_2_June.pdf>

Growth in intra-regional tourism

The majority of global tourism is intra-regional, with approximately 80 per cent of worldwide arrivals originating from the same region.¹¹²

Regional tourism is associated with:¹¹³

- closer cultural affinity, which attracts tourists;
- broad socioeconomic status of tourists;
- higher frequency of repeat visitors;
- relatively shorter stays;
- lower levels of expenditure; and
- more resilient tourism demand.

According to the UNWTO, the Asia-Pacific region is expected to experience the largest growth in tourist arrivals by 2030. The shares of worldwide arrivals of traditional tourist markets, including Europe and North America, are anticipated to decline and be surpassed by emerging regions, especially the Asia-Pacific, the Middle East and Africa.¹¹⁴

The current and expected growth of both inbound and outbound Asia-Pacific markets is driven, in part, by the growth of the Chinese middle class and their increasing propensity to travel. China is the largest outbound tourism source market in Asia and will be the largest source market in the world before 2020.¹¹⁵ China currently ranks third in terms of outbound tourists and expenditure, but it is expected that China will become number one in the next five to seven years.¹¹⁶

The following indicators are emblematic of the growth of intra-regional Asian tourism:

- the number of Asian countries in Singapore's top 10 source markets increased from six to seven between 2009 and 2011. In this period, Thailand and Hong Kong supplanted the United States in the top 10 inbound source markets;
- the share of Asian inbound tourism to Macau increased from 96.9 per cent to 97.4 per cent in the period between 2009 and 2011. This increase was driven by Chinese arrivals which grew by 47.1 per cent in the period. The share of Chinese arrivals increased from 50.5 per cent to 57.7 per cent between 2009 and 2011;
- China and Cambodia became relatively larger inbound source markets for Vietnam while the United States, Australia and France, the only three non-Asian countries in the top 10 inbound sources markets for Vietnam, dropped in relative importance; and
- regional inbound tourism became more important for Taiwan as the share of inbound Asian tourism increased from 85.9 per cent to 86.5 per cent between 2010 and 2011. The shares of

¹¹² UNWTO *Tourism highlights: 2012 edition*, 2012 viewed on 23 July 2012 at <https://s3-eu-west-1.amazonaws.com/storageapi/sites/all/files/docpdf/unwtohighlights12enlr_1.pdf>

¹¹³ Kester, J. *Domestic and intraregional tourism trends in the world* 2009.

¹¹⁴ Ibid.

¹¹⁵ Thraenhart, J. Chang, K. and Arlt, W. 'The changing Chinese traveller', *Essential China travel trends: dragon edition*. 2012.

¹¹⁶ Ibid.

ASEAN and Japan arrivals increased in the period. This was despite an overall drop in Japanese outbound tourism following the Tohoku earthquake and tsunami.

The importance of intra-regional trade, combined with the high levels of income growth being experienced in the Asia-Pacific region, highlights the importance of Asia as a source destination for visitors to Australia going forward.

In particular, the growing demand for international travel from China is likely to play a key role in the growth of the Australian tourism sector.

5.2 Inbound tourism to Australia

In 2011, tourism was the sixth largest export in Australia, generating \$23 billion in exports.¹¹⁷

Australia attracted 6 million visitors in the year to August 2012.¹¹⁸ On average, visitors spent nearly \$3,400 per trip, excluding international airfares and pre-paid tours.¹¹⁹ Visitors spent approximately:¹²⁰

- \$430 on shopping;
- \$1,500 on food, beverages and accommodation;
- \$20 on horse racing and gambling; and
- \$70 on entertainment.

Recently, the Australian tourism market has been undergoing structural change in terms of the relative importance of source markets in the emerging markets of Asia relative to traditional source markets such as the United Kingdom, the United States and Japan. This is reflected in arrivals information as well as information on tourism receipts.

The long-run trend in Australian tourism towards closer ties to emerging Asian markets is reflected in Chart 5-4. It is expected that the share of total contributions made by traditional source markets, including New Zealand, Japan, the United Kingdom and the United States, will decline by an average of 14 per cent between 2011 and 2020, while the shares of China, India and Indonesia will increase on average by 27 per cent. China will continue to make the largest contribution to Australian tourism.

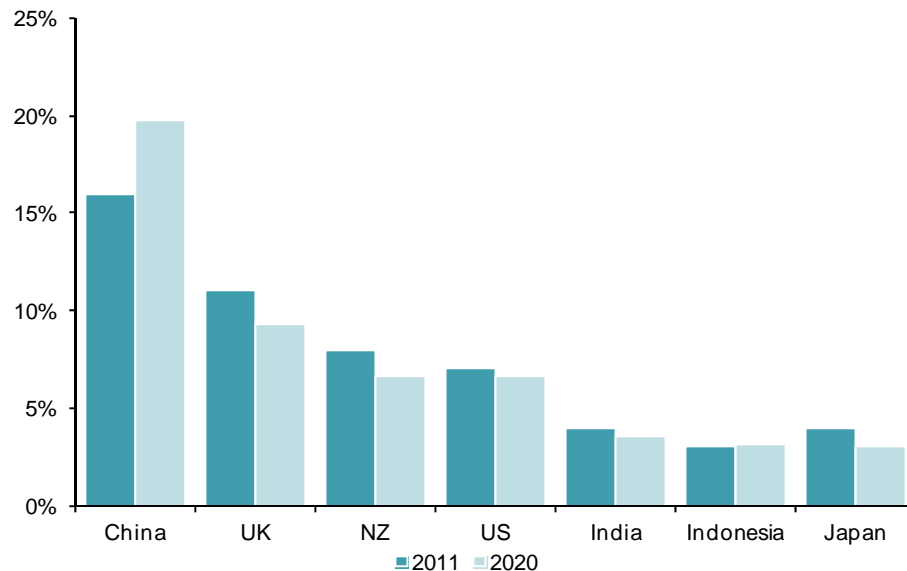
¹¹⁷ Tourism Research Australia, *Factors affecting the inbound tourism sector: the impact and implications of the Australian dollar*, 2011 viewed on 26 July 2012 at <
http://www.ret.gov.au/tourism/Documents/tra/Snapshots%20and%20Factsheets/2011/Factors_Affecting_the_Inbound_Tourism_Sector_FINAL_2_June.pdf>

¹¹⁸ Australian Bureau of Statistics, *Overseas arrivals and departures*, 3401.0, August 2012.

¹¹⁹ Tourism Research Australia, *International Visitor Survey 2011*.

¹²⁰ Ibid.

Chart 5-4: Percentage of economic contribution to Australian tourism



Source: Tourism Forecasting Committee 2012 Issue 1; KPMG analysis

The most prominent features in arrival trends are the emergence of China as a significant market and the decline, in absolute and relative terms, of traditional western source markets. The share of Chinese visitors to Australia is forecast to grow by 28 per cent to almost 15 per cent of tourist arrivals to Australia by 2020, second only to New Zealand. However, due to differences in expenditure in Australia by tourists from these two countries, China is the source market with the highest economic contribution to Australia's tourism sector.

Declining share of GDP and export revenue

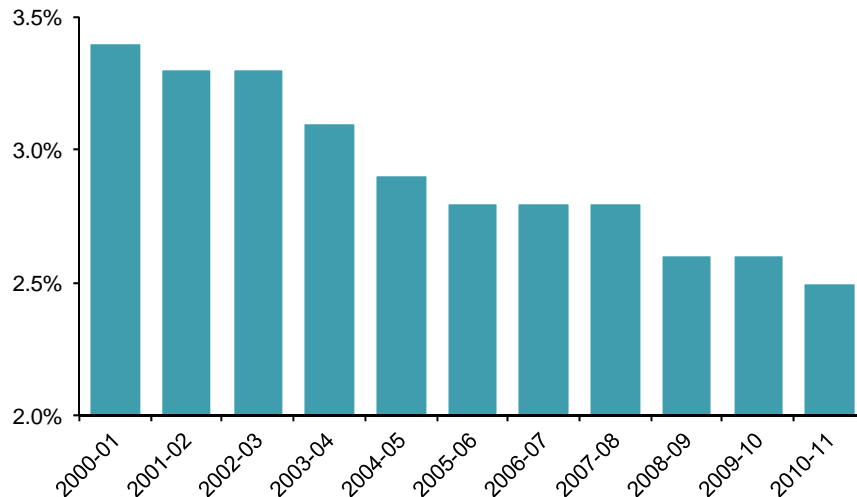
Over the last decade, the tourism trade surplus of Australia has declined from \$3.6 billion in 1999 and towards a deficit of \$5 billion in 2010.¹²¹ Supply-side and demand-side factors both contribute to the growing deficit. Underpinning the deficit is growth in outbound tourism in response to the high Australian dollar which makes domestic destinations relatively less competitive, and the relative decline in inbound tourism in terms of:

- share of GDP and export revenue;
- perceptions of the attractiveness of Australian destinations; and
- share of global tourism.

Given the orientation of this report towards Asian tourism, only trends in inbound tourism to Australia are analysed. In particular, these three aspects of the decline in inbound tourism will be discussed.

¹²¹ Tourism Research Australia, *Factors affecting the inbound tourism sector: the impact and implications of the Australian dollar*, 2011 viewed on 26 July 2012 at <
http://www.ret.gov.au/tourism/Documents/tra/Snapshots%20and%20Factsheets/2011/Factors_Affecting_the_Inbound_Tourism_Sector_FINAL_2_June.pdf>

Chart 5-5: Percentage contribution of tourism to GDP



Source: ABS Australian National Accounts: Tourism Satellite Account Cat. No. 5249; KPMG analysis

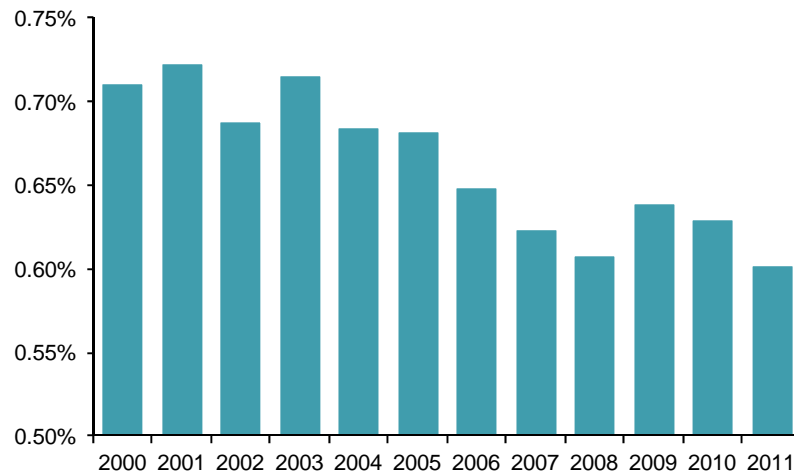
Since 2001, the contribution that tourism makes to the GDP has declined from approximately 3.4 per cent in 2000 to 2.5 per cent in 2011. This drop indicates that tourism is under-performing relative to other industries. Even excluding the expansion of commodity-oriented industries, Australia's tourism has under-performed.¹²²

Declining share of global tourism

The decline in importance of tourism to Australia's GDP coincides with a decline in Australia's share of global tourism. Chart 5-6 illustrates the Australian share of global tourist arrivals in the last decade. Despite a temporary increase in Australia's share of global tourism following the GFC, resulting from a decline in arrivals from Europe and the Americas, Australia's share of global tourism has trended downwards from a post-Olympic peak in 2001.

¹²² Tourism Australia 'The Jackson Report: on behalf of the Steering Committee Informing the National Long-Term Tourism Strategy', 2009 viewed on 1 August 2012 < <http://www.ret.gov.au/tourism/Documents/tmc/jackson-report-july09.pdf>>

Chart 5-6: Australian share of global tourist arrivals



Sources: United Nations World Tourism Organization, *World Tourism Barometer* January 2009, January 2011 and January 2012; and Australian Bureau of Statistics, *Overseas Arrivals and Departures* (cat. no. 3401.0); and KPMG analysis

Declining attractiveness of Australia as a tourism destination

This under-performance is reflected in the declining attractiveness of Australia as a destination. The World Economic Forum publishes the *Travel and Tourism Competitiveness Report*¹²³ which ranks countries on their perceived attractiveness as tourism destinations.¹²⁴ While Australia still ranks highly as a tourism destination, receiving a ranking of 13th in the world, it has been declining from its ranking of 4th in 2008.¹²⁵

Australia has consistently ranked highly in terms of its natural and heritage value and the quality of its air transport infrastructure. Since 2009, Australia has been perceived to have weakened in its prioritisation of tourism and destinations marketing, low quality ground transport infrastructure, undersupply of accommodation especially in Sydney, Melbourne and Perth, weakening price competitiveness, declining priority of environmental sustainability and the increasing concerns about the availability of qualified labour.¹²⁶ The confluence of these factors

¹²³ World Economic Forum, *The travel and tourism competitiveness report 2011: beyond the downturn*, 2011.

¹²⁴ The Travel and Tourism Competitiveness Index (TTCI) measures “the many different regulatory and business-related issues that have been identified as levers for improving travel and tourism competitiveness in [139] countries around the world”. Travel and tourism competitiveness is determined through evaluating the policies and factors that make the development of, and investment in, a tourism industry attractive. These factors and policies include the regulatory environment, business environment and infrastructure and human, natural and cultural resources. These factors capture the feasibility of private investment in the tourism sector, and the attractiveness of a destination from the perspective of travellers.

¹²⁵ Ibid.

¹²⁶ Ibid.

has contributed to the overall decline in the attractiveness of Australia as a destination. In 2011, Australia was surpassed by Singapore and Hong Kong SAR in the Asia-Pacific region.¹²⁷

Singapore and Hong Kong SAR rank highly in ground transport infrastructure, high quality tourism labour force, and regulations that support the development of tourism, including facilitation of foreign ownership and FDI, well protected property rights, and few visa restrictions.¹²⁸ Singapore ranks second internationally for its prioritisation of tourism.¹²⁹ Hong Kong ranks well in terms of tourism prioritisation and in terms of cultural resources due to the extent of international fairs and conventions.¹³⁰

A similar trend is reflected in the performance of Australia in the *2011-12 Country Brand Index*¹³¹. While the index measures many aspects related to brand quality, including quality of life, value system, supportive business environment and heritage and culture, the quality and promotion of tourism infrastructure is a fundamental factor. Factors influencing the tourism measure include:

- resorts and lodging options;
- food;
- attractions;
- value for money;
- beaches;
- nightlife; and
- shopping.

Australia is seen as having a high quality brand, but has slipped recently, decreasing from 2nd to 5th between 2010 and 2011. Australia is ranked 11th in the world in terms of value for money and 13th in shopping out of 113 countries.

Contributing factors to the relative decline of tourism in Australia

The relative decline of the Australian inbound tourism market is often explained in terms of the high Australian dollar, which erodes the competitiveness of Australian tourism. However, recent research by TRA challenges this explanation.¹³² The main finding of the report is that growing incomes have a more significant causal effect on inbound tourism than exchange rates over the long-term.

¹²⁷ Ibid.

¹²⁸ Ibid.

¹²⁹ Ibid.

¹³⁰ Ibid.

¹³¹ Future Brand *2011-2012 country brand index*, 2011 viewed on 30 July 2012 at <
<http://www.futurebrand.com/think/reports-studies/cbi/2011/overview/>> This index surveys brand experts from 113 countries and assess the strength of a country brand in terms of familiarity, awareness, preference, consideration, advocacy and active decisions to visit or interact with a place.

¹³² Tourism Research Australia, *Factors affecting the inbound tourism sector- the impact and implications of the Australian dollar*, 2011.

The findings include:¹³³

- In the short-term, income is responsible for the strongest causality in relation to tourism demand. For a 1.0 per cent increase in inbound source market incomes, tourism demand increases by 0.8 per cent.
- In the long-term, income again is responsible for the strongest causality in relation to tourism demand. For a 1.0 per cent increase in inbound source market incomes, tourism demand increases by 1.3 per cent. This indicates that income becomes a more significant causal factor of tourism demand in the long-term.
- Tourism demand is slightly responsive to price in the short-term as a 1.0 per cent increase in prices decreases tourism demand by 0.24 per cent.
- In the long-term, tourists become more responsive to price as a 1.0 per cent increase in prices causes a 0.46 per cent decrease in tourism demand. Even though prices become a more significant causal factor of tourism demand in the long-term, tourism demand is more responsive to income in both the short- and long-term,

These findings indicate that, even though Australian prices are becoming relatively more expensive, tourists are not being discouraged from travelling to Australia for that reason, given that incomes in emerging Asian countries are growing. However, Australian tourists are increasingly travelling abroad due to the strength of the Australian currency.

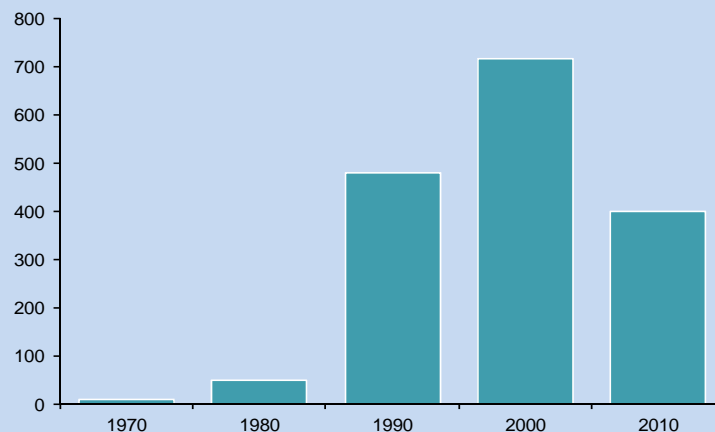
The following box considers the change in importance of the Japanese source market for the Australian tourism sector over time. Australia's experience with the Japanese tourist sector indicates that the success of the Australian tourism market is dependent on the ability of tourist destinations to cater to non-English speaking visitors by providing services, facilities and experiences that are targeted to the needs and desires of visitors.

¹³³ Ibid.

Case study: Japanese tourism in Australia

Japan was the largest contributor to tourism in Australia in the late 1980s and 1990s but has since fallen in terms of arrivals and expenditure.¹ Japanese arrivals peaked in 1997 at nearly 815,000 visitors.²

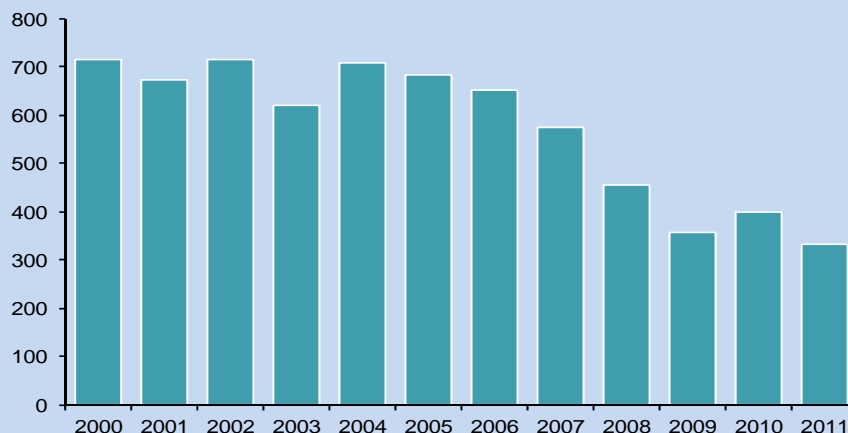
Chart 5-7: Japanese arrivals (thousands of visitors)



Source: ABS Overseas Arrivals and Departures Cat. No.3401.0; KPMG analysis

As shown in Chart 5-7, Japanese arrivals to Australia grew significantly between 1980 and 2000, and fell thereafter. The growth in Japanese arrivals between the 1980s and 2000s has been attributed to the perceived attractiveness of Australia as a destination, facilitated by promotion on travel websites and publications, and through the Australian Government's advertising campaign in Japan in the late 1990s which increased tourist demand.³ The decline in Japanese arrivals is discussed below.

Chart 5-8: Japanese arrivals (thousands of visitors)



Source: ABS Overseas Arrivals and Departures Cat. No.3401.0; KPMG analysis

Chart 5-8 shows the decline in Japanese arrivals over the last decade. In 2011, Japan had fallen to the fifth largest source market for visitors to Australia.⁴ Compound annual decline between 2001 and 2011 was 6.8 per cent.⁵ Following the earthquake and tsunami, visitation fell by 16.9 per cent between 2010 and 2011.⁶

Domestic economic factors have played a significant causal role in the rise and subsequent decline of Japanese visitors to Australia.⁷ The economic boom Japan experienced in the 1980s supported growth in arrivals to Australia in the period between 1980 and 2000.⁸ Japanese businesses planned to own the whole value chain of tourism in Australia, as evidenced by the large-scale Japanese-owned development on the Gold Coast.⁹ Japanese companies were involved in selling the holiday packaging and delivering the product, while JAL flew Japanese tourists to Australia.¹⁰

In the 1990s, as the Japanese economy went into decline, Japanese businesses sold their foreign holdings, including hotels and properties on the Gold Coast.¹¹ As Japanese exposure on the Gold Coast declined, and travel for Japanese tourists became less accessible as a result of economic conditions in Japan, Japanese tourists substituted towards geographically closer destinations.¹² As travel becomes more expensive, there is a tendency towards cheaper short-haul travel.

In 2000, Australia received 4 per cent of total Japanese visitors, and this fell to 2.4 per cent in 2010.¹³

The declining attractiveness of Australia as a tourist destination has been attributed to:¹⁴

- lack of coordination between tourism promotion and investment in tourism infrastructure, for example Cairns was promoted and utilised before the appropriate tourism infrastructure had been fully developed; and
- consumer perceptions of narrow tourism offering. Australia is perceived as a destination which offers ‘the reef, the bridge, the rock and cute animals’ but these offerings are not sufficient to ensure long-term sustainable tourism. The Australian Tourist Commission heavily promoted these aspects to Japan in the 1990s, to the detriment of other experiences and destinations in Australia. Greater promotion of the diversity of experiences and destinations offered in Australia is called for.

Social perceptions of Australia may also be responsible for the absolute and relative decline of Japanese arrivals.¹⁵ There is a perception among potential Japanese visitors that Australia does not accommodate non-English speaking tourists, as evidenced by the ‘monolingual mindset’ at airports, hotels, train stations and restaurants.¹⁶ Once Japanese ownership of accommodation in the Gold Coast was relinquished, the perceived quality of Australian tourism infrastructure declined.¹⁷

While economic factors in Japan contributed to the overall decline in Japanese arrivals to Australia in the 2000s, narrow marketing of Australia's tourist experiences and destinations, a mismatch between promotion and infrastructure development and treatment of Japanese tourists also contributed to the decline.

Sources:

¹ *Tourism Australia figures.*

² *Ibid.*

³ *Koala and tourism, TED Case studies, 1997, viewed on 24 September 2012 < <http://www1.american.edu/ted/KOLA.HTM>>*

⁴ *Tourism Australia figures*

⁵ *Ibid.*

⁶ *Ibid.*

⁷ *Upe, R. (2012) 'Australia hits fast forward on bid to attract Asian tourists', Sydney Morning Herald, accessed on 20 August 2012 <<http://www.smh.com.au/travel/travel-news/australia-hits-fast-forward-on-bid-to-attract-asian-tourists-20120817-24csd.html>>*

⁸ *Ibid.*

⁹ *PM with Mark Colvin (2010) 'Japanese tourists no longer flocking to Australia' accessed 20 August 2012 < <http://www.abc.net.au/pm/content/2010/s2887393.htm>>*

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² *Ibid.*

¹³ *Hooper, K. and van Zyl, M. 'Australia's tourism industry' Reserve Bank of Australia, viewed on 24 September 2012 < <http://www.rba.gov.au/publications/bulletin/2011/dec/3.html#f10>>*

¹⁴ *March, R. 'A marketer's perspective of current tourism forecasting', Inbound Tourism Studies Centre, 1997, viewed on 24 September 2012 < http://www.inboundtourism.com.au/article_two.html>*

¹⁵ *Howden, S. and Norrie, J. 'Insensitivity makes waves with Japanese tourists', Sydney Morning Herald, 2010 viewed on 20 August 2012 < <http://www.smh.com.au/travel/travel-news/insensitivity-makes-waves-with-japanese-tourists-20100219-olzn.html>>*

¹⁶ *Ibid.*

¹⁷ *Ibid.*

6 Tourism strategies

Tourism strategies are becoming increasingly sophisticated in understanding global tourism trends and focusing on securing growing source markets, in response to the importance of tourism as an economic driver. This section analyses and evaluates the ways in which Australian and international tourism strategies identify and target growing source markets.

Key findings from KPMG's analysis of international, national and state tourism strategies and policies are presented in the box below.

Key findings

- Australian national and state tourism policies are becoming more strategic through greater understanding of the:
 - constraints on Australian tourism at national and state levels;
 - existing and future visitor mix;
 - types and quality of destinations that are required to compete against strong international destinations;
 - expectations of Chinese visitors;
 - infrastructure requirements; and
 - degree of required private investment.
- Nevertheless, in Australia, integrated resorts have not been singled out as potential drivers of tourism demand in their own right and, contrary to the Asian experience, Australian tourism policies have not led to tourism marketing materials featuring integrated resorts, with the exception of those of Victoria.
- The Asian countries surveyed in this report recognise tourism as an important engine of economic growth and development.
- Tourism plans and strategies of these Asian countries recognise the importance of tourism:
 - tourism is one of the strategic industries in Singapore. In Singapore, tourism has been built into the economic planning agenda;
 - The Philippines has recognised the potential role of tourism to alleviate poverty through economic development; and
 - Japanese tourism has been vital to economic recovery in the wake of the Tohoku earthquake and tsunami.

- Tourism plans and strategies of these Asian countries recognise the importance of integrated resorts in contributing to increasing tourism demand:
 - Singapore, Macau and South Korea have specifically included the development of integrated resorts in their tourism strategies;
 - The Philippines appreciates the importance of shopping and MICE tourism, and suggests a possible role for integrated resorts in the provision of these types of tourism. Statements made by The Philippine officials, as well as official tourism targets, refer to the importance of integrated resorts in the Philippines tourism strategy; and
 - Taiwan and Vietnam have indicated that integrated resorts have a role in the national economy, even though integrated resorts do not feature in tourism plans as yet.

This section analyses tourism strategies in Australia and selected Asian countries, with particular emphasis on the treatment of integrated resorts in economic and tourism planning.

6.1 Australian tourism strategies

The recent White Paper, *Australia in the Asian Century*, is indicative of the strategic orientation of the Australian Government towards Asia, in particular China.¹³⁴ Asian demand, both current and anticipated, for Australian natural resources, education, tourism and agriculture is being driven by growing middle classes and changing consumption patterns.¹³⁵ Tourism policies at state and national levels are now starting to reflect changes in the visitor base and visitor expectations of Australian destinations.

Orientation towards destination management strategies has occurred within the last decade and is evidenced in recent state and national tourism policies.¹³⁶ Destination management planning systems are more attuned to the tourism potential of each destination because they are “organised around defined visitor destinations, each with its own natural and unique tourism assets, and unique development, marketing and management needs”.¹³⁷ Destination management planning is considered superior to traditional tourism policy approaches because it promotes greater cooperation and collaboration with local industry, and regional, state and national economic development agencies.¹³⁸

However, problems with the implementation of destination management planning in Australia have been recognised. Many of the destinations identified in state-level destination management planning systems are in direct competition because they are marketing similar experiences to target markets.¹³⁹ For example, food and wine destinations in South Australia and New South

¹³⁴ Australian Government, *Australia in the Asian century: issues paper*, 2011.

¹³⁵ Ibid.

¹³⁶ Ibid.

¹³⁷ Department of Resources, Energy and Tourism, *A national framework for best practice destination management planning*, 2007, viewed on 13 August 2012

<http://www.ret.gov.au/tourism/Documents/Tourism%20Industry%20Development/Best_Practice_Destination_Management_Planning_Framework.pdf>

¹³⁸ Ibid.

¹³⁹ McLennan, C. and Ruhanen, L. ‘Analysis of national, state, regional and local tourism strategies and plans: identification of strategic issues’, *Sustainable Tourism Cooperative Research Centre*, 2008.

Wales are not sufficiently differentiated, and therefore compete rather than cooperate for visitation.¹⁴⁰

A meta-analysis of 76 tourism strategies in Australia found that, in addition to the degree of competition amongst domestic destinations, an additional constraint recognised in tourism policies was the insufficient level of private sector investment in the tourism industry. This is especially problematic because growth in tourism and support infrastructure was the result of strong private investment. The *Tourism White Paper* identified barriers to private investment in the tourism industry, including:¹⁴¹

- low rates of return;
- insufficient investor information;
- seasonal nature of tourism; and
- the complexities of dealing with multilevel government project approval processes.

National Tourism Policies

The Jackson Report

In 2008, a Steering Committee was established to deliver a long-term tourism strategy to maximise the benefits of tourism in Australia. The *Jackson Report*, delivered on behalf of the Steering Committee, identified short-term challenges and a long-term decline in tourism because Australia was failing to recognise and capitalise on changes and opportunities in the global tourism market. These challenges included greater global competition, the high Australian dollar, labour shortages, and the emergence of Asia as a focal point of economic activity.

The *Jackson Report* identified four areas on which Australia should capitalise in order to overcome the constraints:

- Indigenous culture;
- natural heritage;
- cities; and
- people.

Source: Tourism Australia (2009) 'The Jackson Report: on behalf of the Steering Committee Informing the National Long-Term Tourism Strategy', accessed on 1 August 2012 < <http://www.ret.gov.au/tourism/Documents/tmc/jackson-report-july09.pdf>>

The shift towards strategic tourism planning is evident in the ways the *National Long Term Tourism Strategy – Tourism 2020* proposes to address the supply-side issues in the Australian tourism industry. Increased collaboration with industry was called for to address structural issues including greater global competition, the high Australian dollar, labour shortages, and the

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

emergence of Asia as a focal point of economic activity.¹⁴² There is evidence that the *National Long Term Tourism Strategy – Tourism 2020* is improving links with industry and addressing many of the identified supply-side issues through increased investment in hotels, provisions to attract temporary workers and increasing the price competitiveness of cafes and restaurants.¹⁴³

While the *National Long Term Tourism Strategy – Tourism 2020* addresses many of the supply-side issues in the industry, as identified in the *Jackson Report*, the plan does not delve into creating, or promoting, destinations using comparative advantage as a basis.¹⁴⁴ The *Jackson Report* identified the importance of creating and marketing vibrant cities to attract growing tourism markets including India and China. The history of “successful arts and food and wine festivals; a strong record in conferences and business events; and a leading capacity to host major sporting and cultural events” may be lost, given increasing international competition which is attracting visitors. However, other initiatives undertaken by Tourism Australia target demand side issues such as increasing marketing in Asian markets.

Tourism Australia has sought to attract emerging Asian tourism source markets by focusing on promoting Australian destinations. Tourism Australia has allocated \$48.5 million to the Asia Marketing Fund to promote Australia as a tourist destination to China and other major source markets in Asia including Singapore and Hong Kong.¹⁴⁵

Furthermore, the *China 2020 Strategic Plan* focuses on implementing an intensive marketing presence in targeted Chinese markets. Tourism Australia is targeting the growing middle class, specifically couples.¹⁴⁶ The *China 2020 Strategic Plan* identifies strengths and weaknesses in national strategies which have targeted China in the past. Chinese visitors generally rate Australia as a highly desirable destination, but the expectations of visitors have not been met for the following experiences:¹⁴⁷

- group travel; and
- shopping experiences.

Tourism Australia plans to work with Austrade and state and territory tourism organisations to promote infrastructure investment in the tourism industry, as a means to improve the experiences of Chinese visitors.¹⁴⁸

Tourism planning and strategy has become more sophisticated in recent years, however actions to attract visitors to Australia have been sluggish. While Tourism Australia has identified, and is trying to rectify, constraints in the Australian tourism market including undersupply of accommodation and the necessity of creating popular attractions, barriers remain.¹⁴⁹ For example, Australia continues to have one of the strictest visa regimes in the world. Residents of

¹⁴² Department of Resources, Energy and Tourism, *National Long Term Tourism Strategy-Tourism 2020 2009 to 2011*, 2011, viewed on 6 August 2012

<http://www.ret.gov.au/tourism/Documents/nlts/StrategySummaryReport_May2012.pdf>

¹⁴³ Ibid.

¹⁴⁴ Ibid.

¹⁴⁵ Tourism Australia, *Arrivals reach 6 million* October 2012 <

<http://minister.ret.gov.au/MediaCentre/MediaReleases/Pages/ArrivalsReachSixMillion.aspx>>

¹⁴⁶ Tourism Australia, *Summary of Tourism Australia’s China 2020 Strategic Plan*, 2011, viewed on 13 August 2012

< http://www.tourism.australia.com/TA_China_2020_Strategic_Plan.pdf>

¹⁴⁷ Ibid.

¹⁴⁸ Ibid.

¹⁴⁹ Euromonitor, *Passport: travel and tourism in Australia*, 2012

every country in the world are required to apply for a visa to visit Australia, although New Zealand is a special case.¹⁵⁰

By comparison, Asian countries which do not require Australians to apply for a tourist visa include:

- Taiwan;
- Thailand;
- Singapore;
- Japan;
- Malaysia; and
- Korea.

Many of the state tourism plans are aligned with national tourism plans, in keeping with the principles of coordination and consistency in destination management planning. Recent developments in the tourism policies of New South Wales, Victoria and Western Australia indicate that these states are conscious of the challenges and opportunities in the tourism market.¹⁵¹

New South Wales

The recently released *Final Report of the Visitor Economy Taskforce* is an example of the growing sophistication of state-level tourism policies. The *Final Report of the Visitor Economy Taskforce* acknowledges that destination appeal has waned as New South Wales has been “outperformed and outspent by competitive destinations in Australia and the Asia-Pacific region”.¹⁵²

It is clear from the *Final Report of the Visitor Economy Taskforce* that the trends in visitor arrivals to New South Wales is well understood, given that Eastern markets including China, Singapore, Malaysia, South Korea, India and Indonesia are being targeted, while it is acknowledged that traditional source markets including the United Kingdom, the United States and Japan are in decline. Further, a *New South Wales China Strategy* is being developed.

Tailoring destinations to target markets is evidenced in the strategy to develop shopping destinations. Retail shopping has been identified as an important driver of inbound visitor growth, especially for visitors from China.¹⁵³ Singapore is identified as a destination that has successfully leveraged retail shopping through regulatory reform which promotes retail shopping for tourists.¹⁵⁴ New South Wales directly competes with destinations that offer more

¹⁵⁰ Ibid.

¹⁵¹ McLennan, C. and Ruhanen, L. ‘Analysis of national, state, regional and local tourism strategies and plans: identification of strategic issues’, *Sustainable Tourism Cooperative Research Centre*, 2008.

¹⁵² NSW Government, *Final report of the Visitor Economy Taskforce: a plan to double overnight visitor expenditure to NSW by 2020*, 2012.

¹⁵³ Ibid.

¹⁵⁴ Ibid.

sophisticated shopping experiences.¹⁵⁵ There is a challenge to develop innovation in shopping experiences for visitors to New South Wales.¹⁵⁶

Victoria

Victoria has been a leader in tourism strategy, historically.¹⁵⁷ This is demonstrated by the range of strategic and planning documents at a local, regional and state-level in Victoria.¹⁵⁸ This strategic orientation has resulted in Victoria overtaking New South Wales and Queensland in many areas including shopping, food and wine, festivals, sporting events, arts and culture and touring holidays.¹⁵⁹ Melbourne is ranked ahead of Sydney in the International Congress and Convention Association (ICCA) convention city rankings.¹⁶⁰

Victoria has a sophisticated *China Tourism Strategy* which focuses on the strength of Victorian urban tourism.¹⁶¹ Tourism Victoria has sought to develop a strong and unique brand position for Victoria in China by targeting growth areas and demographics within China, including Shanghai, Beijing, Guangzhou and Shenzhen with an increasing focus on Nanjing, Hangzhou and Chengdu; and well-educated, city-dwelling, high income leisure tourists aged between 25 to 54 years who have demonstrated a high propensity to travel.¹⁶² The *China Tourism Strategy* acknowledges flow-on effects from successfully attracting Chinese visitors to Victoria including attracting visitors from countries with large numbers of ethnic Chinese including Hong Kong, Singapore, Malaysia, Taiwan and Indonesia.¹⁶³

Key to attracting the identified markets is developing and promoting Victorian cities as desirable locations. Tourism Victoria acknowledges that Victorian destinations have struggled with being recognised as high quality destinations.¹⁶⁴ Crown Melbourne and Integrated Resorts are central to attracting the targeted niche segments as evidenced by:¹⁶⁵

- recognition of Crown Melbourne as a product strength of Victoria and a key business and industry partner;
- specific mention of the success of the integrated resorts in Singapore as tourism magnets;
- Crown Melbourne is referred to as Crown Integrated Resort; and
- Crown Melbourne is referred to as the third most visited attraction in Victoria, and a major drawcard in Melbourne.

¹⁵⁵ Ibid.

¹⁵⁶ Ibid.

McLennan, C. and Ruhanen, L. 'Analysis of national, state, regional and local tourism strategies and plans: identification of strategic issues', *Sustainable Tourism Cooperative Research Centre*, 2008.

¹⁵⁸ Ibid.

¹⁵⁹ NSW Government, *Final report of the Visitor Economy Taskforce: a plan to double overnight visitor expenditure to NSW by 2020*, 2012.

¹⁶⁰ Ibid.

¹⁶¹ State Government Victoria, *Victoria's China Tourism Strategy*, 2012.

¹⁶² Ibid.

¹⁶³ Ibid.

¹⁶⁴ Ibid.

¹⁶⁵ Ibid.

Western Australia

Tourism Western Australia's *Corporate Plan 2012-13* and the *State Government strategy for tourism in Western Australia 2020* highlight strategic imperatives involved in growing visitor numbers and expenditure. These include:¹⁶⁶

- recognition that Government and industry partnerships are critical to address systemic shortfalls in hotels, aviation and transport, workforce development and other infrastructure areas;
- importance of focusing on international growth markets including China, Singapore, Malaysia, Japan, Indonesia, Korea and India; and
- continue packaging events to conference delegates whilst in Perth (PCB) to grow the convention/MICE segment.

Tourism Western Australia is currently developing a dedicated *China Strategy 2012-2015*, which outlines the actions required to increase the share of Chinese visitors to the state.¹⁶⁷ Like the Victorian *China Tourism Strategy*, the Western Australian strategy identifies targeted markets within China. Specifically, Tourism Western Australia seeks to attract fully-independent travellers (FIT) from the provinces of Beijing, Shanghai and Guangdong. These travellers are young, affluent, and are heavily influenced by web-based research and the opinions of peers and idols. These travellers are becoming more discerning and are constantly looking for unique and personalised travel experiences. They understand the worth and value of luxury travel, so they are willing to invest more to get an extraordinary travel experience.¹⁶⁸

The potential for integrated resorts in meeting the strategic imperatives identified by Tourism Western Australia is not explicitly covered in the *Corporate Plan 2012-13* or the *State Government strategy for tourism in Western Australia 2020* or the *China Strategy 2012-2015*, even though investments made by integrated resorts, such as Crown Perth, such as in hotel capacity are consistent with these imperatives.

Implications of Australian tourism strategies

From this survey, it appears that state and national tourism agencies are focused on addressing the relative decline in Australian tourism. This is demonstrated by greater understanding of the:

- constraints on Australian tourism at national and state levels;
- existing and future visitor mix;
- types and quality of destinations that are required to compete against strong international destinations;
- expectations of Chinese visitors;

¹⁶⁶ Tourism Western Australia, *State Government strategy for tourism in Western Australia 2020: detailed strategy*, 2012, viewed on 1 August 2012

<http://www.tourism.wa.gov.au/About_Tourism_Western_Australia/Documents/State_Government_Strategy_for_Tourism_detailed_July%202012_DRAFT_v3.pdf>

¹⁶⁷ Tourism Western Australia, *Our direction in China 2012-2015: discussion paper for public consultation*, 2012.

¹⁶⁸ Ibid.

- infrastructure requirements; and
- degree of required private investment.

This improved focus is evidenced for example, by the strategic orientation of the Australian Government in the recent White Paper, *Australia in the Asian Century*.¹⁶⁹ Asian demand, both current and anticipated, for Australian natural resources, education, tourism and agriculture is being driven by a rapid rise in per capita GDP and changing consumption patterns.¹⁷⁰ Tourism policies at state and national levels are now starting to reflect changes in the visitor mix and visitor expectations of Australian destinations.

As highlighted in Section 3, Crown is focused on attracting visitors from the Asian-Pacific region. This is evidenced through Crown's investment of \$2.0 billion over the period 2007 to 2012 in tourism infrastructure including entertainment options, accommodation, conference facilities, retail facilities and many dining options.

Nevertheless, in general, integrated resorts have not been singled out as potential drivers of tourism demand in their own right and, contrary to the Asian experience, Australian tourism policies have not led to tourism marketing materials featuring integrated resorts, with the exception of those of Victoria.

6.2 International tourism strategies

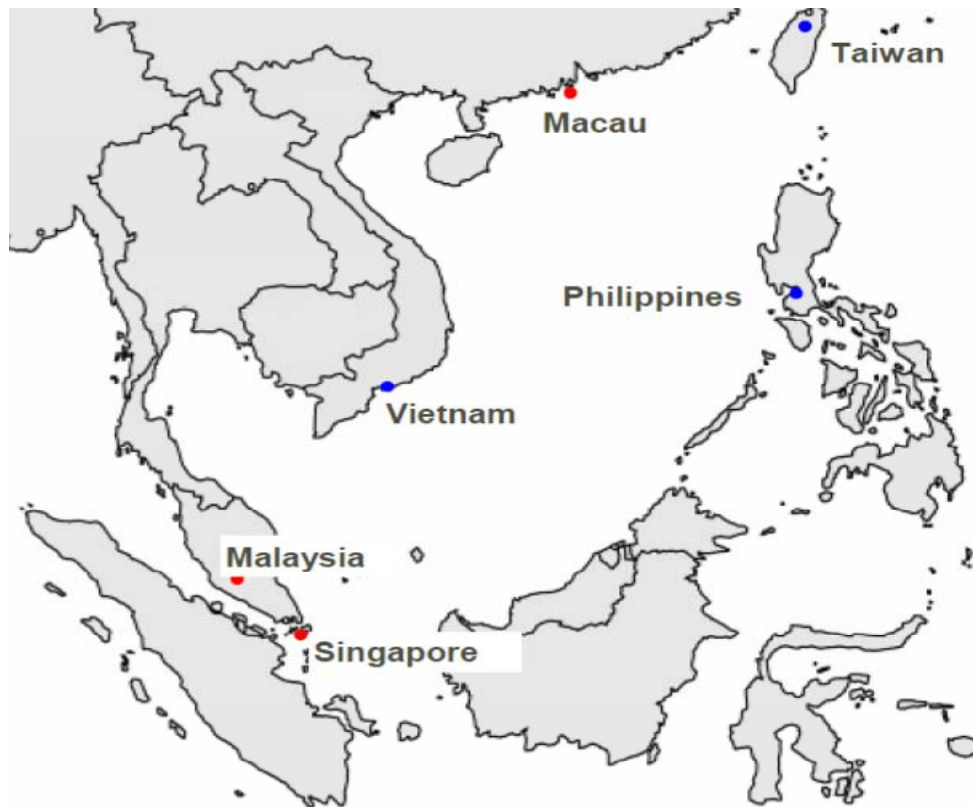
Tourism strategies in the East Asian and South-East Asia regions are of varying levels of sophistication. However, all countries surveyed in this report appreciate the economic and development potential of the tourism industry. In particular, Singapore, Macau and South Korea have specifically built in the development of integrated resorts into their tourism strategies.

The Asian countries surveyed indicate that integrated resorts are embedded in tourism and economic policies, or are considered to be drivers of economic development in the future. Support provided by governments, in terms of partnerships with integrated resort developers and in terms of gaming reforms, indicates the recognition of integrated resorts as important tourism and economic drivers.

¹⁶⁹ Australian Government, *Australia in the Asian century: issues paper*, 2011.

¹⁷⁰ Ibid.

Figure 6-1: Integrated resort location in the Asia-Pacific



ASEAN

The *ASEAN Tourism Strategic Plan 2011-2015* coordinates planning and markets destinations across the ASEAN region to targeted markets including China, Japan, Republic of Korea, India, EU and Russia.¹⁷¹ The *ASEAN Tourism Strategic Plan 2011-2015* acts as the overarching guide which ensures that destinations in the ASEAN region are not directly competing against one another. The strategy recognises that significant changes, brought about by evolving demographics and markets, have introduced challenges for the region to develop a set of unique products and experiences.

¹⁷¹ ASEAN, *ASEAN Tourism Strategic Plan 2011-2015*, 2011.

Singapore

In the early 2000s, tourism in Singapore began to experience slowing growth in visitor numbers, in large part due to increasing competition from rapidly developing neighbouring countries, especially in MICE travel.¹⁷² The Singaporean Government developed the *Tourism 2015* plan which aimed to make Singapore a more attractive tourist destination than its Asian competitors such as Macau.

The *Tourism 2015* plan was developed to respond to the following regional factors:

- opening of new tourist markets through the development of the low-cost airline carriers, increasing disposable incomes in India and China and changes to their outbound tourism policies;¹⁷³
- other Asian countries attracting large amounts of foreign infrastructure investment;¹⁷⁴
- an estimated S\$1.8 billion to S\$2.0 billion (A\$1.4 billion to A\$1.6 billion) in revenue per annum being lost by Singaporeans travelling abroad to visit international casinos;¹⁷⁵ and
- the expansion of Macau's tourism following the introduction of its first integrated resort.

The approval for the construction of RWS and MBS, and the growth of integrated resort-related travel to Singapore, was part of the *Tourism 2015* plan.¹⁷⁶ This approval also provided critical mass for infrastructure investments.¹⁷⁷

The recent *Tourism Compass 2020* extends many of the strategic priorities of the *Tourism 2015* plan by capitalising on recent, widespread development in the country in terms of retail, entertainment, shopping, dining options and lifestyle products.¹⁷⁸ The strategy is based on four key tenets, including:

- sustaining a pipeline of original tourism experiences;
- renewing and rejuvenating the tourism landscape;
- harnessing the collective energies of Asia; and
- strengthening industry competitiveness through capabilities upgrading.¹⁷⁹

The *Tourism Compass 2020* focuses on improving existing attractions, rather than investing in new attractions because of the large-scale investment in tourism infrastructure in recent years.¹⁸⁰

¹⁷² Singapore Tourism Board, *Tourism 2015*, viewed on 22 August 2012 < <https://app.stb.gov.sg/asp/abo/abo08.asp> >

¹⁷³ Ibid.

¹⁷⁴ Ibid.

¹⁷⁵ Singapore Tourism Board, *Tourism 2015*, viewed on 22 August 2012 < <https://app.stb.gov.sg/asp/abo/abo08.asp> >

¹⁷⁶ Ibid.

¹⁷⁷ Ibid.

¹⁷⁸ Lopez, A. 'Tourism Compass 2020 to shape Singapore's tourism landscape', *Express TravelWorld*, 2010, viewed on 16 August 2012 < <http://www.expresstravelworld.com/20100215/market05.shtml> >

¹⁷⁹ Haden, L. 'Singapore's compass points towards quality tourism', *TTG Asia*, 2012, viewed on 16 August 2012 < http://www.ttgasia.com/article.php?article_id=3333 >

¹⁸⁰ Singapore Government, *Uniquely Singapore*, viewed on 24 September 2012 < <http://www.reach.gov.sg/Portals/0/Blog/Snapshot/Archive/Uniquely%20Singapore.pdf> >

Macau

The tourism plans developed by the Macau Government Tourist Office (MGTO) reflect the heavy reliance of the casino-related economy on tourism. Macau plans to leverage its existing comparative advantage in the provision of MICE and leisure tourism through continuous development of quality tourism destinations, products and services, to be in line with the development strategy of building Macau into a world centre of tourism and leisure. This strategy is outlined in the *Plan to Support Macau Tourism Industry* and associated dedicated plans, including:¹⁸¹

- *Support to Leisure Tourism* consisted of *Celebrate Macau Tours* and *World Heritage Historic Centre of Macau Free Guiding Service*; and
- *Strategic MICE Market Stimulation Program*.

To achieve the goal of a quality tourism destination, MGTO plans to actively improve the management of the industry and administration, enhance the tourism environment and products, launch a new tourism promotional image and strengthen regional cooperation.¹⁸²

The Philippines

The *Medium Term Philippine Development Plan 2004-2010* recognised the potential positive impact of tourism in the Philippines and also identified it as a potential way to combat poverty.¹⁸³ The *Philippine National Tourism Development Plan 2011-2016* aims to develop mixed use tourism complexes in the vicinity of international airports, and to review and reform regulations that impede new product development.¹⁸⁴ The Department of Tourism is targeting shopping, leisure and entertainment tourists who have high disposable incomes, and business travellers attending MICE events.¹⁸⁵

Integral to the *Development Plan 2011-2016* is the development of integrated resorts. This is demonstrated by the inclusion of Resorts World Manila. Integrated resorts offer accommodation options and MICE facilities which are important to the plan. In addition, the Philippines Amusement and Gaming Corporation (PAGCOR) has a mandate to promote tourism.¹⁸⁶

South Korea

The Korean Tourism Industry Bureau is developing tourism as one of the strategic industries in Korea. As part of this strategic orientation, casinos and MICE industries are emphasised and are being supported as new growth industries in Korea. To achieve this aim, the Tourism Industry

¹⁸¹ Macau Government Tourist Office, *MGTO annual press conference: to build a world center of tourism and leisure and promote quality tourism*, 2011, viewed on 21 August 2012 <<http://industry.macautourism.gov.mo/en/pressroom/print.php?id=2356>>

¹⁸² Ibid.

¹⁸³ Henderson, J. 'Tourism development and politics in the Philippines', *Tourismos: an International Multidisciplinary Journal of Tourism*, 2011, vol. 6, no. 2, pp. 159-173.

¹⁸⁴ Department of Tourism, *Tourism overview and directions 2011-2016*, 2011, viewed on 16 August 2012 <<http://www.slideshare.net/janettetoral/philippines-tourism-overview-and-directions-2011-2016>>

¹⁸⁵ Department of Tourism, *The Philippine National Tourism Development Plan 2011-2016*, 2011.

¹⁸⁶ Ibid.

Bureau has developed the *Tourism and Leisure Industry Fostering Plan* which includes the following measures to attract foreign investment:¹⁸⁷

- reduced regulations related to the establishment of tourism and attraction facilities by foreign nationals;
- corporate and income tax exemptions for the first three years and 50 per cent exemptions for the following two years;
- reduced fees: including development fees, agricultural land fees, preservation fees, substitutive wetland formation fees, and substitutive forestry formation fees;
- reduced public and national property leases;
- assistance to develop and expand basic facilities; and
- providing tourism promotion and development funding for the construction of basic facilities necessary to develop tourism businesses.

Taiwan

The Taiwanese tourism policy, *Project Vanguard for Excellence in Tourism*, seeks to minimise the environmental impact of future developments. The development strategy aims at “minimum construction, ecological preservation, environmental priority and convenience for tourists”.¹⁸⁸ Rather than developing new destinations, *Project Vanguard for Excellence in Tourism* aims to present new facets of existing destinations through developing new routes and restoring existing sites, for example through the *Bicycle Recreation Network Demonstration Plan* and the *Medium-term Plan for Construction of major Tourist Sites*.

Taiwanese tourism plans do not explicitly consider the role of integrated resorts in inducing tourism demand.

Vietnam

In terms of becoming a major tourism destination by 2015, Vietnam has been named the number three ‘rising star’ after China and United Arab Emirates.¹⁸⁹ Vietnam is well positioned on attractions but it lacks amenities, access, and a strong service culture.¹⁹⁰ Realising the potential of Vietnamese tourism is confronted with many challenges, including:¹⁹¹

- quality of destination marketing material;
- absence of representative offices in potential markets;
- most travel websites not allowing real-time reservations and online payments;

¹⁸⁷ Invest Korea, *Promising investment opportunities: tourism and leisure*, 2008.

¹⁸⁸ Tourism Bureau, MOTC Republic of China, *Tourism policy*, 2012, viewed 20 August 2012 <http://admin.taiwan.net.tw/public/public_en.aspx?no=6#T2011>

¹⁸⁹ FutureBrand, *Country brand index 2010*.

¹⁹⁰ Ibid.

¹⁹¹ Bechter, C. and Jentzsch, S. *Can tourism save the Vietnamese Dong?* 2011, viewed on 16 August 2012 <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1898887>

- quality of basic infrastructure including transport, water supply, and roads; and
- restrictive immigration policies, as only Japanese and South Korean tourists have visa exemptions if staying less than 16 days.

Tourism Vietnam is finalising the *Vietnam Tourism Master Plan to 2020 with Vision to 2030* which will devise ways to overcome the labour, infrastructure and marketing constraints in the Vietnamese tourism industry.¹⁹²

Japan

Tourism in Japan recovered faster than expected after the Tohoku earthquake, and tsunami and it was expected that international tourism demand would completely recover during the first half of 2012.¹⁹³ The tourism recovery has been attributed to strategic government and private responses to the earthquake and tsunami, which rolled out marketing through the ‘Visit Japan’ campaign, and re-focused attention on all aspects of the visitor experience.¹⁹⁴

Japan acknowledges the importance of tourism as it “contributes greatly to the Great East Japan Earthquake recovery”.¹⁹⁵ The Japan Tourism Agency has focused on capturing the middle class South-East Asian markets through the cultivation of new destinations, particularly destinations which can compete internationally in the MICE industry and new tourism fields.¹⁹⁶

¹⁹² UNWTO, *Viet Nam’s tourism performance in 2011*, 2011, viewed on 20 August 2012 <http://asiapacific.unwto.org/sites/all/files/pdf/viet_nams_2011_tourism_performance.pdf>

¹⁹³ OECD, *OECD tourism trends and policies 2012*.

¹⁹⁴ Ibid.

¹⁹⁵ Japan Tourism Agency, *The Tourism Nation Promotion Basic Plan: tourism in Japanese strength and the appeal of tourist areas*, 2012, viewed on 16 August 2012 <<http://www.mlit.go.jp/kankocho/en/kankorikkoku/kihonkeikaku.html>>

¹⁹⁶ Japan Tourism Agency, *Characteristics of new Tourism Nation Promotion Basic Plan*, 2011, viewed on 16 August 2012 <<http://www.mlit.go.jp/common/000211072.pdf>>

A TERM Model

The CGE model used for the analysis is a version of The Enormous Regional Model (TERM) developed by the Centre of Policy Studies, Monash University. The TERM model is used extensively by government agencies, regulatory bodies and private sector consultants for regional economic analysis.

The production component of the TERM model database is able to identify the flow-on impacts between industries (i.e. how each industry in each regional economy is linked to other industries within the region and in other regions). The database is based on input-output tables prepared by the ABS and on various ABS state publications.

The model provides a detailed picture of the structure of production and demand at a state level. The database shows for each regional economy:

- the flow of industry outputs to other industries, final demands by households, government, investment, and exports; and
- the cost structure of industries in terms of intermediate inputs of commodities supplied by domestic industries and by imports and three primary factors of production (for example: labour, capital and agricultural land, other costs to production and commodity taxes and subsidies).

The model accounts for taxes and subsidies that are associated with all transactions and also includes margin services (for example trade and transport) for all the transactions. The margin services included are to represent the costs associated with transferring products from the producer (or the port of entry in the case of imports) to final consumers and other users.

The TERM model is suited to ‘comparative static’ analysis; that is, a comparison of the economy at a given point in time under a scenario case relative to a base case. Different approaches were adopted for the analysis of each scenario (operational and capital expenditure).

B Detailed Results

Table B - 1: Average annual industry value added impact of capital investment in Crown facilities, 2006-07 to 2015-16 (\$ million) (2012 dollars)

	Value-added (\$m)	
	Crown Melbourne	Crown Perth
Agriculture, Forestry and Fishing	1	0
Mining	4	11
Manufacturing	21	15
Electricity, Gas, Water and Waste Services	5	6
Construction	65	94
Wholesale Trade	13	10
Retail Trade	15	11
Accommodation and Food Services	6	3
Transport, Postal and Warehousing	10	13
Information Media and Telecommunications	13	6
Financial and Insurance Services	40	17
Rental, Hiring and Real Estate Services	9	7
Professional, Scientific and Technical Services	34	28
Administrative and Support Services	9	7
Public Administration and Safety	10	8
Education and Training	13	8
Health Care and Social Assistance	15	12
Arts and Recreation Services	3	2
Other Services	5	4

Source: KPMG analysis.

Table B - 2: Average annual employment impact of capital investment in Crown facilities, 2006-07 to 2015-16 (FTEs)

	Employment (FTEs)	
	Crown Melbourne	Crown Perth
Agriculture, Forestry and Fishing	16	10
Mining	9	24
Manufacturing	225	120
Electricity, Gas, Water and Waste Services	32	25
Construction	811	539
Wholesale Trade	108	67
Retail Trade	238	167
Accommodation and Food Services	113	82
Transport, Postal and Warehousing	95	77
Information Media and Telecommunications	66	25
Financial and Insurance Services	127	56
Rental, Hiring and Real Estate Services	67	55
Professional, Scientific and Technical Services	329	232
Administrative and Support Services	96	62
Public Administration and Safety	114	103
Education and Training	150	114
Health Care and Social Assistance	224	169
Arts and Recreation Services	37	41
Other Services	99	111

Source: KPMG analysis.

Table B - 3: Average annual industry value added impact of operation of Crown facilities, 2012 (\$ million) (2012 dollars)

	Value-added (\$m)	
	Crown Melbourne	Crown Perth
Agriculture, Forestry and Fishing	5	1
Mining	18	18
Manufacturing	77	24
Electricity, Gas, Water and Waste Services	24	12
Construction	168	106
Wholesale Trade	46	16
Retail Trade	67	20
Accommodation and Food Services	183	45
Transport, Postal and Warehousing	47	25
Information Media and Telecommunications	72	14
Financial and Insurance Services	213	36
Rental, Hiring and Real Estate Services	54	16
Professional, Scientific and Technical Services	117	43
Administrative and Support Services	41	14
Public Administration and Safety	63	20
Education and Training	86	19
Health Care and Social Assistance	104	30
Arts and Recreation Services	343	91
Other Services	32	10

Source: KPMG analysis.

Table B - 4: Average annual employment impact of operation of Crown facilities, 2012 (FTEs)

	Employment (FTEs)	
	Crown Melbourne	Crown Perth
Agriculture, Forestry and Fishing	63	18
Mining	36	38
Manufacturing	835	182
Electricity, Gas, Water and Waste Services	160	52
Construction	2,115	582
Wholesale Trade	393	102
Retail Trade	1,040	296
Accommodation and Food Services	3,455	1,033
Transport, Postal and Warehousing	428	141
Information Media and Telecommunications	367	54
Financial and Insurance Services	673	114
Rental, Hiring and Real Estate Services	393	121
Professional, Scientific and Technical Services	1,118	331
Administrative and Support Services	422	111
Public Administration and Safety	752	244
Education and Training	999	265
Health Care and Social Assistance	1,542	403
Arts and Recreation Services	4,799	1,558
Other Services	649	184

Source: KPMG analysis.

C Integrated resort developments in Asia

This appendix provides additional information on the recent development of integrated resorts in Asia since the completion of the 2010 KPMG report, *Integrated Resorts and Asian Tourism – the Role of Crown Melbourne and Burswood*. The 2010 report provides additional context around developments prior to 2010.

C.1 Singapore

This section summarises the investment in new facilities undertaken by RWS and MBS since 2010. Continued investment in new facilities reflects the competitiveness of the Asian integrated resort market.

Resorts World Sentosa

Phase One of RWS was opened in early 2010. Phase One consisted of four hotels, a resort casino and Universal Studios Singapore, opened over the period from January to March 2010. Development costs of Phase One were S\$6.6 billion (A\$5.2 billion).¹⁹⁷

Since the 2010 report was completed, additional attractions and accommodation options have been progressively opened as part of Phase Two of the development. As well as dining and entertainment options, Phase Two includes two new hotels, a maritime museum and a marine park that is due to open later this year.

Equarius Hotel

The 172 room Equarius Hotel opened in February 2012. It is marketed as a more tranquil hotel and is located near a natural forest and the waterfront. The hotel increases the corporate facilities of RWS with additional meeting and function rooms and an event pavilion. The hotel also has a signature restaurant, Forest, operated by celebrity chef Sam Leong.

Beach Villas

In addition to the Equarius Hotel, RWS opened 22 beach villas in February 2012. The villas offer a more exclusive accommodation option.

Maritime Experiential Museum

In October 2011, RWS opened Singapore's first maritime museum. The Maritime Experiential Museum provides particular focus on the maritime Silk Road and life-sized historic ship replicas, shipwreck artifacts, interactive exhibits and educational programs. In addition, the museum provides dining and entertainment options.

¹⁹⁷ All exchange rates in this report are closing rates on 27 September 2012 and have been retrieved from the Reserve Bank of Australia. The Singapore Dollar exchange rate used is A\$1:S\$1.28

Marine Life Park

RWS will be opening a Marine Life Park in 2012. The park is set to be the largest oceanarium in the world upon opening, housing over 100,000 fish. The park aims to increase the attractiveness of RWS to visiting families and has a focus on increasing conservation efforts and education.

Marina Bay Sands (MBS)

Phase One of MBS opened in April 2010. Phase One consisted of a hotel with 963 rooms, bars, restaurants and retail outlets and convention facilities. Phase Two opened in June of the same year and featured additional retail and dining options and the three hotel towers topped with the Sands SkyPark. The hotel capacity was expanded to 2,560 rooms at this time.

The Sands SkyPark sitting atop the hotel towers features an infinity swimming pool, several dining options and an observation deck available to hotel guests and other visitors.

Since the 2010 report was released, MBS has opened two theatres and an arts and science museum.

ArtScience Museum

The ArtScience Museum was opened in February 2011. The museum focuses on attracting major international travelling exhibitions in addition to its permanent exhibit. The museum features 21 galleries spanning three floors on the Marina Bay waterfront promenade.

Theatres

Since the 2010 report, two theatres have opened in MBS. The Sands Theatre was opened in November 2010 and holds up to 1,680 patrons. The Grand Theatre is situated adjacent to The Sands Theatre and was opened in March 2011 and can hold up to 2,155 patrons.

C.2 Macau

This section considers the two new integrated resorts opened in Macau since 2010, the Galaxy Macau and Sands Cotai Central, opened in 2011 and 2012, respectively.

Galaxy Macau

Phase One of Galaxy Macau opened in May 2011, involving investment of HK\$14.9 billion (A\$1.8 billion)¹⁹⁸, and consisted of 450 tables, 1,100 slot machines, 1,400 hotel rooms, 50 food and beverage outlets and 30 retail shops. Current capacity is now more than 2,200 hotel rooms.¹⁹⁹

Phase Two of the development was announced in April 2012. The expansion will almost double the size of Galaxy Macau and includes:²⁰⁰

- two new luxury hotels which will take accommodation capacity to 3,600 hotel rooms and suites;
- a retail precinct of over 200 luxury stores;
- increasing the capacity of MICE space to 3,000 guests;
- additional leisure amenities;
- increasing gaming capacity to 500 tables and over 1,000 slot machines; and
- adding over 45 new international food and beverage outlets for a total of over 100 outlets.

Construction of Phase Two has been launched and is expected to be completed by 2015. The proposed investment is HK\$16 billion (A\$2 billion).²⁰¹

Hotels in Galaxy Macau

Galaxy Macau currently has three hotels, the Galaxy Hotel, Hotel Okura Macau and Banyan Tree Macau. The Galaxy Hotel, the largest of the three, is a five-star hotel consisting of 1500 rooms and suites.²⁰²

The Hotel Okura Macau is a Japanese themed hotel, owned and operated by Okura Hotels and Resorts. The hotel includes 488 rooms and suites and five bars and restaurants.²⁰³

The Banyan Tree Macau is operated by Banyan Tree Hotels and Resorts and consists of 250 suites and villas. Consistent with other luxury hotels in the integrated resort market, villa guests are able to access amenities such as dedicated butler services, gardens and personal swimming pools.²⁰⁴

¹⁹⁸ All exchange rates in this report are closing rates on 27 September 2012 and have been retrieved from the Reserve Bank of Australia. The Hong Kong Dollar exchange rate used is A\$1:HK\$8.08

¹⁹⁹ <http://www.galaxymacau.com/en/other/about-us>

²⁰⁰ http://www.galaxyentertainment.com/uploads/investor/475_4Wheo.pdf

²⁰¹ Ibid.

²⁰² <http://www.galaxymacau.com/en/stay/galaxy-hotel>

²⁰³ <http://www.galaxymacau.com/en/stay/hotel-okura-macau>

²⁰⁴ <http://www.galaxymacau.com/en/stay/banyan-tree-macau>

Grand Resort Deck

The Grand Resort Deck is a rooftop deck at the Galaxy Macau which consists of a network of swimming pools, cabanas, palms and tropical gardens. It also includes the world's largest Skytop Wave Pool and artificial beach.²⁰⁵

UA Galaxy Cinemas

The UA Galaxy Cinemas include private balconies and Director's Clubs which provide luxury features such as five-star dining and lounges with wait staff. In addition to screening movies, the UA Galaxy Cinemas also host live performances and corporate events.²⁰⁶

Other amenities

In addition to the attractions listed in the sections above, Galaxy Macau offers "Kidz Island" a recreation facility for children and a nightly laser show which is among the largest in the world.²⁰⁷

Sands Cotai Central

Phase One of Sands Cotai Central, consisting of over 1,800 hotel rooms, 14 restaurants, retail areas, a ballroom and convention areas, was opened in April 2012. A detailed description of the hotel options are described in the sections below. Sands Cotai Central is owned by Las Vegas Sands Corp, which also operates the Marina Bay Sands in Singapore and the Venetian in Macau that have previously been studied in the 2010 report.

Phase Two of Sands Cotai Central is due to open in 2013. The first two stages of development will consist of:²⁰⁸

- three hotels comprising 5,800 hotel rooms (opened in September 2012);
- 20 restaurants;
- 64 meeting rooms;
- 100 retail stores;
- two casinos comprising 385 tables and 621 slot machines; and
- performance spaces.

In addition, Phase Three of the development will consist of a fourth luxury hotel and a mixed-use tower. Phase Three will commence when demand and market conditions warrant it.

²⁰⁵ <http://www.galaxymacau.com/en/relax/grand-resort-deck>

²⁰⁶ <http://www.galaxymacau.com/en/relax/ua-galaxy-cinemas>

²⁰⁷ <http://www.galaxymacau.com/en/wow>; and <http://www.galaxymacau.com/en/relax/kidz-island>

²⁰⁸ http://www.sandschinaltd.com/export/sites/default/en/investor_information/2012/04/Annual_Report/E_AnnualReport.pdf

Hotels in Sands Cotai Central

Sands Cotai Central has three open hotels, The Conrad Macao and the Holiday Inn Macao, which both opened in April 2012 and the Sheraton Macao Hotel which opened in late September 2012.²⁰⁹

The Conrad Macao has over 600 rooms and suites situated in a 39 floor tower. It includes a traditional spa and health club with four swimming pools. In addition, the Conrad Macao has four restaurants and lounges.²¹⁰ The Holiday Inn Macao has 1,224 rooms, including 65 suites and two restaurants and lounges.²¹¹

The Sheraton Macao Hotel opened on 20 September 2012 and is the largest hotel in Macau with 3,896 rooms and suites. It includes substantial business facilities, including a business centre which is the largest business service facility in Macau.²¹²

In addition, the Sheraton Macao Hotel includes a children's recreation centre (Kid's Zone), four restaurants and lounges and a spa and fitness centre.

Sands Cotai Central offers 20,000 square metres of ballrooms and meeting space as part of its hotels. The Sheraton Macao Hotel consists of 15,000m² of meeting space, including the pillar-less Kashgar Grand Ballroom in the Sheraton Macao Hotel which is almost 5,000m².²¹³

C.3 The Philippines

The Philippines has a single, operational integrated resort, Resorts World Manila (RWM), located in Newport City.

In addition to RWM, multiple integrated resort developments are in progress in the Entertainment City casino and tourist complex. The development of Manila Bay is expected to increase tourism visits using the integrated resorts as destination attractions. The expansion in capacity has led to projections of large increases in casino revenue over the next few years. This section discusses the first three of these developments, Solaire, Belle Grande Manila Bay and Manila Bay Resorts.

The Philippines Government has established a target of 10 million tourist arrivals by 2016.²¹⁴ To achieve this 2016 target, tourist arrivals would need to grow by 20 per cent per year between 2009 and 2016. As part of its strategy to achieve this target, the Government has simplified the visa application process and reduced the cost of applications.²¹⁵

This section considers RWM as well as the current integrated resort developments in Manila Bay. It will also discuss the impacts of the integrated resorts on the Philippines economy.

²⁰⁹ <http://www.sandscotaicentral.com/Macao-Accommodations/>

²¹⁰ http://www.sandscotaicentral.com/Conrad_Macao_listing/

²¹¹ http://www.sandscotaicentral.com/Holiday_Inn_Macao_Listing/

²¹² http://www.sandscotaicentral.com/sheraton_macao_hotel_listing/

²¹³ Ibid.

²¹⁴ Citi Research, *Frontier Gaming*, February 2012.

²¹⁵ Citi Research, *Philippines Gaming*, August 2012.

Resorts World Manila

Resorts World Manila was the first integrated resort in the Philippines and is operated by a consortium that includes Genting, the operators of Genting Malaysia and Resorts World Sentosa in Singapore. Parts of the complex opened in 2009 with an official launch in November 2010. RWM includes 304 gaming tables and 1,831 slot machines and electronic gaming tables.²¹⁶ Non gaming facilities include²¹⁷:

- an infinity pool;
- the Newport Mall retail facilities;
- a spa and wellness centre;
- the Newport cinemas; and
- the Newport Performing Arts Theatre.

This section considers some of the main offerings of RWM. Like Crown, RWM focuses on dining and shopping options as well as cinemas and live performance offerings.

Hotels

RWM offers three hotels aimed at different market sectors. This approach is consistent across the integrated resort market, including Crown Melbourne and Crown Perth. This allows RWM to attract mass market domestic and international visitors, corporate clients and high net worth VIPs.

RWM has three hotels aimed at different segments of the tourist market. The luxury Maxims Hotel, the Marriot Hotel Manila aimed at business travellers, and the mass market Remington.

The Maxims Hotel is an all suite hotel with 172 suites including three royal villas for VIP clients and a presidential suite. Rooms offer luxury amenities such as butler service, bar facilities and massage rooms.²¹⁸

The Marriott Hotel Manila is aimed at the corporate visitor market. It includes 342 guest rooms and multiple dining options. In addition, the Marriott offers a ballroom and meeting rooms for corporate and other functions.²¹⁹

The Remington offers 712 hotel rooms and serviced apartments aimed at budget conscious travellers. The Remington aims to increase the attractiveness of RWM to the broader tourist market.²²⁰

Newport Mall, Newport Cinemas and the Newport Performing Arts Theater

The Newport Mall is a four level retail mall consisting of over 40 retail stores, including high-fashion boutiques and over 40 restaurants and bars, including world class dining offerings.

²¹⁶ Ibid.

²¹⁷ <http://www.rwmanila.com/>

²¹⁸ <http://www.rwmanila.com/hotels-at-resorts-world-manila/maxims-tower>

²¹⁹ <http://www.rwmanila.com/hotels-at-resorts-world-manila/marriott>

²²⁰ <http://www.rwmanila.com/hotels-at-resorts-world-manila/remington>

The Newport Cinemas is a four theatre complex, which includes private cubicles and butler services for higher quality viewing.²²¹

The Newport Performing Arts Theater is a 1,500 seat theatre suitable for concerts and other live productions.²²²

Solaire Manila

The first of the three planned integrated resorts is the Solaire, which is being developed by Bloomberry Resorts. Solaire Manila is scheduled to open in the first quarter of 2013 in Entertainment City.²²³

Construction of the Solaire has required 5,000 workers, with an initial investment for the first phase of US\$650 million (A\$624 million). The final investment is expected to reach US\$1,200 million (A\$1,152 million).

The first phase of Solaire Manila is scheduled to occupy 18,500m² of gaming space which will hold 1,200 slot machines and 300 gaming tables. The hotel will include approximately 500 rooms, suites and villas. In addition, the resort will include a ballroom and meeting spaces for special events and corporate gatherings.²²⁴

Solaire will include seven signature restaurants, as well as multiple quick-serve food offerings which will collectively accommodate over 1,300 diners.

Works on the extension of Phase One have commenced, which will include the expansion of retail outlets, a boutique hotel and a live performance theatre.

Belle Grande Manila Bay

The Belle Grande Manila Bay (BGMB) is expected to start operations in 2014. The gaming capacity of BGMB is 350 tables and 1,900 slot machines. The resort will also include six hotel towers with approximately 1,000 rooms including 88 luxury suites. There are also plans for an arts theatre, dining options and retail outlets.²²⁵

Manila Bay Resorts

The Manila Bay Resorts development is expected to open in the third quarter of 2014. The development is being undertaken by a subsidiary of Universal Entertainment Corp., a Japanese casino resort developer and operator.

The Manila Bay Resorts development is situated on 45 hectares of the Entertainment City site and is the largest of the four developments in Manila Bay. It is estimated that the hotel complex will support 15,000 jobs as part of the construction phase and will consist of at least 2,000 rooms. The planned gaming capacity of Manila Bay Resorts is 500 tables and 3,000 slot machines.²²⁶

²²¹ <http://www.rwmanila.com/entertainment-at-resorts-world-manila/newport-cinemas>

²²² <http://www.rwmanila.com/entertainment-at-resorts-world-manila/newport-performing-arts-theater>

²²³ <http://www.solairemanila.com/>

²²⁴ Ibid.

²²⁵ CLSA, *Still Raining Cash*, September 2012.

²²⁶ CLSA, *Still Raining Cash*, September 2012.

In addition, the development will include retail outlets and a man-made indoor beach covered in a large glass dome.

Economic impact of integrated resorts in the Philippines

Because integrated resort development in the Philippines is still in its infancy, the economic impact of the developments is not known at this time. Most of the information available at present on the impact of integrated resorts is in the form of projections or official targets.

The Global Betting and Gaming Consultants (GBGC) estimate that gross gambling revenue from casino gaming in the Philippines will double between 2010 and 2015. This is in addition to an observed 32 per cent increase between 2007 and 2010. CLSA Asia-Pacific Markets have estimated a 130 per cent increase in the four years beginning 2011, representing a compound annual growth rate of 24 per cent. This growth is largely based on the increased capacity from the Entertainment City developments. This includes an increase to 2,022 tables, up from 1,072 in 2011.²²⁷ Casino developments also benefit from lower tax rates for mass consumers than its competitors in Macau, Korea and Australia.

C.4 Taiwan

The 2010 report discussed the plans for an integrated resort in Taiwan. At the time, the Penghu archipelago had rejected plans for an integrated resort development in that community. In Taiwan, the support of a local community referendum is required for approval of an integrated resort development.

The 2010 report flagged the potential for an integrated resort to be developed in the Kinmen or Matsu archipelagos, situated off the coast of the Fujian province of China. The Matsu Islands approved a casino in their community in July 2012, becoming the first community to do so.

The Matsu Islands lie off the coast of China; however infrastructure on the islands is not as progressed as in the Penghu archipelago. Specifically, the development would require planning as well as the building of roads, a college town and an international airport. For these reasons, the first integrated resort in Taiwan is still some way off.

Weidner Resorts are the main advocates of an integrated resort development in the Matsu Islands. Details of a proposed development were released prior to the vote in July. The plan includes:

- a 2,000 room hotel with casino;
- a shopping centre;
- a convention centre;
- a theme park; and
- arts and entertainment facilities.

²²⁷ Inside Asian Gaming, *The New Breed*, April 2012.

The proposed integrated resort would cost US\$1 billion (\$A960 million) to develop. In addition to the integrated resort itself, the Weidner plan outlines various infrastructure projects to be funded as part of the development, including:

- upgrades to the Beigan airport;
- a bridge between Beigan and Nangan islands;
- a university;
- ferry and harbour facilities; and
- upgrades to the electricity and water networks.

The total investment for the Weidner plan is estimated at US\$2 billion (A\$1.9 billion). It also promised the county's registered voters a monthly stipend from the operations of the integrated resort of NT\$80,000 (A\$2,614).²²⁸

C.5 Japan

The 2010 report stated that the Japanese Government had been discussing the issue of licences to operate integrated resorts for several years, in particular there appeared to be significant support for integrated resorts amongst prefecture level governments in Japan.

The Liberal Democratic Party (LDP) of Japan put in motion a draft policy in 2006 in an attempt to open the market for integrated resorts in Japan, though it was never passed. It suggested a model similar to that used in Singapore and included a focus on attracting visitors from China and Hong Kong while installing restrictions on domestic visitors.

Since 2010, there has been renewed discussion of integrated resorts in Japan. This has been in part due to the earthquake and tsunami of 2011 which will require significant funds (estimated at up to 19 trillion yen or A\$235billion²²⁹) for reconstruction and has significantly impacted the Japanese economy. A 2009 study found that integrated resorts in Japan could emerge as a 3.4 trillion yen (A\$42.0 billion) per year industry.²³⁰ Recent estimates on the potential size of an integrated resort market in Japan have suggested that if integrated resorts were located in Tokyo and Osaka, gaming revenue could comfortably exceed US\$10 billion (A\$9.6 billion).

Domestic demand may also contribute to any potential casino industry in Japan. As well as significant wagering and pachinko industries, in 2009, an estimated 800,000 Japanese tourists visited "foreigner-only" casinos in South Korea.

Political support for the legalisation of integrated resorts in Japan is advanced by a group of 150 parliamentarians across six parties in the Diet (the Japanese parliament). This group is led by Issei Koga of the Democratic Party of Japan (DPJ). The group intends to introduce legislation to legalise integrated resorts in 2012.

²²⁸ Ibid. All exchange rates in this report are closing rates on 27 September 2012 and have been retrieved from the Reserve Bank of Australia. The New Taiwan Dollar exchange rate used is A\$1:NT\$30.6

²²⁹ All exchange rates in this report are closing rates on 27 September 2012 and have been retrieved from the Reserve Bank of Australia. The Japanese Yen exchange rate used is A\$1:JP¥80.99

²³⁰ Bloomberg, *Las Vegas Sees Japan Casinos as Diet Seeks Quake Relief: Retail*, December 2011.

C.6 Other countries

This section considers countries where no new developments have occurred in the integrated resort market since the 2010 report was released as well as other countries in Asia in the preliminary stages of planning or developing integrated resorts.

The countries considered are:

- Malaysia (no new development);
- Vietnam (development still in progress); and
- South Korea (development has been recently announced).

Malaysia

Malaysia is home to Resorts World Genting (RWG), an integrated resort in the Genting Highlands that has attracted over 19 million visitors annually over the last five years. The Casino in RWG was opened in 1969, making it much older than the other integrated resorts mentioned in this report. RWG has five hotels offering over 8,000 rooms and includes retail and dining options, business facilities and a theme park.

RWG and Malaysia have not seen the level of investment in integrated resorts that has occurred in Singapore or Macau. This may be part of the reason that growth in gaming revenue in Malaysia has been flat in comparison with other countries mentioned in this report. GBGC reported a 9.3 per cent increase in casino gaming revenue between 2007 and 2010 with an additional expected increase of 14 per cent between 2010 and 2015.

This reflects the importance of continuous investment in integrated resort facilities and attractions to remain competitive in the Asian integrated resort market.

Vietnam

The 2010 report discussed the development of the Ho Tram Strip in the province of Ba Ria-Vung Tau in Vietnam, which is envisaged as a Las Vegas style international gaming and entertainment cluster.

The first integrated resort to be developed in the area, the MGM Grand Ho Tram, is scheduled to be built in two phases. The resort is still under construction and Phase One is scheduled to open 2013.

Phase One will consist of 541 guest rooms, business conference facilities and a gaming area consisting of 500 electronic gaming machines and 90 gaming tables.

The planned second phase of the MGM Grand Ho Tram includes a further 549 guest rooms and 14 VIP Villas, bringing the total number of hotel rooms to 1,100 and completing the development of the first integrated resort in the Ho Tram Strip.

South Korea

South Korea has a history of casino gaming focused on foreign visitors, with 17 casinos operating in the country, of which only one accepts domestic visitors. Traditionally, South Korean casinos cater to Japanese visitors, with 800,000 Japanese visitors attending South Korean casinos in 2009.

In recent years, political support for developing an integrated resort has gained momentum. In November 2011, a memorandum of understanding was signed to develop an integrated resort in the Incheon Free Economic Zone.

In September 2012, Incheon International Airport agreed to the construction of an integrated resort on Yeongjong Island with Paradise-Sega Sammy, a joint Korean and Japanese venture. Yeongjong Island is situated 50 kilometres west of Seoul and Incheon International Airport, which services the Seoul metropolitan area, is the country's largest airport.

Under the agreement, the resort will open by 2016 and will include two hotels, a convention centre, concert hall, theme park and retail options in addition to a casino. The stated investment is 660 billion won (A\$ 567.5 million) and is expected to create more than 10,000 new jobs.

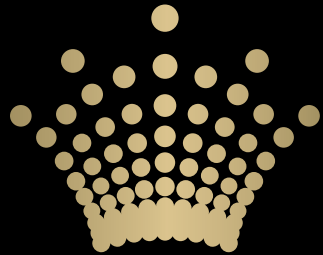
Spain

Recently, discussions for integrated resorts in Madrid and Barcelona have progressed. Las Vegas Sands Corporation has developed plans for an integrated resort in Madrid which is expected to provide a positive impact on the Spanish economy, including an investment of up to a €8 billion (A\$22.3 billion)²³¹ over ten years to build the resorts and an eventual increase in tourism spending of €5 billion (A\$18.6 billion).

The Government of the Catalonia region has also discussed an integrated resort in the city of Barcelona. Plans for a €4.8 billion (A\$5.9 billion) resort were unveiled in September 2012. Estimates of the impact of the project include annual visitation of ten million visitors and the creation of 20,000 jobs.

²³¹ All exchange rates in this report are closing rates on 27 September 2012 and have been retrieved from the Reserve Bank of Australia. The Euro exchange rate used is A\$1:€0.81

CROWN SYDNEY HOTEL RESORT



CROWN


Memorandum of Understanding

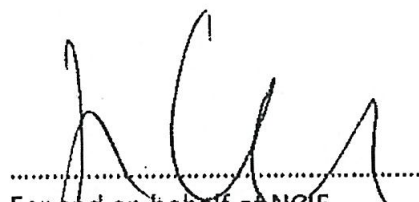
1. National Centre of Indigenous Excellence ("NCIE") is a Project Partner with Crown Limited ("Crown") in the proposed project to develop a six star hotel resort at Barangaroo South in Sydney ("Crown Sydney Resort").
2. As a Project Partner, Crown will work with NCIE to develop and deliver Indigenous employment programs for the hospitality areas of the Crown Sydney Resort , including: workforce planning, recruitment, school based trainees, pre employment training, qualified certification, cross-cultural competency and career development or up skilling.
3. NCIE will provide Crown access, at agreed rates, to its facilities at Redfern to establish the Crown Sydney Indigenous Training College. Crown would utilise the NCIE's commercial kitchen areas, serving facilities, training rooms, administration areas and dormitories for training of Indigenous and non indigenous staff. This work will be undertaken in such a way as to not impede the NCIE's other program delivery activities.
4. Crown will become a Platinum Partner of NCIE receiving all the opportunities arising from that status. A separate commercial contract will be put in place to support this training facility prior to the commencement of courses..
5. As a registered training organisation (RTO) Crown or its wholly owned subsidiary will be the primary training provider on the Redfern site for courses for which Crown or its subsidiary is accredited, but it is agreed that NCIE may decide in future to apply for RTO accreditation and Crown could assist in the training of NCIE staff and the boosting of NCIE capacity in this area. With agreement Crown may determine to contract training to other RTOs with experience in delivering Indigenous training programs.
6. Crown trainees and training staff will have full access to the recreational facilities at the NCIE while participating in training at the College.
7. A pathway from school to employment in hospitality will be established by Crown and NCIE with local high schools to develop employment pathways through Crown sponsored school based traineeships.
8. While training for the Crown Sydney Resort would not commence until the Crown Sydney Resort was closer to opening, both parties will investigate the possibility of the NCIE training staff sooner to work at Crown's Melbourne and Perth resorts.
9. The NCIE and Crown will work together to investigate the possibility of establishing a similar training facility in Western Sydney for Indigenous and non indigenous job seekers.
10. Crown and the NCIE agree to work together with Crown's trade union Project Partner, United Voice – NSW Branch, on Indigenous Employment programs.

11. Crown will provide executive and non executive staff to provide mentoring and career development programs for NCIE staff at times that are mutually agreeable. Crown and NCIE will also establish a program for staff from both organisations to be seconded into each other's facilities to help develop the skills, business and cultural expertise of both organisations.
12. Crown and NCIE will acknowledge each other as partners in selected marketing and publicity materials, newsletters, websites etc. as agreed by both partners on a case by case basis.
13. Crown will provide staff with the opportunity to support NCIE directly through workplace giving and other direct individual donation schemes.
14. Crown and NCIE will jointly collect data resulting from the partnership and agree that NCIE will use the data to contribute to NCIE's broader impact measurement framework.
15. This MOU will automatically terminate after two years if the Crown Sydney Resort does not proceed or when the parties mutually agree to its termination. On the successful approval of the Crown Sydney Resort by the NSW Government and relevant authorities, the Project Partnership will continue as agreed by the parties.
16. This MOU shall be governed by the laws in place in NSW and the parties submit to the non-exclusive jurisdiction of the courts in NSW.

DATED this 6th day of September 2012

SIGNED:


For and on behalf of Crown Limited


For and on behalf of NCIE
Jason Glanville
Chief Executive Officer

CROWN SYDNEY HOTEL RESORT



Memorandum of Understanding

1. United Voice – NSW Branch (“UV”) is a project partner in the Crown Limited (“Crown”) proposed project to develop a six star hotel resort (including VIP gaming facilities) at Barangaroo South in Sydney (“Crown Sydney Resort”).
2. As a project partner, Crown will consult and work with UV to deliver the Crown Sydney Resort project and in the development of workforce planning, training and development.
3. UV has the right of coverage with respect to frontline (non-management) hospitality/gaming employees and any other employee UV represents in NSW, engaged at the Crown Sydney Resort.
4. Crown acknowledges that UV has rights of access to those employees in accordance with the *Fair Work Act 2009* (Cth) as amended or replaced from time to time.
5. Crown will:
 - allow UV representatives to make a presentation to new employees of the Crown Sydney Resort during their induction training (subject to terms to be agreed);
 - provide UV with an office to service its members employed at the Crown Sydney Resort at a location to be agreed between Crown and UV;
 - supply all new employees for the Crown Sydney Resort with a UV membership form in their pre-employment packs; and
 - facilitate payroll deductions for employees at the Crown Sydney Resort for union fees or facilitate bank account details of individual employees who may use direct debit facilities, for those employees who have agreed to such arrangements.
6. The parties agree to negotiate an enterprise agreement to cover the frontline (excluding management) hospitality / gaming employees at the Crown Sydney Resort and any other employees agreed between UV and Crown. The objectives of the agreement would include, but are not limited to:
 - the development of harmonious and productive working relations and an adherence to issue resolution procedures to avoid any disruption to customers, business or services provided by Crown;
 - the provision of terms and conditions of employment which are fair and reasonable;
 - the development and introduction of flexible working arrangements, having regard to the 24 hour, 7 day operation of the business and the fluctuations in demand for labour which occur; and
 - consultation on relevant employment issues with a recognition of the respective roles management, employees and the union play in the workplace under the proposed agreement and the requirements to operate a commercially viable and prosperous business for the benefits of both the operator and employees.
7. It is intended that the enterprise agreement would cover, but not be limited to, the following topics:
 - wages;
 - conditions of work;
 - hours of work;
 - change consultation;
 - dispute resolution; and

- union delegates and union recognition.

8. UV acknowledges the commercial necessity of gaming smoking exemptions for areas used by VIPs in the proposed Crown Sydney Resort. Crown acknowledges the need for state of the art air quality technology together with appropriate rostering practices to appropriately manage the air quality in smoking exemption areas in VIP gaming areas.
9. UV acknowledges the 24/7 nature of the operational needs of the Crown Sydney Resort and will work to ensure this is not interrupted nor hindered.
10. UV will work with Crown in developing and supporting an indigenous employment program for Sydney including (subject to Crown's and UV's legal obligations) job targets, specialised training, school based apprenticeships, support and mentoring.
11. This Memorandum of Understanding ("MOU") will be wholly replaced and superceded when Crown and UV enter into a binding enterprise agreement covering the relevant employees at the Crown Sydney Resort.
12. This MOU will automatically terminate if the Crown Sydney Resort does not proceed or when the parties mutually agree to its termination.
13. This MOU shall be governed by the laws in place in NSW and the parties submit to the non-exclusive jurisdiction of the courts in NSW.

Signed 4 September 2012:



.....
For and on behalf of Crown Limited



.....
For and on behalf of United Voice – NSW Branch

CROWN SYDNEY HOTEL RESORT

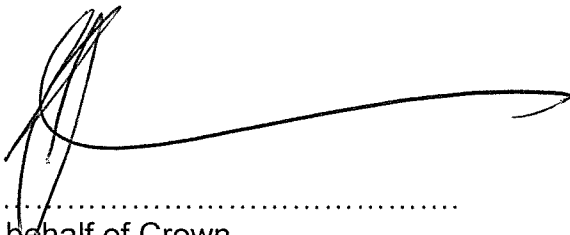


Memorandum of Understanding

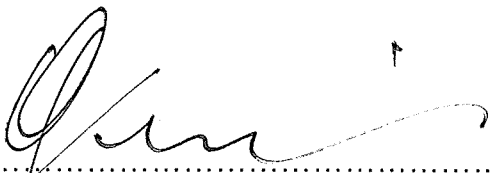
1. Panthers Rugby League Club Limited ("Panthers Group") has agreed to become a Project Partner with Crown Limited ("Crown") in the proposed project to develop a six star hotel resort at Barangaroo South in Sydney ("Crown Sydney Hotel Resort").
2. As a Project Partner, Crown will establish its training campus, known as the Crown Sydney Training College at the Panthers Group's proposed Community Centre at the Penrith Panthers complex in Penrith.
3. Panthers Group will provide Crown access to its proposed Community Centre to establish the Crown Sydney Training College ("College"). Access will be granted to Crown on terms to be agreed between the parties. It is intended that Crown would utilise the training rooms, administration areas and dormitories for the training of its full time, part time and casual staff.
4. As a registered training organisation, Crown will be the primary training provider at the proposed Community Centre, but agrees that it will assist and participate in training programs in partnership with Panthers Group to provide employment opportunities for local students, rugby league players and job seekers.
5. It is also intended that Crown and Panthers Group will partner with the National Centre of Indigenous Excellence ("NCIE") in providing training and work experience in hospitality jobs (non-gaming) as well as cultural programs for Indigenous students and job seekers. Both parties recognise that Western Sydney has one of the highest Indigenous populations in the country and that programs are required to improve opportunities for that community.
6. As part of the partnership arrangement, Crown trainees, apprentices and training staff will have full access to the recreational facilities at the Penrith Panthers complex while participating in training at the College.
7. A pathway from school to employment will be established by Crown and Panthers Group in conjunction with NCIE with local high schools to develop employment pathways in the hospitality industry (non-gaming) through Crown sponsored school based traineeships and apprenticeships.
8. While training for Crown Sydney Hotel Resort would not commence until the Crown Sydney Hotel Resort was closer to opening, both parties will investigate the possibility of the schools based programs beginning sooner to assist in the provision of Western Sydney students with a pathway from school to employment.
9. Crown will provide executive and non-executive staff to provide mentoring and career development programs for Panthers Group and NCIE staff at times that are mutually agreeable. The parties will also establish a program for staff from both organisations to be seconded into each other's facilities to help develop the skills, business and cultural expertise of both organisations.

10. Panthers Group will provide rugby league players from all grades to become Crown Education Ambassadors, providing mentoring and training for Crown trainees. These roles will help players develop skills and knowledge for careers post football.
11. This MOU will automatically terminate after two years if the Crown Sydney Hotel Resort does not proceed or the Community Centre does not proceed or when the parties mutually agree to its termination. Upon receipt by Crown of all necessary approvals for the Crown Sydney Hotel Resort by the relevant authorities, the Project Partnership will be formalised on terms to be agreed by the parties.
12. This MOU shall be governed by the laws in place in NSW and the parties submit to the non-exclusive jurisdiction of the courts in NSW.

Signed:



.....
For and on behalf of Crown
Date: 7/2/2013



.....
For and on behalf of Panthers Group
Date: 7/2/2013

NCIE acknowledges and agrees to the terms of this MOU



.....
For and on behalf of NCIE
Date: 7/2/2013

CROWN SYDNEY HOTEL RESORT



Memorandum of Understanding (MOU)

1. Mission Australia (ACN 000 002 522)(“MA”) is a leading charity and community service organisation, having helped change the lives of individuals and families in need for almost 150 years and Crown Limited (ACN 125 709 953)(“Crown”) has proposed the development of a world-class, six-star hotel resort, including a VIP casino, at Barangaroo South in Sydney (“Crown Sydney Hotel Resort”).
2. MA has agreed to become a project partner with Crown as part of the project to develop the Crown Sydney Hotel Resort. As a project partner, Crown intends to engage MA to provide responsible gaming support services for the Crown Sydney Hotel Resort and also to provide other support services for Crown at its existing resorts in Melbourne and Perth.
3. Following the signing of this MOU, Crown and MA will work together to agree the detail of the responsible gaming support services to be provided at the Crown Sydney Hotel Resort. Some of these services will be delivered by MA and others will be delivered by Crown with guidance from MA. It is envisaged that, once agreed, those services will be the subject of a formal services agreement, to commence operation at or prior to the commencement of operations of the proposed Crown Sydney Hotel Resort.
4. The responsible gaming support services currently proposed to be provided at the Crown Sydney Hotel Resort include the following:
 - responsible gaming training and education for Crown employees;
 - provision of a 24/7, multi-lingual responsible gaming counselling service;
 - conduct of a self-exclusion program
 - the creation of dedicated responsible gaming roles at the Crown Sydney Hotel Resort for staff trained and experienced in Crown’s responsible gaming programs and services and having experience in VIP gaming facilities, who will ensure 24/7 coverage of the entirety of the VIP gaming facilities at the Crown Sydney Hotel Resort;
 - access to a variety of responsible gaming and related information available in selected languages aligned to those of the customers of the Crown Sydney Hotel Resort;
 - a Responsible Gambling Code of Conduct to which Crown and its staff at the Crown Sydney Hotel Resort would commit and adhere; and
 - the conduct of an employee assistance program.
5. Further, Crown and MA will also work together to agree other services which MA will provide to Crown for Crown’s existing resorts in Melbourne and Perth. It is envisaged that, once agreed, those services will be the subject of a formal services agreement, to commence operation immediately.
6. The other support services currently proposed to be provided at Crown’s Melbourne and Perth resorts include the following:
 - advice regarding the establishment and operation of an employee assistance program; and

- the establishment of a program for Crown employees to contribute, volunteer and assist their local community through participation in MA and its programs.
7. All services will be provided at no cost to the end users.
 8. This MOU will continue for a period of two years or until the services agreements are finalised and signed, whichever is the earlier. However, either party may terminate this MOU immediately in the event that Crown notifies MA that the Crown Sydney Hotel Resort will not proceed.
 9. This MOU shall be governed by the laws in place in NSW and the parties submit to the non-exclusive jurisdiction of the courts in NSW.

Signed:

Rower Craigie

.....
For and on behalf of Crown Limited

Date: 12/3/13

James Hohn

.....
For and on behalf of Mission Australia

Date:



18 March 2013

WORLD CLASS HOTEL AT BARANGAROO SOUTH

A key part of Lend Lease's vision for the \$6bn Barangaroo South urban regeneration project in Sydney is the inclusion of a high quality international hotel in the precinct, which will play a vital role in ensuring the city's global competitiveness.

Crown Limited has proven expertise in delivering successful hotels overseas and in Australia, and is committed to creating Crown Sydney, a world class integrated hotel resort at Barangaroo South. Lend Lease has an exclusive dealing agreement with Crown Limited in relation to the development of the hotel project, and Crown is currently preparing a concept design for the project for a future planning submission.

Lend Lease believes the development of tourism infrastructure is important to the "place making" of the Barangaroo precinct. The Crown Sydney plans will provide a world class level of amenity at Barangaroo South, with restaurants, bars, meeting places, and conference and function rooms available for Sydneysiders and visitors.

In addition to providing significant amenities for the city, Crown Sydney will assist in addressing the strong demand for a new luxury-standard hotel in the CBD.

Importantly, Crown Sydney will produce such major enhancements as:

- *Social* – by enriching the mix of uses and activation along the waterfront to provide a vibrant area during and beyond office hours, and at weekends
- *Visual* – by creating an architectural "post card" statement along the foreshore and an iconic marker for Barangaroo and for Sydney
- *Economic* – by producing an opportunity for a fresh, exciting, welcoming destination which will attract international and Australian tourists and locals, as well as retail and leisure tenants, to Barangaroo and to Sydney
- *Sustainability* – by supporting Lend Lease's social sustainability objectives in the provision of Indigenous engagement and skills development and training

Lend Lease is very pleased to be working exclusively with Crown Limited on its plans for an integrated hotel resort which will bring long term benefits for the people of New South Wales.



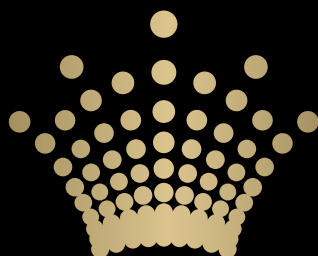
Andrew Wilson
Managing Director, Barangaroo South
Lend Lease

Lend Lease (Millers Point) Pty Limited
ABN 15 127 727 502
Level 4, 30 The Bond
30 Hickson Road
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Australia

Postal Address
Locked Bag 1
Millers Point NSW 2000

Telephone +61 2 9236 6111
Facsimile +61 2 9383 8259
www.lendlease.com

CROWN SYDNEY HOTEL RESORT



CROWN

FINAL REPORT

STUDY: Sydney Hotel Accommodation Report

PREPARED FOR: Crown Limited

DATE: June 2013

Prepared by:
Jones Lang LaSalle
Level 26
420 George Street
SYDNEY NSW 2000

Ph: (02) 9220 8777
Fx: (02) 9220 8765

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1 Executive Summary

1.1 Introduction

This advisory report has been prepared at the request of Crown Limited ("Crown" or "The Client") to undertake consultancy services to assist with Crown's submission to the New South Wales (NSW) State Government in relation to the potential development of a hotel resort as part of Sydney's Barangaroo project.

Specifically, Crown has engaged Jones Lang LaSalle ("JLL") to provide advice on the following:

1. Provide an overview of Sydney's 5-star hotel market;
2. Outline current and prospective 5-star hotel supply in Sydney and highlight the constraints which currently impede new accommodation development in Australia;
3. Identify potential sites in Sydney suitable for 5-star hotel development and make comment on the likelihood that new accommodation development will progress; and
4. Advise what hotel would most likely be developed at Barangaroo, in the absence of the Crown Sydney proposal.

A summary of our key findings follows.

1.2 Sydney's 5-Star Hotel Market

Sydney City is Australia's largest accommodation market with 19,706 rooms at the end of September 2012. JLL has identified 8,456 rooms (42.9%) of 5-star accommodation supply in Sydney City (and Pyrmont) including both AAA-rated (3,111 rooms) and self-rated (5,345 rooms) hotel and serviced apartment properties.

As the postcard for the Australian tourism industry, Sydney's accommodation offering is critical to the country's overall positioning in the global tourism marketplace. In spite of this, there have been only a few additions to accommodation supply over the past decade with total room supply currently below the 2001 peak. Additions in the 5-star segment have primarily been strata-titled serviced apartments with new development continuing to be held back by current market forces and a lack of suitable sites.

Sydney's 5-star accommodation product has aged considerably over the past decade with half of the total 5-star accommodation rooms aged 20 years plus. Luxury brands account for less than 10% of the total accommodation supply in Sydney with the majority of 5-star accommodation rooms being self-rated and regarded as upscale, business hotels in the global context. This poses a problem for the Australian tourism industry over the coming decade as consumer expectations burgeon in line with new and exciting luxury product which has been and is being developed around the world, particularly in Asia.

The development of prime commercial space at Barangaroo South will pull the geographical centre of the Sydney CBD office market further towards the Western Corridor. This area has experienced the strongest growth in commercial office stock over the past fifteen years but with few additions to accommodation supply. A disconnect is therefore becoming apparent.

1.3 Prospective 5-star hotel supply in Sydney

Impediments to New Accommodation Development

The development of hotels and resorts is generally considered high risk with few “traditional” styled projects providing reasonable profit or return on capital over the past fifteen years as Australian hotel values have not kept pace with the rapid growth in construction and underlying land costs. More commonly, hotel and resort development over recent years has leveraged off the strata investment market which has skewed development towards the 4 and 4.5-star segment.

Having regard to projected increases in real RevPAR and current construction cost and investment metrics, we expect this feasibility gap to persist over the medium term and the widespread development of new accommodation appears unlikely, particularly for luxury hotels given the higher overall construction cost and higher land costs inherently associated with ‘5-star’ locations in our major cities. Australia has some of the highest construction costs in the world which presents a clear challenge for policy makers to develop effective solutions to overcome this apparent construction cost disadvantage.

Development in the 5-star accommodation segment has been limited with projects primarily progressed in conjunction with associated tourism infrastructure (casino/convention), as well as branding related strategic investments by owner operators or mixed use developments. Historically, stand-alone hotel development profit has rarely been achieved in Australia with developers having to hold projects for a certain period to achieve an acceptable level of return. Hotels continue to be sold at prices generally below replacement cost and thus there is low motivation to develop. Lender appetite for hotel development also remains low with capital more likely to be directed toward existing product rather than riskier new-build developments.

Future Luxury Hotel Supply in Sydney

Our enquiries indicate that there are nine accommodation projects with a total of 1,326 rooms mooted for Sydney City accommodation market including the proposed closure of one large hotel. Of these, 30.9% (410 rooms) are understood to be graded 5-star including the proposed Crown Sydney at Barangaroo South (350 rooms), as well as one serviced apartment (60 apartments) which has a mandated accommodation component.

With new hotel development in Sydney currently held back by the cost versus value gap, as well as competition from higher alternate uses, we consider it unlikely that many accommodation projects will commence over the next few years. A lack of premium sites means that 5-star hotel development is even more unlikely. Typically a 5-star hotel would require a historically or contemporary significant building with impressive architectural design and be located in a major metropolitan area in close proximity to key demand generators. In Sydney we expect that a further prerequisite would be a harbour side location and preferably with views of the Sydney Opera House and/or Sydney Harbour Bridge.

1.4 Potential Sydney sites for 5-star hotel development

JLL is of the opinion that there is low to moderate probability that additional 5-star accommodation supply will open in Sydney over the medium term with few premium sites available (or likely to become available) which are considered suitable for 5-star hotel development, with the exception of Barangaroo.

Unlike Melbourne in particular, Sydney has a scarcity of 'greenfield' development sites in the core CBD and even fewer with a harbour side location. This means that when a vacant site does become available, it represents a rare offering to the development market which is made more appealing given the absence of buildings/structures with an economic value and associated acquisition/demolition costs.

Having regard to this, in addition to Barangaroo, we are aware of only four potential sites/buildings (see Section 4.4.1) which have historically been or are currently regarded as suitable for 5-star accommodation development, none of which are greenfield sites.

1.5 Alternative Development Scenario for Barangaroo

The Crown Sydney Proposal

Crown has proposed the development of a hotel resort at Barangaroo. We understand that the hotel resort will comprise a luxury 350-room hotel and approximately 80 apartments; meeting/ballroom facilities; high-quality restaurants; spa, pool and amenity deck; and gaming facilities. The construction cost is estimated to be approximately \$1.2 billion.

We understand that the Crown Sydney Resort project will utilise world's best practice design, in order to create an iconic addition to Sydney Harbour. The design of the hotel resort will be sympathetic to the surrounding improvements at Barangaroo South and Barangaroo Central and will create a unique opportunity for tourists to experience the proposed cultural amenities and parklands that are an integral part of Barangaroo. Crown will be working with some of the world's best hotel resort and hospitality designers and will consult with an expert advisory panel to ensure that the Crown Sydney Resort is an iconic addition to Barangaroo and Sydney Harbour.

Crown expects that the Crown Sydney hotel resort will provide a 6-star accommodation offering which is currently not available in Sydney and will be superior to the best quality hotels and resorts which will be on offer in Singapore, China, Macau and Hong Kong.

Alternative Development Scenario for Barangaroo

In the absence of Crown Sydney, a 5-star (Australian standard) branded hotel is the alternative development scenario for Barangaroo given the attributes of the overall precinct, harbour-side location and limited availability of alternative 5-star development sites in the Sydney CBD.

The development of a 5-star hotel at Barangaroo is likely to generate a low return on capital given the high construction cost and relatively low RevPAR environment which persists in Sydney. However, there are other factors which may support the construction of a 5-star hotel at Barangaroo, including current investor/operator appetite to gain a foothold in Sydney's luxury accommodation market, particularly from Asian owner operator groups.

Despite the likelihood of low development returns, some investors may be willing to proceed with developing a 5-star hotel given that Sydney is widely regarded as the most strategically important location for first time entrants to Australia (investors & operators) and an essential requirement when establishing a presence in the Asia Pacific region. This is because Sydney is a global city, a key hub for the Asia Pacific region and Australia's finance centre, major gateway and primary real estate market. Sydney is also the single most popular tourist destination in Australia, with two of the country's most internationally-recognised iconic attractions, the Sydney Opera House and the Sydney Harbour Bridge.

The very long hold periods (30-50 years) of some Asian family companies and owner operator groups may further mitigate any immediate concerns regarding the likely low development returns with few opportunities to acquire established 5-star assets in Sydney with the benefit of vacant possession.

Further, greenfield investment opportunities are rare, with few additions to luxury accommodation supply over the past decade. We are aware of groups of investors who—notwithstanding the likelihood of low development returns on the project—would develop if presented with the right 5-star greenfield opportunity. Barangaroo is one of the last greenfield sites for luxury hotel accommodation in Sydney.

Consequently, we expect that a 5-star (Australian standard) hotel development at Barangaroo may attract investment from offshore groups. As discussed above, the low return on development may be outweighed by the attributes of the broader precinct, proximity to demand generators and opportunity to develop a significant contemporary building with impressive architectural design on a harbour-side location with views of both the Sydney Opera House and Sydney Harbour Bridge (above a certain height). However, the scale and quality of the rooms and facilities of this type of 5-star (Australian standard) hotel are unlikely to match what is being proposed by Crown at Crown Sydney.

Whilst a 5-star (Australian standard) hotel development at Barangaroo is possible, we do not believe a standalone hotel development of the scale and quality being proposed by Crown (i.e. what Crown describes as a 6-star hotel resort) is viable given the expected low development return of such an investment, unless the development includes a gaming component or other concessions to underpin the overall viability of the project.

2 Australian Hotel Market Forces

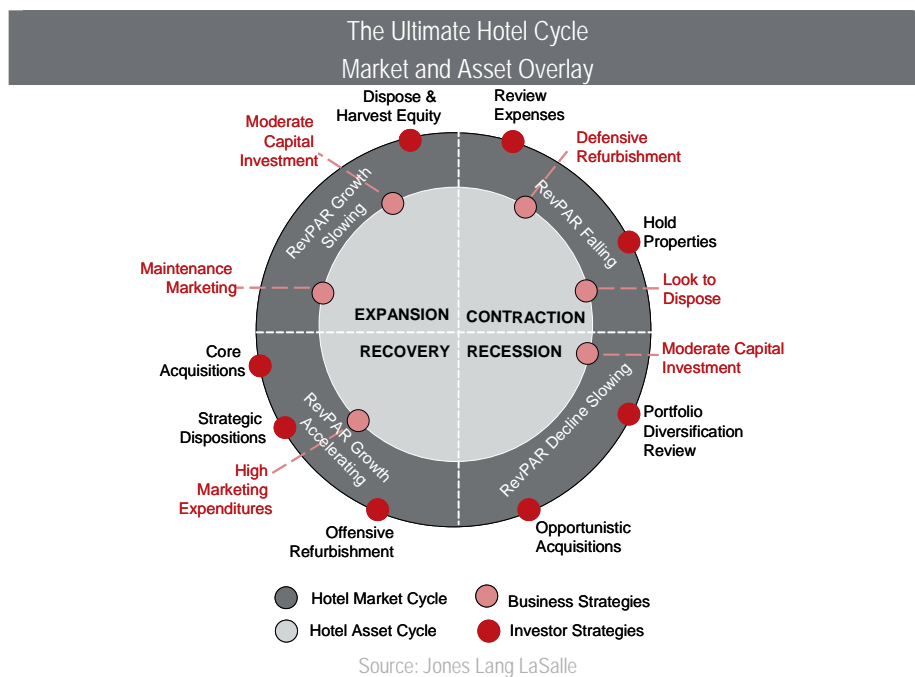
2.1 Introduction

The fact that many of Australia's key city hotel markets are now trading at or above the pre-global financial crisis RevPAR (Revenue per Available Room level) poses the question as to why the feasibility gap is still constraining new accommodation supply. Whilst there are many contributing factors, the core issue is that in many cases hotel development projects are still difficult to value up at a level close to or indeed above total development costs.

This Section considers in more detail the current Australian hotel market forces and outlines why they will continue to restrict new accommodation development in Australia over the coming decade.

2.2 Hotel Market Cycle

Investor sentiment (debt and equity providers) is largely affected by anticipated performance of the operational markets along with the general property market and the availability of capital, which in turn is related to both the domestic and international economic environment, as they impact upon the investors' level of perceived risk and return. Hotels can offer an attractive proposition for investors often benefiting from higher yields and the opportunity for income growth through active asset management as well as market performance.



New accommodation development is most commonly impacted by expectations about future levels of demand. However, it can also be impacted by factors outside of the hotel market/asset cycle including a liquidity surge (either in Australia or overseas) and the relative performance (or under performance) of other property assets. Hotel development will occur where supply and demand fundamentals dictate that there is a reasonable chance of financial viability. Typically a city hotel market would need to be consistently trading at an annual average occupancy of around 80% for it to be considered undersupplied. However where seasonality is a factor, such is

the case in many markets in Australia, capacity constraints may be a factor during peak trading times but not necessarily over the course of the whole year.

2.3 Australian Accommodation Investment & Development Timeline

A summary of the Australian accommodation market's investment and development timeline follows.

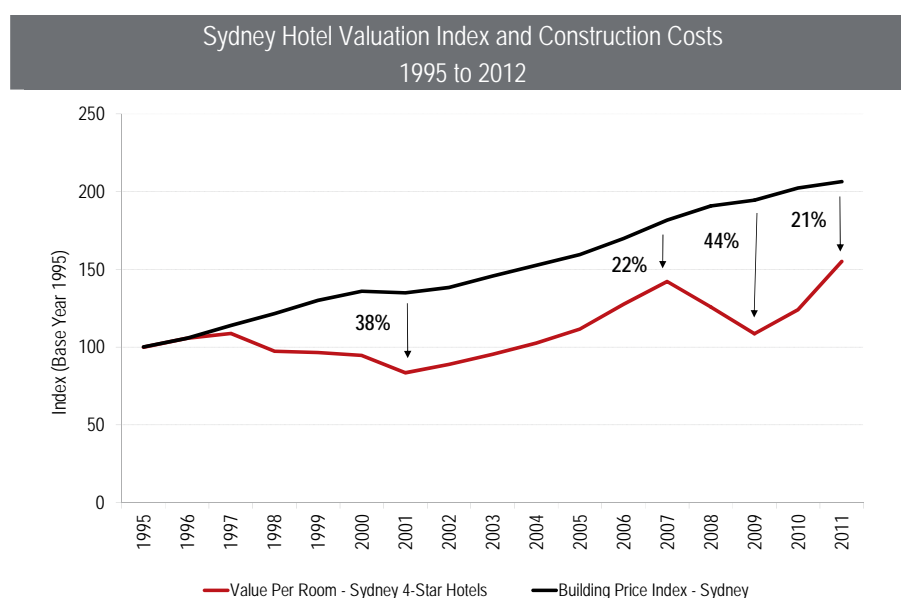
Period	General Market Trends	Sydney Hotel Development
Mid to late 1980s	Japanese investors and local entrepreneurs were active in developing and acquiring hotels and resorts, often on the basis of optimistic forecasts regarding the expected level of future demand and income. This was also driven by financial sector de-regulation from 1983 along with expansionary monetary policy following the stock market collapse of late 1987.	Many of Sydney's leading 5 star hotels either opened or commenced construction over this period. Examples include the Park Hyatt, Marriott, InterContinental, Shangri-La (ANA), Sheraton on the Park, Sir Stamford Circular Quay (Ritz Carlton) and the Four Seasons (The Regent) although the latter opened in 1982.
1991 to 1994	The 1991/92 recession brought development activity to a halt along with a high number of foreclosures. Receivers and financiers sold large quantities of distressed property assets, mostly to South-East Asian buyers. Total room supply across the major markets also declined slightly.	New hotels in Sydney were strictly limited to those that were already under construction prior to the 1991/92 recession. No new developments commenced over this period with the banking/development sector suffering from significant value write downs.
1996 to 1997	Construction activity picked up with investors buoyed by Sydney's winning bid to host the 2000 Olympic Games and expectations of strong growth in international tourism. Development activity was primarily serviced apartments. Local investors re-entered the market and sector specific property trusts grew in popularity, resulting in the launch of major listed hotel vehicles such as Grand Hotel Group and Peppers Hotel Group.	New 5-star hotel development was restrained over this period with the only development being the hotel component of the new Star City casino. Sydney's successful bid for the 2000 Olympics led the state government to offer development incentives, contributing factors to new developments opening later in the decade.
1998 to 2000	Development activity peaked, pockets of Asian divestment emerged and local investors bought hotels. Operators began to consolidate, reducing brand competition.	For the first time in almost a decade Sydney saw new 5-star hotel openings, although nowhere near the scale of the late 80's/early 90's. Examples include the Westin, Amora (Le Meridien), the Radisson and Swissotel.
2001 to 2002	Development activity slowed in most major markets with some hotels in Sydney and to a lesser extent Brisbane being converted to residential mainly in city fringe locations in response to booming residential prices. Asian buyers, particularly Singaporeans, revisited the market and all but two hotel specific property trusts delisted.	The new supply contracted over this period as the market absorbed the new supply of the previous few years and grappled with the post-Olympics down turn exacerbated by the September-11 terrorist attacks.

2003 to 2007	<p>Subdued development activity as construction costs soared. The exceptions were Melbourne and serviced apartment developments in leisure destinations. Asian owners divested taking advantage of favourable exchange rates and domestic investors dominated the acquisition landscape, notably unlisted funds.</p>	<p>Sydney supply continued to be constrained with 5 star additions being restricted to serviced apartments mainly at the southern end of the CBD. Despite constrained new supply and strong RevPAR gains, the development feasibility gap and scant tourism infrastructure investment led to limited new projects although the extent of mooted development grew strongly.</p>
2008 to 2012	<p>Investment activity slowed considerably in the post-GFC restricted credit environment before increasing again as counter-cyclical Asian investors snapped up mainly CBD assets from domestic funds to meet changed debt requirements. Construction projects remain largely on hold given the lack of development finance and the supply outlook is benign.</p> <p>Dichotomy in the Australian market has become evident as the tourism profile has shifted impacting trading and investment trends. City hotel markets are trading at high occupancy levels with assets sought by Asian investors whereas leisure and regional markets are under pressure with higher instances of distress. These assets are being snared by counter cyclical / yield focussed domestic private investors.</p>	<p>The onset of the GFC put an end to mooted development progressing to the construction phase as banks and developers alike felt the full impact of the financial crisis engulfing the wider economy.</p> <p>The strong trading recovery of 2010 and 2011 and more recently, newly announced tourism infrastructure has led to mooted development coming back into play. That said, very few projects have actually progressed to the construction phase at the time of this report. The only new 5 star hotels over this period were the QT (owner operator developed) and the Darling Hotel at the Star casino.</p>
Source: Jones Lang LaSalle		

2.4 Hotel Development Feasibility

The development of hotels and resorts is generally considered high risk with few “traditional” styled projects providing reasonable profit or return on capital, apart from the strata sell down inspired supply spike of the ten years to 2007. Hotel development has largely been unfeasible in Australia over the last fifteen years as hotel values have not kept pace with the rapid growth in construction and underlying land costs. However, smaller developments at the lower end of the market have been evident with such developments often underpinned by group operating structures and corporate investment drivers.

During the last trading upswing hotel values increased by almost 10% per annum between 2002 and 2007 – double the rate of construction costs – however the HVI was still 22% below the building price index at the end of 2007. As trading softened and yields contracted in the wake of global financial crisis over the following two years, hotel values declined sharply whereas construction costs continued to increase. Whilst hotel values have rebounded strongly over the past three years, they still remain around 21% below the BPI at the end of 2012 as shown in the chart following.



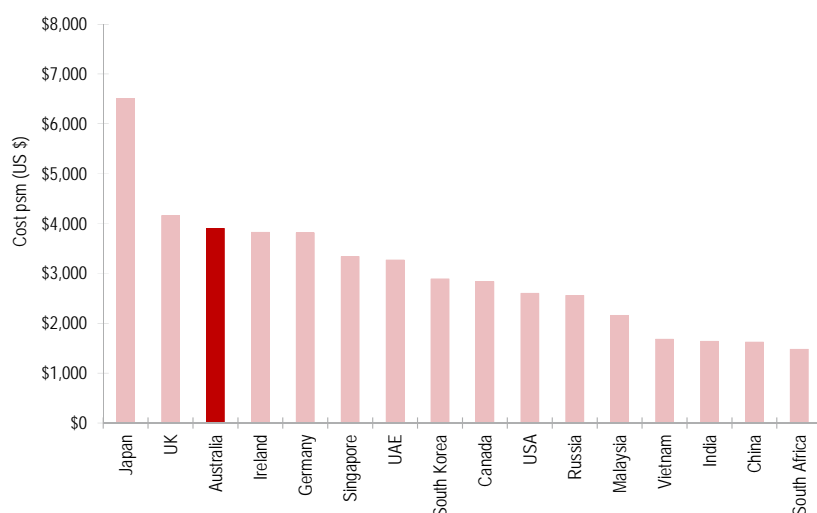
Source: Property Council of Australia, Rawlinsons 2012, Jones Lang LaSalle

More commonly, hotel and resort development over recent years has leveraged off the strata investment market. This has allowed the development to be sold down on a “retail” basis as individual strata units to individual private investors rather than on a “wholesale” basis as a larger commercial investment. Over the period to 2007, this ownership structure reduced risk and improved development return to the point of project viability in select markets. Tightening credit markets over subsequent years has resulted in the retail investor market contracting significantly, impacting the viability of this “sell down” product.

2.5 Global Construction Cost Comparison

Turner and Townsend's 2012 International construction cost survey provides an interesting insight into the US dollar cost of 3 and 5 star hotel construction in Australia relative to a varied basket of 16 nations and highlights a clear challenge for policy makers to develop effective solutions to overcome this apparent construction cost disadvantage. Australia was ranked second most expensive for 3 star and third for 5 star construction costs.

5-Star Global Hotel Construction Costs 2011
Internal area per square metre

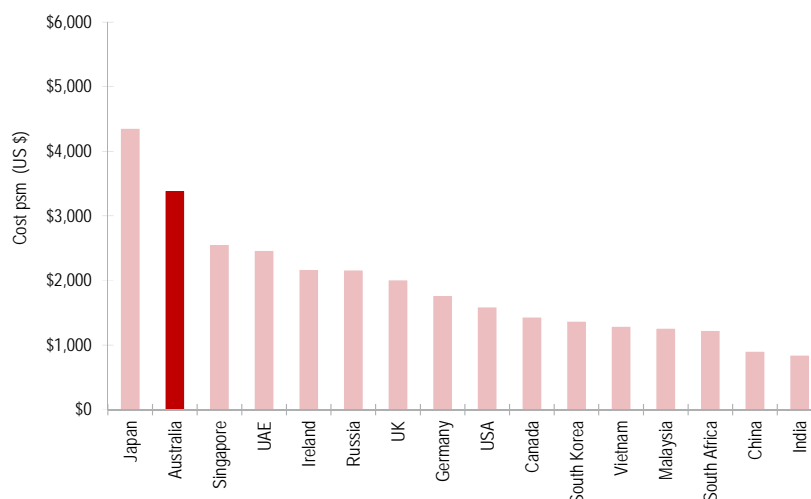


Source: Turner & Townsend, Jones Lang LaSalle

Like any survey, there are other factors to consider before generalising about what the results truly suggest. For instance, the current strength of the Australian dollar relative to the US dollar may distort the findings although many of the nations in the survey have also seen their currencies strengthen. Within any economy there will also be pockets which defy the broader national results, as evidenced by Australia's multi speed economy. Whilst it may be difficult to secure a competitive construction tender in Perth given the extent of mining and infrastructure projects, it is more likely in Sydney given the current lack of major construction projects. New and emerging construction methods with pre-fabricated elements manufactured offshore should also be considered as the survey only covers conventional construction approaches.

However, even after having regard to these potentially mitigating factors, this data provides further evidence exploring why new hotel development in Australia is currently constrained.

3-Star Global Hotel Construction Costs 2011 Internal area per square metre



Source: Turner & Townsend, Jones Lang LaSalle

2.6 RevPAR Development Trigger

The hotel industry is cyclical and investment strategy aligned to the various stages in the cycle. RevPAR (Revenue per Available Room) - as an indicator of profitability – can act as a signal for when new hotel development might become feasible.

The following analysis provides an estimation of the accommodation development viability trigger for a 'generic' 4-star CBD hotel in the major accommodation centres expressed as Revenue per Available Room (RevPAR \$2011) in accordance with the methodology outlined in Appendix One and highlights the extent of the accommodation feasibility gap. Comparison to our most recent trading forecasts indicates that hotel development is likely to remain unfeasible in all markets and supply increases muted over the medium term, having regard to projected increases in real RevPAR.

Some supply projects will inevitably emerge as RevPAR increases and the feasibility gap narrows. Differing owner/developer motivations, government intervention and individual micro-market dynamics, for example, may spur new accommodation projects. Notwithstanding, we think it unlikely that another phase of overbuilding will occur as has been the case in previous cycles. Improved investor and operator knowledge, market transparency and the larger supply base will all assist. Future liquidity surges are also considered unlikely over the medium term given the current global banking environment.

2.6.1 Market Analysis

On the basis of our analysis, the RevPAR development trigger for a 4-star CBD hotel is lowest in Melbourne at \$204 and highest in Adelaide at \$373, whereas development is most likely to occur in Melbourne and Brisbane with the smallest gap compared to the RevPAR level achieved in 2011 at -53% and -66% respectively. At a market stabilised level of occupancy of 75%, this would indicate that ADR (Average Daily Rate) would need to be in the order of \$426 in Sydney City for 4-star hotel development to be regarded as feasible.

Australian Major CBD Markets – 4-Star Hotel RevPAR Development Trigger

	2011 RevPAR	Development Cost p/room	Required RevPAR 2011\$	Variance to 2011 RevPAR
Adelaide	\$106	\$447K	\$373	-251%
Brisbane	\$135	\$385K	\$225	-66%
Melbourne	\$134	\$406K	\$204	-53%
Perth	\$153	\$478K	\$325	-112%
Sydney	\$161	\$489K	\$319	-98%
Source: Rawlinsons 2012 / Industry Sources / Jones Lang LaSalle				
Note: Inclusive of land				

The cost of the land component has been formulated on a likely pricing per room basis while hotel construction cost data has been sourced from Rawlinsons 2012. We note, however that this analysis does not take into account the potential full cost to secure a development site which could be considerably higher as hotels are not typically the highest and best use of land, particularly in prime city centre locations where land costs are typically higher. Exceptions do occur, for example on land near convention centres, casinos or airports.

All of the input variables are highly subjective and open to interpretation. A project may therefore progress on the basis of assumed lower costs and/or inflated trading expectations for example, particularly if worked up when hotel trading performance is strong. Development costs could also be reduced or the viability of a project increased if developed as part of a larger mixed-use development, through improved economies of scale by sharing back of house facilities with another hotel in the immediate vicinity or through the use of modular construction techniques. As noted above feasibility could also be improved for a project which is located within close proximity to demand generators, increasing overall total revenue.

To calculate the RevPAR development trigger, we have assumed a target level of development profit of 15.0% (on land and development costs and lower end of the usual range) but note that historically stand-alone hotel development profit has rarely been achieved with developers having to hold projects for a certain period to achieve an acceptable level of return. However, some owners may be prepared to forego development profit, particularly where a site is regarded as strategic for an owner operator looking to secure a flag in a key market.

2.6.2 Product Variations

Whilst not included in this analysis, the development of budget hotels and serviced apartments could be more feasible given the lower construction cost as such assets are free of the costs associated with providing large public areas and food and beverage outlets and are more suitable for modular construction techniques. Similarly, the development of international standard 5-star or luxury hotels is likely to be less feasible given the higher overall construction cost.

In Sydney, for example, the cost to build a 3-star serviced apartment property excluding fit out (assumed to be similar) is approximately 20% cheaper than a 3-star hotel on a sqm basis (Rawlinsons 2012, Jones Lang LaSalle). Lower construction costs do not necessarily translate to a higher net realisation which is also impacted by agents fees, legal fees, marketing and selling costs, timing of sales and developers profit and risk margin. Land acquisition costs can also be considerably higher per apartment (or key basis) compared to full service hotels, however the price of land on a rate per unit of area (i.e. after adjusting for the larger size of serviced apartments) is more comparable to hotels.

Sales evidence also indicates that serviced apartments trade at similar multiples (or yields) of profit as full-service hotels, although most assets which have been sold in the Australian market in recent years have been to domestic or Asian serviced apartment owner operators looking to secure a foothold in a given market. In our view, the benefit of the strata sell-down model is in the serviced apartment design which gives flexibility in the marketplace for operators, both in terms of product offering and pricing, whilst also allowing the developer flexibility in the investment market which can be translated into potential investment returns.

According to the 2012 Rawlinsons Australian Construction Handbook, construction costs (excluding GST) for hotels in Sydney are as follows. Jones Lang LaSalle estimates that the guest room area for an international standard hotel with 77.5sqm Gross Floor Area (GFA) is in the order of 45sqm per room including bathroom.

Hotel Category	Cost per Room *
Budget – 30sqm GFA/room	\$150,000 to \$161,500
Intermediate - 45sqm GFA/room	\$202,700 to \$218,200
International - 67.5sqm GFA/room	\$392,400 to \$430,400
International - 77.5sqm GFA/room	\$450,900 to \$492,900
Source: Rawlinsons 2012, Jones Lang LaSalle. Note: * Inclusive of fit-out, excluding land cost and GST	

2.7 Discount to Replacement Cost

Despite the sale of many hotels at various grade levels across many of Australia's key cities in recent years, development and construction costs have continued to increase substantially in comparison to hotel performance whereby selling prices are still generally below replacement cost. Exceptions can include developments in unique high demand locations (such as casinos, convention centres and airports), as well as mixed use developments.

Australian Major Accommodation Markets – Recent Transactions

Hotel	Contract Date	Sale Price (\$m)	Rating	Rooms	\$ / Room
Novotel St Kilda	Sep-12	\$50.0M	4.5-star	211	\$237K
Observatory Sydney	Jun-12	\$40.0M	5-star	96	\$417K
Shangri-La Hotel Sydney	Jun-12	\$330.0M	5-star	563	\$586K
Marriott Hotel Portfolio	Jun-12	\$415.0M	5-star	1,016	\$408K
Holiday Inn Brisbane	Dec-11	\$48.0M	4-star	191	\$251K
Citigate Perth	Sep-11	\$61.0M	4-star	278	\$219K
Citigate Melbourne	Sep-11	\$31.0M	4.5-star	179	\$173K
New Esplanade Perth	Jul-11	\$13.5M	3-star	67	\$201K
Novotel Melbourne	May-11	\$141M	4.5-star	380	\$371K
Hilton Melbourne South Wharf (75%)	Apr-11	\$105.0M	5-star	n/a	\$385K #
Cube Serviced Apartments	Apr-11	\$28.0M	4-star	115	\$243K
Darwin Airport Portfolio	Mar-11	\$63.5M	3.5-4-star	317	\$200K
Travelodge Docklands	Jan-11	\$53.8M	4-star	290	\$186K
Hilton Melbourne Airport	Dec-10	\$108.9M	4.5-star	276	\$395K

Source: Jones Lang LaSalle, Note: # Based on total room count of 364 rooms (excludes strata apartments)

On the whole hotels which have transacted in Australia's major accommodation markets over the last few years have been at prices between \$250,000 and \$400,000 per room as shown in the table following. Recent exceptions include two Sydney 5-star hotels (both strategic acquisitions by Asian owner operators) and the Marriott portfolio of three 5-star hotels in Sydney, Melbourne and Brisbane.

Comparison to the cost to build (for a similar location, management contract and standard) therefore highlights that hotel development is also held back by the cost versus value gap in the current hotel transaction/construction cost environment, hence there is low motivation to develop. This is not unique to Australia with many hotels across the world trading at a discount to replacement cost, except in some instances in Asia.

2.8 Debt Financing

Availability of debt is a key factor in hotel development and investment, affecting the number of buyers in the market and their ability to pay. Investment is rarely purely debt driven, but also dependent on property fundamentals and income expectations.

The four largest domestic banks dominate the Australian single asset backed lending market however appetite for lending fluctuates in line with overall market sentiment and their level of exposure to the accommodation sector, as well as property as a whole, at any given time. A strong appetite for property investment in the pre-GFC era resulted in banks generally increasing their exposure although this has moderated over the past few years.

In assessing applications, banks take a similar approach to equity providers; they look at the financials and assess the extent to which a project is capable of paying the outgoings, one of which is interest. Hotel rooms are literally re-leased every night and thus are more susceptible to changes in the broader economy, consumer/business sentiment and market conditions. No amount of diversity in income streams can mitigate this innate characteristic of hotel business risk. The key concerns for lenders are future market conditions, contract terms and who the owner is. Quality of sponsor and operator can therefore go a long way in any market.

Banks typically have a lower appetite for specialised property assets, such as hotels, reflective of their higher risk profile and the associated degree of business risk. Generally speaking, the lending environment in Australia has been more risk averse compared to other world hotel markets. During much of the 1990's, banks in Australia tightened their lending parameters for hotel accommodation as a result of the significant increase in supply and demand shocks which had an adverse impact on Australian tourism. Loan-to-value ratios (LVRs) average around 50% to 55% as the generally accepted level of leverage that an established trading asset can sustain during volatile times.

Some banks prefer to lend on a portfolio-basis as these provide a good geographic spread to minimise exposure to single asset risk however there is also considerable interest in financing hotels on a one-off basis. In the credit-restricted and high demand market of recent times, pre-existing relationships have become paramount as lenders have been presented with ample opportunities. A general preference is for prime and/or CBD located hotels, preferably with a diverse and resistant business mix.

2.8.1 Development Finance

Not surprisingly, lender appetite for development remains low with capital more likely to be directed toward existing product (and customers) rather than riskier new-build developments. The development of any hotel or serviced apartment complex involves exposure to the following risk:

- Construction and development cost increases;
- Initial trading risk – hotel revenue and profitability in the establishment phase of the business is normally relatively low. A period of around 3 years is usually allowed to fully establish a property in the market and reach trading maturity;
- On-going trading risk – hotel revenue and profitability is seasonal and will vary as a result of a wide range of market influences although we note that serviced apartments typically have a less volatile income stream than hotels;
- Cashflow – excluding land acquisition price and fitout, and assuming the development was fully debt funded, it is unlikely the proposed option would operate a surplus after interest costs for the first one to two years;
- On-going capital expenditure requirements – it is normally considered that hotel rooms and serviced apartments will require refurbishment every seven years. The annual provision for this cost is some 3% to 4% of revenue; and
- Take-out risk – ability to find a buyer at a suitable price.

Management contract terms are also a primary concern for a financier, not only as the basis upon which management fees are paid but also the inclusion of restrictive terms which can make financing very hard. Termination clauses for luxury hotels are generally more restrictive as operators view these properties as highly strategic. Consequently, length of tenure is longer and fee structures often more complex.

Where management contracts have not been properly assessed, this can impact asset value and at the most extreme make an asset un-saleable. Conversely in US contracts a trend has been the subordination of incentive management fees to debt, as owners and operators have sought to create better alignment particularly during trading downturns. Greater willingness by operators to accept vacant possession upon sale and subordinate fees could see sentiment increase over the next cycle.

2.8.2 Strata-Title

From a financing perspective, there is a greater degree of structural risk (multiple owners & contracts) with managed investment and management rights schemes which typically govern serviced apartments. As a general rule financiers are more wary of structures that are too complicated or restrictive as they can impact the overall liquidity of an asset, which is contrary to their primary concern to liquidate their investment at any given time.

Some structures which have emerged, for example management rights, have done so in order to avoid investment legislation which can make developments less palatable for retail investors, for example the level of disclosure or minimum stay restrictions. Short-stay accommodation is classified as a commercial loan, making it harder to achieve viable financing for purchasers. For banks to view as housing, and therefore offer more favourable terms, projects need to permit permanent accommodation but apartment stock can still be made available for short-stay rental pools. This increases the available pool of investors with many retail investors expecting a similar level of finance to their primary residence.

Developments have often only been successful when sold with a structure in place which guarantees a minimum level of return for the first couple of years, while the business is being established. Selling 'off-plan' has enabled front-end financing of this type of development with banks typically requiring around 60-70% of units to be pre-sold for the development to progress. Anecdotally, we are aware that pre-sales are now required to be in the order of 90% for developments to progress.

As the availability of debt has tightened over the past few years, there has been reduced interest from financiers in alternative structures such as these and serviced apartment development is expected to remain low when compared to historical growth. Projects which do proceed are likely to be of a better quality and undertaken by sophisticated groups with a proven track record and existing network of investors both in Australia and overseas.

2.9 Conclusion

The development of hotels and resorts is generally considered high risk with few "traditional" styled projects providing reasonable profit or return on capital over the past fifteen years as hotel values have not kept pace with the rapid growth in construction and underlying land costs. More commonly, hotel and resort development over recent years has leveraged off the strata investment market.

While having rebounded strongly over the past three years, hotel values in Sydney still remain around 21% below the Building Price Index (BPI) at the end of 2012. Australia has some of the highest construction costs in the world which presents a clear challenge for policy makers to develop effective solutions to overcome this apparent construction cost disadvantage.

Hotels continue to be sold at prices generally below replacement cost and thus there is low motivation to develop. Historically stand-alone hotel development profit has rarely been achieved with developers having to hold projects for a certain period to achieve an acceptable level of return. Lender appetite for hotel development also remains low with capital more likely to be directed toward existing product rather than riskier new-build developments. Tightening credit markets also has resulted in the retail investor market contracting significantly, impacting the viability of strata-titled serviced apartments with a higher level of pre-sale now required for developments to progress.

RevPAR (Revenue per Available Room) - as an indicator of profitability - can act as a signal for when new hotel development might become feasible. We estimate that the RevPAR accommodation development viability trigger for a 'generic' 4-star Sydney CBD hotel is approximately 98% higher than the 2011 Sydney CBD RevPAR. Having regard to projected increases in real RevPAR and current construction cost and investment metrics, we expect this feasibility gap to persist over the medium term. Some supply projects will inevitably emerge as RevPAR increases and the feasibility gap narrows but on the whole widespread development of new accommodation appears unlikely.

3 Australia's Accommodation Development Pipeline

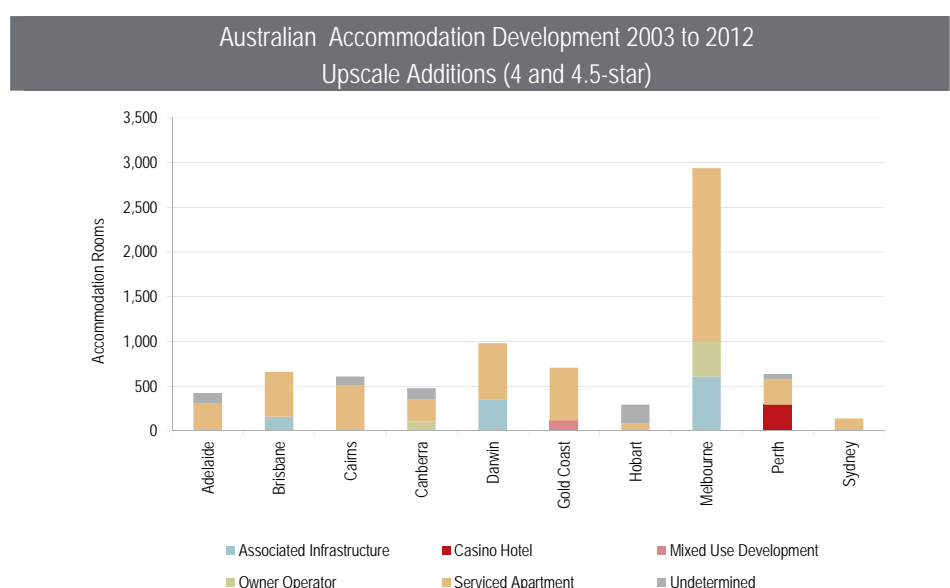
3.1 Introduction

Jones Lang LaSalle's Hotels & Hospitality Group has produced the Australian Hotel Development Register since 2003. This report tracks accommodation development across the ten major markets in Australia and shows that around 14,526 accommodation rooms have opened in these markets over the past decade, excluding extensions to existing properties and major redevelopment projects.

The majority of new rooms have been located in Melbourne where a long history of investment in tourism and transport infrastructure, as well as major events, has resulted in strong demand growth over the past decade, underpinning new accommodation development.

3.2 Historical Development Trends 2003 to 2012

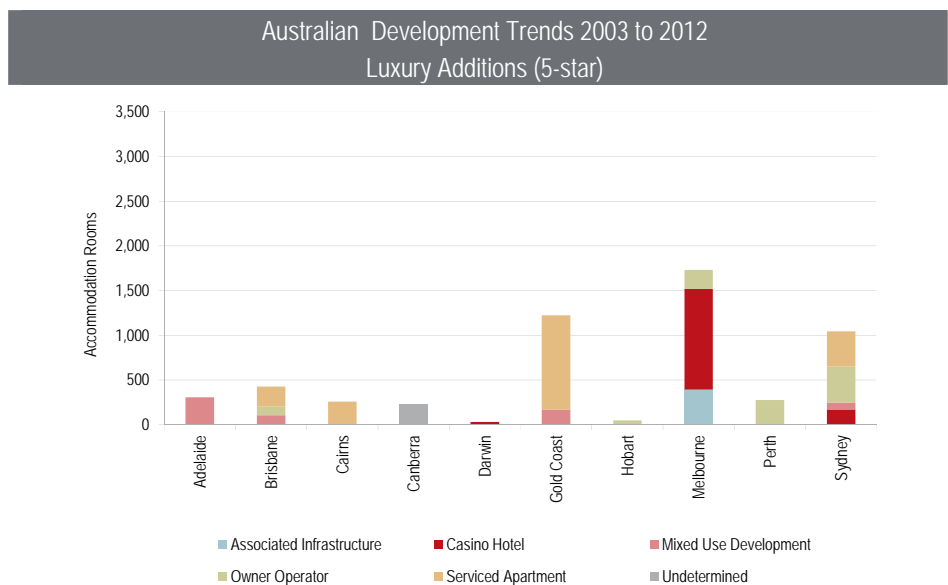
Accommodation development in Australia has been skewed in favour of strata-titled serviced apartments over the past decade with the addition of 7,160 new rooms (50.1%) across the ten major accommodation markets. "Traditional" hotel projects have primarily been where investment has followed the development of associated tourism infrastructure (convention/airport), mixed use developments including casino hotels or by owner operators. Reflecting the predominance of strata-titled serviced apartments which tend to be graded 4 or 4.5-star, most accommodation projects have been in the upscale segment (60 properties with 7,708 rooms or 53.1%).



Source: Jones Lang LaSalle

Development in the 5-star segment has been less prevalent with 30 new properties coming online or the addition of 5,581 accommodation rooms. New product has primarily been located in Australia's largest accommodation markets being Melbourne (1,730 rooms), Gold Coast (1,223 rooms) and Sydney (1,044 rooms). 5-star development in Melbourne has primarily been underpinned by casino/entertainment precincts or the development of associated tourism infrastructure, whereas investment on the Gold Coast has been strata-titled

serviced apartments with product sold as a lifestyle investment. In Sydney 5-star accommodation development has also included serviced apartments (Meriton World Square and Meriton Campbell Street), casino hotel (The Darling) or been funded by owner operators (Fraser Suites, QT Sydney) as shown in the chart following.



Source: Jones Lang LaSalle

3.3 Accommodation Supply Pipeline

Currently we estimate that there are around 24 projects with 4,542 rooms under construction or proposed for the ten major accommodation markets as shown in the table following.

Australian Major Markets – Development Pipeline

	Projects	Net Rooms	% Increase *
Existing Rooms (Jun-12)		87,399	
Recently Completed	6	753	0.9%
Under Construction	15	1,623	1.8%
Likely Proposed	9	2,869	3.2%
Mooted	19	2,831	3.1%
Total	49	8,076	

Source: Jones Lang LaSalle Note: * % Increase on revised base stock

We have also identified a further 19 mooted projects with 2,831 rooms. Mooted projects include those where a Development Application (DA) for accommodation rooms has recently been submitted or is under review, although there is no guarantee that such projects will progress. This differs to proposed projects where the DA has been approved and JLL has determined that construction is imminent.

Should all future projects proceed (including those which are under construction) this would result in a net increase in room supply of 8.3% (7,323 rooms) on the completed stock over the next five years or an average increase of around 1.7% per annum. This is lower than the long term average increase of 3.7% per annum but

slightly above the level recorded over the past ten years when supply additions have averaged 1.0% per annum. The likelihood that all mooted projects will advance however, is extremely low and additions to accommodation supply, particularly in Australia's state capitals, will continue to be a bottleneck which impedes on the development and expansion of the Australian tourism industry.

Of those projects under construction and proposed, the majority are targeted at the upscale segment with only 25% (1,118 rooms) expected to be graded 5-star. These include Sheraton Melbourne (168 rooms), Barangaroo Sydney (350 rooms), The Watson Art Series Hotel Adelaide (100 rooms) and Crown Perth (500 rooms). All four projects are mixed use developments.

3.4 Accommodation Building Approvals

Analysis of the accommodation building approvals data (ABS) also points to lower levels of hotel development activity across Australia over the medium term. Accommodation building approvals reached a cyclical low in January 2011 with the value of approved work averaging just \$44.4 million. This was the lowest level recorded since late 2001 as shown in the chart following.



Source: Australian Bureau of Statistics, Jones Lang LaSalle

Having rebounded strongly throughout the balance of 2011, the value of accommodation building work approved declined sharply again during the first half of 2012 to total just \$310 million. This represented a 31% reduction on the preceding six months and reflected the moderation in investor appetite (debt and equity providers) as the post-GFC trading spike abated and global economic uncertainty came to the fore once again. Approvals have increased slightly over the last five months, but the annual average remains around 18% below the long term trend. This further highlights the extent to which accommodation development will remain constrained over the medium term with few projects being put forward for consideration.

3.5 Case Studies

A selection of 5-star accommodation development recent case studies follows.

3.5.1 QT Sydney – Owner Operator Funded / Adaptive Re-Use

Set within the heritage-listed Gowings department store and State Theatre in the heart of Sydney's central business district, QT Sydney aims to capture the intrigue and excitement of the past in an edgy, contemporary design style while preserving two of the city's most iconic buildings. The property opened in 2012.

QT Sydney



Source: www.qtsydney.com.au, Jones Lang LaSalle

With 200 guest rooms – most equipped with a signature oversized bathtub and shower and unique design pieces that reference the buildings' past. The exterior and lower levels of the buildings have remained unchanged, but important historic fittings and fixtures – such as original stone cladding, gargoyles, facade detail, original timber floors and retail showcases – have been carefully restored and maintained.

The development of this hotel was underpinned by the owner's strategic requirement for a QT hotel in Sydney, as well as the adaptive re-use of existing owned buildings.

3.5.2 The Darling – Casino Hotel

The Darling boutique hotel was developed as part of the \$870 million redevelopment of The Star which includes more than 20 restaurants, bars and cafes, a new luxury boutique hotel and 16 room spa, international nightclub, upscale retail collection, a 4,000 capacity entertainment centre and revamped gaming areas. The hotel opened in 2011.

The Darling, Sydney



Source: www.thedarling.com.au, Jones Lang LaSalle

The development of this hotel was a part of a substantial investment in the Star in order to reinvigorate the asset some 15 years after its opening.

3.5.3 Hilton Surfers Paradise – Mixed Use Development

The 5-star Hilton Surfers Paradise forms part of a landmark \$700 million dual-tower project in a strategic position in the bustling heart of Queensland's iconic Gold Coast. Completed in 2011, the development comprises two innovative towers offering a luxury 169-room Hilton hotel, 250-branded residential apartments and a sophisticated two level retail emporium, providing the largest hotel room inventory on the Gold Coast. The Property also has the benefit of additional revenue and cost sharing generated by the letting and property management of the residential apartments throughout.

Hilton Surfers Paradise



Source: www.hilton.com, Jones Lang LaSalle

The entire development has incorporated future infrastructure standards which offer enormous benefits to all occupants, including wireless and cable internet access that is as fast as anything available in Australia in a residential apartment complex. This infrastructure also underpins the operational efficiencies of the Hotel with state of the art technology and software delivering notable cost savings across numerous departments.

The feasibility of this development was underpinned by the inclusion of a large residential component to be sold down to retail investors.

3.5.4 Hilton Melbourne South Wharf – Public Private Partnership & Urban Renewal

The 396-room Hilton Melbourne South Wharf hotel was developed as part of the Melbourne Convention and Exhibition Centre (MCEC) public private partnership project, under the Partnerships Victoria framework in 2009. This was Hilton's third hotel in Melbourne's CBD.

Aerial Shot of Hilton Melbourne South Wharf



Source: www.hilton.com, Jones Lang LaSalle

The State contributed in the order of \$370 million toward the construction of the centre with the remaining commercial development financed privately. The City of Melbourne also committed \$43 million toward public realm works and a new bridge across the Yarra River which forms an important link to the north bank and beyond to Docklands.

The project was overseen by Major Projects Victoria (MPV) and includes an office tower, retail precinct, riverfront promenade of shops, cafes, bookstores and tourism retail and a revitalised maritime precinct and public spaces. Development of this significant tourism infrastructure as well as new commercial office space has led to the construction of more hotels in Melbourne's Docklands precinct.

The development of this hotel was underpinned by the associated convention infrastructure and the inclusion of a hotel as mandated by the Victorian government.

Hilton Melbourne South Wharf – Guest Rooms & Dining



Source: www.hilton.com, Jones Lang LaSalle

3.5.5 The Diamant Sydney – Mixed Use Development

Located in Kings Cross, Sydney's premier entertainment and cultural district, The Diamant Sydney was developed by Ashington as part of a \$60 million mixed-use development in 2007 including 49 strata offices, 77-room boutique hotel, Penthouse residence and lower ground retail. The Diamant Hotel is operated by Eight Hotels & Resorts which is a collection of independently named boutique hotels defined by centralised management.

The feasibility of this hotel development was underpinned by the mix of uses and the boutique positioning that the hotel brought to the overall development.

View from the Diamant Hotel, Sydney



Source: www.diamant.com.au, Jones Lang LaSalle

3.5.6 The Emporium Brisbane – Mixed Use Development

The Emporium is a redeveloped bus depot which has been converted into a mixed-use urban precinct containing 5-star hotel, retail centre, bars, cafes, office space and 232 residential apartments located in Brisbane's entertainment hot spot, Fortitude Valley.

Opened in June 2007, The Emporium Hotel is a luxury boutique property featuring 102 luxurious studio suites, all custom designed and individually finished. All suites feature ensuites (42 with personal spa bath), state of the art in-suite entertainment & technology including 106cm plasma TV and wireless internet, marble kitchenette and in-suite laundry. The hotel was awarded 'Best Small Luxury Hotel' in Australia at the Gourmet Traveller 2009 Travel Awards.

The hotel is the sole vision of two dedicated property and design-driven Queenslanders, Anthony and Francine John of Anthony John Group. The Emporium Hotel aspires to provide the highest level of sophistication and service in a boutique environment. The hotel interiors feature an eclectic collection of locally-made, custom-designed pieces and antiques sourced from around the world.

The Emporium Hotel



Source: www.emporiumhotel.com.au, Jones Lang LaSalle

3.5.7 New Development Projects

We are also aware of a number of accommodation projects which are at the various stages of development. Including:

- **FESA House, Perth** – this project was offered with the benefit of reduced land value as part of the Western Australian government's hotel incentive program and consequently attracted strong interest from potential investors/developers. It is likely that the resultant development will include a mix of uses including a 4-star hotel.
- **Elizabeth Quay, Perth** – widely regarded as the best 5-star location in Perth CBD, the Western Australian government mandated that this development must include a hotel on one of the two parcels of land to be developed within the stipulated envelope. It is therefore likely that the resultant development will comprise a 250-300 room 5-star hotel with 40-50sqm rooms.
- **Sydney International Convention and Exhibition Centre Hotel, Sydney** – the Expressions of Interest (EOI) originally mandated that this project include a 4.5-star hotel however we understand that this requirement was modified during the submission phase. The Lend Lease-led Destination Sydney consortium has won the bid to develop the Precinct. The project will include a 900 room hotel, of which at least 502 rooms will be graded 4-star or above. A formal operator selection process is now underway.
- **Crown Perth** - Crown has recently obtained federal and state approval to commence the development of a 500-room '6-star' hotel including VIP gaming rooms, high-end retail and convention facilities at the Burswood Entertainment complex. The new hotel will be underpinned by the expansion of the casino complex and planned residential development.

3.6 Conclusion

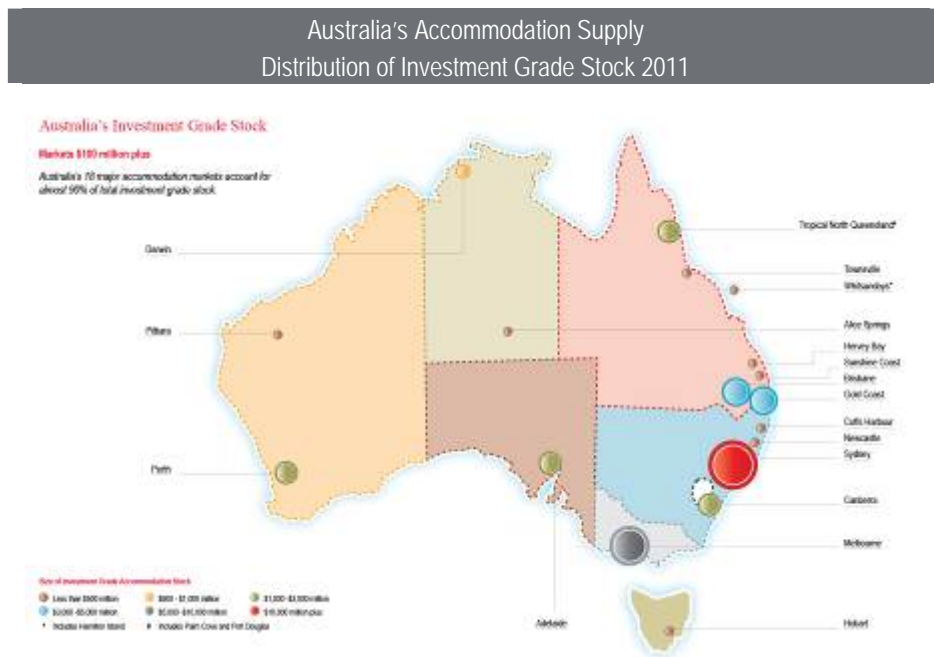
Accommodation development in Australia over the past decade has been skewed in favour of strata-titled serviced apartments which tend to be graded 4 or 4.5-star, reflective of their location and range of facilities and services which are offered. Development in the 5-star segment has been less prevalent with projects primarily progressed when being developed in conjunction with associated tourism infrastructure (casino/convention), branding related strategic investments by owner operators or strata-titled serviced apartments in leisure destinations.

4 Sydney Accommodation Market

4.1 Introduction

Sydney is the major gateway to Australia and a key hub for the Asia Pacific region. Famous for its harbour, the city is the single most popular tourist destination in Australia, with two of the country's most internationally-recognised iconic attractions, the Sydney Opera House and the Sydney Harbour Bridge. It is also Australia's finance centre and primary real estate market in terms of quantum and value, reflected in the concentration of institutional investment in the city.

As postcard for the Australian tourism industry, the accommodation offering is critical to the country's overall positioning in the global tourism marketplace. Sydney city is Australia's largest accommodation market with 19,706 rooms. It has the highest concentration of investment grade stock, in part due to the high proportion of 5-star accommodation assets. As such it is widely regarded as the most strategically important location for first time entrants (investors & operators) to Australia, reluctant to consider markets further afield until an asset has been secured in Sydney.



Source: Australian Bureau of Statistics, Jones Lang LaSalle

In spite of this, there have been only few additions to accommodation supply over the past decade with total rooms currently below the 2001 peak. Additions in the 5-star segment have primarily been strata-titled serviced apartments with new development continuing to be held back by current market forces, as well as a lack of suitable sites in Sydney CBD. The exception is Barangaroo with a substantial 1.4 kilometre harbour foreshore frontage and close proximity to key demand generators.

4.2 Hotel Rating Systems

There is no one single universally accepted global hotel rating system with a wide variety of rating schemes used by different organisations around the world. Many have a system involving stars, with a greater number of stars indicating greater luxury. Food services, entertainment, view, room variations such as size and additional amenities, spas and fitness centres, ease of access and location may all be considered in establishing a standard.

Forbes Travel Guide, formerly Mobil Travel Guide, is probably the most renowned globally having launched its star rating system in 1958. Initially guides were limited to the United States and Canada but were expanded in 2008 to include international markets with the inclusion of Asia Pacific hotels in Singapore and China PRC (includes Macau and Hong Kong). Forbes Travel Guide ratings are as follows:

- Five Star - these exceptional hotels provide a memorable experience through virtually flawless service and the finest of amenities. Staff is intuitive, engaging and passionate, and eagerly goes beyond expectations. The hotel was designed with your comfort in mind, with particular attention paid to craftsmanship and quality of product. A Forbes Travel Guide Five Star property is a destination unto itself.
 - Notable examples in Asia Pacific include Crown Towers and Altira Macau, Mandarin Oriental Singapore and Hong Kong, The Peninsula Hong Kong and Shanghai, Wynn Macau, Island Shangri-La and the Four Seasons Hong Kong,
- Four Star - these hotels provide a distinctive setting, and you will find many interesting and inviting elements to enjoy. Attention to detail is prominent throughout the property, from design concept to quality of products provided. Staff is accommodating and takes pride in catering to your specific needs throughout your stay.
 - There are 31 properties rated 4-star in China, Hong Kong and Macau including luxury brands such as St Regis, Raffles, Ritz-Carlton, Grand Hyatt, Park Hyatt, InterContinental, Jumeirah, Fairmont, Aman, Conrad, Peninsula and Langham. There are four properties in Singapore including Fairmont Singapore, The Fullerton Bay Hotel, Four Seasons Hotel Singapore and Capella Singapore.
- Recommended Properties – these well-appointed hotels have enhanced amenities and design that provide a strong sense of location, whether through style or function. They may have a distinguishing design and ambience, or they may be more focused on functionality, providing easy access to local hot spots.
 - Asia Pacific recommended hotels are all in Mainland China and upscale brands such as Hilton, Banyan Tree, Swissotel, Grand Melia, Sheraton, Millennium and Hotel Indigo.

4.2.1 The Australian Context

The Australian STAR Rating Scheme - owned by Australia's Auto Clubs and managed by AAA Tourism – is the official accommodation certification scheme offering consistent ratings for approximately 10,000 properties nationwide. For hotels, STARS three to five can be generally understood to mean the following:

- 5-star - outstanding establishments characterised by luxury appointments offering an exceptional standard of facilities, furnishings and guest services. 24 hour room service, housekeeping, portage, valet parking and secretarial services
- 4-star - very well appointed accommodation reflecting stylish décor throughout and a high standard of facilities and guest services. Must provide en-suites to all rooms, air-conditioning, 16 hour room service and housekeeping

- 3-star – well-appointed and comfortable accommodation with a good range of facilities. Décor may be slightly dated but still well maintained and in good condition. May provide some business facilities

This is the absolute minimum a hotel must offer to achieve the required STAR rating. Many Hotels exceed this basic description and offer other facilities and services which are not listed here. Each STAR rating level must include all listed requirements of lower levels and a half STAR is awarded to properties which provide a more extensive range of facilities.

Despite being a point of contention for some industry participants, owing to perceived inconsistencies when applied across markets and product types (hotels v serviced apartments), a hotel's star-rating remains an important benchmark for the industry. Star-ratings are a simple representation of a hotel's market position when short-listing accommodation options and one which is intuitively understood by end-users. To this end, even where an operator may opt out of formal ratings, there remains a tendency to self-rate.

4.3 Sydney City 5-star Accommodation Market

An appropriate brand and correct positioning are some of the key drivers of success in the hotel industry. Hotel owners may need to reposition when a hotel asset has lost effectiveness in serving its market due to obsolescence or as market dynamics change in accordance with the city landscape.

According to the Australian Bureau of Statistics (ABS) June 2012 quarterly Survey of Tourist Accommodation (STA), there were 7,403 accommodation rooms in Sydney Tourism Region graded 5-star across all product types i.e. hotels, motels, guesthouses and serviced apartments. JLL has identified 8,456 rooms of 5-star accommodation supply in Sydney City (and Pyrmont) including both AAA-rated (37% or 3,111 rooms) and self-rated (63% or 5,345 rooms) hotel and serviced apartment properties as shown in table following.

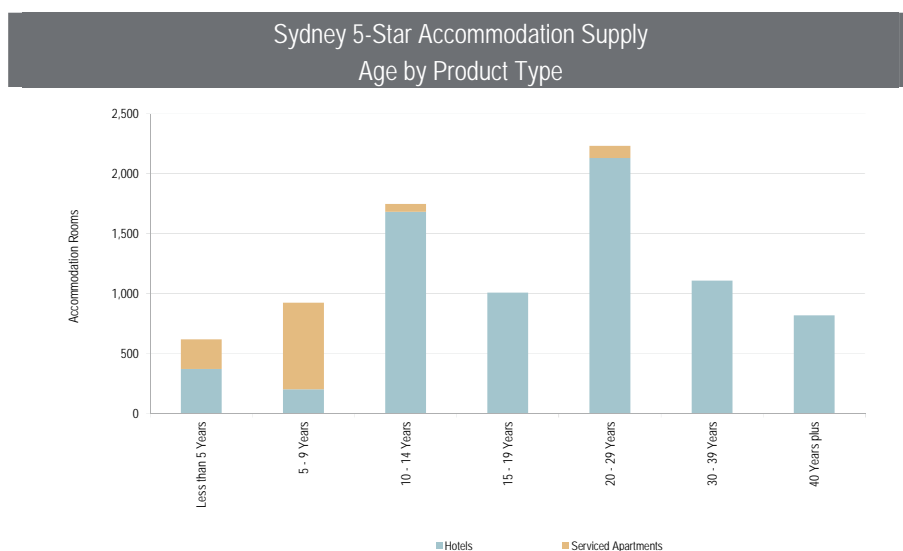
Sydney City 5-Star Accommodation Supply

Property	Rooms	Type	Star Grading
Grace Hotel	382	Hotel	Self-rated
Sofitel Wentworth Sydney	436	Hotel	Self-rated
Hilton Sydney	577	Hotel	Self-rated
Four Seasons Sydney	531	Hotel	Self-rated
Sydney Harbour Marriott	550	Hotel	5-star
Park Hyatt Sydney	163	Hotel	Self-rated
Sir Stamford Circular Quay	105	Hotel	Self-rated
Pullman Sydney	241	Hotel	Self-rated
Quay West Suites Sydney	101	Apartments	5-star
Shangri-La Sydney	563	Hotel	Self-rated
The Langham Sydney	100	Hotel	Self-rated
Sheraton on the Park	557	Hotel	5-star
InterContinental Hotel Sydney	509	Hotel	5-star
Astral Tower (The Star)	351	Hotel / Apmnts	5-star

Pullman Quay Grand Sydney	65	Apartments	5-star
Westin Sydney	416	Hotel	Self-rated
Amora Jamison Sydney	415	Hotel	5-star
Radisson Blu Plaza	362	Hotel	5-star
Swissotel Sydney	359	Hotel	Self-rated
Blue Sydney	100	Hotel	Self-rated
The Establishment	31	Hotel	Self-rated
Meriton Pitt St	178	Apartments	Self-rated
Meriton World Square	115	Apartments	Self-rated
Fraser Suites Sydney	201	Apartments	Self-rated
Meriton Kent Street	430	Apartments	Self-rated
Meriton Campbell St	247	Apartments	Self-rated
The Darling	171	Hotel	Self-rated
QT Sydney	200	Hotel	Self-rated
Total	8,456		

4.3.1 Age of Product

Sydney's 5-star accommodation product has aged considerably over the past decade with a median age of 15-19 years across the aforementioned 8,456 rooms. The median age for hotel product is higher at 20-29 years, compared to 5-9 years for serviced apartments with accommodation development in Australia having been skewed in favour of strata-titled serviced apartments in recent years as outlined in Section Two.



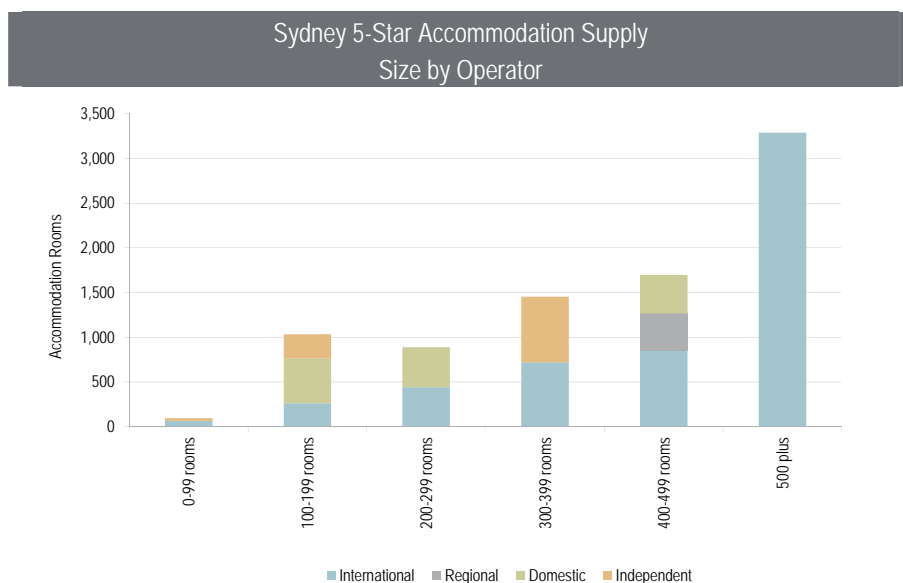
Source: Jones Lang LaSalle

With 4,158 rooms (49% of the total 5-star accommodation supply) aged 20 years plus, this poses a problem for the industry over the coming decade as refurbishment costs escalate in line with the age of product and as consumer expectations for an international luxury or 5-star hotel burgeon in line with new and exciting product offerings being developed around the world. The great bulk of aging room supply in Sydney would be unlikely to achieve the internationally recognised Forbes 5 star rating without significant investment.

Functional obsolescence occurs when a building has reduced usefulness due to poor or out-of-place design for its location and can be curable or incurable, depending on the situation. It is generally accepted that the sustainable life for a real estate asset is around 30 to 40 years before extensive refurbishment and replacement works are required. A high proportion of rooms will therefore require major works over the coming decade. Technology is also likely to become a key differentiator as it requires significant investment in infrastructure (e.g. cabling, wireless hot spots, bandwidth and functionality), which can be difficult to install in old real estate product without extensive refurbishment.

4.3.2 Size of Hotel Asset

For a hotel to achieve maximum productivity, the appropriate number of guestrooms must be developed for that market whilst consideration should also be given to the optimal room size for the desired standard of hotel. In Australian state capitals, we regard the optimum size of a 5-star hotel to be around 200 to 250 rooms but note that around 76% of the existing Sydney 5-star room stock is properties with more than 300 rooms as shown in the chart following.



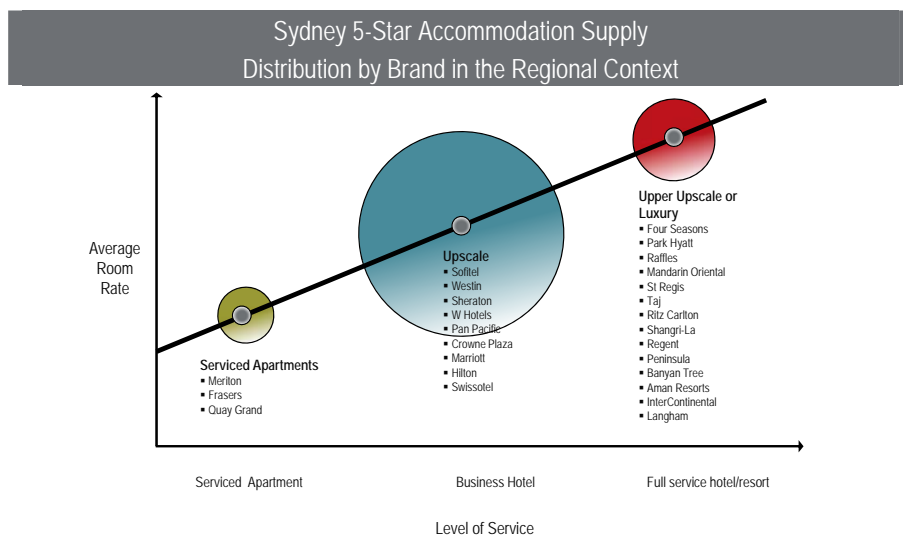
Source: Jones Lang LaSalle

The high proportion of large 5-star hotels in Sydney CBD, coupled with the age of Sydney room stock, can result in 5-star rooms being sold at 4-star prices as hotels need to achieve a base level of occupancy to cover fixed costs. This has made it hard for Sydney hotels to achieve the same level of rate growth as seen in other Australian state capitals over the last ten years as the 5-star segment dictates the price ceiling for the entire market. This inevitably restricts the future development of new accommodation supply in Sydney City and this is particularly the case in the 5-star segment.

4.3.3 Luxury Brand Representation

Luxury brands (excludes independent or boutique) currently account for around 9.3% of the total accommodation supply in Sydney City with the majority of 5-star accommodation supply being regarded as upscale business-orientated hotels in the regional context.

Serviced apartments, whilst becoming more commonplace globally, have had only limited appeal to international visitors given their often secondary location, extent of services and low brand recognition with consumers. The distribution of Sydney's 5-star accommodation market in the regional context is shown in the following graphic.



Source: Jones Lang LaSalle

The likely impact of poor representation by luxury global brands on Sydney's accommodation market is hard to quantify except to say that it reduces the appeal of the overall destination with the high yielding consumers the industry is looking attract. In Asia, operators are rapidly expanding portfolios as they look to familiarise brand-conscious consumers with their stable of high-end hotels in the hope that it will grow brand loyalty and therefore yield results over the longer term.

4.3.4 Comparison with the Commercial Segment

A global comparison of the hotel and office sectors conducted by Jones Lang LaSalle in 2003 found that there is a high degree of correlation between how the two sectors perform with occupancy / vacancy of hotels and offices generally demonstrating similar movements.

More recently, analysis of Australia's four major state capitals shows how occupancy correlation between the two sectors (as an indicator of demand) increased on average to near perfect correlation during the last business cycle (2004 to 2009), whilst remaining weakest in Sydney and Melbourne, reflective of the higher proportion of international and domestic leisure demand in these markets as shown in the following table.

Australia's Major Accommodation Markets – Office and Hotel Occupancy Correlation

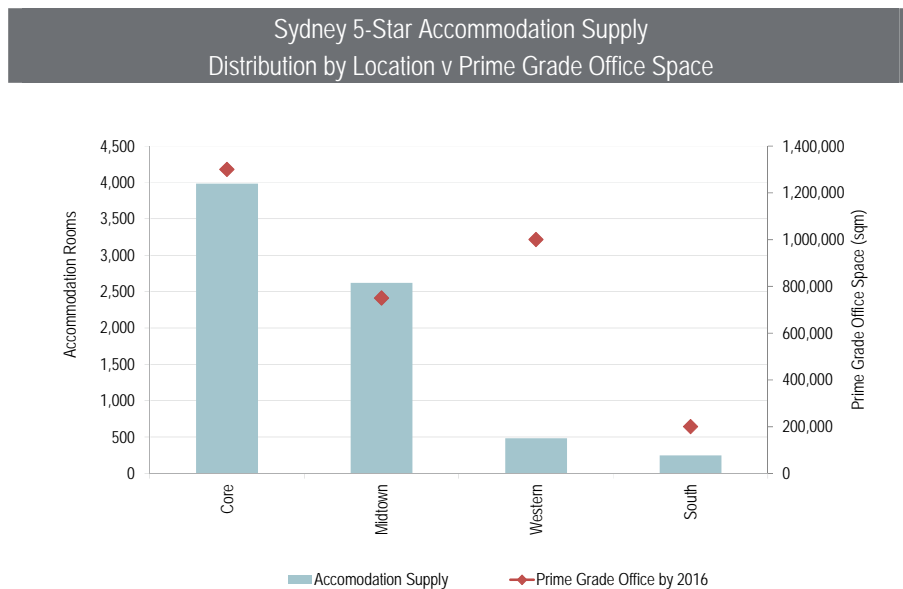
Period	Average	Brisbane	Melbourne	Perth	Sydney
1995 to 2011	0.32	0.62	0.30	0.69	-0.33
1995 to 2003	-0.71	0.13	-0.62	-0.50	-0.56
2004 to 2009	0.99	0.97	0.90	0.89	0.82
2012 to 2014	-0.27	0.45	-1.00	0.71	0.10

Source: Jones Lang LaSalle

Future increases in accommodation supply should therefore be developed with regard to changes in the proportion and distribution of city office stock as a means to ensuring that a base level of occupancy is maintained.

Sydney City's Western Corridor has experienced the strongest growth in commercial office stock over the past fifteen years but with few additions to accommodation supply. The development of 285,030 sqm of commercial space at Barangaroo South will pull the geographical centre of the Sydney CBD office market further towards the Western Corridor. We estimate that this precinct will account for approximately 30% of the Sydney CBD prime grade office market by 2016.

Currently the majority of 5-star accommodation rooms are located in the city core (4,247 rooms or 50.2%) and midtown precincts (2,617 rooms or 30.9%) with only 5.7% (482 rooms) of 5-star rooms located in the Western Corridor as shown in the chart following. A disconnect is therefore becoming apparent, although we note that high-end consumers who favour luxury brands (in prestigious locations) have also shown a greater willingness to travel to their place of work or entertainment given that transport is efficient and easy to navigate.



Source: Jones Lang LaSalle

4.4 Future Supply

Our enquiries indicate that there are nine accommodation projects with a total of 1,326 rooms mooted for Sydney City accommodation market including the proposed closure of one large hotel (-446 rooms) as shown in the table following.

Of these, 30.9% (410 rooms) are understood to be graded 5-star with 5-star accommodation rooms primarily being the proposed hotel at Barangaroo South (350 rooms), as well as one serviced apartment in the city core (60 apartments) which has a mandated accommodation component. We also understand that the government has stipulated that the new convention centre hotel should have a minimum of 502 rooms to be graded 4-star or above. Previously this was understood to be 4.5-star but was revised during the design process.

Sydney City Future Competitive Supply

Project	Size	Standard	Description	Status
Zara Tower	38 apmnts	4.5-star	A new building which was converted from residential use to serviced apartments. The property is expected to open in early 2013 and will include 38 'luxury' apartments which we expect will be consummate with a 4.5-star grading.	Under Construction (90%)
Hotel 1888 Pyrmont	90 rooms	4-star	Adaptive re-use of old woolstore building into boutique hotel with reception, licensed restaurant and lounge facilities to be operated by Eight Hotels. The hotel is scheduled to open in March 2013.	Under construction (90%)
Sebel Pier One Extension	32 rooms	4.5-star	Extension of the existing property, replacing Harbourside restaurant with new rooms and function space. New rooms are scheduled to open in February 2013.	Under construction (90%)
Sydney Convention Centre	900 rooms	TBC	The Lend Lease-led Destination Sydney consortium has won the bid to develop the Precinct. The project will include a 900 room hotel, of which at least 502 rooms will be graded 4-star or above. A formal operator selection process is now underway.	Likely Proposed (60%)
Four Points by Sheraton Extension Stage 2	20 rooms	4.5-star	DA approved with conditions for the refurbishment of levels 1 to 10 including 20 new guest rooms.	Likely Proposed (60%)

Barangaroo	350 rooms	TBC	Major rejuvenation project which originally included a luxury overwater hotel on Sydney Harbour. Hotel will now be located within the overall site. Further details are pending decision regarding Crown Limited's application for casino hotel resort at Barangaroo South.	Likely Proposed (60%)
70 Macquarie Street, Circular Quay	60 apmnts	5-star	DA approved \$300 million redevelopment of the Amital Building to include 60 serviced apartments.	Mooted (40%)
34 Hunter Street	282 rooms	3-star	DA approved conversion of existing office tower for hotel use.	Mooted (40%)
The Menzies	-446 rooms	4-star	DA is being considered for the major redevelopment of the hotel into new commercial office space.	Mooted (40%)

Source: Industry Sources, Jones Lang LaSalle

With new hotel development in Sydney currently held back by the cost versus value gap, as well as competition from higher alternate uses, we consider it unlikely that many more projects will commence over the next few years. Record high occupancy levels and significant planned investment in convention infrastructure and commercial office towers may result in more projects being advanced over and above those noted above in the longer term.

4.4.1 5-star Accommodation Development Sites in Sydney

JLL is of the opinion that there is low to moderate probability that additional 5-star accommodation supply will open in Sydney over the medium term with few premium sites available (or likely to become available) which are considered suitable for 5-star hotel development, with the exception of Barangaroo.

Unlike Melbourne in particular, Sydney has a scarcity of 'greenfield' development sites in the core CBD and even fewer with a harbour side location. This means that when a vacant site does become available, it represents a rare offering to the development market which is made more appealing given the absence of buildings/structures with an economic value and associated demolition costs.

Typically a 5-star hotel would require a historically or contemporary significant building with impressive architectural design and be located in a major metropolitan area or high quality neighbourhood, near upscale commercial, diplomatic embassies, shopping, retail and entertainment environments and with convenient access to the airport. In Sydney we expect that a further prerequisite would be a harbour side location, and preferably with views of the Sydney Opera House and/or Sydney Harbour Bridge.

Having regard to this, in addition to Barangaroo, we are aware of four potential sites/buildings which have historically been or are currently regarded as suitable for 5-star accommodation development:

Project	Description	Likelihood of accommodation use
Goldfields House	Mooted for partial accommodation use since Valad bought the site in 2006. Blackstone Group (own Hilton Hotels) took over and delisted Valad in 2011 and have since submitted a DA to redevelop into two new mixed-use buildings of 15 and 55 storeys for residential, retail and commercial use. The application is approved pending some consents but explicitly stipulates that the accommodation portion of the building (levels 3 to 55) must be used as permanent residential only.	Low
Cahill Expressway Cutting	Leading from Cahill Expressway (Circular Quay) onto the Harbour Bridge, the air space above the cutting has been identified by statutory authorities over the past decade as a possible site for high-end accommodation use.	Low
Original Lands Building (23-33 Bridge St)	Government owned asset that has been cited by industry as worthy of consideration for conversion to boutique high-end accommodation use, in association with 35-39 Bridge Street.	Medium
Department of Education and Training Head Office (35-39 Bridge Street)	Government owned asset that has been cited by industry as worthy of consideration for conversion to boutique high-end accommodation use, in association with 23-33 Bridge Street.	Medium

Source: Industry Sources, Jones Lang LaSalle

4.5 Sydney's Luxury Segment

The following section provides additional commentary on Sydney's luxury segment which comprises five branded hotels, as well one serviced apartment and two casino hotels, all of which benefit from full or partial harbour views. Together these eight properties account for around 29% of Sydney City's 5-star accommodation stock and a summary of historical trading follows.

4.5.1 Historical Trading Performance

To provide an assessment of historical trading performance for Sydney's luxury segment, we have purchased a trend report from STR Global for the eight properties as outlined above. We note however that the Park Hyatt Sydney was closed between April 2011 and January 2012, thereby impacting overall market performance and that The Darling has been excluded from this analysis as this property only opened in 2011.

We have made comparisons to the overall market performance where appropriate but note that 5-star data is for Sydney Tourism Region and therefore includes these eight luxury properties, as does Sydney City, both of which have been sourced from the Australian Bureau of Statistics.

Over the five years to 2011, RevPAR growth for Sydney's luxury segment increased on average by 2.6% per annum. This compares to 3.6% per annum for the 5-star segment and 3.8% per annum for Sydney City. At \$232, nominal RevPAR in 2011 for the luxury segment was at the highest level ever achieved and approximately 2.3% higher than the 2007-peak. This compares to +11.5% for the 5-star segment and +8.3% for Sydney City and highlights how the trading recovery which has been evident over the past couple of years in Sydney has been less pronounced in the luxury segment. Soft inbound demand in traditional source markets (US, UK) continue to impact the luxury segment and corporate demand, whilst robust, remains price sensitive in line with weak global economy and downward pressure on company profits.

Summary – Performance Comparison

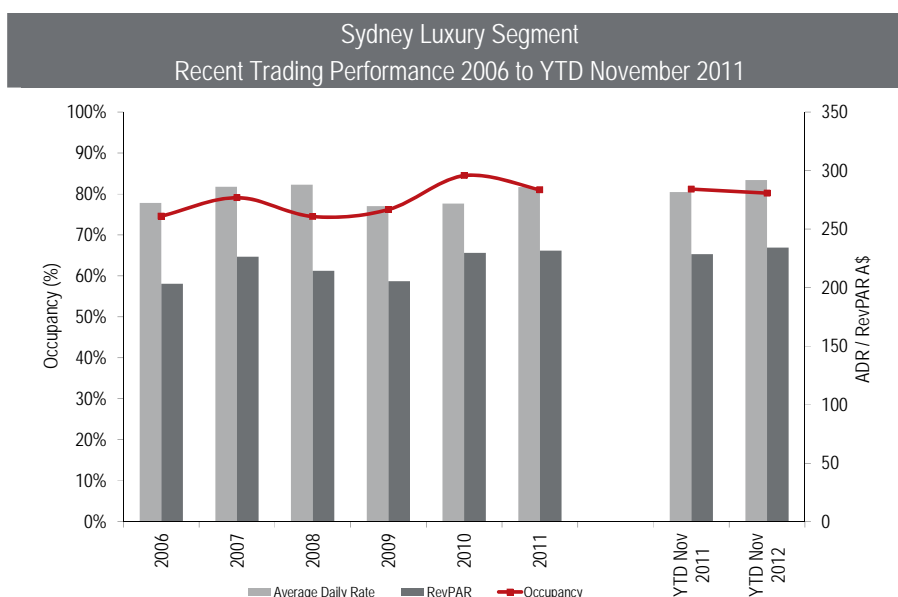
Market	2011 Occ%	2011 ADR	2011 RevPAR	Y-O-Y RevPAR Growth %	Variance to Market Peak
Luxury Segment	81.0%	\$286	\$232	0.9%	+ 2.3%
All Types 5-star	84.1%	\$241	\$203	8.4%	+ 11.8%
Sydney City LGA	85.8%	\$188	\$161	7.1%	+ 8.3%

Source: Global STR, ABS, Jones Lang LaSalle

Occupancy levels for the luxury segment have increased at an average rate of 1.7% per annum during this period, up from 74.6% in 2006 to 81.0% in 2011. This compares to growth of 2.1% per annum for the 5-star segment and 1.8% per annum for Sydney City. Occupancy levels in the luxury segment peaked in 2010 at 84.5% as corporate demand strengthened over and above expectations and amid significant discounting as traditional inbound source markets remained under pressure. Occupancy levels moderated through 2011 as ADR increased. Occupancy levels in 2011 were slightly below the 5-star segment (-3.1 points) and Sydney City (-4.8 points). Luxury hotels typically trade at lower occupancy levels (but considerably higher rates) than the general market.

ADR growth has been softer increasing on average by 1.0% per annum. This compares to growth of 1.5% per annum for the 5-star segment and 2.0% per annum for Sydney City. At \$286, nominal ADR in 2011 was slightly below the 2008-high of \$287. ADR fell sharply in 2009 as the demand environment softened. Gains over the past two years have not been sufficient to offset this decline. ADR in 2011 was approximately 19% higher than the 5-star segment and 52% higher than Sydney City. This compares to 22% and 60% respectively in 2006 and highlights how ADR in the luxury segment has not kept pace with the overall Sydney market.

During the first eleven months of 2012, RevPAR for the luxury segment increased 2.4% to \$234. Whilst a direct comparison is not available, we believe this is slightly ahead of the general market and in part reflects the re-opening of the Park Hyatt Sydney. Occupancy levels softened slightly, reducing 1.2% to 80.2% whereas ADR has increased, up 3.7% to \$292.



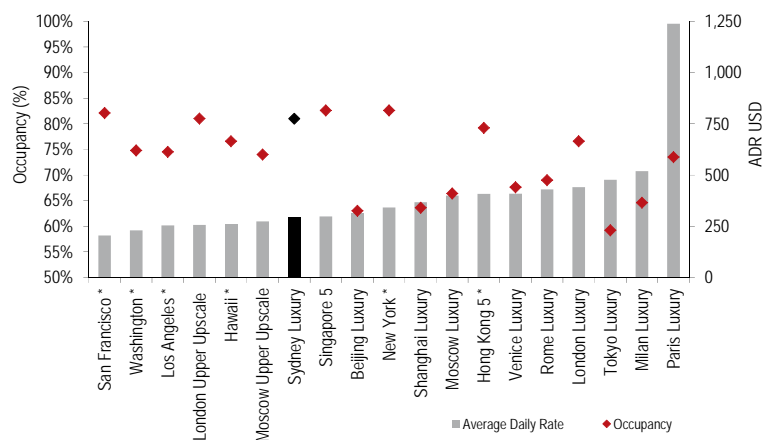
Source: STR Global, Jones Lang LaSalle

4.5.2 The Global Context

Comparison of Sydney's luxury properties 2011 ADR with 15 major markets around the world highlights the relative positioning of Sydney's luxury accommodation segment in the global context, whilst also being in part a function of local market supply and demand dynamics. We have segmented these 15 markets into four tiers, based on the annual average ADR:

- Tier one - ADR in excess of USD400 and includes key gateways such as Paris, Milan, Tokyo, Rome, London, Venice and Hong Kong.
- Tier two – ADR in excess of USD300, includes Moscow, New York, Shanghai and Beijing.
- Tier three – ADR in excess of USD250 includes Sydney, Singapore, Hawaii, Los Angeles and upper upscale properties in London and Moscow.
- Tier four – ADR in excess of USD200 includes Washington D.C and San Francisco.

Global Performance Comparison Luxury Segment 2011 Occupancy and ADR

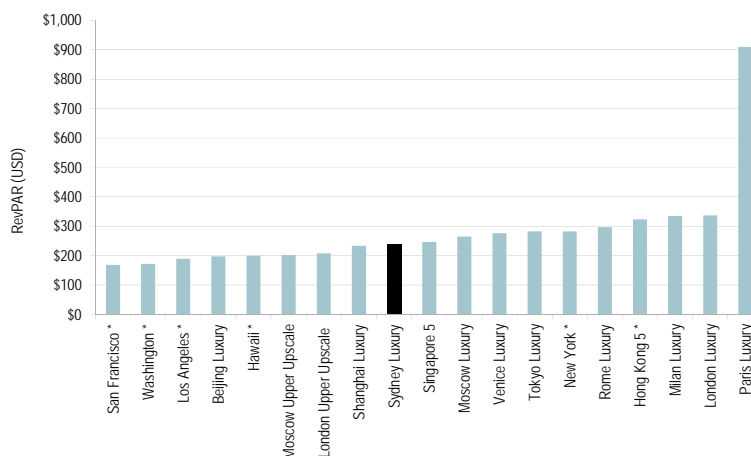


Source: STR Global, Jones Lang LaSalle. Note: * Includes luxury and upper upscale

Comparison to Tokyo and London, for example, as the two markets identified in Section Two where 5-star construction costs were higher than for Australia provides further insight into the extent of the feasibility gap in Australia and the fact that our high construction cost status is not matched with a high RevPAR status.

RevPAR in Sydney's luxury segment was 29% lower than London and 15% lower than Tokyo in 2011, whereas construction costs on a sqm basis for a 5-star hotel were approximately 6% lower than in the UK and 40% lower than in Japan. We note however that Tokyo 2011 RevPAR was adversely impacted by the March 2011 tsunami and that RevPAR of USD 350 is more likely, thereby giving a differential to Sydney RevPAR of around 30%. With all other things being equal, an offshore investor is therefore more likely to develop luxury product in the UK rather than Australia given the apparent higher return. This further highlights the extent to which Australia is a high cost but low RevPAR environment.


Global Performance Comparison Luxury Segment 2011 RevPAR





Source: STR Global, Jones Lang LaSalle. Note: * Includes luxury and upper upscale


4.5.3 Property Overviews


A summary of the Sydney's luxury properties, along with our assessment of the strengths, weaknesses, opportunities and threats for each property follows.


Park Hyatt Sydney		
<i>Address:</i>	7 Hickson Road, The Rocks, Sydney	
<i>Opened:</i>	1990	
<i>No. Rooms:</i>	155 rooms including 3 new suites	
<i>Meeting Space:</i>	<ul style="list-style-type: none"> • 507sqm (approx) of conference and function space • Six meeting rooms / venues 	
<i>Food & Beverage:</i>	<ul style="list-style-type: none"> • The Dining Room — All day dining serving Australian cuisine • The Living Room — All day dining • The Bar — Beverage bar open from 5pm till late daily 	
<i>Other Facilities:</i>	<ul style="list-style-type: none"> • 77 car parking spaces (approx) • Spa, beauty and fitness centre with rooftop pool • Business centre 	
<i>Comments:</i>	<ul style="list-style-type: none"> • Situated majestically in the dress circle to one of the world's most scenic harbours • Most guestrooms have private balconies with views overlooking the harbour, Opera House and/or Harbour Bridge • The property was extensively refurbished in 1998/1999, 2004 and in 2011/12. 	
Strengths		Weaknesses
<ul style="list-style-type: none"> • Strong trading history with high level of revenues and profit. • Unique and highly sought after location with views of Sydney Harbour, Opera House and Harbour Bridge. • Luxuriously appointed modern boutique hotel. • Limited capital expenditure required over medium term. • Recently refurbished product. 		<ul style="list-style-type: none"> • Constrained ability to significantly increase revenues due to hotel's premium market position. • Leasehold tenure • Relatively limited conference/function room areas. • Limited distribution channel for domestic corporate segment.
Opportunities		Threats
<ul style="list-style-type: none"> • Leverage off recent refurbishment to drive RevPAR 		<ul style="list-style-type: none"> • Soft inbound tourism from key source markets. • Weaker outlook for domestic economy.


The Langham Sydney (formerly The Observatory)		
<i>Address:</i>	89 – 113 Kent Street, Millers Point	
<i>Opened:</i>	1993	
<i>No. Rooms:</i>	96 rooms	
<i>Meeting Space:</i>	<ul style="list-style-type: none">Four dedicated meeting rooms for up to 100 people	
<i>Food & Beverage Outlets:</i>	<ul style="list-style-type: none">Galileo Restaurant (54 seats)Guests’ Drawing Room (40 seats)The Globe Bar (library setting)	
<i>Other Facilities:</i>	<ul style="list-style-type: none">Business facilitiesFitness centre & spa - indoor heated swimming pool, fully equipped gymnasium including spa, sauna, change rooms, massage and float tank.Car parking for 40 vehicles and a limousine service is provided.	
<i>Comments:</i>	<ul style="list-style-type: none">Good physical standard for a boutique fringe hotelFormerly trading as the Observatory Hotel however was re-branded post acquisition	
Strengths		Weaknesses
<ul style="list-style-type: none">Luxurious boutique style hotel with Rocks location.Freehold title.		<ul style="list-style-type: none">Limited main harbour views.CBD Fringe location.Small room count.Aging room product.
Opportunities		Threats
<ul style="list-style-type: none">Level 4 development to enhance market position and trade.Proximity to Barangaroo development.Mooted refurbishment		<ul style="list-style-type: none">Potential supply increases in immediate vicinity.Soft inbound tourism from key source markets.Weaker outlook for domestic economy.


Shangri-La Sydney		
<i>Address:</i>	179 Cumberland St, The Rocks, Sydney	
<i>Opened:</i>	1992	
<i>No. Rooms:</i>	494 rooms & 69 suites	
<i>Executive Club:</i>	<ul style="list-style-type: none">Horizon Club floors on levels 30-35 including Horizon Club Lounge	
<i>Meeting Space:</i>	<ul style="list-style-type: none">Thirteen rooms in total (1,600sqm) for up to 900 people including a grand ballroom.	
<i>Food & Beverage Outlets:</i>	<ul style="list-style-type: none">The Lobby Lounge – 53 seatsCafé Mix - 154 seatsHorizons Bar – 125 seatsAltitude Restaurant – 116 seatsHarts Pub - Cnr of Gloucester & Essex StreetsThe Rocks Teppanyaki – 52 seats (Leased)	
<i>Other Facilities:</i>	<ul style="list-style-type: none">Health & fitness centre – leased - fully equipped with numerous treatment rooms and an indoor heated swimming pool.Business centre.Approx 109 car parking bays.In addition to the hotel, there are three detached historic buildings located on the site which accommodate the Harts pub, the Rocks Teppanyaki Restaurant and Lilyvale Cottage which is leased as commercial office space to JTB.	
<i>Comments:</i>	<ul style="list-style-type: none">The hotel guest rooms were refurbished during the course of 2011/12 while the meeting rooms were refurbished in 2012.	
Strengths		Weaknesses
<ul style="list-style-type: none">Unparalleled views of Sydney Harbour.Size of rooms.Level 36 F&B outlets.Refurbished guest room and conferencing room product		<ul style="list-style-type: none">Weak distribution network among domestic corporate segment (need to buy business).High room count.CBD Fringe location.Historical reliance on Japanese market.
Opportunities		Threats
<ul style="list-style-type: none">Potential redevelopment of spa under in-house CHI, the spa brand (c.\$3 million).Leverage off high market occupancy to grow rate		<ul style="list-style-type: none">Soft inbound tourism.Weaker outlook for domestic economy.

Four Seasons Sydney		
<i>Address:</i>	199 George St, The Rocks	
<i>Opened:</i>	1983 (and extensively upgraded in 1999)	
<i>No. Rooms:</i>	531 rooms (410 rooms & 121 suites)	
<i>Executive Club:</i>	<ul style="list-style-type: none">Located on Level 32, the Executive Club is a spacious, well-appointed lounge with spectacular views over Walsh Bay and the city.	
<i>Meeting Space:</i>	<ul style="list-style-type: none">Five meeting and conference rooms (1,317sqm) including the pillar-less Grand Ballroom which caters for up to 550 guests for a banquetStudio Suites and Residential suites are currently under development and are to be completed early 2013.	
<i>Food & Beverage Outlets:</i>	<ul style="list-style-type: none">The Woods – lobby level restaurant - 180 seatsThe Cabana – pool side bar situated on level 3 – 20 seats (outdoor)GRAIN – lobby cocktail bar – 80 seats	
<i>Other Facilities:</i>	<ul style="list-style-type: none">Spa and Fitness Centre (350 sqm) including Sydney's largest heated outdoor pool and six treatment roomsSR Laundry – fully-equipped freehold industrial laundry in Alexandria (6km from CBD) which provides contract services to other CBD hotelsParking for around 135 vehicles	
<i>Comments:</i>	<ul style="list-style-type: none">Well located - half of rooms enjoy full or partial views of Sydney Harbour, whereas others overlook Darling Harbour & the cityRecently refurbished product with new meeting rooms currently being constructed.Recently completed restaurant facility which fronts George Street and attracts a large portion of external patronage.	
Strengths		Weaknesses
<ul style="list-style-type: none">Views of harbour and close proximity to CBDEstablished hotel with strong brand recognition and perceived quality.Relatively large and varied conference and banqueting facilities.High barriers to entry for future competition.Access to major referral network through operator with strong North American base.Recently refurbished.		<ul style="list-style-type: none">Subject to long term management agreementLeasehold land tenure.Size of standard rooms in comparison to more modern 5 star deluxe developments.
Opportunities		Threats
<ul style="list-style-type: none">Redevelopment potential, DA lodged for additional ballroom.Potential partial conversion of hotel to residential use.Leverage off high market occupancy to grow rate		<ul style="list-style-type: none">Soft inbound tourism.Weaker outlook for domestic economy.

InterContinental Sydney		
<i>Address:</i>	117 Macquarie Street, Sydney	
<i>Opened:</i>	1985	
<i>No. Rooms:</i>	480 rooms & 29 suites	
<i>Executive Club:</i>	Roof top Club Lounge with spectacular harbour views.	
<i>Meeting Space:</i>	<ul style="list-style-type: none">• 12 character filled meeting rooms sit within the beautifully restored Treasury Building of 1851 (1,651sqm)• Largest Room Capacity: 500 Reception Style	
<i>Food & Beverage Outlets:</i>	<ul style="list-style-type: none">• Café Opera Brasserie – 180 seats – all day dining• The Cortile – 80 seats – vaulted courtyard	
<i>Other Facilities:</i>	<ul style="list-style-type: none">• Built around the restored Treasury Building, the hotel offers panoramic views of Sydney Harbour, the Royal Botanic Gardens and the Eastern suburbs.• Other services include gym, indoor swimming pool, business centre and beauty salon.	
<i>Comments</i>	<ul style="list-style-type: none">• Prime Sydney CBD Location with extensive harbour and botanic gardens• Refurbished in 2003 at reported cost of \$25 million	
Strengths		Weaknesses
<ul style="list-style-type: none">• Prime CBD location with harbour views• Good vehicle access from Bridge, Phillip and Macquarie Streets.• Established hotel with strong track record.• Limited refurbishment work required in short to medium term.• Benefit of IHG distribution network• Rooftop Club Lounge.		<ul style="list-style-type: none">• Leasehold land tenure.• Subject to long term management agreement• Lacks large banqueting room.
Opportunities		Threats
<ul style="list-style-type: none">• Potential to develop Transport House to provide additional facilities.• Leverage off high market occupancy to grow rate		<ul style="list-style-type: none">• Heritage listed.• Soft inbound tourism.• Weaker outlook for domestic economy.

Astral Tower & Residences at The Star		
Address:	80 Pyrmont Street, Pyrmont	
Opened:	1997	
No. Rooms:	351 rooms & 130 apartments	
Meeting Space:	<ul style="list-style-type: none">The hotel currently does not have any function facilities due to the extensive redevelopment works. However, the hotel is currently developing a state-of-the-art entertainment and events centre due to open in early 2013.	
Food & Beverage Outlets:	<div>Signature Dining Restaurants<ul style="list-style-type: none">Momofuku SeioboBallaBlack by ezardThe CenturySokyoBistro 80</div> <div>Casual Dining Restaurants<ul style="list-style-type: none">Fat NoodleFood QuarterFuelGarden BuffetCafé CourtAntidote</div>	
Other Facilities:	<ul style="list-style-type: none">Turbines Health Club (we note that the pool and spas at the Health Club are closed until 2013 due to the construction of the event centre)Outdoor Swimming Pool	
Comments	<ul style="list-style-type: none">Pyrmont location and Western harbour views	
Strengths		Weaknesses
<ul style="list-style-type: none">Part of casino complex – additional demand from entertainment events and gaming.Owns and operates most casino hotels across Australia.Large banqueting space.Close proximity to SICEEP.		<ul style="list-style-type: none">Independently operated.City fringe location.Western harbour views.High proportion of leisure guests.
Opportunities		Threats
<ul style="list-style-type: none">Recently completed extension and renovation works.New entertainment and events complex under construction.Leverage off high market occupancy to grow rate		<ul style="list-style-type: none">Soft inbound tourism.Weaker outlook for domestic economy.Reports of new casino at Barangaroo.

The Darling		
<i>Address:</i>	60 Pyrmont Street, Pyrmont	
<i>Opened:</i>	2011	
<i>No. Rooms:</i>	171 rooms including five penthouse suites	
<i>Meeting Space:</i>	<ul style="list-style-type: none">The hotel does not have any function facilities however is thought to benefit from the function facilities once completed in the adjoining Casino complex.	
<i>Food & Beverage Outlets:</i>	<ul style="list-style-type: none">As the property adjoins The Star, the hotel benefits from a wide variety of fine dining restaurant and casual dining restaurants. However we note that the Soky restaurant is situated within the hotel lobby.	
<i>Other Facilities:</i>	<ul style="list-style-type: none">Health Spa with 16 treatment rooms including a couples room situated on Level 2Outdoor infinity swimming pool with bar and lounge deck	
<i>Comments</i>	<ul style="list-style-type: none">Pyrmont location situated adjacent to The Star	
Strengths		Weaknesses
<ul style="list-style-type: none">Part of casino complex – additional demand from entertainment events and gaming.Owns and operates most casino hotels across Australia.Close proximity to SICEEPNewest new build hotel in Sydney		<ul style="list-style-type: none">Independently operated.City fringe location.
Opportunities		Threats
<ul style="list-style-type: none">Recently completed extension and renovation works at The Star.New entertainment and events complex under construction.Leverage off high market occupancy to grow rate		<ul style="list-style-type: none">Soft inbound tourism.Weaker outlook for domestic economy.Reports of new hotel at Barangaroo and SICEEP that may be considered competitive.

Pullman Quay Grand Sydney Harbour		
<i>Address:</i>	61 Macquarie Street	
<i>Opened:</i>	1997	
<i>No. Rooms:</i>	65 x 1- and 2-bed apartments	
<i>Meeting Space:</i>	<ul style="list-style-type: none"> Two function rooms catering for up to 100 delegates 	
<i>Food & Beverage Outlets:</i>	<ul style="list-style-type: none"> ECQ bar – mezzanine level – 100 seats Quadrant restaurant – mezzanine level – 65 seats 	
<i>Other Facilities:</i>	<ul style="list-style-type: none"> Each Quay Grand suite (one or two-bed) comprises lounge/dining room, fully appointed bathroom with spa, fully equipped kitchen with integrated laundry and private balcony. Recreation facilities include: private recreation deck overlooking Circular Quay, indoor heated swimming pool, sundeck, spa, sauna and fully equipped gymnasium. Parking for 151 cars 	
<i>Comments</i>	<ul style="list-style-type: none"> Set on the eastern shore of Circular Quay, offering views of the Harbour Bridge, Opera House, Botanical Gardens and city skyline. Mirvac Property Growth Trust sold 84 units in 1996 off plan and retained 45 serviced apartments which were sold in June 1997 for \$25million. 	
Strengths		Weaknesses
<ul style="list-style-type: none"> Apartment style accommodation. Strong domestic corporate appeal. 		<ul style="list-style-type: none"> Restricted Opera House views. Australian domestic operator with limited international reach until recent rebranding. Limited function/banqueting rooms. Strata-titled (multiple owners).
Opportunities		Threats
<ul style="list-style-type: none"> Recent re-branding into Accor network. 		<ul style="list-style-type: none"> Soft inbound tourism. Weaker outlook for domestic economy. Pullman is still a relatively new brand in Australia

4.6 Required Accommodation Supply

Jones Lang LaSalle's Hotels & Hospitality Group was appointed in 2009 to undertake a Sydney Accommodation Supply and Demand Study to 2020 for Tourism NSW, acting on behalf the NSW Ministerial Taskforce into Tourism, Planning and Investment. A key component of this report was to provide an updated assessment of visitor accommodation needs in the Sydney Tourism Region to 2020 and to provide an estimation of the likely accommodation shortfall over this period. This report provided an update to the 1999 study which was also conducted by Jones Lang LaSalle.

At that time, we expected that around 8,900 new rooms would be added to Sydney City and Metropolitan accommodation markets over the period to 2020 with the majority of new rooms required in Sydney City (4,800 rooms) and the upscale segment (4 and 5-star hotels).

Forecasts expected that new accommodation supply would on the whole be sufficient to meet anticipated demand except between 2012 and 2016 when we anticipated that around 694,290 room nights or 1.4 million visitor nights (using an average room density of 2.0 persons) would be displaced from Sydney City. This represented an annual average accommodation shortfall of 707 rooms by 2016 if rooms were operating at 100% or 942 rooms operating at 75% occupancy which is more reasonable.

4.6.1 AEC Consulting April 2012

Tourism Accommodation Australia (NSW) commissioned AECgroup to undertake similar analysis in April 2012, titled Sustainable Hotel Development in Sydney. This report recommended annual hotel supply increases between 150- 550 rooms or 5,000 rooms by 2020 would allow for market expansion, capture future demand and allow for a sustainable hotel sector in Sydney.

This report further concluded that supply increases over and above these limits would result in declines in occupancy and room rates, thereby destroying the recent gains the industry has made and reverting back to a boom and bust development cycle.

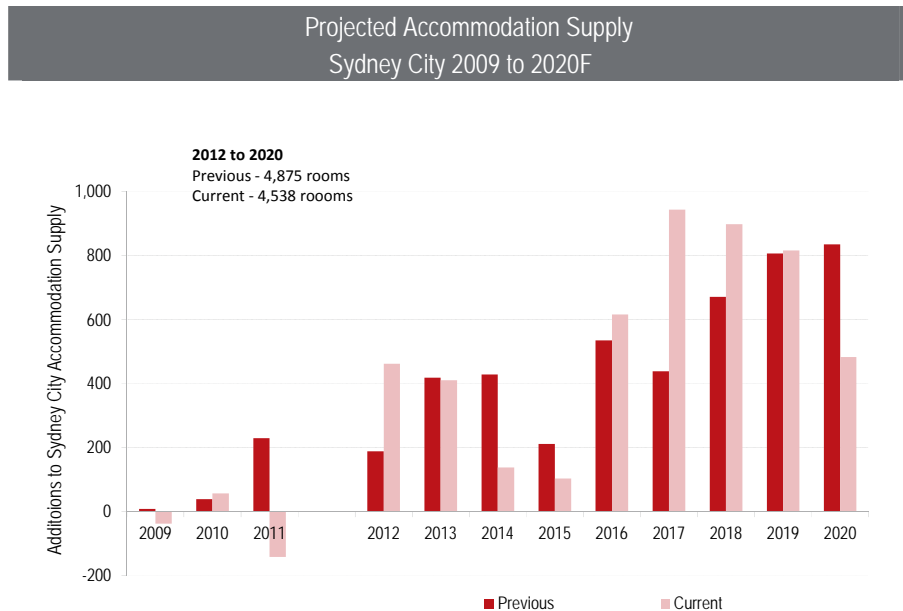
4.6.2 Updated JLL Analysis 2013

We have undertaken a high-level update to our 2009 analysis to recalculate the projected accommodation shortfall for Sydney City, in light of recent trading performance and current supply and demand expectations. This is in line with our previous methodology as outlined in Appendix Two and having regard to the RevPAR development trigger for Sydney City in Section Two.

On the basis of current forecasts, we now expect that around 4,750 rooms will be added to Sydney City accommodation market between 2009 and 2020 with the market having recorded a slight reduction in supply over the three years to 2011 where previously it was expected to increase. Supply additions moving forward are also expected to be at a slightly higher rate (0.1% per annum) than previously expected, having regard to current projects, but with new accommodation supply generally held back by market forces and prolonged restrictions in the credit markets.

The required level of annual demand (having regard to the October 2012 TFC forecasts) is also on average around 5.7% higher. This reflects the strength of the trading recovery which has been evident in Sydney over the past couple of years, albeit partially offset by the higher occupancy ceiling (reflects monthly and daily seasonality patterns). Previously this was believed to be 82% but occupancy levels in Sydney City have averaged 85% over the past two years.

New rooms will be sufficient to meet anticipated demand except between 2013 and 2016 when we expect that around 1.2 room nights or 2.4 million visitor nights (using an average room density of 2.0 persons) will be displaced from Sydney City. This represents an annual average accommodation shortfall of 1,287 rooms by 2017 if operating at 75% occupancy. The accommodation supply shortfall is expected to abate from 2017 as new accommodation product comes on line.



Source: Australian Bureau of Statistics, Jones Lang LaSalle

As with our previous study, this estimation includes a nominal assumption about the proportion of visitor nights which will be displaced to the metropolitan area, which is not guaranteed. We do note however that the proportion of Sydney domestic and international visitor nights spent in Sydney metropolitan has increased considerably over the past decade, reflective of the increased dispersal of demand across the city in line with the growth of accommodation sub-markets.

The closure of the Sydney International Convention and Exhibition Centre in late 2013 could also further skew the outlook. While we understand that events will be spread around the city and with the potential construction of a temporary facility at White Bay, the impact on overall accommodation demand remains unclear. We do however expect ADR growth to moderate below previous expectations as there will be a lack of compression in the city during peak trading times.

4.7 Barangaroo South Site Analysis

Since hotels generally service rather than generate demand, they are best located next to demand generators as this will improve the viability of future developments. Examples include business parks or commercial office towers, casinos, convention centres, medical and/or education facilities.

4.7.1 Location

Barangaroo is situated on partly reclaimed harbour land and is located on the north western fringe of the Sydney Central Business District. The development site is bounded by Sydney Harbour to the west and north, Millers Point (north), The Rocks and the Sydney Harbour Bridge approach to the east.

Upon completion, the site will comprise a substantial 1.4 kilometre harbour foreshore frontage, with an eastern street frontage to Hickson Road. The Barangaroo site has been extensively modified over time to meet the changing requirements of trade, commerce and technologies for the city and its previous uses. More specifically, the hotel will be situated within the Barangaroo South precinct which is mooted to become the predominant commercial sector of the Barangaroo site.

4.7.2 Road Access

As Barangaroo is a purpose built port facility, the site currently has no existing internal street network. Major arterial roads include Argyle Street, Hickson Road, High Street, Margaret Street, Shelley Street, King Street Wharf and Lime Street.

The southern part to the site is situated within close proximity to Wynyard Rail Station and numerous bus interchange locations as well as the ferry stop at King Street Wharf. At present however, there are no direct bus services to the site.

Within the development itself, the provision for public streets and lanes have been designed to provide a variety of pedestrian and vehicular circulation routes within the precinct. Furthermore, a proposed 1.4 kilometre foreshore promenade will run the full length of the site along the harbour edge, completing the Harbour Foreshore Walk between Anzac Bridge and Wollloomoolloo.

4.7.3 Barangaroo South Precinct

The Barangaroo precinct offers views across the water to Darling Harbour to the south, Pyrmont to the south-west, Balmain to the west, Goat Island to the north-west and Berrys Bay and Lavendar Bay to the north. The precinct has a total area of 22 hectares and is generally rectangular in shape. A range of land uses will be accommodated for within the proposed mixed use precinct, including business, retail, tourist/visitor, residential and community uses. Concept approval has been granted for a mixed use development spanning 22.0 hectares.

The Barangaroo precinct is further divided into three smaller areas being Headland Park, Barangaroo Central and Barangaroo South. Located within the southern portion of the 22 hectare site, Barangaroo South is 7.5 hectare division proposed to become a mixed use precinct envisaged to reinforce Sydney's position as a key financial centre within the Asia Pacific region. The precinct is estimated to be completed between 2020 and 2025 and with a total value estimate of \$6.0 billion. We are further advised that 49% of the precinct will be designated as public space with the remainder consisting of 490,000 square metres of Gross Floor Area of

residential, commercial, retail and leisure space. Direct public transport is also mooted for this precinct which will provide integral access to the Sydney CBD core and Wynyard station.

4.7.4 Market Positioning and Expected Concept Options

Set out below are our comments with regard to the various types of hotel development which would be considered at Barangaroo South in the absence of Crown Sydney, as well as an assessment of the strengths, weaknesses, opportunities and threats for each.

Development Alternatives	Strengths	Weaknesses	Opportunities	Threats
Hotel (excluding gaming) ★★★★★★	<ul style="list-style-type: none"> • Design excellence • Global prestige • International acclaim • Exceeds guest expectations • Opportunity to capitalise on waterfront location through the development of an iconic building • Signature F&B facilities • Experience-driven Convention and Event space • Enhanced opportunity to lease retail space to high-end brands given the positive brand association with a hotel of this grade, positioning and target clientele 	<ul style="list-style-type: none"> • Very high construction costs • 6 star service proposition results in high staff ratios / cost and lower net operating profit • Needs a variety of alternate uses to be incorporated into the overall project to underpin the viability of developing such a hotel • Low to medium levels of weekend leisure demand in this location means that an alternate driver is required to generate demand • Demand from traditional inbound source markets (US, UK, Japan) remains weak and growth among high-yielding Asians is yet to be realised with a high proportion of group and education travel still evident 	<ul style="list-style-type: none"> • Hotel of this standard would add to positioning of the Barangaroo precinct as a corporate headquarters and Sydney as a global city • Very favourable competitive environment with no other hotels of this standard in Sydney • No other greenfield waterfront sites in Sydney CBD suitable for 6-star hotel development • Existing buildings are very unlikely to be suitable for conversion to a hotel of this standard • Opportunity to command a rate premium from being the only hotel in the city of this standard or likely to be in the medium to long term. • Appeal to higher echelons of corporate visitors and international visitors to Sydney • Opportunity to appeal to new demand sources which are currently not catered for in Sydney • Potential visitation incentive as one of the great hotels in the world 	<ul style="list-style-type: none"> • Views of the Sydney Opera House and Sydney Harbour Bridge are critical to the overall success of this development • Western CBD location may be regarded by some corporate and international visitors as second-rate (compared to hotels located in the Rocks and Circular Quay) and north-east corner • Lack of transportation infrastructure • Sydney's luxury accommodation market has historically traded at a low level of ADR

Development Alternatives	Strengths	Weaknesses	Opportunities	Threats
Hotel ★★★★★	<ul style="list-style-type: none"> • Prestige • Exceed guest expectations • In line with expected corporate tenant profile at Barangaroo with a high proportion of prime grade office space and international occupiers • Strong investor/operator demand for a 5-star hotel in this precinct given the requirement by many owner operators and operator groups for a flag in Sydney 	<ul style="list-style-type: none"> • High Australian construction costs • Needs more F&B & leisure facilities including ballroom & spa • Low to medium levels of weekend leisure demand in this location or likely to be price sensitive • Demand from traditional inbound source markets (US, UK, Japan) remains weak and growth among Asians is yet to be realised with a high proportion of group and education travel still evident 	<ul style="list-style-type: none"> • Hotel of this standard would add to overall viability and positioning of the precinct • Lack of alternative greenfield sites in Sydney CBD suitable for luxury hotel development • Conversion costs of existing buildings to luxury hotel use may be higher than a new development in this location • Competitive environment in this location is quite weak. Where 5-star product does exist, it is quite old. A branded 5-star project opening in this location would be expected to trade well • Opportunity to command a rate premium from being the newest product in the Sydney accommodation market • Existing competition from 5-star product primarily located within the city core and midtown precincts • Appeal to higher echelons of corporate visitors in the precinct and international visitors 	<ul style="list-style-type: none"> • History of low return on capital in developing 5-star hotels • Western location may be regarded by some corporates and international visitors as second-rate (compared to hotels located in the Rocks and Circular Quay) • External F&B environment is projected to be quite competitive

Development Alternatives	Strengths	Weaknesses	Opportunities	Threats
Hotel ★★★★★ ★★★★★	<ul style="list-style-type: none"> Satisfactory level of guest amenity for target markets Lower costs and higher efficiencies than 5-star product 	<ul style="list-style-type: none"> Generally lower cost F&B facilities (café) Positioning will not exploit harbourside location to its full extent Not suitable for longer stay guests which contribute to broader economy Lack of visitation incentive to precinct and Sydney 	<ul style="list-style-type: none"> Product of this quality would enable hotel to target corporate & convention business in the area Competitive environment is moderate. A branded upscale project opening in this location would be expected to trade well Opportunity to command a rate premium from being the newest product in the market 	<ul style="list-style-type: none"> Costs of operation affect profit and return on capital External F&B environment at this price point is projected to be quite competitive Large new accommodation facility projected to open at SICEEP with at least 502 rooms of this grade or higher
Hotel ★★★★★ ★★★★★	<ul style="list-style-type: none"> Low operating costs Lower construction costs and more likely to be viable Less reliant on F&B facilities therefore greater cashflow efficiency 	<ul style="list-style-type: none"> Corporate and conference guests generally require higher level of amenity and service Ability to target wider market well and lower end corporate but may not cater to demand fully Not suitable for longer stay guests which contribute to broader economy Lack of visitation incentive to precinct and Sydney 	<ul style="list-style-type: none"> Product of this quality would enable hotel to target corporate & convention business in the area Competitive environment is moderate. A branded upscale project opening in this location would be expected to trade well 	<ul style="list-style-type: none"> May not attract economic levels of corporate and conference business with this product Unlikely to add value to the overall project and may undermine residential sales and leasing potential as part of the overall precinct Less synergy with the commercial and retail components of the precinct Not as hard wearing Higher volume low rate business
Serviced Apartment ★★★★★ ★★★★★	<ul style="list-style-type: none"> Lower operating costs than an equivalent quality branded hotel More flexible exit options Ability to sell down apartments 	<ul style="list-style-type: none"> Ability to capture short term corporate demand may be price driven Weak long term corporate location. Corporate market finds self-catering less appealing / relevant for short stays 	<ul style="list-style-type: none"> Co-locate mix of product i.e. hotel and serviced apartments 	<ul style="list-style-type: none"> May not generate sufficient return on capital to support cost of development Management companies prefer one owner Limited demand for sell down in this location

Source: Jones Lang LaSalle

We would expect the appeal of each product offering (as set out above) to vary across the different market segments as follows:

Corporate

- 6-star facilities will not have broad corporate appeal. Hotel occupancy would be limited to C-Suite executives, partners and international business executives who are treating themselves. Some additional demand could be achieved through the unique nature of the Crown offering (international, government and media).
- 4 and 5-star would be expected to have broad corporate appeal with ability to command high occupancy with volume accounts, albeit at lower room rates with limited capacity for on-spend.
- 3 star and serviced apartments would not have great appeal in this area due to the lack of transportation, lower priced F&B and entertainment facilities.

Leisure

- 6-star facilities will have strong appeal through international and domestic segments for weekend stays and celebratory moments. Patrons will appreciate the unique nature of the facility and location.
- 5-star will have strong appeal, albeit at lower rates.
- 4-star, 3-star and serviced apartments will have limited international appeal and will lack differentiation from the current accommodation offering in the Sydney market.

Gaming

- 6-star facilities and service have become the expected norm for this segment of the market.
- Typical 5, 4 and 3-star facilities will not offer the size of room, levels of services and amenities to appeal to this customer segment. The competitive environment in this market demands a higher level of facility, service and amenity than the typical 5-star offering.

4.8 The Crown Sydney Proposal

Crown has signed an Exclusive Dealing Agreement with Lend Lease Corporation Limited (Lend Lease) whereby Crown and Lend Lease will work together on an exclusive basis for a period of up to 24 months to jointly develop the concept plan for the Crown Sydney hotel resort. The Crown Sydney hotel resort is expected to be located on a site to be agreed with the New South Wales Government on the north-west corner of Barangaroo South, adjacent to Sydney Harbour and Barangaroo Central.

Crown has proposed the development of a hotel resort at Barangaroo as outlined in the Crown Sydney Hotel Resort Unsolicited Proposal. We understand that the hotel resort will comprise a luxury 350-room hotel and approximately 80 apartments; meeting/ballroom facilities; high-quality restaurants; spa, pool and amenity deck; and gaming facilities. The construction cost is estimated to be approximately \$1.2 billion.

We understand that the Crown Sydney Resort project will utilise world's best practice design, in order to create an iconic addition to Sydney Harbour. The design of the hotel resort will be sympathetic to the surrounding improvements at Barangaroo South and Barangaroo Central and will create a unique opportunity for tourists to experience the proposed cultural amenities and parklands that are an integral part of Barangaroo. Crown will be

working with some of the world's best hotel resort and hospitality designers and will consult with an expert advisory panel to ensure that the Crown Sydney Resort is an iconic addition to Barangaroo and Sydney Harbour.

Crown expects that the Crown Sydney hotel resort will provide a 6-star accommodation offering which is currently not available in Sydney and will be superior to the best quality hotels and resorts which will be on offer in Singapore, China, Macau and Hong Kong.

4.8.1 6-star vs. 5-star hotel standard

Crown expects that the hotel at Crown Sydney will be housed in an iconic building with spectacular views, home to the finest luxury retail brands and collection of world class restaurants and bars. Crown expects that the guest rooms, suites and villas will be opulent and expansive, visualised by a world renowned designer, featuring cutting edge technology to enhance the guest experience during their stay.

The hotel facilities are expected to be enhanced only by unsurpassed customised service, dedicated and tailored to each guest by a devoted team of multi-lingual and culturally aware professionals, anticipating guests every need. The extensive training undergone by Crown's highly skilled professionals will ensure they are equipped to meet the needs of the most discerning traveller, principally those of Crown's high growth markets.

The Crown Sydney 6-star facility will be distinguishable from a Forbes 5-star and Australian 5-star hotel standard based on the following criteria:

Facility	6-star	Forbes 5-star	Australian 5-star
Avg Suite / Villa Size	100-500 sqm	75-250 sqm	50-250 sqm
Avg Standard Room Size	55-70 sqm	45-55 sqm	40-45 sqm
Lobby area	Architecturally dramatic space with high levels of service and amenity	Architecturally dramatic space	0.75sqm per key with high ceilings
Porte Cochere	Statement arrival with personalized greeting and capacity for limousine and valet service	Covered parking for 6-12 limousines	Min 3 lanes wide
Fitness Facility, Pool & Spa	Large-scale spa facilities with segregated VIP treatment rooms and customised treatments	c.450sqm	c.250sqm
Restaurants	Multiple signature dining experiences with celebrity chefs in highly designed environments	1 x upscale all day dining 1 x specialty restaurant	1 x upscale all day dining Maybe 1 x specialty restaurant
Restaurant Covers	Signature restaurant clustering creates a dining precinct which results in visitation. Restaurant covers are expected to be 150-200% of room count.	75% of room count	85% of room count

Facility	6-star	Forbes 5-star	Australian 5-star
Cocktail Lounge/Bar	Signature lounge environment which is destinational in nature and leverages the unique aspects of the location	Upscale lounge bar with tasting menu	Meeting and gathering point with light snacks
Meeting Space	Meeting and convention space with unique outdoor environments which leverage Sydney's climate and harbour environment	Approx. 2.5sqm per key	Approx. 1.8sqm per key

4.8.2 Indicative Development Timeline

Typical 5-star hotel

The only recent new-build additions to 5-star accommodation supply in Sydney are the Darling (171 rooms, 2011), Pullman Sydney Olympic Park (212 rooms, 2008) and the Diamant Kings Cross (79 rooms, 2007), which are a mixture of stand-alone and mixed use developments. Therefore, there is little recent evidence upon which we can draw.

Jones Lang LaSalle were involved in the project management of the Pullman Sydney Olympic Park and have knowledge of the timeframes involved for the design and construction of this 200-room 5-star hotel over 18 levels which took between 48 and 52 months from inception to opening. For a 5-star hotel located in Sydney City we expect the likely timeframes to be as follows:

	Duration
Finalisation of specifications and design to DA	2-3 months
Approvals	6-12 months
Tender & Negotiation	3-4 months
Construction	32 months
Pre-Opening incl FF&E placement	2 months
Total	45 – 53 months

We note that there are a range of different contracting delivery methods which may offer the opportunity to reduce the overall project development duration from the above. Furthermore, this estimation assumes that the construction of the hotel will proceed smoothly with no major issues arising for example site contamination works or restricted access and that there is an availability of labour and input materials.

Iconic 6-star hotel

As indicated above there are limited reference points relating to the construction of a 5-star hotel and there are no reference points for an Iconic 6-star hotel in Australian market. That being said, it is reasonable to assume that the 6-star hotel at Barangaroo will take longer to construct than a 5 star hotel. Key considerations that underpin this conclusion are as follows:

- Crown's 6-star hotel at Barangaroo is expected to be a very tall hotel building designed by world-renowned architect, Wilkinson Eyre. A building of this complexity will result in additional time for each of the construction stages.
- Crown's 6-star hotel proposal for the Barangaroo site will be subject to a number of additional planning and design reviews given the significance of the project which is likely to impact the overall timeframe to deliver the project.
- The positioning of Crown's 6-star hotel requires a more opulent level of finishes and detailing than what is traditionally constructed in the Australian market which may necessitate a longer construction duration.

For a 6-star hotel located in Sydney on the Barangaroo site we expect the likely timeframes to be as follows:

Stage	Duration
Finalisation of specifications and design to DA	4-6 months
Approvals	6-12 months
Tender & Negotiation	4-6 months
Construction	42 months
Pre-Opening incl FF&E placement	3 months
Total	59 – 69 months

As stated for the 5-star hotel there are a number of different contracting delivery methods which may offer the opportunity to reduce the overall project development duration from the above estimate. It is our understanding that Crown intends to employ a fast-track methodology to deliver the project in an expedited manner in addition to negotiating the contract with Lend Lease as opposed to a competitive tender process which can save approximately 6-8 months on the above durations. Although this will likely reduce the overall construction duration it should be noted that this increases the risk to the developer in terms of cost certainty. Furthermore, this estimation assumes that the construction will proceed smoothly with no major issues arising for example site contamination works or restricted access and that there is availability of labour and input materials.

4.9 Alternative Development Scenario for Barangaroo

Based on the likely development costs and relative end value, we expect that a 4.5-star hotel would be the most economically viable alternative standalone hotel development option for Barangaroo South in the absence of Crown Sydney. However, a 5-star (Australian standard) branded hotel is the more likely alternative development scenario for that site given the attributes of the overall precinct, harbour-side location and limited availability of alternative 5-star development sites in the Sydney CBD.

The development of a 5-star hotel at Barangaroo is likely to generate a low return on capital given the high construction cost and relatively low RevPAR environment which persists in Sydney. However, there are other factors which may support the construction of a 5-star hotel at Barangaroo, including current investor/operator

appetite to gain a foothold in Sydney's luxury accommodation market, particularly from Asian owner operator groups.

Despite the likelihood of low development returns, some investors may be willing to proceed with developing a 5-star hotel given that Sydney is widely regarded as the most strategically important location for first time entrants to Australia (investors & operators) and an essential requirement when establishing a presence in the Asia Pacific region. This is because Sydney is a global city, a key hub for the Asia Pacific region and Australia's finance centre, major gateway and primary real estate market. Sydney is also the single most popular tourist destination in Australia, with two of the country's most internationally-recognised iconic attractions, the Sydney Opera House and the Sydney Harbour Bridge.

The very long hold periods (30-50 years) of some Asian family companies and owner operator groups may further mitigate any immediate concerns regarding the likely low development returns with few opportunities to acquire established 5-star assets in Sydney with the benefit of vacant possession.

Further, greenfield investment opportunities are rare, with few additions to luxury accommodation supply over the past decade. We are aware of groups of investors who—notwithstanding the likelihood of low development returns on the project—would develop if presented with the right 5-star greenfield opportunity. Barangaroo is one of the last greenfield sites for luxury hotel accommodation in Sydney.

Consequently, we expect that a 5-star (Australian standard) hotel development at Barangaroo may attract investment from offshore groups. As discussed above, the low return on development may be outweighed by the attributes of the broader precinct, proximity to demand generators and opportunity to develop a significant contemporary building with impressive architectural design on a harbour-side location with views of both the Sydney Opera House and Sydney Harbour Bridge (above a certain height). However, the scale and quality of the rooms and facilities of this type of 5-star (Australian standard) hotel are unlikely to match what is being proposed by Crown at Crown Sydney.

Whilst a 5-star (Australian standard) hotel development at Barangaroo is possible, we do not believe a standalone hotel development of the scale and quality being proposed by Crown (ie. what Crown describes as a 6-star hotel resort) is viable given the expected low development return of such an investment.

4.9.1 Property Overview

We would expect that a 5-star (Australian standard) hotel at Barangaroo would have a total room inventory of around 250 to 400 rooms with a medium level of meeting, function and banqueting facilities. A brief overview of the likely product outcome is detailed below:-

Guest Rooms

It is likely that the hotel will comprise around 250 to 400 guest rooms as follows:

Component	No.Rooms	Room Size (sqm)
Standard	190-300	Circa 40-45
Suites	60-100	Circa 50-60
Total Rooms	250-400	n/a
Weighted Average		Circa 45

In our opinion guest rooms within this development will most likely comprise the following:

- Ensuite with separate shower stall and bath;
- LCD televisions with pay TV / movie channels;
- High speed wireless internet access;
- Individually controlled air conditioning;
- Functional work desk and chair;
- Sufficient lighting throughout the guest room;
- Sufficient sound proofing from external / internal noise;
- Full black out curtains;
- Comfortable bedding arrangements with bed side tables;
- Tea/coffee making facilities;
- In-room safe;
- Iron and ironing board;
- Armoire;
- Mini bar / bar fridge; and
- MP3 compatible sound systems;

The suites would include additional items of amenities/furniture commensurate with current 5 star (Australian standard) hotels.

Food & Beverage Facilities

We would expect the most likely hotel development will comprise a variety of food and beverage outlets namely an all-day dining restaurant, perhaps a specialty restaurant/bar, lobby lounge and bar as well as a pool bar for peak periods.

The food and beverage facilities would be large enough to cater to demand during the peak breakfast period as well as seating those groups generated from the conferencing market. We envisage that the restaurant outlet should have capacity for approximately 200 to 300 patrons in addition to an alfresco / terrace area providing views over the harbour. Furthermore, the bar would have sufficient capacity to serve as a gathering point for conference delegates, as well as being attractive to in-house and external patrons.

Conference Facilities

We expect that the hotel development will comprise approximately 1,000 square metres of meeting/function space including a ballroom together with 6 to 10 smaller meeting rooms.

Recreational and Other Facilities

Recreational facilities within the likely hotel development would comprise an indoor heated swimming pool, fitness/health centre/spa, business centre along with an executive lounge.

Retail & Car Parking

We would anticipate retail areas to be limited to a gift/general store within the hotel lobby area. Further additional retail areas would be dependent on the precise locational attributes relative to pedestrian flows and the level of retail space in the surrounding precinct. In any case, additional retail areas would not be likely to exceed 500 square metres. Onsite parking would be expected to provide in the order of 100 to 200 car spaces dedicated to hotel related usage.

4.9.2 Accommodation Inputs for Economic Modelling

We have been asked to provide some key operating statistics for the likely accommodation hotel option which would be developed at Barangaroo in the absence of the proposed Crown Sydney hotel resort. Operating statistics are in 2012\$ and assume that the hotel is operational today at a mature level of trade.

We note that in the absence of tightly defined concept plans and given the broad parameters in terms of room count etc., our estimates below are indicative only and should not be interpreted as a formal or precise income estimate. This being the case, the estimates below should not be applied to any feasibility analysis underpinning the investment decision making process but rather are intended to provide a broad guide for the reader as to likely expected performance for a hotel concept in the Barangaroo precinct.

These are summarised in the following table and a detailed explanation of data sources and specific assumptions provided below.

Input	5-star (Australian standard)
Physical Product	
Rooms	250 – 400
Construction Costs per room (2012\$)	\$386,500 to \$416,500
Fit Out per room (2012\$)	\$64,400 to \$76,400
Key Performance Statistics	
Occupancy (mature level)	78 - 80%
Average Daily Rate (2012\$)	\$360 - \$400
RevPAR (2012\$)	\$281 - \$320
Stabilised Trading Range in 2012 \$ (400 rooms)	
Rooms Revenue	\$41 to \$46m
Other Department Revenues	\$21 to \$26m
TOTAL REVENUE	\$62 to \$72m
Rooms Contribution	\$28 to \$33m
Other Departments Contribution	\$4 to \$8m
TOTAL DEPARTMENTAL CONTRIBUTION	\$32 to \$41m
Total Undistributed and Fixed Expenses *	\$19 to \$20m
NET OPERATING PROFIT	\$12 to \$22m
*Inclusive of management fees and FF&E reserve, but before any land rent that may be payable at Barangaroo	
Source: Jones Lang LaSalle/Rawlinson Australia Construction Handbook 2012	

Our likely operating parameters are predicated on the following data sources and specific assumptions.

Data Sources

- Construction and fit out costs exclude land costs and GST as well as consultant fees, site works, landscaping, authority fees and finance costs. These have been sourced from Rawlinsons 2012 Australian Construction Handbook. We recommend that these are verified by a quantity surveyor;
- Stabilised occupancy and ADR projections have been calculated through the application of likely fair share analysis relative to a basket of similarly graded competing properties and include a premium for a new hotel opening in Sydney and being the only hotel in the Barangaroo precinct, located in close proximity to fully tenanted major commercial offices which are assumed to be completed for the purposes of this exercise;
- The likely demand profile i.e. split of domestic to international visitation is based on the current performance of a basket of similarly graded properties. We note that the actual performance would be influenced by a broad range of factors including the hotel management company, corporate tenant profile, global and domestic economic environment, as well as Australian tourism trends with strong growth projected in international tourism; and
- Departmental revenues and expenses are based on the current benchmarked performance of a basket of similarly graded properties. We note that the actual performance would be determined by the range, scale and positioning of food, beverage and minor operating departments, as well as the extent of competition in the overall Barangaroo precinct. This being the case our estimates are indicative only.

Specific Assumptions

- We expect that a 5-star accommodation option would have in the order of 250-400 rooms with a weighted average room size of 45sqm as well as sufficient food, beverage, function, recreational and typical back of house facilities associated with the operation of a hotel of this standard;
- A critical assumption that we have made in estimating future operating performance is the quality of the property. We have assumed that the hotel will have fittings and final product to the standard commensurate with an Australian 5-star rating;
- The development will be professionally managed by or with the benefit of an internationally recognised operator or brand, with all associated systems including marketing/reservation infrastructure in place to manage such a property;
- A programme of advertising and promotion will be undertaken prior to the hotels' opening, the cost of which is assumed as a development cost;
- The Barangaroo site will include 300,000sqm of commercial office space, tenanted to premium domestic and international companies. As a primary source of demand for the hotel, the development of commercial office space will be complete and let prior to the opening of the hotel;
- There will be no additional hotel/serviced apartment room inventory built on the Barangaroo site and Sydney city's accommodation supply will not increase beyond that anticipated on our current market forecast;
- There will be no additional significant conference and banqueting facility built on the Barangaroo site;
- Sydney's accommodation market will largely perform in line with JLL's current forecast occupancy and average daily rates (ADR) over the five year period and the city market and the 5-star segment will not experience any significant downturn;

- That the current volatility in global credit markets will stabilise and further, will not gather momentum that could jeopardise current levels of operational and investor sentiment prevailing in the Australian Tourism property investment market; and
- Our analysis does not take into account the impact of any casino facility within the hotel.

4.9.3 Conclusion

A 5-star (Australian standard) branded standalone hotel is the alternative development scenario for Barangaroo in the absence of Crown Sydney given the attributes of the overall precinct, harbour-side location and limited availability of alternative 5-star development sites in the Sydney CBD.

While the development of a 5-star hotel at Barangaroo is likely to generate a low return on capital (given the high construction cost and relatively low RevPAR environment which persists in Sydney), there are other factors which may support the construction of a 5-star hotel at Barangaroo, including current investor/operator appetite to gain a foothold in Sydney's luxury accommodation market, particularly from Asian owner operator groups with few opportunities to acquire existing 5-star assets with the benefit of vacant possession and having regard to the very long hold periods of such groups. The likely low return on development may be outweighed by the attributes of the broader precinct, proximity to demand generators and opportunity to develop a significant contemporary building with impressive architectural design on a harbour-side location with views of both the Sydney Opera House and Sydney Harbour Bridge (above a certain height).

Whilst a 5-star (Australian standard) hotel development at Barangaroo is possible, we do not believe a standalone development of the type of hotel being proposed by Crown (ie. what Crown describes as a 6-star hotel resort) is viable given the expected low development return of such an investment, unless the development includes a gaming component or other concessions to underpin the overall viability of the project.

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APPENDICES

Appendix One – Demand and Occupancy Forecast for Sydney

1. Sydney City Supply & Demand Forecast

Jones Lang LaSalle publishes five year trading forecasts for the Sydney City accommodation market (ie. to 2017), however we have made available our current outlook to 2020.

Jones Lang LaSalle forecast models use historical information to estimate past relationships between the dependent variable (supply & demand) and explanatory variables (e.g. average daily rates) although we note that such relationships may not hold in the future. External shocks to the industry for example can disrupt these relationships in the short term or lead to structural change over the long term. The Australian economy has suffered a number of recessions or downturns over the past forty years averaging around every eight years. The tourism industry has also experienced a series of demand shocks arising from various issues ranging from terrorist attacks to bird flu, impacting global and/or domestic demand. Predicting the timing of such events is understandably complex particularly over the long term. Our forecasts do not make any such allowance but past experience would indicate that one major shock is likely to occur within a ten year period. This has been reflected in the CAAG i.e. through the use of smoothing in latter parts of the forecast.

Jones Lang LaSalle stresses that the estimation of future demand, business trends, property prices, occupancy and room rates is a difficult exercise, which at best should be regarded as an indicative assessment of possibilities rather than absolute certainties. The process of making forward projections of such key elements involves assumptions about a considerable number of variables that are acutely sensitive to changing conditions, variations in any one of which may significantly affect the resulting projections. This must be kept in mind whenever such projections are considered.

Trading Outlook to 2017

The outlook for Sydney's accommodation market remains positive following the robust recovery which has been evident over the past three years with nominal RevPAR having surpassed the 2008-peak. Growth is expected to accelerate over the medium term given the benign supply outlook and more stable demand environment but with only modest gains in ADR, despite occupancy levels remaining at near record highs. This reflects the lack of compression that will be evident across the city following the closure of the Sydney Convention and Exhibition Centre in late 2013 albeit with events being dispersed throughout venues across the City and possible erection of a temporary exhibition hall at White Bay.

Major infrastructure projects such as the Barangaroo urban renewal project and the development of the Sydney International Convention and Exhibition Precinct (SICEEP) will provide an added boost to the market over the medium to long term, whilst also changing the dynamics of the city landscape with a greater shift towards the western corridor.

Supply increases in Sydney City are expected to average 1.9% per annum over the period to 2017, which represents a higher rate of growth than between 2006 and 2011. Short term increases are negligible, representing only a small increase on the existing base stock and are likely to be quickly absorbed with the market trading at very high occupancy levels. Should all projects materialise as forecast, new supply will be quickly absorbed and market occupancies are expected to remain close to 85%.

The possible closure of a number of city/fringe hotels for conversion to alternate use may also result in capacity constraints remaining a common feature of the Sydney hotel market over the next few years with current expectations that the development cycle will not begin in earnest until 2016/17. In this environment it is likely that some lower yielding demand will be displaced to the broader metropolitan area as was the case in 2007.

Sydney City Actual and Forecast Trading Performance 2006 to 2020

	RNA (000's)	% Change	RNO (000's)	% Change	Occ %	% Change	ADR A\$	% Change	RevPAR A\$	% Change
Actual (CY)										
2006	7,120	2.4%	5,589	3.0%	78.5%	0.6%	\$170.20	5.4%	\$133.60	6.0%
2007	7,191	1.0%	5,869	5.0%	81.6%	4.0%	\$179.26	5.3%	\$146.30	9.5%
2008	7,260	1.0%	5,842	-0.5%	80.5%	-1.4%	\$184.69	3.0%	\$148.61	1.6%
2009	7,247	-0.2%	5,820	-0.4%	80.3%	-0.2%	\$168.94	-8.5%	\$135.67	-8.7%
2010	7,268	0.3%	6,216	6.8%	85.5%	6.5%	\$175.70	4.0%	\$150.27	10.8%
2011	7,216	-0.7%	6,190	-0.4%	85.8%	0.3%	\$187.68	6.8%	\$160.99	7.1%
CAAG 2006 - 2011		0.3%		2.1%		1.8%		2.0%		3.8%
	RNA (000's)	% Change	RNO (000's)	% Change	Occ %	% Change	ADR A\$	% Change	RevPAR A\$	% Change
Forecast (CY)										
2012E	7,361	2.0%	6,281	1.5%	85.3%	-0.5%	\$193.32	3.0%	\$164.96	2.5%
2013	7,462	1.4%	6,344	1.0%	85.0%	-0.4%	\$202.98	5.0%	\$172.57	4.6%
2014	7,504	0.6%	6,408	1.0%	85.4%	0.4%	\$215.16	6.0%	\$183.70	6.4%
2015	7,542	0.5%	6,472	1.0%	85.8%	0.5%	\$232.37	8.0%	\$199.38	8.5%
2016	7,675	1.8%	6,537	1.0%	85.2%	-0.7%	\$246.32	6.0%	\$209.76	5.2%
2017	8,081	5.3%	6,756	3.5%	83.7%	-1.7%	\$256.17	4.0%	\$214.44	2.2%
2018	8,355	3.4%	7,002	3.5%	83.8%	0.1%	\$263.85	3.0%	\$221.13	3.1%
2019	8,689	4.0%	7,212	3.0%	83.0%	-1.0%	\$274.41	4.0%	\$227.76	3.0%
2020	8,949	3.0%	7,363	2.1%	82.3%	-0.9%	\$285.38	4.0%	\$234.77	3.1%
CAAG 2012 - 2017		2.5%		2.0%		-0.5%		5.0%		4.5%

Source Australian Bureau of Statistics, Jones Lang LaSalle. RNA = Room nights available & RNO – room night demand

2. Visitor Night Demand Forecast

Tourism Research Australia (TRA) produces semi-annual ten year forecasts for domestic and international visitor nights for Australia, as well as the proportion of visitor nights expected to be spent in HMGSA. Historically, TRA has produced forecasts for international visitor nights to Australia by inbound source market and domestic visitor nights to each state and state capital by motivation to travel.

Combining these forecasts and applying these growth rates to historical performance, Jones Lang LaSalle projects visitor nights in HMGSA (hotels, motels, guesthouses and serviced apartments) and forecasts accommodation room night demand (RNO) through the application of a room density figure, calculated as visitor nights divided by room nights occupied.

Whilst aggregated visitor nights (Tourism Research Australia) and room nights occupied (RNO, Australian Bureau of Statistics) are highly correlated, growth rates for particular markets can sometimes appear askew which can be partly explained by apparent changes in room density. A comparison of historical visitor nights and room nights occupied in Australia suggests that room density has declined over the past decade from 2.30 persons in 2002 to 1.86 persons in 2012. We have typically used a three-year historical average in our accommodation demand forecasts but again caution that historical performance may not necessarily be reflected in future trends. A summary of the international and domestic visitor night demand forecasts follow.

International Visitor Nights in HMGSA (000's) – Major Source Markets

Year	NZ	Japan	UK	North America	Singapore	China	South Korea	Other Asia	Other Europe	Rest of World	Total
2006	805	826	1,223	1,613	283	890	553	1,149	1,191	377	8,909
2007	737	702	1,101	1,471	313	756	560	1,092	1,203	396	8,330
2008	661	482	909	1,703	403	623	456	1,199	1,210	459	8,105
2009	677	400	991	1,686	429	567	373	1,106	1,153	479	7,861
2010	683	516	741	1,470	287	564	303	1,032	972	422	6,990
2011	694	418	692	1,312	403	514	276	1,081	1,118	461	6,969
2012E	639	385	648	1,273	484	554	279	1,167	1,090	448	6,966
2013F	618	371	573	1,287	549	571	290	1,151	1,047	430	6,887
2014F	629	383	578	1,309	606	589	292	1,189	1,071	445	7,092
2015F	644	398	595	1,346	656	608	300	1,246	1,111	468	7,374
2016F	661	412	616	1,388	699	626	311	1,306	1,160	492	7,671
2017F	678	423	635	1,428	734	641	323	1,363	1,207	516	7,948
2018F	693	434	654	1,466	766	654	333	1,420	1,253	539	8,213
2019F	706	445	672	1,505	794	667	344	1,476	1,299	563	8,471
2020F	719	455	689	1,543	823	679	355	1,532	1,346	587	8,729
CAAG	2.3%	3.1%	2.7%	2.6%	6.4%	2.9%	4.2%	3.4%	3.7%	4.6%	3.5%

Source: Tourism Research Australia / Jones Lang LaSalle

Domestic Visitor Nights in HMGSA (000's) – by Purpose of Visit

Year	Business	Holiday	VFR	Other	Total
2006	2,912	1,788	954	385	6,040
2007	3,053	1,821	918	401	6,193
2008	2,980	1,954	922	302	6,159
2009	2,772	1,918	903	316	5,910
2010	2,577	1,850	831	400	5,658
2011	2,788	1,859	882	446	5,975
2012E	2,831	1,729	1,041	391	5,992
2013F	2,558	1,618	1,152	383	5,712
2014F	2,572	1,633	1,179	389	5,773
2015F	2,669	1,659	1,190	395	5,912
2016F	2,753	1,673	1,199	399	6,025
2017F	2,810	1,686	1,208	404	6,107
2018F	2,844	1,697	1,216	408	6,165
2019F	2,875	1,706	1,224	412	6,216
2020F	2,904	1,713	1,231	416	6,265
CAAG 2013-20	1.8%	0.8%	1.0%	1.2%	1.3%

Source: Tourism Research Australia / Jones Lang LaSalle

3. Accommodation Shortfall

The lower rate of room night demand (RNO) growth in our Sydney City forecast over the period to 2017 compared to the aggregated international and visitor night demand forecast, in part reflects the loss of visitor night demand as outlined in Section 4.6.2 of our report. With Sydney City accommodation market trading at capacity during peak trading times, a proportion of demand will be unmet as visitors will be unable to find accommodation (or at a price point which is deemed acceptable) in Sydney City on all of the days or months they require. A proportion of lower-yielding or price sensitive demand will be displaced to the Sydney metropolitan area (as seen in 2007), whereas other visitors may choose to travel to alternative destinations (e.g. Melbourne) or postpone travel altogether. The extent to which this occurs will vary by market segment in line with the strength of their overall accommodation need. Our assessment of the accommodation shortfall takes regard of these factors whilst recognising that an occupancy ceiling exists in Sydney City in accordance with daily and monthly seasonal trends.

Appendix Two – Development Trigger

For the purposes of this report, we have calculated a required level of RevPAR at which point development would be considered viable or at least having a fair chance of success in line with the following key assumptions:

- Land costs – a use-based assessment of land value and therefore provide a hypothetical assessment on what the asset has the 'ability to pay'. In reality you cannot buy land at that price as hotels need to compete for land with alternate uses i.e. what a residential or commercial property has the ability to pay. It should also be noted that a use-based assessment for land tax is only available to heritage properties or those on ground leases whereas all other accommodation assets pay rates and taxes on land values which do not take regard of use and can therefore be up to double the value stated here. The 'ability to pay' will be the same for each sub-region but in practice it will be more difficult to source land in the City and parts of the Metropolitan where hotels will need to compete with the highest and best use which could be commercial and/or residential;
- Construction costs – in our analysis we have assumed no variation in costs however it should be noted that costs for some sites in the CBD could be up to 20% more, taking into account the potential for more restrictive work practices (hours/deliveries etc) which can increase overall development costs or lengthen the time to develop;
- FF&E, OS&E & IT - research shows that for a typical hotel development up to 16% of the total construction can account for FF&E and OS&E procurement. Developers should establish a clear definition of requirements as specified by the hotel operator within their minimum operating and brand standards. Our assumption is taken from Rawlinsons Australian Construction Handbook 2012 for the Australian accommodation market but we note that costs could be significantly increased for some international luxury operators;
- ESD – ecologically sustainable development. Already gaining considerable ground in the commercial space, green building accreditation for accommodation providers (for example NABERS) is expected to become a key consideration and in the next development cycle. The percentage included is from market research as an estimation of the initial cost;
- Target development profit – research by JLL highlights that this can range from 15.0% to 30.0%. We have relied on the lower end of the range which assumes that development is short to medium term, relatively risk free, the DA is in place and construction costs are fixed. For riskier or longer projects, development profit margins will increase. It should also be noted that historically stand-alone hotel development profit is rarely achieved with developers having to hold projects for a certain period to achieve an acceptable level of return;
- Finance – assumes a two year development period, that debt finance is readily available (leveraged at 50%) and interest rates are around 8%. Any change to these parameters could see development costs increase. It should be noted that development finance is still difficult to secure;
- Parking – regulations will vary in each city with respect to the extent of car parking which must be provided. Costs have been included for underground parking although we note that many owners would sell or lease the car park operation to an investor or known provider as its operation is not their core area of expertise. Mixed-use developments are another way that the burden of car parking construction costs can be reduced, improving overall viability;
- Required return – are based on our current understanding and future expectations at the time at which new development is expected to occur;

- Market stabilised occupancy balance point – market stabilised occupancy having regard to forecast supply & demand and historic averages. Commonly held expectations are that a city hotel would now target an annual occupancy level of 75%.

All of these variables are all highly subjective and open to interpretation. A project may therefore progress for example on the basis of assumed lower costs and/or inflated trading expectations, particularly if projects are worked up when hotel trading performance is strong. Development costs could also be reduced or the viability of a project increased if developed as part of a larger mixed-use development or if the project was able to achieve improved economies of scale by sharing back of house facilities with another hotel in the immediate vicinity.

Appendix Three – Forecast Methodology

Jones Lang LaSalle's accommodation room night demand forecasts have historically relied upon Tourism Research Australia's (TRA) forecasts as the most accurate indicator of likely tourism demand, whereas supply forecasts are calculated from information collated our own proprietary database. A summary of the approach to both our supply and demand projections is provided below.

1. Accommodation Market Data

Statistics pertaining to the supply and performance of Australia's accommodation market have primarily been sourced from the Australian Bureau of Statistics' (ABS) Survey of Tourist Accommodation (STA) which is conducted on a quarterly basis.

The ABS has been progressively replacing the Australia Geographic Classification with the new Australian Statistical Geography Standard as its geographic framework which has resulted in a change to how the data is collated. Notably, what was previously known as small area data is now produced at statistical area level two, replacing statistical local areas.

2. Supply Forecasts

JLL tracks tourism and hotel projects as they are mooted, proposed, under construction, completed or taken out of the market. We obtain information from Cordells construction database, press, local councils, tourism organisations, hotel operators and developers, as well as from local JLL offices. We typically only include proposed projects which we consider likely to commence construction over the next two to three years while there may be many more mooted projects.

Supply forecasting methodology adopted in this Study includes:

- The inclusion of unanticipated supply - supply increases will occur even when development is apparently not feasible. The range of input variables and differing expectations about future trading performance, as well as investment hurdles and other contributing factors will result in some development occurring even though it is not apparently feasible. Recent examples include serviced apartments, mixed-use developments, strategic destinations, some economy hotels and assets which are located in close proximity to tourism demand generators (real or perceived). In secondary markets, in particular, the immediate location increases in importance as a critical driver of hotel investment returns and development feasibility.
- Occupancy ceiling – an assumption has been made (by reference to historical performance) as to the annual average occupancy ceiling for each market. This takes account of monthly and weekly seasonality patterns and at which point a proportion of room night demand is likely to become frustrated and turn away.
- Tactical marketing - the most recent downturn has highlighted the diminished capacity for hotels located in city metropolitan markets to stimulate additional sources of demand, even though rate discounting, as demand is to some extent finite. This does not apply to most state capitals which are regarded as destinations and therefore hoteliers and air carriers have been able to stimulate demand through tactical marketing and promotions

- A qualitative assumption has been made about supply induced demand – a proportion of additional room night demand will be stimulated by the development of new accommodation product, although not sufficient to warrant new development in the first instance. On the flipside, the closure of room stock will also result in a reduction in room night demand.

3. Demand Forecasts

TRA produces semi-annual ten year forecasts for domestic and international visitor nights for Australia as well as the proportion of visitor nights expected to be spent in HMGSA. Historically, TRA has produced forecasts for international visitor nights to Australia by inbound source market and domestic visitor nights to each state and state capital by motivation to travel.

Combining these forecasts and applying these growth rates to historical performance, Jones Lang LaSalle have projected visitor nights in HMGSA (hotels, motels, guesthouses and serviced apartments) and forecast accommodation room night demand through the application of a room density figure, calculated as visitor nights divided by room nights occupied.

Whilst aggregated visitor nights (Tourism Research Australia) and room nights occupied (Australian Bureau of Statistics) are highly correlated, growth rates for particular markets can sometimes appear askew which can be partly explained by apparent changes in room density. A comparison of historical visitor nights and room nights occupied in Australia suggests that room density has declined over the past decade from 2.30 persons in 2002 to 1.86 persons in 2012. We have typically used a three-year historical average in our accommodation demand forecasts. Whether or not this will continue to decline (and the extent thereof) is difficult to determine as it will be dictated by changing consumer travel patterns and has not been reflected in our forecast.

4. Risks to the Forecasts

There are many factors influencing the accuracy of accommodation trading performance forecasts:

- Assumptions around future values of explanatory variables from external sources may not be accurate
- Forecast models use historical information to estimate past relationships between the dependent variable (supply & demand) and explanatory variables (e.g. average daily rates). Such relationships may not hold in the future. Further, external shocks to the industry can disrupt these relationships in the short term or lead to structural change.
- Structural change – forecasting from an uncertain base is inherently risky. The extent to which the global financial crisis and economic slowdown has resulted in a structural break remains to be seen and will only become evident over the next few years. For example historical travel trends and investment drivers may undergo a permanent shift, impacting the extent to which historical time-series and data can be relied upon. Moreover predicting the point in the future at which growth will start to flatten is also inherently difficult whereas economic models tend to assume by their very nature that growth will continue into eternity.
- Demand or economic shocks – the Australian economy has suffered a number of recessions or downturns over the past forty years which have occurred around every eight years. The tourism industry has also experienced a series of demand shocks over the past ten years ranging from terrorist attacks to bird flu, impacting global or domestic demand. Predicting the timing of such events is understandably complex particularly over the long term. Our forecasts have not made any such allowance but past experience would indicate that one major shock is likely to occur within the ten year forecast period. This has been reflected in the CAAG i.e. through the use of smoothing in latter parts of the forecast.

However there are also some additional risks peculiar to the accommodation or property segments:

- Conversion to alternate uses – when hotel trading performance comes under pressure or other property sectors perform well (most notably the residential sector) it is likely that developers will acquire hotel assets for total or part conversion to an alternate use. Pinpointing the likely time that this may occur is complex and thus we have not included an estimation of likely closures in our forecasts other than for those projects which are already known. While to some extent held back by planning legislation, the natural attrition of hotel room supply is a critical element if the market is to remain efficient as a whole as it permits the conversion of old and aging room stock to alternate higher uses and enables the remaining stock to more effectively increase rates, improving the overall development feasibility equation. Developing new product which meets the changing requirements of consumers and, as a function of being new, is able to command a rate premium, helps to lift overall market rates.
- Liquidity surge – a surge in liquidity (debt or equity, real or perceived) can impact investment hurdles and may lead to an increase in development activity. Examples over the past twenty years in Australia include hotel development which occurred across Australia in the late 1980s, with significant investment by Asian investors often on the basis of misinformed financial feasibility. More recently a change to planning legislation to permit strata-titled development was boosted by the introduction of the first home owners grant.

Appendix Four – Glossary of Terms

- ABS Australian Bureau of Statistics
- ADR Average Daily Rate
- BPI Building Price Index
- CAAG Compound Average Annual Growth
- DA Development Application
- HMGSA Hotels, Motels, Guesthouses and Serviced Apartments
- HVI Hotel Valuation Index
- IRR Internal Rate of Return
- LGA Local Government Area
- LVR Loan to Value Ratio
- RevPAR Revenue per Available Room
- RNO Room Nights Occupied in a given period
- RNA Room Nights Available in a given period
- STA Survey of Tourist Accommodation
- TRA Tourism Research Australia
- VFR Visiting Friends & Relatives

CROWN SYDNEY HOTEL RESORT





June 13, 2013

Rowen Craigie
Crown Limited
Crown Towers
8 Whiteman Street
Southbank, VIC 3006

Re: International VIP Gaming Market Assessment

Crown Limited (Crown) has commissioned The Innovation Group to opine on the following matters relating to the international VIP gaming market:

1. comment on Crown's estimate of the current size of the international VIP gaming market;
2. provide an estimate of the expected growth rate for the international VIP gaming market;
3. comment on the potential for a new VIP gaming offering to drive international tourism;
4. comment on whether the provision of additional gaming supply in an existing market can stimulate demand for gaming in that market; and
5. comment on whether smoking areas are available in VIP gaming areas at other international casinos.

Our responses to these matters are numbered below:

1. Comment on Crown's estimate of the current size of the international VIP gaming market

We believe that Crown has provided a reasonable estimate of the current size of the international VIP gaming market (as set out in Annexure A), being c.A\$33 billion (based on gross gaming revenue).

2. Provide an estimate of the expected growth rate for the international VIP gaming market

The Innovation Group estimates that the international VIP gaming market is expected to grow at an average annual growth rate of 6.7% p.a. between 2012 and 2022. Our estimate considers historical growth, the maturation of developing economies, the addition of new supply in existing markets and the opening of new markets. Please refer to Annexure B.

3. Comment on the potential for a new VIP gaming offering to drive international tourism

When gaming is introduced or expanded in a new or mature market, it has the potential to drive international tourism growth. Macau and Singapore are good examples of this.

Singapore

Las Vegas Sands Corporation (LVS) and Genting Singapore PLC (Genting) were granted casino licenses in Singapore in May 2006. Both operators spent billions of dollars developing their properties— Genting opened Resorts World Sentosa in January 2010 and LVS' Marina Bay Sands became fully operational in February 2011.

Resorts World Sentosa and Marina Bay Sands have been successful in attracting Asian and overseas tourists to Singapore. For example, following the opening of Marina Bay Sands, visitation to Singapore grew c.20% p.a. between 2009 and 2010, compared with c.3% p.a. between 2004 and 2009. Singapore is now the world's second largest casino market, generating approximately US\$6 billion of gross gaming revenue.

Macau

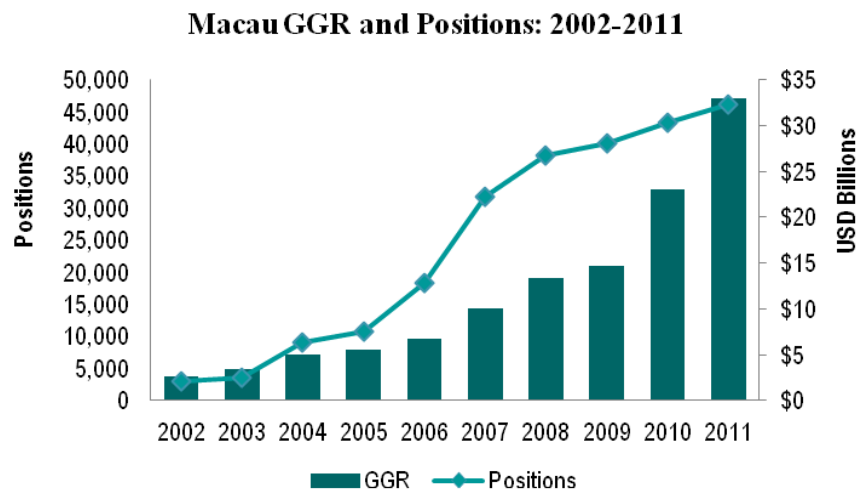
Macau became the world's leading casino destination following the opening of Sands Macau in 2004 and Wynn Macau in 2006.

Visitation to Macau from non-Mainland Chinese tourists grew c.20% p.a. between 2005 and 2006 (which compares with an average of c.4% p.a. between 2000 and 2005) as a result of Wynn Macau opening and the overall rising appeal of Macau's gaming offering.

4. Comment on whether the provision of additional gaming supply in an existing market can stimulate demand for gaming in that market

The addition of a high quality VIP gaming offering can stimulate latent demand for VIP gaming in an existing market.

For example, over the past 10 years, Macau has achieved record gaming revenues and growth rates as the number of positions in the market continues to grow (please refer to the chart below).



Similarly, Resorts World Manila (RWM)—a superior higher-end gaming facility supported by Genting’s expertise and relationships—opened in the Philippines in 2010 and was able to attract new international customers to the region. This resulted in Filipino gaming revenue growth significantly outpacing position count growth following the opening of RWM. For example, between 2009 and 2010, gaming revenue increased c.30% while total gaming positions increased c.10%. This example demonstrates that new, high quality, well-managed supply is able to drive new gaming revenue in an existing market.

5. Comment on whether smoking areas are available in VIP gaming areas at other international casinos

VIP gaming customers in other markets are typically able to smoke in VIP gaming areas.

Singapore

Indoor smoking is illegal in Singapore. However, casinos have been granted an exemption where portions of the casino floor have been designated as non-smoking. For example, smoking is banned on level one of Marina Bay Sands but is allowed in the private VIP gaming salons (although not in the connective hallway).

Macau

As of January 2013, new legislation requires Macau casinos to designate 50% of their gaming floor as non-smoking. It has been reported that Macau casinos have elected to designate the smoking portion of their gaming floor to the VIP gaming space.

Las Vegas

Las Vegas last passed smoking legislation in 2007. The law, which makes smoking in food venues illegal, allows for smoking in casinos. To accommodate non-smoking guests, casinos use efficient ventilation systems in order to limit the impact of smoking.

Thank you for turning to The Innovation Group for your project needs. If you have any questions regarding our responses please do not hesitate to contact us.

Sincerely,



Cameron Steinagel
Vice President

ANNEXURE A

Estimate of the current size of the international VIP gaming market

<i>Gross gaming revenue (GGR) (FY12)</i>		A\$m
Macau VIP (Baccarat only)		25,887
Singapore VIP		3,096
Las Vegas VIP (Baccarat only)		1,354
Australia VIP		973
Philippines VIP		462
Korea VIP		379
Malaysia VIP		329
Other VIP (incl. Cambodia, Europe, South Africa, UK)		854
Total international VIP GGR		33,335

Source: Company filings, Crown estimates, The Innovation Group, Macau Gaming Board (DICJ), Nevada State Gaming Control Board Gaming Commission

ANNEXURE B

Estimated international VIP gaming market growth rate

In estimating the expected growth rate for the international VIP gaming market, The Innovation Group had regard to the following:

Macau

- Between 2012 and 2022 Macau is expected to add 600 new VIP tables
- Historically, Macau VIP gaming revenue growth has tied closely to China GDP growth

Singapore

- We assume that, by 2018, Singapore will add an additional 200 VIP gaming tables through the addition of a third integrated resort, which will be required in order for Singapore to maintain its competitive position in the international VIP market

Philippines

- The Philippines is expected to grow its VIP gaming revenue significantly over the next few years. The first high-end gaming facility is scheduled to open in Q1 2013 (Solaire), with more high-end facilities scheduled to open in subsequent years

Malaysia

- Malaysia is projected to lose VIP gaming revenue as the region becomes more competitive. Consequently, Malaysia is not forecast to increase its VIP table count either through expansion or the opening of a new property

South Korea

- We assume that, by 2018, Korea will expand its casino offering to include internationally competitive integrated resorts. As a result, we have forecast the addition of 600 tables

Vietnam

- Currently, Vietnam generates very little VIP gaming revenue. However, with the completion of the Ho Tram facility in Vung Tau (managed by MGM), VIP gaming revenue will become a significant portion of Vietnam's total gaming revenue

Japan

- In 2010, the Japanese government began to explore the idea of legalizing gambling. The process is still in its infancy with no formal legislation or regulation in place. We believe that casino gaming will be legalized in Japan within the next 5-10 years
- Japan may open as many as three integrated resorts, resulting in the introduction of 600 new tables into the Asian VIP market. Given that no legislation has been passed and no indication of timing has been given, we assume that any new integrated resorts will open in 2018 (corresponding with the potential expansion of gaming in Taiwan, Korea, and Singapore)

Taiwan

- In July 2012, residents on a small group of Taiwanese islands approved a gaming referendum. This approval has drawn the interest of many established global casino companies. However, it is anticipated that legalized casino gaming in Taiwan is many years away. Grant Govertsen of Union Gaming anticipates legal gaming to be at least a half a decade away
- Given that no legislation has been passed and no indication of timing has been given, we assume that a new integrated resort will open in 2018, corresponding with the potential expansion of gaming in Japan, Korea, and Singapore. We assume the addition of 200 new tables in Taiwan (consistent with the size and scope of a single Singapore-style integrated resort)

CROWN SYDNEY HOTEL RESORT





29th April 2013

Mr Rowen Craigie
Chief Executive Officer
Crown Limited
8 Whiteman St
Southbank VIC 3006

Dear Rowen,

I refer to the MOU between United Voice (New South Wales Branch) and Crown Limited in relation to the Crown Sydney Resort, in which Crown acknowledged the need for state of the art air quality technology with appropriate rostering practices to manage the air quality in VIP gaming areas.

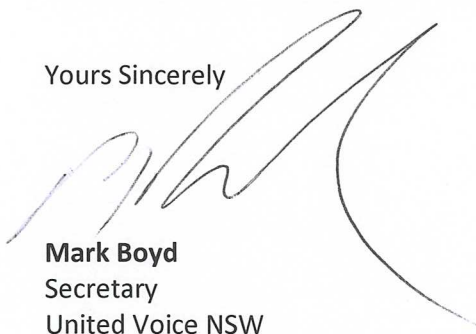
United Voice takes the issue of Occupational Health and Safety very seriously and to this end we would like to secure Crown's agreement to the specific commitments detailed below.

I request that Crown advise the NSW Government that it supports these commitments and that these commitments should be enshrined in legislation to replace the existing Section 11C of the Smoke Free Environment Act prior to the opening of Crown Sydney.

1. Crown must install and ensure the maintenance of state of the art air quality technology in all VIP gaming areas in the Crown Sydney Resort.
2. Crown must conduct quarterly testing by an independent expert to assess the ongoing operating performance of that technology.
3. The results of the quarterly independent testing must be made available to Health and Safety representatives of workers rostered to work in the VIP gaming areas.
4. Crown must report to the Minister on a quarterly basis as to its compliance with these requirements.
5. Based on these quarterly reports, Crown must provide to the Minister an annual report for the Minister to table in Parliament.

Please feel free to contact me should you require any further information on the above.

Yours Sincerely



Mark Boyd
Secretary
United Voice NSW

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CROWN SYDNEY HOTEL RESORT



Rowen Craigie
Chief Executive Officer



13 May 2013

Mr Mark Boyd
Secretary
United Voice NSW
Locked Bag 12
Haymarket NSW 1240

Dear Mark

Thanks for your letter of 29 April 2013 in relation to the proposed Crown Sydney Resort.

We have considered the request of United Voice (NSW Branch) to support the five commitments outlined in your letter. I am pleased to advise that Crown is prepared to approach the NSW Government as part of the current Unsolicited Proposal process for the Crown Sydney Resort to specifically request that these five commitments be included in legislation in place of the existing Section 11C of the Smoke Free Environment Act as requested in your letter.

I will advise you if and when we receive any feedback from the NSW Government.

Yours sincerely

A handwritten signature in black ink that reads "Rowen Craigie".

Rowen Craigie
Chief Executive Officer

Crown Limited

ABN 39 125 709 953

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STRICTLY CONFIDENTIAL

The Allen Consulting Group

Crown Sydney Proposal

An Economic Benefit Assessment

June 2013

Report to Crown Limited

The Allen Consulting Group

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Executive summary

This report sets out:

- the estimated economic benefits which would arise out of the Crown Sydney project;
- the estimated economic benefits which would arise in the absence of the Crown Sydney project and on the basis that an alternative hotel development project (discussed further below) was undertaken at Barangaroo South; and
- the estimated net economic benefits which would arise out of the Crown Sydney project, being the economic benefits in excess of those which would arise out of an alternative hotel development project.

Summary of the estimated economic benefits of the Crown Sydney project

The estimated economic benefits of the Crown Sydney project are set out below:

The Construction Phase (2012/13 to 2017/18)

- **Gross State Product (GSP)** is estimated to increase by \$98 million in 2016/17 (the peak of the construction phase).
- **Employment** is estimated to increase by 600 to 1,100 jobs in 2016/17 (the peak of the construction phase).
- **Business Investment** is estimated to increase by \$381 million in 2016/17 (the peak of the construction phase).

The Operations Phase (2018/19 to 2030/31)

- **GSP** is estimated to increase by \$638 million in 2021/22.
- **Employment** is estimated to increase by 2,300 to 3,300 jobs in 2021/22.
- **Business Investment** is estimated to increase by \$151 million in 2021/22.
- **Export Income** is estimated to increase by \$513 million in 2021/22.
- **Additional taxes generated by Crown Sydney** are estimated to be \$158 million in 2021/22 (payroll tax of \$31 million and gaming tax of \$127 million, including GST¹).

¹ Estimate provided by Crown Limited

Summary of the estimated economic benefits of the alternative development scenario

Jones Lang LaSalle (JLL), in its Sydney Hotel Accommodation Report (June 2013), opines that, in the absence of the Crown Sydney project, a 5-star (Australian standard) branded hotel is the alternative development scenario for Barangaroo South.

The estimated economic benefits of the alternative development scenario are set out below:

The Construction Phase (2012/13 to 2017/18)

- **GSP** is estimated to increase by \$20 million in 2017/18 (the peak of the construction phase).
- **Employment** is estimated to increase by 100 to 200 jobs in 2017/18 (the peak of the construction phase).
- **Business Investment** is estimated to increase by \$73 million in 2017/18 (the peak of the construction phase).

The Operations Phase (2018/19 to 2030/31)

- **GSP** is estimated to increase by \$72 million in 2021/22.
- **Employment** is estimated to increase by 200 to 400 jobs in 2021/22.
- **Business Investment** is estimated to increase by \$17 million in 2021/22.
- **Export Income** is estimated to increase by \$45 million in 2021/22.
- **Additional taxes generated in the alternative development scenario** are estimated to be \$4 million in 2021/22 as a result of increased payroll tax. There is no additional gaming tax generated in the alternative development scenario.

Summary of the estimated net economic benefits of the Crown Sydney project

The estimated net economic benefits of the Crown Sydney project, being the estimated economic benefits in excess of those which arise out of the alternative development scenario, are set out below:

The Construction Phase (2012/13 to 2017/18)

- **Net GSP** is estimated to increase by \$80 million in 2016/17 (the peak of the construction phase).
- **Net Employment** is estimated to increase by 500 to 900 jobs in 2016/17 (the peak of the construction phase).
- **Net Business Investment** is estimated to increase by \$312 million in 2016/17 (the peak of the construction phase).

The Operations Phase (2018/19 to 2030/31)

- **Net GSP** is estimated to increase by \$566 million in 2021/22.
- **Net Employment** is estimated to increase by 2,100 to 2,900 jobs in 2021/22.
- **Net Business Investment** is estimated to increase by \$134 million in 2021/22.
- **Net Export Income** is estimated to increase by \$468 million in 2021/22.
- **Additional net taxes generated by Crown Sydney** are estimated to be \$154 million in 2021/22 (payroll tax of \$27 million and gaming tax of \$127 million, including GST²).

² Estimate provided by Crown Limited

Chapter 1

Introduction

1.1 Objectives and Scope

Crown Limited (Crown) has commissioned the Allen Consulting Group to estimate the economic impact of its proposal to build a hotel resort on the Barangaroo site in Sydney. This report discusses the impacts on the NSW economy as estimated by the Monash Multi Regional Forecasting (MMRF) model of the Australian economy. The modelling shows that NSW GSP is likely to increase significantly as a result of the Crown Sydney project — by more than \$638 million per year in 2021/22 (the first year when operations will be fully ramped up). Exports from NSW in 2021/22 are estimated to be \$513 million higher than in the absence of Crown Sydney.

The economic mechanisms by which Crown Sydney will have an impact on the NSW economy will be qualitatively similar in nature to the mining boom in Western Australia, though not nearly as large quantitatively. That is, the export of gaming, accommodation and entertainment services to foreigners will directly boost the NSW economy, with indirect flow on effects to other industries. The labour required to sustain the expansion of the economy will be drawn from other states, as will much of the capital.

In early 2012 Crown commissioned the Allen Consulting Group to estimate the economic impact of its proposal to build a hotel resort at Barangaroo in Sydney based on a preliminary specification of the project. Crown has now commissioned the Allen Consulting Group to estimate the economic impact of its proposal based on further development and refinement of the project specifications.

In addition, Crown has commissioned the Allen Consulting Group to estimate the economic impact of the Crown Sydney project in comparison to an alternative development scenario. The alternative development scenario is based on JLL's Sydney Hotel Accommodation Report (June 2013), which includes an analysis that, in the absence of Crown Sydney, a 5-star (Australian standard) branded hotel is the likely alternative development scenario for Barangaroo South.

1.2 Economic Benefits Measured in Two Phases

The estimated economic benefits³ are measured in two phases:

- The construction phase (modelled from 2012/13 to 2017/18), where the economic effect is due to the building activity; and
- The operations phase (modelled from 2018/19 to 2030/31), where the economic effect is due to the activity generated by visitor spending as a result of the operations of the Crown Sydney complex.

Technical details on the economic modelling are provided in Appendix A.

³ In this report we use the plain English term 'economic benefits' to describe the effects of Crown Sydney on key economic variables rather than 'economic impacts' which is typically used in analyses of this type.

1.3 Assumptions

Several assumptions were relied upon in forecasting these estimated economic impacts:

- Spending by international visitors to Crown Sydney will be incremental to the NSW and Australian economies. That is, in the absence of the Crown Sydney project, none of this money would be spent anywhere in Australia.
- Spending by interstate visitors will be incremental to NSW, but they will reduce their spending by an equal amount in their home states. That is, interstate visitors will not increase their total holiday/entertainment spending, but will spend more of it in NSW and correspondingly less of it in their home states. This assumption indirectly acts as a drag on the overall economic impact of the Crown Sydney project, as reduced spending elsewhere in Australia will have a negative effect on the NSW economy.
- Spending by local visitors will not be incremental at all. That is, their overall entertainment budget will be unchanged, with what they spend at Crown Sydney offset by reductions in other forms of entertainment.
- The Crown Sydney project, in both its construction and operational phases, will result in no additional employment (in terms of hours worked) in Australia. This means that any additional employment in NSW, which arises from the boost that the complex gives the NSW economy, will be offset by reductions in employment, of equal size, elsewhere in Australia.
- The NSW Government will spend all of the incremental tax revenue that it receives during the operations phase as a result of the boost to the NSW economy from the Crown Sydney project on public consumption services (health, education, police, prisons, public housing etc.). During the construction phase, we assume that any incremental revenues received by the NSW Government will be spent on public investment, such as roads. Both assumptions are reasonable. The alternative assumptions would be to assume that the NSW Government collects the revenue and increases its budget surplus (or reduces its deficit), which would have a dampening effect on the economy. This is possible but historically the pattern of observed state fiscal policies is that governments tend to spend the revenues they receive.
- The development cost is represented by an increase in national borrowing from overseas. This does not mean (necessarily) that Crown Ltd itself will borrow the funds for the development from overseas. However, in terms of national saving and national investment, it does mean that the overall effect in the Australian capital markets is that the funds for the development are assumed not to come from domestic savers/investors, but from overseas savers/investors. The implications of this assumption are that, during the operating phase, national income will be reduced by the interest cost of this borrowing.⁴

⁴ The justification for this assumption is that since world capital markets are fully integrated and that Australian saving is only a very small percentage of world saving, a single investment project anywhere — including in Australia — is unlikely to affect the aggregate of Australian savings in the in the first instance, though it will affect Australian saving over time as the project affects Australian national income.

These are conservative assumptions, and as such the estimated impact of the Crown Sydney project on the NSW economy can be considered to be the minimum expected impact. Less conservative assumptions would result in larger estimated economic impacts. For example:

- It could be assumed that spending by interstate and local visitors at Crown Sydney is incremental to their total holiday and entertainment budgets, and hence their total consumer spending, as a proportion of their household incomes. If so, this would further boost the NSW economy. However, it is more reasonable to assume that total consumer spending by Australians as a proportion of household income is determined by aggregate preferences for consumption and its converse, saving, which are unlikely to be affected by the presence (or otherwise) of Crown Sydney.
- The assumption that the Crown Sydney project results in no extra hours worked in Australia is a standard macroeconomic modelling assumption, i.e. in the long run (periods of time longer than a business cycle length of about five years) total national employment is determined by demographic factors such as the number of people of working age and their preferences for the number of hours that they work, as well as other structural factors that affect the supply of labour. Demand for labour created directly and indirectly by the Crown Sydney project will not then affect national employment. However, employment in NSW can and will be affected in the long run by the Crown Sydney project, but this additional employment will be offset by equal sized reductions elsewhere in Australia. The alternative of assuming that the Crown Sydney project will affect national employment requires assuming that there will be high unemployment caused by a recession sometime between the start of the construction period and 2030/31, in which case the economic activity created by the Crown Sydney project will act to increase national employment. A recession during this time might well happen, but even if it does nobody knows when it will happen or its magnitude. It is much more reasonable to assume that, whatever total employment is in Australia over the modelling period, the Crown Sydney project will not affect it.

1.4 Description: The Crown Sydney Project

Crown Limited proposes to build a hotel resort on the Barangaroo site in Sydney, comprising a world-class six star luxury hotel, luxury apartments, signature restaurants, high-end retail tenants and VIP gaming facilities. The construction cost is estimated to be approximately \$1.2 billion.

The hotel tower will have 350 hotel rooms (including suites). Guest rooms will be six star international standard and the top floors of the hotel tower will house approximately 80 luxury apartments. The resort will also include:

- Meeting facilities / signature dining facilities.
- Club / ultra lounge.
- Luxury pool and spa.
- Amenity deck.
- VIP gaming facilities (salons and private gaming rooms).

Chapter 2

Estimated Economic Benefits of the Crown Sydney Project

2.1 Introduction

When interpreting the results from the economic modelling, the estimated impacts of the modelled scenario are always expressed relative to the base case scenario. The base case scenario is where Crown Sydney is not built; in fact nothing is built on the land at Barangaroo which is presently earmarked for the Crown Sydney project.

Compared to the base case, the Crown Sydney project is expected to deliver significant economic and employment benefits to the New South Wales economy:

- Once Crown Sydney is operational gross state product (GSP)⁵ is estimated to increase by around \$640 million in 2021/22. This increase will be driven by the spending of visitors to the complex, especially overseas visitors, and the consequent flow-on effects to other industries in the State. During the peak of the construction phase (2017/18), GSP is estimated to increase by \$98 million.
- Increase in business investment by \$381 million in 2017/18 (the peak of the construction phase) and an ongoing increase to investment of \$151 million in 2021/22 (the operational phase).
- Increase in employment of 2,300-3,300 jobs in 2021/22.

Alternatively, it might be assumed that if Crown Sydney is not built, something else (such as a 5-star (Australian standard) branded hotel) will be built at Barangaroo. In Section 2.5 we report on the estimated economic impacts of this alternative development scenario.

2.2 NSW State-wide Economic Benefits

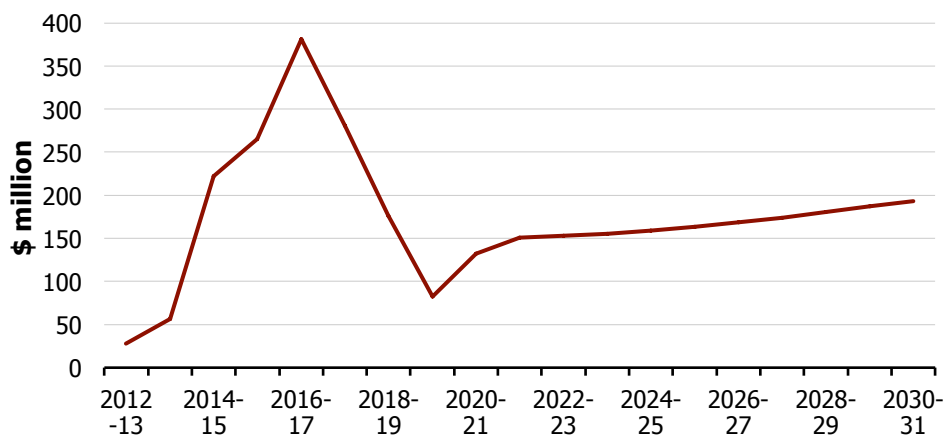
2.2.1 Macroeconomic impacts

Business investment

The estimated impact of the Crown Sydney project on business investment in NSW (i.e. the aggregate of spending on buildings and equipment by businesses in every industry in the economy) is shown in Figure 2.1. This shows a positive and growing effect, with the increment to investment growing from \$28 million in 2012/13 to \$151 million in 2021/22. While the investment increment peaks during the construction phase (2012/13 to 2017/18) the increment investment extends into the operations phase as the boost to the NSW economy generally generates additional business investment.

⁵ All data are in 2012 prices.

Figure 2.1

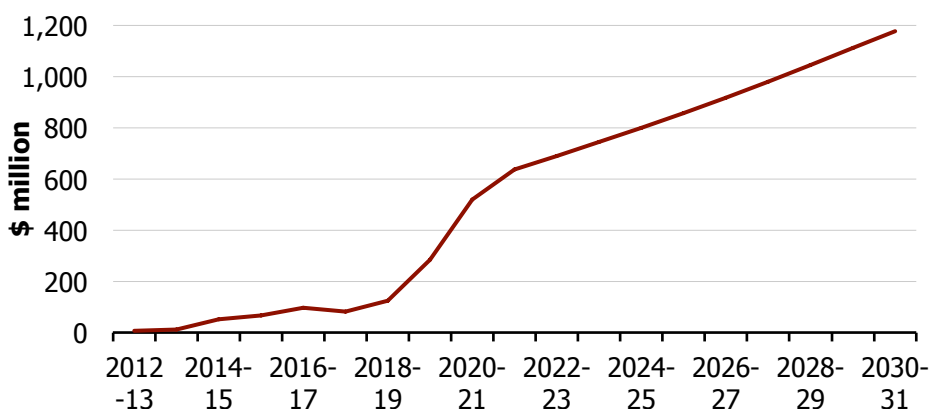
FORECAST REAL INVESTMENT RELATIVE TO BASECASE VALUES (\$ MILLION IN 2012 PRICES)

Source: ACG analysis

Gross state product

Figure 2.2 shows the estimated impact of the Crown Sydney project on NSW Gross State Product (i.e. total economic activity in NSW). When the construction phase ramps up (i.e. 2016/17) the increment to GSP is estimated to be \$98 million. It will be during Crown Sydney's operations that the major gains to GSP will occur, driven largely by the spending of international visitors. In the first year of full operations (i.e. 2021/22), the increment to GSP will be \$638 million.

Figure 2.2

FORECAST REAL GSP GROWTH RELATIVE TO BASECASE VALUES (\$ MILLION IN 2012 PRICES)

Source: ACG analysis

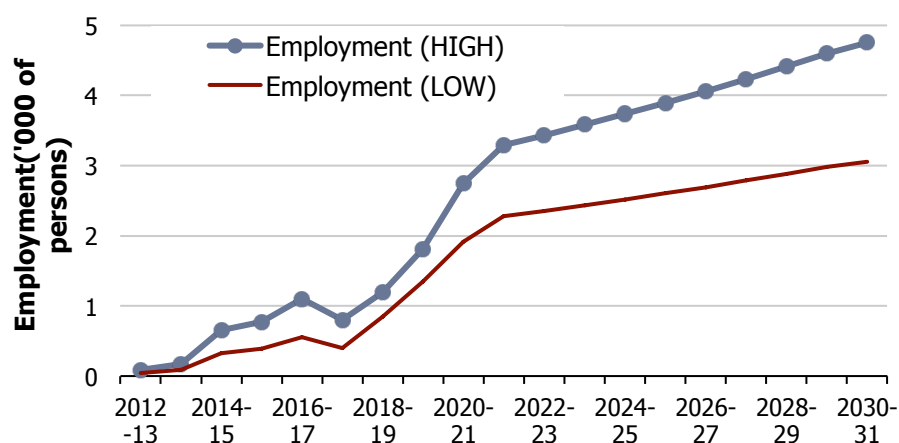
Employment

Figure 2.3 shows high and low estimates for the estimated number of additional jobs which will result from the construction and operation of Crown Sydney. Both are derived from the estimates of additional employment in terms of additional hours worked. The 'high' job estimates are derived by assuming that of every one per cent increase in hours worked, that increase comes from a 2/3 per cent increase in persons employed and a 1/3 per cent increase in hours worked per person. The 'low' job estimates are derived from the opposite assumption: 1/3 per cent increase in persons employed and a 2/3 per cent increase in hours worked per person.

Under both assumptions, there is a significant and growing increment of jobs directly and indirectly attributable to the Crown Sydney project. By 2021/22, the number of additional jobs created ranges from about 2,300 to 3,300.

Figure 2.3

FORECAST INCREASE IN EMPLOYMENT RELATIVE TO BASE CASE VALUES ('000 PERSONS)



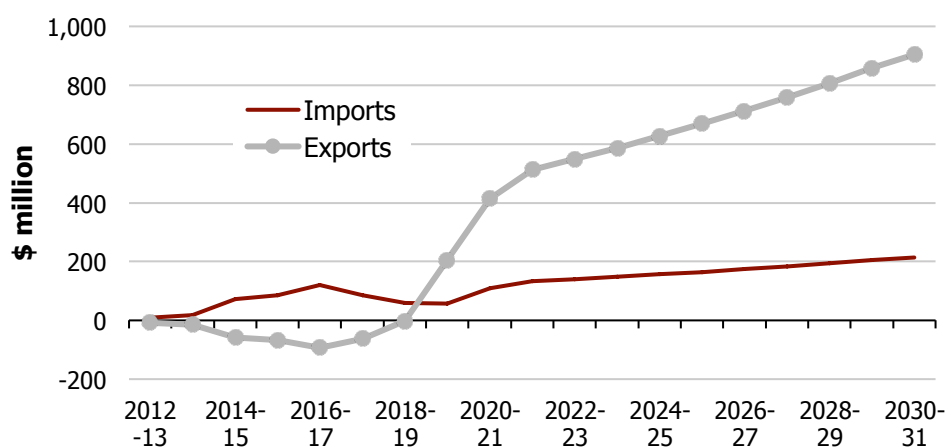
Source: ACG analysis

Exports and imports

Figure 2.4 shows the increment to NSW exports and imports. During the construction phase, there is a small decrease in exports. This reflects the investment surge during that time and the national income identity which states that the difference between exports and imports is equal to the difference between saving and investment. Higher investment, for a given amount of saving, will thus be reflected in lower exports and higher imports.

During Crown Sydney's operations phase, the sale of gaming, accommodation and entertainment services to overseas visitors drives the increase in NSW exports.

Figure 2.4

FORECAST REAL EXPORTS AND IMPORTS RELATIVE TO BASE CASE (\$ MILLION IN 2012 PRICES)

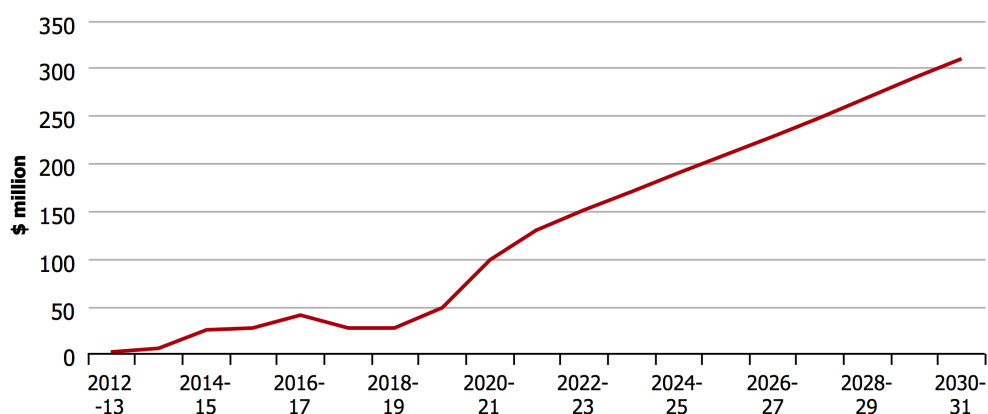
Source: ACG analysis

The early surge in imports reflects the increase in investment, for the reasons discussed above. As the investment increment tails off during the construction phase, so do imports. During the operations phase, the steady increase in imports reflects the increase in GSP: as income rises, so do consumer and business spending on imported goods and services.

Private consumption

The increment to real private consumption in NSW consequent from the Crown Sydney project is shown in Figure 2.5. There is a small increase during the construction phase, and a significant, and increasing, increment during the operations phase. The pattern of the increment follows that of GSP, as would be expected.

Figure 2.5

FORECAST REAL PRIVATE CONSUMPTION RELATIVE TO BASE CASE (\$ MILLION IN 2012 PRICES)

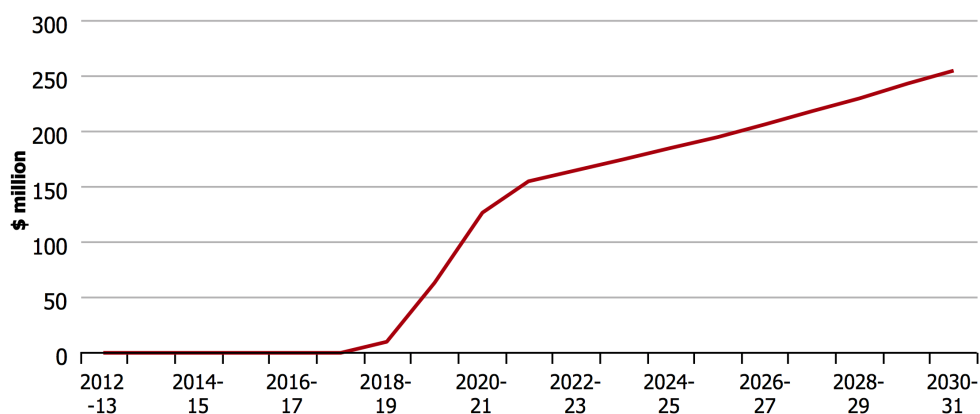
Source: ACG analysis

Public consumption

The NSW Government will gain significant revenues arising from the estimated economic impact of the Crown Sydney project. By assumption, to maintain the Government's budget position, these revenues are forecast to be spent on public consumption services: health, education, police etc. Figure 2.6 shows the estimated path of this additional public consumption.

Figure 2.6

FORECAST PUBLIC CONSUMPTION RELATIVE TO BASE CASE (\$ MILLION IN 2012 PRICES)



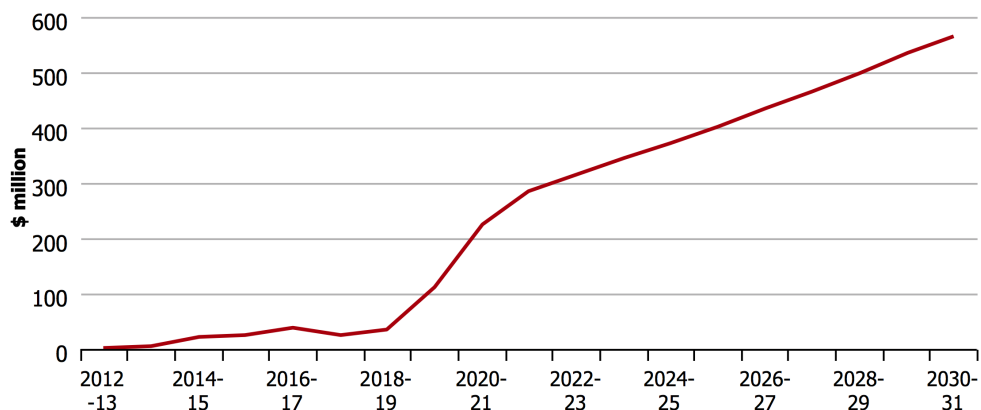
Source: ACG analysis

Economic welfare

The sum of the private and public consumption increment is a good measure of the economic welfare that residents of NSW will gain from the Crown Sydney project, directly and indirectly, because NSW residents benefit directly from their own consumption and from money that is spent for them by the NSW Government. It is a better measure of welfare than GSP, which measures production, the value of which will not entirely go to NSW residents.

Figure 2.7 shows this welfare measure, which shows a steady improvement from 2018/19.

Figure 2.7

FORECAST ECONOMIC WELFARE RELATIVE TO BASE CASE (\$ MILLION IN 2012 PRICES)

Source: ACG analysis

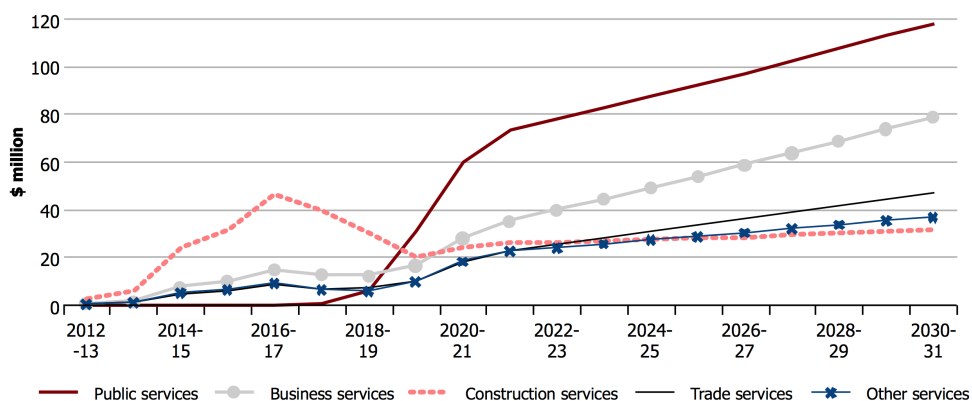
2.2.2 Industry impacts

While the NSW economy, taken as a whole, will benefit from the Crown Sydney complex, there will be varied impacts in different industries.

As shown in Figure 2.8, the five industries that will benefit most from the project in terms of industry production (absolute dollar increases) over the modelling period are Public Services, Business Services, Trade Services, Construction Services and Other Services.

The primary reason that these industries will benefit is macroeconomic: it is these industries that benefit most when the economy grows strongly, rather than anything to do directly with the Crown Sydney project as such.

Figure 2.8

INDUSTRY PRODUCTION IMPACT FORECAST (\$ MILLION IN 2012 PRICES)

Source: ACG analysis

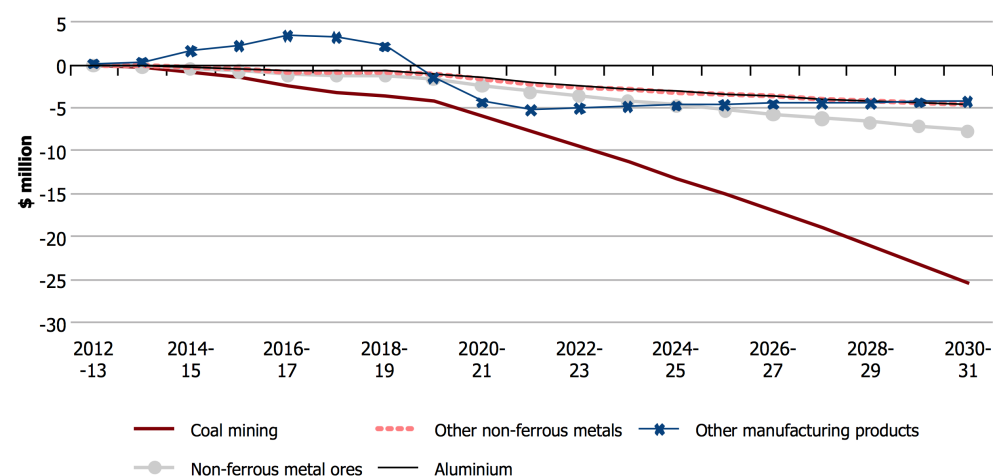
Not all industries will be winners, however. Some industries will grow their production more slowly as an indirect result of the Crown Sydney project than they would in its absence. The primary cause is that the exchange rate will be stronger as a result of the increase in hotel and gaming service exports.⁶

In this sense, they are the losing industries, but they are losers only in that they won't grow as fast as they would otherwise. It is not as though their production will actually decline in value.

The five biggest losing industries are: coal mining, non-ferrous metal ores, other non-ferrous metals, aluminium and other manufacturing products, all of which are exchange-rate sensitive. These are shown in Figure 2.9. These effects will be largely immaterial.⁷

Figure 2.9

INDUSTRY PRODUCTION IMPACT FORECAST (\$ MILLION IN 2012 PRICES)



Source: ACG analysis

2.2.3 Detailed numerical results

Table 2.1 shows the NSW economy-wide modelling results; Table 2.2 shows the top industry production winners and losers in percentage terms; Table 2.3 shows the top industry production winners and losers in absolute terms; and Table 2.4 shows the top industry employment winners and losers in terms of percentage change in hours worked.

⁶ This is the same mechanism at play as during the mining boom. The increase in demand for Australia's coal and iron ore exports caused the price of these commodities to rise which in turn appreciated the exchange rate, to the detriment of industries in the manufacturing sector, amongst others.

⁷ The biggest negative effect will be on the coal mining industry. In percentage terms, in 2030/31, its production will be \$25 million, or 0.21 per cent lower than it would otherwise be.

Table 2.1

NEW SOUTH WALES ECONOMY WIDE RESULTS

Variables (June y/e)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Percentage change from base case values																	
Real private consumption	0.01	0.01	0.02	0.01	0.01	0.02	0.04	0.05	0.05	0.06	0.06	0.07	0.07	0.07	0.08	0.08	0.09
Real investment	0.18	0.21	0.30	0.22	0.13	0.06	0.10	0.11	0.11	0.11	0.11	0.11	0.11	0.12	0.12	0.12	0.12
International export volumes	-0.09	-0.10	-0.14	-0.09	0.00	0.29	0.58	0.71	0.74	0.78	0.82	0.86	0.90	0.94	0.98	1.03	1.06
International import volumes	0.09	0.10	0.14	0.10	0.07	0.07	0.12	0.15	0.15	0.16	0.16	0.17	0.17	0.18	0.19	0.20	0.20
Real GSP	0.09	0.10	0.14	0.10	0.07	0.07	0.12	0.15	0.15	0.16	0.16	0.17	0.17	0.18	0.19	0.20	0.20
Employment (hours)	0.02	0.02	0.03	0.02	0.03	0.05	0.09	0.11	0.12	0.12	0.13	0.14	0.14	0.15	0.15	0.16	0.17
Changes – \$ million (in 2012 prices) or '000 persons from base case values																	
Real private consumption	25.8	28.8	41.3	27.5	28.7	49.8	99.8	131.4	151.2	170.7	190.0	209.5	229.2	249.3	269.7	290.8	310.9
Real investment	222.1	265.5	381.2	280.9	175.9	82.3	132.1	150.9	152.8	155.6	159.1	163.3	168.4	174.2	180.5	187.5	193.2
International export volumes	-58.0	-66.4	-93.4	-63.5	-2.2	205.1	413.8	513.3	549.5	587.6	627.3	669.0	712.8	759.1	807.6	858.9	905.0
International import volumes	72.5	84.9	121.4	85.9	58.9	57.6	110.5	134.0	141.0	148.5	156.5	165.1	174.2	184.0	194.2	205.2	214.6
Real GSP	51.6	65.8	97.6	81.0	123.4	285.4	519.3	637.9	689.6	743.2	798.4	856.0	916.0	979.0	1044.3	1113.1	1176.1
Employment ('000 persons) (High)	0.7	0.8	1.1	0.8	1.2	1.8	2.7	3.3	3.4	3.6	3.7	3.9	4.1	4.2	4.4	4.6	4.8
Employment ('000 persons) (Low)	0.3	0.4	0.6	0.4	0.8	1.3	1.9	2.3	2.4	2.4	2.5	2.6	2.7	2.8	2.9	3.0	3.1

Table 2.2

NEW SOUTH WALES INDUSTRY PRODUCTION RESULTS (PERCENTAGE CHANGE FROM BASE CASE VALUES)

Industry (June y/e)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Avg
Top gainers																		
Other services	0.05	0.06	0.08	0.05	0.05	0.08	0.14	0.17	0.18	0.19	0.20	0.21	0.21	0.22	0.23	0.24	0.25	0.15
Construction services	0.11	0.14	0.21	0.17	0.13	0.08	0.10	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.12	0.12	0.12	0.12
Other transport (includes water transport)	0.00	0.00	-0.01	0.00	0.01	0.06	0.12	0.14	0.15	0.16	0.17	0.18	0.19	0.20	0.21	0.22	0.23	0.12
Public services	0.00	0.00	0.00	0.00	0.01	0.06	0.11	0.13	0.14	0.14	0.15	0.15	0.16	0.17	0.17	0.18	0.18	0.10
Accommodation and hotels	0.01	0.02	0.02	0.02	0.02	0.04	0.07	0.08	0.09	0.10	0.10	0.11	0.11	0.12	0.12	0.13	0.13	0.08
Top losers																		
Aluminium	-0.03	-0.04	-0.06	-0.06	-0.06	-0.08	-0.13	-0.17	-0.19	-0.22	-0.24	-0.25	-0.27	-0.28	-0.30	-0.31	-0.32	-0.18
Other mining	-0.02	-0.03	-0.05	-0.05	-0.05	-0.06	-0.10	-0.13	-0.15	-0.16	-0.18	-0.19	-0.21	-0.22	-0.23	-0.24	-0.26	-0.14
Other non-ferrous metals	-0.02	-0.04	-0.05	-0.05	-0.05	-0.07	-0.11	-0.14	-0.16	-0.17	-0.19	-0.20	-0.21	-0.22	-0.24	-0.25	-0.26	-0.14
Non-ferrous metal ores	-0.02	-0.03	-0.05	-0.05	-0.05	-0.06	-0.09	-0.11	-0.13	-0.15	-0.16	-0.18	-0.19	-0.20	-0.22	-0.23	-0.24	-0.13
Rail transport - passenger	-0.06	-0.07	-0.09	-0.06	-0.04	-0.07	-0.15	-0.17	-0.17	-0.17	-0.17	-0.17	-0.17	-0.17	-0.17	-0.18	-0.18	-0.13

Source: Centre of Policy Studies

Table 2.3

NEW SOUTH WALES INDUSTRY PRODUCTION RESULTS (ABSOLUTE DEVIATIONS FROM BASE CASE VALUES — \$ MILLION IN 2012 PRICES)

Industry (June y/e)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Average
Top gainers																		
Public services	0.0	0.2	0.4	0.7	6.4	31.2	60.2	73.6	78.1	82.7	87.4	92.2	97.2	102.4	107.7	113.2	117.9	61.9
Business services	7.9	10.3	15.2	13.0	12.7	17.0	28.4	35.7	40.3	44.9	49.5	54.3	59.1	64.1	69.1	74.3	79.3	39.7
Construction services	24.4	31.9	46.8	40.0	30.6	20.5	24.4	26.2	26.6	27.0	27.5	28.1	28.7	29.5	30.3	31.2	31.9	29.7
Trade services	5.1	6.2	9.0	6.9	7.4	10.3	18.1	22.7	25.5	28.2	30.9	33.6	36.3	39.1	41.8	44.7	47.4	24.3
Other services	5.7	6.7	9.5	6.8	6.3	10.1	18.7	22.9	24.4	26.0	27.5	29.1	30.7	32.4	34.1	35.9	37.4	21.4
Top losers																		
Coal mining	-0.8	-1.5	-2.5	-3.3	-3.6	-4.3	-5.9	-7.7	-9.5	-11.3	-13.2	-15.1	-17.0	-19.0	-21.1	-23.2	-25.4	-10.8
Non-ferrous metal ores	-0.4	-0.7	-1.1	-1.2	-1.2	-1.6	-2.4	-3.1	-3.6	-4.2	-4.7	-5.2	-5.7	-6.2	-6.6	-7.1	-7.6	-3.7
Other non-ferrous metals	-0.3	-0.5	-0.8	-0.8	-0.8	-1.0	-1.7	-2.2	-2.6	-2.9	-3.2	-3.5	-3.7	-4.0	-4.2	-4.5	-4.7	-2.4
Aluminium	-0.2	-0.4	-0.7	-0.7	-0.7	-1.0	-1.5	-2.0	-2.4	-2.8	-3.1	-3.4	-3.7	-4.0	-4.2	-4.5	-4.7	-2.4
Other manufacturing products	1.7	2.3	3.5	3.2	2.2	-1.4	-4.3	-5.2	-5.0	-4.8	-4.7	-4.6	-4.5	-4.4	-4.4	-4.3	-4.2	-2.3

Source: Centre of Policy Studies

Table 2.4

NEW SOUTH WALES INDUSTRY EMPLOYMENT RESULTS (PERCENTAGE CHANGE FROM BASE CASE VALUES)

Industry (June y/e)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Average
Top gainers																		
Other services	0.06	0.06	0.09	0.06	0.05	0.09	0.16	0.19	0.20	0.20	0.21	0.22	0.22	0.23	0.24	0.25	0.25	0.16
Other transport (includes water transport)	-0.01	-0.01	-0.01	0.00	0.03	0.10	0.18	0.21	0.21	0.21	0.22	0.22	0.23	0.23	0.24	0.25	0.26	0.15
Construction services	0.19	0.22	0.30	0.21	0.12	0.05	0.08	0.10	0.10	0.10	0.10	0.10	0.10	0.11	0.11	0.11	0.11	0.13
Public services	0.00	0.00	0.00	0.00	0.01	0.06	0.12	0.14	0.14	0.15	0.15	0.16	0.17	0.17	0.18	0.18	0.19	0.11
Accommodation and hotels	0.02	0.02	0.03	0.02	0.02	0.05	0.08	0.10	0.10	0.11	0.11	0.12	0.12	0.12	0.13	0.13	0.14	0.08
Top losers																		
Aluminium	-0.06	-0.08	-0.11	-0.09	-0.07	-0.12	-0.23	-0.27	-0.29	-0.30	-0.31	-0.32	-0.33	-0.35	-0.36	-0.37	-0.37	-0.24
Other non-ferrous metals	-0.06	-0.07	-0.10	-0.07	-0.05	-0.10	-0.19	-0.23	-0.23	-0.24	-0.25	-0.26	-0.27	-0.28	-0.29	-0.30	-0.30	-0.19
Non-ferrous metal ores	-0.05	-0.06	-0.08	-0.06	-0.05	-0.09	-0.16	-0.20	-0.21	-0.22	-0.23	-0.25	-0.26	-0.27	-0.28	-0.29	-0.30	-0.18
Other mining	-0.05	-0.06	-0.08	-0.07	-0.05	-0.09	-0.16	-0.20	-0.21	-0.22	-0.23	-0.24	-0.25	-0.27	-0.28	-0.29	-0.30	-0.18
Rail transport - passenger	-0.09	-0.09	-0.13	-0.07	-0.03	-0.09	-0.20	-0.23	-0.22	-0.21	-0.21	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.16

2.3 NSW Regional Economic Benefits

Another notable feature of the Crown Sydney complex is that while it will be located in the Sydney CBD, the economic impacts will spread throughout NSW.

As shown in Table 2.5 below, the largest increases in production will occur in the Sydney region, as expected. But, notably, in percentage terms, the top five regions, including some that are quite distant from Sydney, benefit (more or less) equally. This is because of the industry composition of these regions; they are relatively concentrated with the industries that benefit most. In contrast, the regions that benefit the least are those that are intensive in industries that benefit the least from the Crown Sydney project. These regions (not shown in the table) are Far West, North West and Central West.

Table 2.6 shows the regions that do best in terms of employment.

The important conclusion is that, despite Crown Sydney being located in the Sydney CBD, adjacent to Sydney Harbour, its economic impacts will be felt throughout NSW.

Table 2.5

REAL GROSS REGIONAL PRODUCT

Regions (June y/e)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Average
Top 5 Regions (percentage deviations from base case values)																		
Richmond Tweed	0.02	0.03	0.04	0.03	0.04	0.09	0.15	0.18	0.20	0.21	0.22	0.24	0.25	0.27	0.28	0.30	0.31	0.17
Mid North Coast	0.02	0.03	0.04	0.03	0.04	0.08	0.15	0.18	0.19	0.21	0.22	0.23	0.25	0.26	0.28	0.29	0.30	0.17
Sydney	0.02	0.02	0.03	0.02	0.04	0.08	0.15	0.18	0.19	0.21	0.22	0.23	0.25	0.26	0.28	0.29	0.30	0.16
South East	0.02	0.02	0.03	0.03	0.04	0.08	0.15	0.18	0.19	0.20	0.22	0.23	0.24	0.26	0.27	0.29	0.30	0.16
Murrumbidgee	0.01	0.01	0.02	0.02	0.03	0.07	0.13	0.16	0.18	0.19	0.20	0.22	0.23	0.24	0.26	0.27	0.28	0.15
Top 5 Regions (absolute deviations from base case values, \$m in 2012 prices)																		
Sydney	35.8	46.2	68.8	58.2	87.2	198.5	359.8	442.9	480.1	518.5	558.0	599.0	641.6	686.3	732.6	781.3	826.0	418.9
Hunter	4.0	4.6	6.6	4.5	8.1	22.5	42.8	52.2	55.7	59.3	63.2	67.4	71.8	76.5	81.4	86.6	91.3	47.0
Illawarra	2.9	3.7	5.4	4.3	6.5	14.9	27.3	33.4	35.9	38.5	41.3	44.2	47.2	50.4	53.7	57.2	60.4	31.0
Mid North Coast	2.0	2.6	3.9	3.3	4.4	8.9	15.8	19.3	20.9	22.5	24.1	25.8	27.6	29.5	31.4	33.5	35.4	18.3
Richmond Tweed	1.8	2.4	3.5	3.0	3.9	7.7	13.6	16.6	18.0	19.3	20.8	22.2	23.8	25.4	27.0	28.8	30.3	15.8

Table 2.6

REGIONAL EMPLOYMENT

Regions (June y/e)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Average
Top 5 Regions (percentage deviations from base case values)																		
Richmond Tweed	0.07	0.09	0.12	0.08	0.06	0.03	0.06	0.07	0.08	0.08	0.08	0.09	0.09	0.10	0.10	0.11	0.11	0.08
Sydney	0.03	0.04	0.05	0.04	0.03	0.04	0.06	0.07	0.08	0.08	0.09	0.09	0.10	0.10	0.11	0.12	0.12	0.07
Mid North Coast	0.06	0.07	0.09	0.07	0.05	0.03	0.04	0.05	0.06	0.06	0.06	0.07	0.07	0.08	0.08	0.09	0.09	0.06
South East	0.03	0.04	0.06	0.04	0.03	0.01	0.00	0.01	0.01	0.01	0.02	0.02	0.03	0.03	0.03	0.04	0.04	0.03
Illawarra	0.05	0.05	0.08	0.05	0.03	0.01	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02
Top 5 Regions (absolute deviations from base case values, '000 persons)																		
Sydney	0.36	0.42	0.60	0.43	0.76	1.67	2.64	3.13	3.18	3.26	3.34	3.43	3.53	3.64	3.76	3.88	3.98	2.47
Richmond Tweed	0.03	0.04	0.05	0.04	0.05	0.06	0.10	0.12	0.12	0.12	0.12	0.13	0.13	0.13	0.14	0.14	0.14	0.10
Mid North Coast	0.03	0.03	0.05	0.03	0.05	0.06	0.08	0.10	0.10	0.11	0.11	0.12	0.12	0.12	0.13	0.13	0.14	0.09
South East	0.01	0.02	0.02	0.02	0.03	0.01	0.00	0.01	0.02	0.02	0.03	0.03	0.03	0.04	0.04	0.04	0.05	0.03
Illawarra	0.04	0.05	0.07	0.05	0.07	0.02	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03

2.4 Additional Taxes Generated By Crown Sydney

During the operations phase, Crown Sydney will generate significant and growing gaming tax and payroll tax of \$127 million (including GST)⁸ and \$31 million respectively in 2021/22. Crown estimates that Crown Sydney will directly employ approximately 1,250 staff and will pay payroll tax of approximately \$8 million in 2021/22. We estimate that NSW will gain total payroll tax revenue of \$31 million in 2021/22. The number of additional jobs created, as such, is not the only driver of the increment to payroll tax. The increase in payroll tax revenue is driven by both increases in hours worked throughout NSW, including in existing jobs, and increases in real wages, both caused by the increase in economic activity and hence a strong labour market.

There will also be an increase in federal taxes, including corporate income taxes and GST.

2.5 Alternative Development Scenario

In addition to modelling the estimated economic impacts of the Crown Sydney project in comparison to a base case (which sees no alternative development on the Barangaroo site), a model has also been prepared which assesses the economic benefits that would arise where an alternative hotel development is undertaken at Barangaroo South.

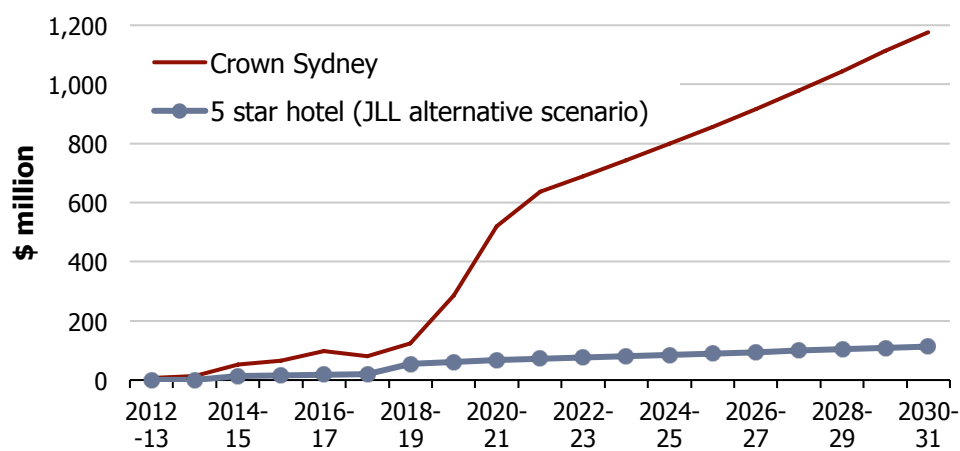
JLL, in its Sydney Hotel Accommodation Report (June 2013), opines that, in the absence of Crown Sydney, a 5-star (Australian standard) branded hotel is the alternative development scenario for Barangaroo South.

The figures which follow show, for a variety of variables, the estimated economic impact of the Crown Sydney project as compared to the alternative development scenario (i.e. a 5-star (Australian standard) branded hotel), each assessed against a base case of no development.⁹ In each case, the Crown Sydney project has a larger impact as compared to the alternative development scenario.

⁸ Estimate provided by Crown Limited

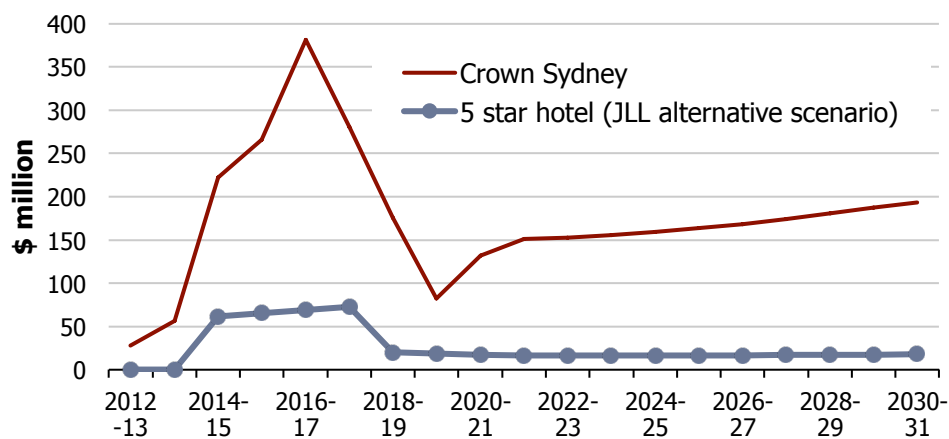
⁹ Detailed numerical results are presented in Appendix B.

Figure 2.10

COMPARATIVE FORECAST REAL GSP RELATIVE TO BASE CASE (\$ MILLION IN 2012 PRICES)

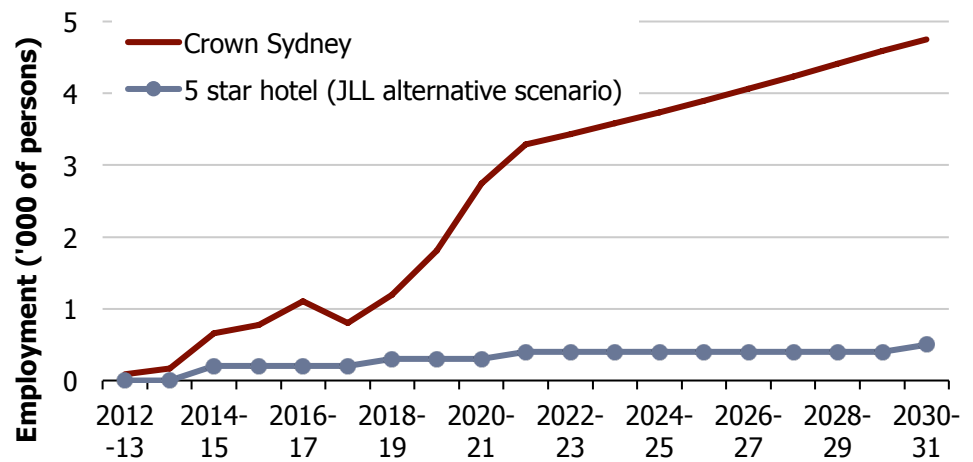
Source: ACG analysis

Figure 2.11

COMPARATIVE FORECAST REAL INVESTMENT RELATIVE TO BASE CASE (\$ MILLION IN 2012 PRICES)

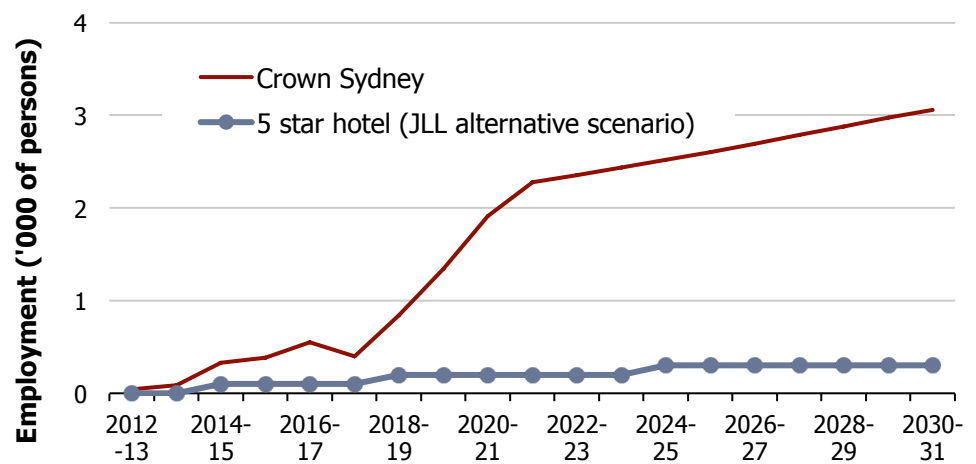
Source: ACG analysis

Figure 2.12

COMPARATIVE FORECAST EMPLOYMENT (HIGH) RELATIVE TO BASE CASE

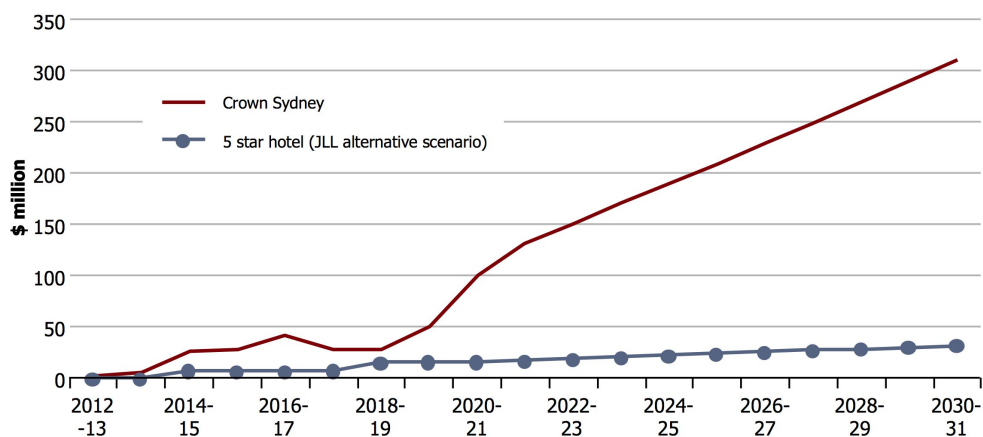
Source: ACG analysis

Figure 2.13

COMPARATIVE FORECAST EMPLOYMENT (LOW) RELATIVE TO BASE CASE

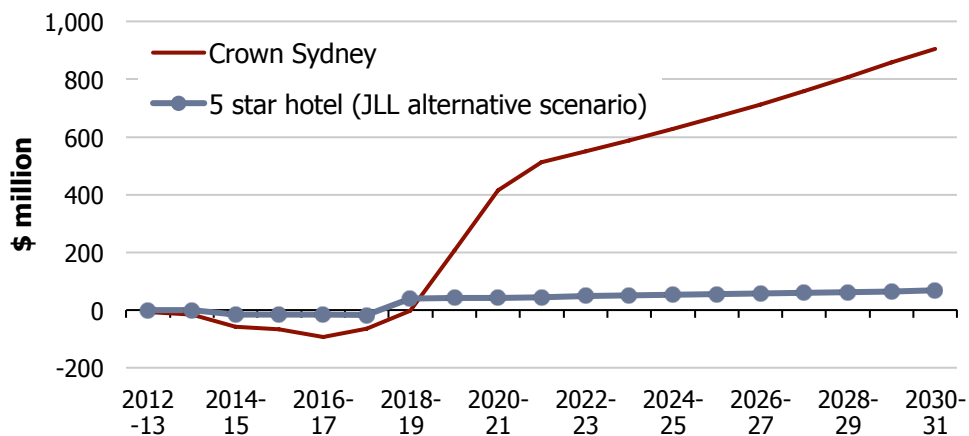
Source: ACG analysis

Figure 2.14

COMPARATIVE FORECAST REAL PRIVATE CONSUMPTION RELATIVE TO BASE CASE (\$ MILLION IN 2012 PRICES)

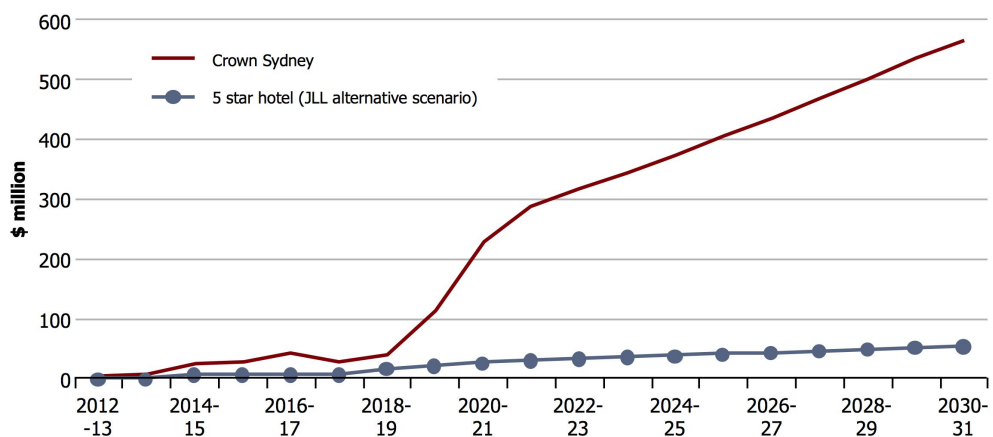
Source: ACG analysis

Figure 2.15

COMPARATIVE FORECAST REAL EXPORTS RELATIVE TO BASE CASE (\$ MILLION IN 2012 PRICES)

Source: ACG analysis

Figure 2.16

COMPARATIVE FORECAST ECONOMIC WELFARE RELATIVE TO BASE CASE (\$ MILLION IN 2012 PRICES)

Source: ACG analysis

In summary, the Crown Sydney project is superior to the alternative development scenario and will generate greater economic benefits for NSW. Please refer to Table 2.7 below:

Table 2.7

ECONOMIC BENEFITS 2021/22

Variable	Crown Sydney project	Alternative development scenario
GSP (\$ million, 2012 prices)	637.9	72.3
Real Investment (\$ million, 2012 prices)	150.9	16.6
Real Private Consumption (\$ million, 2012 prices)	131.4	17.4
Employment (High) ('000)	3.3	0.4
Employment (Low) ('000)	2.3	0.2
Economic Welfare (\$ million, 2012 prices)	287.2	31.0

Source: ACG analysis

2.6 Net Economic Benefits of the Crown Sydney Project

Figures 2.10 to 2.16 above show that the estimated economic impacts of the Crown Sydney project will be large while the impacts of the alternative development scenario will be significantly lower.

The table below sets out the net economic benefits of the Crown Sydney project as compared to the base case and compared to the alternative development for 2021/22. It can be seen that the two sets of net benefits are not materially different.

Table 2.8

NET ECONOMIC BENEFITS 2021/22

Variable	Crown Sydney project vs base case	Crown Sydney project vs alternative development scenario
GSP (\$ million, 2012 prices)	637.9	565.6
Real Investment (\$ million, 2012 prices)	150.9	134.3
Real Private Consumption (\$ million, 2012 prices)	131.4	114.0
Employment (High) ('000)	3.3	2.9
Employment (Low) ('000)	2.3	2.1
Economic Welfare (\$ million, 2012 prices)	287.2	256.2

Source: ACG analysis

Appendix A

The MMRF Model

A.1 Monash Multi Regional Forecasting (MMRF) Model

Overview

MMRF is a dynamic, multi-sectoral, multi-regional model of Australia. A full description of the model is available in Adams et al. (2008). The model distinguishes 58 industries, 63 products produced by the 58 industries, 8 states/territories and 56 sub-state regions. At the state/territory level it is a fully specified bottom-up system of interacting regional economies. To allow estimates of the effects of policy at the sub-state level, a top-down approach is added.

The key property of a general equilibrium model is that productive resources are assumed, correctly, to be finite, and everything must add up, so that, for example, more employment in one Australian state must imply less employment in another (except in the short run of up to a few years). Another key property is that every industry is linked to every other industry — they all buy and sell from each other, in varying degrees. This is the way that shocks that begin in one industry are spread through the economy.

MMRF forecasts both macroeconomic variables like Gross Domestic Product (GDP) and the trade balance and also industry output and employment from 58 industries.

A.2 General Equilibrium Core

The nature of markets

MMRF determines regional supplies and demands of commodities through optimising behaviour of agents in competitive markets. Optimising behaviour also determines industry demands for labour and capital. Labour supply at the national level is determined by demographic factors, while national capital supply responds to rates of return. Labour and capital can cross regional borders in response to relative regional employment opportunities and relative rates of return.

The assumption of competitive markets implies equality between the basic price and marginal cost in each regional sector. Demand is assumed to equal supply in all markets other than the labour market (where excess supply conditions can hold). The government intervenes in markets by imposing ad valorem sales taxes on commodities. This places wedges between the prices paid by purchasers and basic prices received by producers. The model recognises margin commodities (e.g., retail trade and road transport freight), which are required for each market transaction (the movement of a commodity from the producer to the purchaser). The costs of the margins are included in purchasers' prices but not in basic prices of goods and services.

Demands for inputs to be used in the production of commodities

MMRF recognises two broad categories of inputs: intermediate inputs and primary factors. Firms in each regional sector are assumed to choose the mix of inputs that minimises the costs of production for their levels of output. They are constrained in their choice by a three-level nested production technology. At the first level, intermediate-input bundles, primary-factor bundles and other costs are used in fixed proportions to output. These bundles are formed at the second level. Intermediate-input bundles are combinations of goods imported from overseas and domestic goods.¹⁰ The primary-factor bundle is a combination of labour, capital and land. At the third level, inputs of domestic goods are formed as combinations of goods sourced from each of the eight domestic regions, and the input of labour is formed as a combination of inputs of labour from nine different occupational categories.

Household demands

In each region, the household buys bundles of goods to maximise a utility function subject to a household expenditure constraint. The bundles are combinations of imported and domestic goods, with domestic goods being combinations of goods from each domestic region. A Keynesian consumption function is usually used to determine aggregate household expenditure as a function of household disposable income.

Demands for inputs to capital creation and the determination of investment

Capital creators for each regional sector combine inputs to form units of capital. In choosing these inputs, they minimise costs subject to a technology similar to that used for current production; the only difference being that they do not use primary factors directly.

Governments' demands for commodities

Commodities are demanded from each region by regional governments and by the Federal government. In MMRF, there are several ways of handling these demands, including:

- by a rule such as moving government expenditures with household consumption expenditure or with domestic absorption or with GDP;
- as an instrument which varies to accommodate an exogenously determined target such as a required level of government deficit; and
- exogenously.

¹⁰ Other costs is a miscellaneous cost category. Unless otherwise specified, the price of other costs is indexed to the price of private consumption, while the volume moves with industry output. It is assumed that the income from other costs accrues to the government.

Foreign demand (international exports)

MMRF adopts the ORANI¹¹ specification of foreign demand. Each export-oriented sector in each state faces its own downward-sloping foreign demand curve. Thus, a shock that reduces the unit costs of an export sector will result in increased export volume, but a lower foreign-currency price. By assuming that the foreign demand schedules are specific to product and region of production, the model allows for differential movements in foreign-currency prices across domestic regions.

Regional labour markets

The response of regional labour markets to policy shocks depends on the treatment of three key variables – regional labour supplies, regional unemployment rates and regional wage differentials. The main alternative treatments are:

- to set regional labour supplies and unemployment rates exogenously and determine regional wage differentials endogenously;
- to set regional wage differentials and regional unemployment rates exogenously and determine regional labour supplies endogenously (via interstate migration or changes in regional participation rates); and
- set regional labour supplies and wage differentials exogenously and determine regional unemployment rates endogenously.

Investment

Investment undertaken in year t is assumed to become operational at the start of year $t+1$. Under this assumption, capital accumulates according to (industry and region indexes dropped for convenience):

$$K(t+1) = (1 - DEP) \times K(t) + Y(t)$$

where:

- $K(t)$ is the quantity of capital available in industry at the start of year t ;
- $Y(t)$ is the quantity of new capital created during year t ; and
- DEP is the rate of depreciation, which is treated as a fixed parameter.

Given a starting point value for capital in $t=0$, and with a mechanism for explaining investment through time, equation (1) can be used to trace out the time paths of industry capital stocks.

Following the approach taken in the MONASH model (Dixon and Rimmer, 2002, Section 16), investment in year t is explained via a mechanism of the form:

$$\frac{K(t+1)}{K(t)} - 1 = F^t \left| \frac{EROR(t)}{RROR(t)} \right|$$

where

- $EROR(t)$ is the expected rate of return in year t ;
- $RROR(t)$ is the required rate of return on investment; and

¹¹ MONASH (Dixon and Rimmer, 2002) and MMRF have evolved from the Australian ORANI model (Dixon et al. (1977) and Dixon et al. (1982)).

- $F^t[\]$ is an increasing function of the ratio of expected to required rate of return with a finite slope.

In the current version of MMRF, it is assumed that investors take account only of current rentals and asset prices when forming current expectations about rates of return (static expectations). An alternative treatment available in the MONASH model, but not currently for MMRF, allows investors to equate the expected rate of return with the present value in year t of investing \$1, taking account of both the rental earnings and depreciated asset value of this investment in year $t+1$ as calculated in the model (rational expectations). In standard closures of the model, RROR is an exogenous variable which can be moved to achieve a given change in capital.

A.3 Base Case Scenario

The base case scenario is the control scenario against which alternative policy scenarios are compared. Dynamic policy simulations do not always require a detailed base case. Indeed it is often sufficient to capture some of the main macroeconomic trends, and to incorporate little structural detail.

Gross Domestic Product

Real GDP grows at an average annual rate of 3.1 per cent between 2010 and 2020, slowing to an average rate of 2.6 per cent between 2020 and 2030. Average annual growth over the full projection period is projected to be 2.9 per cent, which is consistent with the historical norm for Australia.

In the four years after 2010, growth exceeds three per cent, supported by strong growth in exports as the world recovers from the Global Financial Crisis. Thereafter, GDP growth is projected to stabilise and then to slowly fall in line with demographic projections from the IGR.

In line with recent history, the export-oriented states, QLD and WA, are projected to be the fastest growing state economies, followed by NSW and VIC. SA and TAS are the slowest growing, though the gap between the slowest and fastest growing states and territories is a little less than in recent times.

Real national private consumption

Real national private consumption grows at an average annual rate of 3.0 per cent in the first half of the period and 2.9 per cent in the second half. Growth of 2.9 per cent is projected for the full projection period. The time profile for growth in consumption is similar to that for real GDP. Initially strong, then stabilizing and slowly falling.

Not surprisingly, the regional pattern of growth for consumption is similar to that for GDP: fastest growth occurs in QLD and WA; slowest growth in TAS and SA.

International exports and imports

Over the past fifteen years the volumes of international exports and imports have grown rapidly relative to real value added in each region. This reflects several factors: declining transport costs; improvements in communications; reductions in protection in Australia and overseas; and technological changes favouring the use of import-intensive goods such as computers and communication equipment. All these factors are extrapolated into the base case, but their influence is assumed to slowly weaken. Thus, on average, trade volumes grow relative to GDP by about 1.5 per cent per year. Note that with growth in imports expected to be in line with growth in exports, little improvement is expected in the current imbalance between export and import volumes.

Terms of trade

Assumed changes in Australia's terms of trade ensure that the terms of trade, which are at a 50-year high, return to a historically normal level by 2020 and remain unchanged thereafter. Coupled with little change in the net volume of trade, a return to more normal levels in the terms of trade implies little change in Australia's trade-account deficit as a share of GDP across the full projection period.

*Appendix B***Detailed Results for the Alternative Development Scenario**

Table B.1

NSW ECONOMY WIDE RESULTS

Variables (June y/e)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Percentage change from base case values																	
Real private consumption	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Real investment	0.05	0.05	0.05	0.06	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
International export volumes	-0.03	-0.03	-0.03	-0.02	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.08
International import volumes	0.03	0.03	0.03	0.03	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Real GSP	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Employment (hours)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02
Changes – \$ million (in 2012 prices) or '000 persons from base case values																	
Real private consumption	7.4	7.1	7.2	7.4	15.5	16.2	16.2	17.4	19.3	21.1	22.8	24.5	26.0	27.6	29.1	30.7	32.3
Real investment	61.8	65.5	69.2	72.7	20.5	18.9	17.4	16.6	16.5	16.3	16.4	16.5	16.6	16.9	17.1	17.4	17.8
International export volumes	-16.4	-16.5	-16.7	-16.9	39.2	41.2	43.1	45.3	47.6	49.9	52.3	54.7	57.2	59.8	62.4	65.2	68.0
International import volumes	20.4	21.0	21.8	22.6	12.2	12.5	12.9	13.4	14.0	14.6	15.2	15.8	16.4	17.1	17.8	18.5	19.3
Real GSP	14.0	16.0	18.1	20.1	55.7	61.5	67.5	72.3	76.5	80.8	85.3	89.8	94.4	99.1	103.9	108.9	114.0
Employment ('000 persons) (High)	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Employment ('000 persons) (Low)	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3

Table B.2

REAL GROSS REGIONAL PRODUCT

Regions (June y/e)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Average
Top 5 Regions (percentage deviations from base case values)																		
Richmond Tweed	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.03	0.03	0.02
Mid North Coast	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.03	0.02
Sydney	0.00	0.00	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.03	0.02
South East	0.00	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.03	0.02
Murrumbidgee	0.00	0.00	0.00	0.00	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.02
Top 5 Regions (absolute deviations from base case values, \$m in 2012 prices)																		
Sydney	9.7	11.2	12.8	14.4	38.8	42.8	47.0	50.4	53.4	56.4	59.6	62.8	66.0	69.3	72.7	76.2	79.8	48.4
Hunter	1.2	1.1	1.2	1.2	4.3	4.8	5.3	5.7	6.0	6.3	6.7	7.0	7.4	7.8	8.2	8.6	9.0	5.4
Illawarra	0.8	0.9	1.0	1.1	2.9	3.2	3.5	3.8	4.0	4.2	4.4	4.6	4.9	5.1	5.4	5.6	5.9	3.6
Mid North Coast	0.5	0.6	0.7	0.8	1.8	1.9	2.1	2.2	2.3	2.5	2.6	2.7	2.9	3.0	3.1	3.3	3.4	2.1
Richmond Tweed	0.5	0.6	0.7	0.7	1.5	1.7	1.8	1.9	2.0	2.1	2.2	2.3	2.5	2.6	2.7	2.8	2.9	1.9

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