Rates still moving up

HOTELIERS REPORTED STRONG increases in average room rates (ARR) across all major Australian cities -` Sydney, Melbourne, Brisbane, Perth and Adelaide - in 2006, and according to analyst **Kate Bartlett**, the trend is likely to continue.

City Market	Supply Growth 2007	Supply Growth 2008	Demand outlook 2007	ARR % increase 2006 to 2007
Sydney	4.1%	1.6%	4.3%	6.0%
Melbourne	3.7%	1.0%	4.4%	4.0%
Brisbane	4.2%	0.4%	6.1%	9.0%
Perth	2.3%	4.8%	5.6%	10.0%
Adelaide	-0.2%	1.8%	4.6%	8.0%

Source: Atrium Hospitality Solutions/ABS

The reasons behind the reported growth in ARR vary from city to city. However, there are some common issues: an imbalance between room supply and prevailing demand levels, and a certain mustering of hoteliers' courage.

Typically, the growth or decline in ARR within a city market has depended on the underlying relationship between hotel room supply and demand; with historic demand patterns in city markets more or less exhibiting steady, long-term growth compared to the sporadic increases in supply as the economics of new development allows.

Across Australia's top five city markets, we noted a steady annual increase in demand for transient accommodation between 2004 and 2006, which only ranged from 4.1% in Adelaide to 5.8% in Sydney.

Each city's circumstance of changing supply conditions, on the other hand, was entirely incongruent, ranging from an actual decrease of 3.0% in Adelaide, to an average annual increase of 5.9% in Sydney. Further, as each city occupied a slightly different position within each market's hotel RevPAR (revenue per available room) cycle, their ARR achievements differed somewhat.

Several new hotel properties entered the Sydney city market in recent times, including the Fraser Suites Sydney and Meriton on Kent Street in late 2006, following the re-opening of the 577-room Hilton, in July 2005. While hotel demand continued to increase over the last two years, it was outstripped by this growth in supply, resulting in a marginal decline in occupancy levels. Accordingly, Sydney's hoteliers have been more guarded in lifting room rates than those in other cities. Nevertheless, ARR is expected to increase robustly in 2007 as the city plays host to a number of major conferences, including the APEC summit in September.

The Melbourne hotel market continues to benefit from the Victorian government's ongoing support of the tourism sector. In addition to being a strong corporate travel destination, demand for hotel rooms remains buoyant due to the city's extensive annual events calendar (Australian Formula One Grand Prix, Spring Racing Carnival, Australian Open Tennis). 2006 was an extremely strong year for such events in Melbourne as it also hosted the Commonwealth Games and the Boxing Day Test Match as part of the Ashes Series. All of these events strongly underpinned hotel operators' willingness to lift room rates, as evidenced by the 15% increase in reported ARR in the March 2006 quarter alone, compared with the previous equivalent period. With modest levels of supply increase and with a comparatively more subdued calendar of events for 2007, ARR growth is expected to moderate somewhat from its 2006 level.

Brisbane has been a particularly strong market, with occupancy levels hovering around 80% over the past three years. Underpinned by such favourable market conditions, and with the benefit of more dynamic revenue management systems, hoteliers have been able to capture the upside potential of the market by dramatically increasing ARR. In Brisbane, corporate travel largely accounts for weekday hotel demand, while weekend occupancy is significantly lower due to Brisbane's proximity to two well-established leisure destinations – the Sunshine Coast and the Gold Coast. At the moment, the prospect for new supply in Brisbane remains subdued, with only one new property recently opened in 2007 and no new supply anticipated for 2008. Demand for hotel rooms remains relatively high, with continued growth anticipated for both 2007 and 2008. As a result, it can be expected that ARR will continue to increase strongly.

Over the last three years, room rates in Perth have increased more than in any other major Australian city, albeit off a relatively low base.

The increasing price of hotel rooms is directly attributed to record occupancy levels, as a result of the current resources boom in Western Australia. With forecast continued strong demand growth against limited expected additions to room supply, the outlook is for further very strong growth in achievable ARR, by almost 10% annually in 2007 and 2008.

In 2006, Adelaide CBD hotels recorded impressive improvements in performance, attributed to the combination of declining room supply and increasing underlying demand, due to the hosting of several events including the Australian Tourism Exchange, the government's large investment into the defence industry and the development of the new and improved Adelaide Airport. Adelaide is also poised to benefit from the current resources boom in South Australia. From these factors and in the absence of new supply in the immediate future, sustained growth in demand is anticipated to result in further improved occupancy levels. Such higher occupancies are likely to provide Adelaide hoteliers with the ongoing opportunity to lift ARR. Accordingly, the outlook is for robust ARR growth of up to 10% each year in 2007 and 2008.

Atrium's analysis of available data suggests that in 2007 and 2008, these top five city markets can expect relatively little supply growth, as construction of new hotel properties in CBD markets remains at a low level.

The prospect of continued demand growth outpacing supply growth is highly likely, therefore, to provide hoteliers with the confidence to continue increasing ARR in their respective markets in 2007 and 2008.

TMC forum looks at globalisation

THE CHALLENGES OF global travel management came under the spotlight at the recent GlobalStar Travel Management Industry Forum in Las Vegas.

GlobalStar is an equity partnership comprised of a number of independent TMCs, including Australia's Travelogic and New Zealand's Business World Travel.

The conference heard that one of the main drivers of corporate travel management policy adoption and compliance is global safety practices. In fact, Bruce McIndoe, CEO of iJet, stressed that the fragmentation of business operations in the United States – offshoring and outsourcing – have created more awareness of global travel efforts. This has created more productive and prepared business travellers, reduced the number of costly incidents, decreased the cost of response to natural disasters, reduced overall liability of employee travel and created peace of mind for travellers, travel managers and executives.

Kevin Mitchell, chairman of the Business Travel Coalition, argued that global travel solutions are not working due to a lack of focus on local situations. Global headquarters are pushing down their culture and business processes with inadequate attention to all locations.

For the majority of corporations and travel managers, globalisation is client-driven, and conference delegates confirmed that "cookie cutter" travel programmes are not ideal from a TMC. Programmes need to be company- and client-specific, not a one-size-fits-all approach. Many travel managers are opting for smaller local TMCs that are a part of a global network due to their level of client service and expertise in local markets.

Additionally, they reported choosing travel management companies based on the rapport that TMCs have with their company and whether or not the TMC adheres to a company's mission statement. They also consider types of technology used and the capabilities of such technology. Many travel managers also research TMC size and number of clients represented, seeking more personalised service from smaller more localised firms.

The gathering also heard that changes in travel technology are playing a significant role in local travel management companies expanding globally. Bev Heinritz, general manager of GetThere, said corporate booking tools are becoming more complex due to regulations, airline rules, GDSs, cultural differences and travel option comparisons. "Companies want more capabilities and more features and with rules in travel constantly changing, it is difficult for technology to keep up," she added.

A travel technology supplier panel agreed that cultural differences in doing business is one of the main pitfalls associated with globalisation. Companies in the United States have embraced technology and are content doing business virtually, where Europe, Asia and Latin America prefer a more relationship-driven, in-person form of business. With more companies expanding globally, the challenges lie in adapting to a culture's specific way of doing business.

Although there are cultural differences, technology helps tie travellers and TMCs together to share information worldwide.