



## CDL HOSPITALITY TRUSTS

FOR IMMEDIATE RELEASE

28 January 2010

### CDL HOSPITALITY TRUSTS EXPANDS WITH PROPOSED ACQUISITION OF 5 HOTEL PROPERTIES IN AUSTRALIA

- Well-situated in two of the fastest growing Australian cities – Brisbane and Perth
- Secure income through existing long term leases guaranteed by Accor S.A.
- Strong reversionary upside providing value accretion and higher cash flow yields in the long term
- Purchase price of A\$175 million represents significant discount to replacement cost
- Strengthens portfolio and provides further geographical and income diversification

**Singapore, 28 January 2010** – CDL Hospitality Trusts (“CDLHT”), through its stapled entity CDL Hospitality Real Estate Investment Trust (“H-REIT”), has entered into separate conditional Sale & Purchase Agreements today to acquire a portfolio of five freehold properties (the “Portfolio” or “Properties”) in Brisbane and Perth with a total of 1,139 rooms, at the aggregate purchase consideration of A\$175.0 million (approximately S\$220.9 million<sup>1</sup>). This brings the total number of hotel rooms owned by H-REIT to 3,942. These properties are leased and managed by Accor Group, the international hotel operator which currently operates around 4,000 hotels in 92 cities with over 470,000 rooms, through long-term lease arrangements expiring in 2021 under the Novotel, Mercure and Ibis brands. The transaction is expected to be completed by 28 February 2010 or immediately after the Sale & Purchase Agreements become unconditional, whichever is earlier.

The Portfolio comprises Novotel Brisbane, Mercure Brisbane, Ibis Brisbane, Mercure Perth and Ibis Perth. These properties are 3.5 to 4.5-star hotels that are well-located within the Central Business Districts of both cities, and are in close proximity to numerous corporate and leisure and demand generators.

Mr Vincent Yeo, CEO of M&C REIT Management Limited, the Manager of H-REIT, said, “We are excited to embark on the growth path again with the recovery in the global economy. CDLHT enjoys one of the lowest gearing levels amongst all S-REITs. Today’s acquisition allows us to capitalize on our strong balance sheet, in an environment where capital is scarce.

“Australia is one of the most robust hospitality investment locations in the region, supported by its resource-backed economic strength as well as rich cultural and tourism attractions. Hotels in both Brisbane and Perth are tightly held and this is a rare opportunity to secure properties underpinned by such favourable lease terms. Triple net leases with high fixed rent components are hard to come by. This acquisition will enhance the stability of our overall portfolio revenue base and potentially provide significant reversionary upside in capital values in time to come.”

<sup>1</sup> Based on exchange rate of A\$1.00 : S\$1.262 as at 27 January 2010.



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### **FUNDING**

The acquisition is expected to be fully funded via debt through a combination of debt in Australian dollars and debt in Singapore dollars. The effective A\$ borrowings are estimated to be fixed at 50% of the total acquisition cost. Post-acquisition, H-REIT's debt-to-assets ratio assuming 100% debt financing will be approximately 30.0%.<sup>2</sup>

### **INVESTMENT RATIONALE**

#### **Value Enhancing**

The acquisition of the Properties is expected to be accretive in distributions to holders of Stapled Securities ("Stapled Security Holders") and generate incremental property yield. Based on the Aggregate Purchase Consideration of A\$175.0 million, the Properties would yield an aggregate rental of approximately A\$14.7 million or a net property yield of 8.4%<sup>3</sup> for the financial year ended December 31, 2009 ("FY2009"), representing a significant premium to H-REIT's current portfolio implied property yield of 5.2%<sup>4</sup>.

Pro forma income available for distribution to Stapled Security Holders (before income retained for working capital) for FY2009 is projected to increase by 9.6% over its existing portfolio, from 9.05 Singapore cents per Stapled Security to 9.92 Singapore cents per Stapled Security<sup>5</sup>.

#### **Purchase Consideration a Significant Discount to the Replacement Cost of the Properties**

The aggregate purchase consideration of A\$175.0 million values the properties at around A\$153,600 per key (approximately S\$193,800 per key)<sup>6</sup>, representing a significant discount of up to 66% to the current replacement value (after factoring land cost) of A\$376,000 – A\$449,000 per key<sup>7</sup> (approximately S\$474,500 – S\$566,600<sup>6</sup> per key).

#### **Well Located Assets in Markets with Strong Fundamentals for Hotel Performance**

Brisbane and Perth are two of the fastest growing cities in Australia situated in resource-rich states, with robust economic growth underpinned by their strong resource and commodity sectors. The economic strength of these cities are also established upon the resilience of the Australian economy highlighted by its ability to withstand a number of internal and external events, including a major drought, a housing boom, the Asian financial crisis and recent global economic crisis. Australia's highly skilled labour force

<sup>2</sup> Based on exchange rate of A\$1.00 : S\$1.262 as at 27 January 2010. The pre-acquisition debt-to-assets ratio was 19.1% as at 31 December 2009.

<sup>3</sup> Based on net property income of the Portfolio for FY2009 as a percentage of the Aggregate Purchase Consideration of A\$175.0 million. Based on the Total Acquisition Cost of A\$187.2 million, the net property yield would be 7.9%.

<sup>4</sup> Based on the unaudited FY2009 figures of H-REIT and the market capitalisation of CDL Hospitality Trusts as at 27 January 2010 of S\$1.390 billion.

<sup>5</sup> Based on the FY2009 financial results of the Portfolio, assuming that the acquisition is completed as at 1 January 2009, funded 100% by debt and based on the exchange rate of A\$1.00 : S\$ 1.262. Average exchange rate of A\$1.00 : S\$1.1457 is assumed throughout FY2009.

<sup>6</sup> Based on exchange rate of A\$1.00 : S\$1.262 as at 27 January 2010.

<sup>7</sup> Replacement costs estimated by CB Richard Ellis Pty Ltd and Davis Langdon Australia Pty Ltd.



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rivals that of regional hubs, making it an attractive base for companies to enter Australia's highly developed domestic market and tap into opportunities in the Asia-Pacific region.

The Properties acquired by H-REIT are well-positioned to capture the increasing domestic and international demand with limited hotel developments in Perth and Brisbane in the near term, given the financing restrictions and high cost of land and construction in Australia. This forms a high natural barrier to entry, allowing greater scope of growth for existing hotels owners.

- **Brisbane hotel industry – Driven by strong economy and limited room supply**

Brisbane, the third most populous city and fastest-growing economy in Australia, is emerging as a business and leisure centre in Asia-Pacific. Its broad-based economic growth is driven by its strong natural resources sector, which has attracted many global mining giants to invest and set up bases, as well as huge public infrastructure spending including over A\$470 million to further develop the Brisbane Airport and Brisbane Convention and Exhibition Centre. As the gateway to numerous famous Queensland attractions such as Gold Coast, coupled with the planned expansion of the Brisbane Airport Village, Brisbane is set to enjoy greater prominence as a regional transit hub and increased tourism activities. Interstate and overseas migration to Brisbane, in addition to strong natural population growth in the city, will further fuel demand for accommodation.

The Brisbane hotel market saw a 5.7% increase in room nights sold in 2008, the second-highest in Australia.<sup>8</sup> Driven by strong demand for rooms which outpaced supply, hotels in Brisbane recorded average RevPAR growth of 8.1% annually from 2003 to 2008, and average occupancy rate of 80.3% from 2006 to 2009.<sup>9</sup> Beyond 2010, RevPAR is expected to grow on average 7.2% annually from 2011 to 2014.<sup>10</sup>

The limited supply of new hotel developments in Brisbane over the next two to three years signifies opportunities for owners of existing hotels. This shortage in new supply is due to the delay or cancellation in 2009 of the majority of recent projects (mooted by developers attracted by historically high occupancies of above 80% and significant growth in RevPAR), as a result of limited funding and high finance costs. The high construction cost in Brisbane and relatively competitive yields of other asset classes have also provided little incentive for commercial property owners to convert their assets into hotels.

These factors will help position Mercure Brisbane, Ibis Brisbane and Novotel Brisbane to capitalise on the expected demand and positive outlook of the Brisbane hospitality sector.

- **Perth hotel industry – Fuelled by resource-led economic growth and no new room supply**

Perth is the fourth most populous city and one of the fastest-growing economies in Australia, driven by its strong resource mining sector and iron and ore export trade. In addition to strong demand for commodity exports, Perth's economic growth is supported by strong levels of investments from the private sector and State Government, with new capital expenditure in the resource sector growing 34% y-o-y to A\$22.8

<sup>8</sup> Colliers International Hotel INNvestment Australia report, Autumn Quarter, 2009.

<sup>9</sup> Australia Bureau of Statistics, Brisbane Market Intelligence report, August 2009, Jones Lang LaSalle.

<sup>10</sup> Brisbane Market Intelligence report, August 2009, Jones Lang LaSalle.



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billion for the 12 month period ending June 2008.<sup>11</sup> The A\$43 billion Gorgon Project, touted as the largest resource project in Australia and backed by petroleum giants Chevron, Exxon Mobil and Shell, is expected to create up to 10,000 jobs when construction starts in 2010.

A sustained period of demand growth, with no new rooms expected from 2009 to 2011, has created an increasingly buoyant hotel market in Perth, characterised by high occupancy, growing revenues, and one of the highest demand for accommodation in Australia over 2008.<sup>12</sup> RevPAR growth has been the strongest in all Australian markets from 2003 to 2008, growing 18.7% y-o-y in March 2009. Occupancies from 2006 to 2009 averaged above 80%.<sup>13</sup> Beyond 2010, RevPAR is expected to grow on average 5.4% annually from 2011 to 2014, while occupancies are expected to maintain at around 80% in the next five years.<sup>14</sup>

Due to tightened lending controls, a lack of suitable sites and high construction costs, potential hotel projects remain limited and are unlikely to materialise. High replacement cost and an uptrend in tender prices in Perth further limit new hotel room supply.

With no new hotel developments in the near term and increasing investment activities in Perth driving business travel, Mercure Perth and Ibis Perth are well-positioned to plug the supply gap and capture the growing demand.

Added Mr Yeo, "A key attraction of the Portfolio is that it can be seen as an indirect proxy to the resource boom. Brisbane and Perth are situated in resource rich states, providing strong fundamental support for continued economic growth in these cities. Coupled with the limited new supply of rooms in these cities, CDLHT will benefit from the strength of the resource and commodity sector."

### Strong Reversion Upside

The lease rentals, comprising largely an annual base rent, account for only 61.2% of the current Portfolio EBITDA (after deducting manager's fees and FF&E provision) of around A\$24.1 million<sup>15</sup>. H-REIT can expect to benefit from significant reversion upside upon expiry of the lease when it gets the full benefit of the Portfolio cashflows. This reversionary upside will also lead to a steady accretion of value over time as the Portfolio value is expected to rise eventually to CBRE's current estimate of the Portfolio valuation on a vacant possession basis of A\$234.9 million<sup>16</sup>, a 34% premium to the purchase price.

In addition, the well-located freehold Properties within the Central Business Districts of Brisbane and Perth may offer significant potential redevelopment upside in the longer term, particularly Mercure Brisbane as it sits on a prime location fronting the riverside.

<sup>11</sup> Australian Bureau of Statistics.

<sup>12</sup> Colliers International Hotel INNvestment Australia report, Autumn Quarter, 2009.

<sup>13</sup> Australian Bureau of Statistics, Brisbane Market Intelligence report, August 2009, Jones Lang LaSalle.

<sup>14</sup> Brisbane Market Intelligence report, August 2009, Jones Lang LaSalle.

<sup>15</sup> Based on the FY2009 figures of the Portfolio. The figure is derived after deducting operator fees comprising a base fee of 3% of revenue and 8% of gross operating profit, and a provision of 2% for furniture, fittings & equipment as provided in the lease arrangements.

<sup>16</sup> Based on CBRE's estimates, the value of the Properties on a vacant possession basis (i.e. not leased and returned upon expiry of the leases in 2021 with vacant possession on management) is currently A\$234.9 million.





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### Secure Long Term Rents Enhance the Stability of H-REIT's Revenue Base

Based on the terms of the long term lease agreements expiring in 2021, AAPC Properties Pty Limited (the "Lessee"), a wholly-owned indirect subsidiary of Accor S.A., will pay CDLHT an estimated annualised total rental of A\$14.7 million in 2009. This comprises an annual guaranteed base rental of A\$13,690,188 ("Base Rent"), and 10% of net operating profit in excess of Base Rent ("Variable Rent") throughout the duration of the leases estimated to be A\$1.0 million<sup>17</sup> in 2009. This provides H-REIT with an estimated guaranteed base rental yield of 7.8%, or an expected annual rental yield of 8.4%.<sup>18</sup> The lease obligations of the Lessee, including rental payments, are guaranteed by Accor S.A.

Given that the Base Rent makes up over 90% of the total expected annual rent, the Properties will increase the robustness of revenue base, complementing the Singapore Hotels Portfolio's more variable lease structure. The Properties further enhance the stability of H-REIT's current revenue base, increasing proportion of revenue protected by minimum rent structures from 49.6% to 56.3%.<sup>19</sup>

Under the lease structure, H-REIT will also be protected from the funding of all maintenance and capital expenditure for the duration of the leases, which will be borne by the lessee.

### Enhanced Portfolio Diversification

The properties, being H-REIT's second acquisition outside of Singapore, will improve H-REIT's geographical diversification and enable it to tap into the resilience and potential growth of the Australian hospitality sector.

In terms of income diversification, the acquisition will reduce H-REIT's gross rental revenue dependence on the Singapore Hotels Portfolio. Post-acquisition, over 23% of H-REIT's income will come from overseas properties (Australia and New Zealand) compared to 9% prior to the acquisition.<sup>20</sup> This further broadens the income base and lowers specific country risks, further enhancing the stability of H-REIT's returns.

### PORTFOLIO DETAILS

"This acquisition is in line with our objectives of owning hospitality assets that enhance income diversification and provide good growth potential. It also demonstrates H-REIT commitment and ability to generate stable returns for our investors," commented Mr Yeo. "Riding on the economic and tourism prospects in Australia, coupled with improving global travel demand, we are confident of the long-term accretive benefits that the new additions to our portfolio will provide for our Unitholders."

<sup>17</sup> Based on FY2009 of the Portfolio.

<sup>18</sup> Yield percentages calculated are based on aggregate purchase consideration of A\$175.0 million. Based on the Total Acquisition Cost of A\$187.2 million, base rental yield would be 7.3% and annual rental yield would be 7.9%.

<sup>19</sup> Based on the FY2009 figures of the Portfolio as a percentage of the rent from H-REIT's existing properties (comprising Grand Copthorne Waterfront Hotel, Copthorne King's Hotel, M Hotel, Orchard Hotel, Novotel Clarke Quay, Orchard Hotel Shopping Arcade and Rendezvous Hotel Auckland) for the same period. It is assumed that the acquisition of the Portfolio is completed as at 1 January 2009, and average exchange rate for FY2009 is A\$1.00 : S\$1.1457.

<sup>20</sup> See footnote 19.



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### **Novotel Brisbane**

The Novotel Brisbane is a volumetric freehold, 15-storey, 4.5-star corporate hotel adjoining a commercial office block. It is situated in Brisbane Central Business District, next to the Central Railway Station and at the top end of Creek Street. Strategically-located at the fringe of the "Golden Triangle" commercial office hub, it is a short distance away from the city's shopping and entertainment centre at Queen Street Mall and Eagle Street river promenade, as well as some major hospitals. Comprising 296 guest rooms and suites, the Novotel Brisbane offers facilities such as a restaurant, café and bar, ten conference and meeting rooms, recreation facilities and 330 undercover car parks.

### **Mercure Brisbane & Ibis Brisbane**

The Mercure Brisbane and Ibis Brisbane are situated together over 16 levels on a freehold title. The hotels benefit from good corporate and leisure demand due to their proximity to the local and government office precincts, Queens Street Mall, Treasury Casino, South Bank and Suncorp Stadium. Attractive and flexible zoning for the hotel site, as well as extensive residential and commercial high rise development in the immediate area provides potential redevelopment upside in the longer term.

Mercure Brisbane, a 4-star hotel, is ideally situated overlooking the Brisbane River and on a major CBD thoroughfare. It is opposite the South Bank precinct, a growing leisure and entertainment area. Its prime riverfront location provides future redevelopment upside potential. Comprising 194 guest rooms including 15 suites, it offers food and beverage outlets, conference and meeting facilities for up to 800 delegates, recreational amenities including a swimming pool and sauna, and 110 undercover car parks.

Ibis Brisbane, a 3.5-star hotel, is the city's leading limited service hotel with larger rooms compared to typical Ibis hotels. The hotel comprises 218 guest rooms, one food and beverage outlet and one meeting room. It most recently refurbished its guest rooms in 2006/2007.

### **Mercure Perth**

The Mercure Perth is a strata freehold 4-star hotel adjoining a commercial office block. It is situated within walking distance from the centre of the Perth Central Business District, as well as shopping, nightlife and entertainment facilities including the Swan River and Supreme Court. The hotel comprises two tower blocks over 8 and 14 levels featuring 239 guest rooms. The hotel offers facilities including a restaurant, bars, six conference rooms, a heated rooftop swimming pool, as well as recreation amenities such as a gym, spa and sauna.

### **Ibis Perth**

The Ibis Perth is a freehold, 10-storey, 3.5-star hotel situated on a prominent site in the heart of the Perth Central Business District. Located in close proximity to numerous corporate offices and within walking distance from the Murray and Hay Street shopping malls, it is considered one of Perth's best-located and best budget hotels. The hotel comprises 192 guest rooms and features a restaurant, lobby bar, two function rooms, a heated rooftop swimming pool and fitness centre.

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### For more information, please contact:

Ho Siang Twang  
Head, Investments & Investor Relations  
M&C REIT Management Limited  
Tel: +65 6839 2887  
Email: [stho@cdlht.com](mailto:stho@cdlht.com)

Terence Foo / Jean Zhuang  
Kreab Gavin Anderson  
Tel: +65 6339 9110  
Mobile: +65 9878 8787 / +65 9061 1075  
Email: [tfoo@kreabgavinanderson.com](mailto:tfoo@kreabgavinanderson.com) /  
[jzhuang@kreabgavinanderson.com](mailto:jzhuang@kreabgavinanderson.com)

### About CDL Hospitality Trusts

CDL Hospitality Trusts is a stapled group comprising CDL Hospitality Real Estate Investment Trust ("H-REIT"), a real estate investment trust, and CDL Hospitality Business Trust ("HBT"), a business trust. CDL Hospitality Trusts was listed on the Singapore Exchange Securities Trading Limited on 19 July 2006.

H-REIT, the first hotel real estate investment trust in Singapore, is established with the main aim of investing in a diversified portfolio of income-producing real estate which is primarily used for hospitality and/or hospitality-related purposes. Upon Completion of the acquisition of properties in Australia, H-REIT will own 3,942 hotel rooms within a portfolio of five hotels and one shopping arcade in Singapore (Orchard Hotel, Grand Copthorne Waterfront Hotel, M Hotel, Copthorne King's Hotel, Orchard Hotel Shopping Arcade and Novotel Clarke Quay), one hotel in New Zealand (Rendezvous Hotel Auckland) and five hotels in Australia (Novotel Brisbane, Mercure Brisbane, Ibis Brisbane, Mercure Perth and Ibis Perth). M&C REIT Management Limited is the manager of H-REIT.