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DESTINATION 2045: AN OPPORTUNITY TO BUILD THE HOTELS TO SUPPORT QUEENSLAND'S TOURISM FUTURE

Thank you for the opportunity to provide feedback on Queensland Government's *Destination 2045: Queensland's Tourism Future*. The Property Council is the leading advocate for Australia's property industry. Here in Queensland, we are proud to have more than 400 member companies who invest in, design, build and manage places that matter to Queenslanders, and through our advocacy and pragmatic policy solutions, we continue to ensure the voices of our members are heard on the issues that matter.

Something that matters deeply to our members is investing in and building the hotels needed to support Queensland's booming tourism industry. In recognition of the critical role of hotels to the future of Queensland's tourism industry, in 2024 the Property Council established a Queensland Hotel Working Group consisting of investors, developers and operators deeply committed to supporting a successful hotels sector. I would like to acknowledge the involvement of the Department of Environment, Tourism, Science and Innovation in this working group.

Since its inception, our Hotel Working Group has focussed on identifying the barriers to building more hotels in Queensland. The members of our working group, have informed the following submission, including the recommendations below, which are designed to attract the necessary investment into the Queensland hotels sector.

It is noted the Destination 2045 discussion paper includes six key areas for feedback:

- ecotourism
- 2032 legacy
- investment attraction
- tourism experience development
- access and connectivity
- events delivery.

Access to high-quality accommodation underpins the success of all of these areas and ultimately the success of the broader Queensland tourism sector. As such, rather than responding to each of these priority areas, the following submission will focus on hotel development specifically, including the barriers to delivering more hotels and what is needed to remove these barriers.

THE NEED FOR MORE HOTELS

A healthy and successful hotels sector is critical to Queensland's tourism sector, particularly in the context of the Brisbane 2032 Olympic and Paralympic Games. The Queensland Government's Towards Tourism 2032 plan sets an industry target of $44 billion in overnight visitor expenditure (OVE) per annum by 2032, with an interim target of $34 billion per annum by 2027.

Currently there is a significant shortfall of hotels across Queensland, with estimates indicating that approximately 30,000 additional rooms will be required for the Brisbane 2032 Olympic and Paralympic Games to meet the visitor growth target of $44 billion in overnight visitor expenditure.

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2. STR.com.
3. *Hotel Futures 2025, Dransfield https://dransfield.com.au/*

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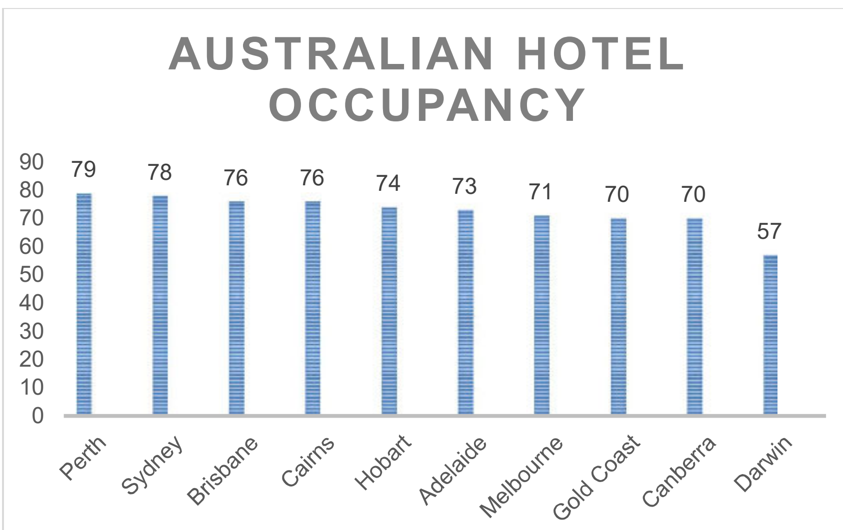
While the shortfall of hotels is spread across Queensland, the impacts are particularly evident in Brisbane and the surrounding Local Government Areas. As Australia's fastest growing capital, Brisbane has a projected economy set to be worth $275 billion by 2041[1], with the visitor economy playing a major part in Brisbane's economic prosperity, with the tourism, arts, entertainment and events sector expected to grow 41 per cent from 2021-2031[1].

The current shortfall of hotels has the potential to constrain Brisbane's economic potential. In 2024 Brisbane's hotel occupancy averaged 76.2 per cent[2], with periods of peak occupancy reaching maximum capacity during major events. This consistently high occupancy, coupled with a constrained pipeline of new hotels being delivered, shows the Brisbane hotel market is facing a supply challenge, particularly managing an influx of visitors during major events like the Brisbane 2032 Games.

Hotel occupancy in Australia as of December 2024[2]



Brisbane's post-COVID performance:

Brisbane's hotel market performance post-COVID has surpassed other Australian capital cities, showing the strength of Queensland's tourism sector. Brisbane has seen a 152 per cent increase in RevPAR relative to pre-COVID figures and is the first major market to surpass pre-COVID occupancies[2]. Brisbane's hotel market also leads the nation in both RevPAR and rate growth, with an annual rate growth of 9.5 per cent per annum and a RevPAR growth of 10.5 per cent per annum from 2019-2024[3].

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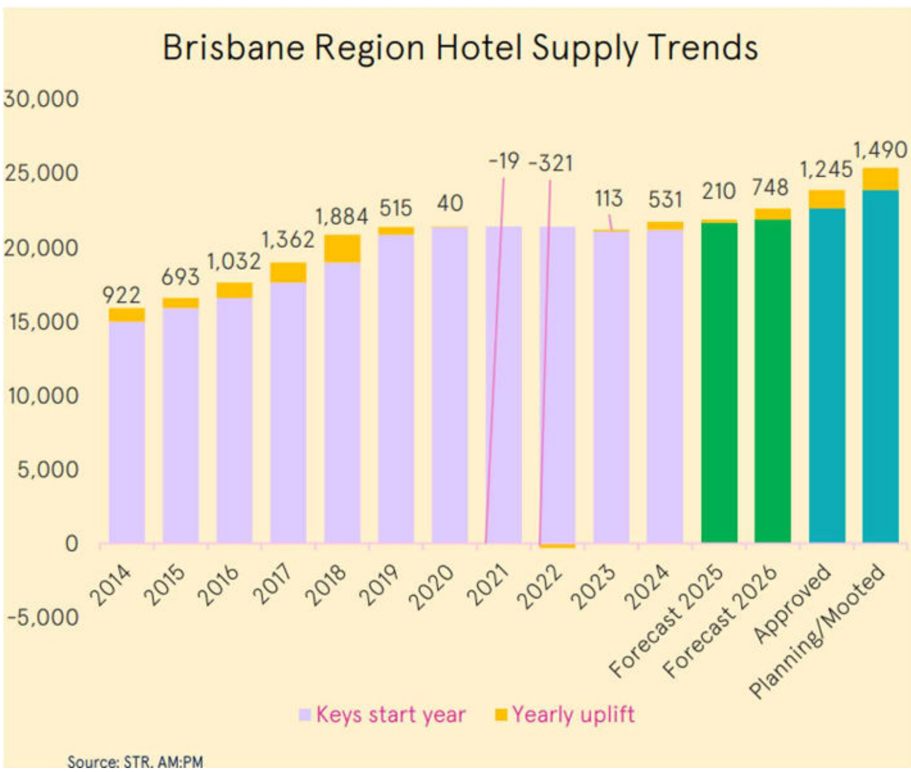
While these figures show Queensland's hotel accommodation market remains strong, since the COVID pandemic in 2020, the supply of new hotels in Brisbane is not keeping up with demand. Since 2020 there has been no net increase in the number of hotels in greater Brisbane, with the ten new hotels opening being offset by the closure of ten hotels[2]. This data also indicates that between 2020 and 2024 there has only been a 1.4 per cent increase in the number of available rooms across the greater Brisbane area, which fails to keep up with the increase of tourists visiting the region.

While according to the Brisbane Economic Development Agency (BEDA), there are approximately 2,896 rooms planned, approved or mooted for greater Brisbane, ongoing feasibility and construction challenges means there is no guarantee these hotels will be delivered and even if these rooms are all delivered, a significant shortfall in servicing our growing tourism demand will remain.



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THE CHALLENGES AND SOLUTIONS

It has never been more difficult to deliver projects across all asset types with a confluence of challenges impacting project viability. While hotel development faces similar challenges to other asset classes, the funding and commercial model of hotels is more complex than traditional residential buildings given profitability is highly volatile and only realised over an extended period. This makes it more difficult to secure financial support for hotel development and makes the below challenges more pronounced.

Feasibility challenges:

Based on feedback from hotel owners, operators and other industry experts, costs and feasibility challenges are the primary barrier to delivering more hotel rooms in Queensland. There are several costs that contribute to the feasibility of hotels, as outlined below.

Construction costs:

Feedback from our members shows that construction costs are one of the greatest barriers to building hotels in Queensland, making up approximately 55 per cent of the cost of hotel development. While all assets are facing these same construction challenges, the unique operating challenges of hotels makes it difficult to recoup the initial capital investment.

Queensland's construction market is highly competitive with a saturated infrastructure pipeline competing with the housing crisis and other asset types to secure builders. In the short-term this challenge will continue to impact project costs, making it critical to investigate other avenues to improve project feasibility.

Government fees and charges

In a pre-construction and development environment, government fees and charges such as transfer duty, land tax, council rates, and infrastructure charges create a significant feasibility barrier for hotel developers. Land tax in particular adds to the cost of acquisition of a hotel site and is levied annually before, during and after construction, and remain in force once a hotel is operational.

Queensland's state taxation regime also includes the Foreign Land Tax Surcharge (FLTS) and Additional Foreign Acquirer Duty (AFAD), which are charged on companies with a portion of international ownership or that access international capital (regardless of if that company is Australian based). The hotel industry relies on international investors and operators to deliver and operate a global portfolio of hotels. The presence of these taxes deters the very investment we need to deliver more hotels for our tourism sector.

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Ongoing operating costs:

Even after a hotel is developed, there remain significant viability risks in the form of the operational costs that present major cashflow challenges. With hotels employing a variety of people across the hotel and food and beverage operations, one of the major costs is payroll tax.

Additionally, annual council rates are another ongoing expense, that add to operational costs for operators. Annual council rate increases can at times be inconsistent which makes it challenging to ascertain expenses, given the nature of these asset types, understanding ongoing costs is critical.

Collectively when combined with the other costs outlined above and the way in which they apply to hotel assets across the building's lifecycle, these upfront and ongoing costs make it financially prohibitive for hotel owners to invest in or develop more hotel accommodation.

Feasibility solutions:

The following solutions are designed to respond to these feasibility challenges and help deliver the hotels needed to support the Queensland tourism sector:

Reduce upfront costs

As outlined above, feasibility challenges are identified as the greatest barrier to delivering more hotels in Queensland. While some of these challenges – such as construction costs - are difficult to overcome in the short-term, one solution that would provide an immediate solution is reducing the tax burden for hotel investors, including much-needed international investors.

Queensland's current tax regime deters much needed investment by levying higher taxes on institutional investors through Additional Foreign Acquirer Duty (AFAD) and Foreign Land Tax Surcharge (FLTS). The Property Council has long advocated for a change to how these taxes are applied across all asset types by exempting Australian-based businesses who access international capital. In the context of the hotel industry, which relies on international capital, this change would make Queensland a more attractive investment prospect for the companies we need to support our tourism future.

Additionally, the State Government is encouraged to reduce upfront costs through other forms of relief such as land tax concessions, similar to those in effect for build-to-rent residential assets. A land tax discount period will make more hotel projects attractive and allow owners to manage cashflow to ensure they are capable of paying that tax over time.

Additionally, encouraging or incentivising Councils to waive infrastructure charges would also improve the feasibility of hotel developments. One option proposed by some Councils is a deferral of infrastructure charges to reduce the immediate upfront cost of a hotel development. While this

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option is worth considering, the operating model of hotels means it takes time to raise the necessary capital to pay back these infrastructure costs. As such, any deferral would need to remain in place for at least five years after the hotel becomes operational to allow the hotel to generate the necessary revenue to pay the charges.

Investigate government grants

State and Federal Government grants have helped support tourism products in Queensland, including the Attracting Aviation Investment Fund (AAIF) and Attracting Tourism Fund. As mentioned above, hotels play a critical role in supporting all tourism products and the broader industry. In recognition of the critical role hotels play in the Queensland tourism sector, we would encourage Local, State and Federal Government to partner to offer capital grants to support the delivery of more hotels.

Reduce operating costs

Given that many hotel operators own multiple assets in Queensland and across Australia, they easily reach the $25,000 per week Australia-wide threshold to pay payroll tax. While there are some instances where payroll tax exemptions can be sought – primarily through traineeship arrangements – it is often the case that hotel staff are not in a formal traineeship that qualifies for that employee's wages to be exempt for the purposes of payroll tax. That tax, in addition to the wages themselves, represent significant ongoing costs to the business, and are a major consideration when deciding whether to proceed with a new hotel development.

Hotel and hospitality workers will be critical to Queensland's ability to host a successful and welcoming Brisbane 2032 Olympic and Paralympic Games. Providing payroll tax relief to hotels would not only assist in making more hotels feasible, but it would also help up skill the hospitality workers needed for the Games, effectively investing in the future of Queensland's tourism sector.

A coordinated and consistent approach to attracting investment

Some councils have adopted a suite of incentives to encourage more hotel development, particularly when there is a known shortfall of hotel accommodation in the years leading up to major events. While these incentives are welcome, a localised approach led by Councils has the potential to create competition between LGAs, potentially resulting in market imbalance and a lack of alignment between the availability of hotels and tourism products.

Avoiding this outcome requires a coordinated state-wide investment attraction strategy that considers Queensland's broader tourism market. Global capital is critical to supporting Queensland's future, including the hotels, commercial offices, industrial land, housing and social infrastructure needed. Queensland is competing with national and international markets to secure this investment, and as such we must highlight our competitive advantages and showcase the benefits of investing in Queensland.

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An investment attraction strategy designed to create a competitive edge for Queensland would help attract the necessary investment. This investment attraction strategy should include the identification and removal of taxes and other cost barriers to attracting global investment, as well as a marketing and engagement strategy targeting key international investment markets.

Planning challenges:

The planning system brings challenges for hotel development from both a process and cost perspective. Throughout Queensland, there are separate planning scheme requirements across local government areas, creating confusion and uncertainty. While this is true for all developments, in the context of hotels, which are often developed and operated by large national and international companies, the inconsistent nature of planning schemes potentially increases time and costs during the planning phase, in turn dampening investor confidence.

Some planning schemes and systems are complex to navigate, with very prescriptive requirements increasing design work and costs. The more planning and building code requirements that a hotel is required to consider makes design more complex and more expensive. One example referenced by our members is the requirement for waste collection vehicles to enter and exit hotels in a forward motion, despite alternative designs being accepted in other states across Australia. This requirement has significant implications for the design of hotels, which in some cases impacts feasibility due to constrained land holdings and inflated costs.

The length of time it takes for development applications to be assessed and approved by councils also represents additional cost to hotel developments, as holding costs accrue and building costs increase over time while a project is under consideration.

Planning solutions:

The following solutions respond to the planning challenges constraining the hotel development we need to support the Queensland tourism sector:

A flexible planning system that encourages and incentivises hotels:

Perhaps the strongest planning measure to boost hotel development is more flexible provisions to encourage hotels within mixed-use projects and precincts, together with the opportunity for the adaptive reuse of commercial office assets. As tourism and hospitality destinations, hotels create vibrancy within precincts and help attract investment in food, beverage and tourism attractions. Creating a planning system that encourages and incentivises hotels within precincts and mixed-use developments will not only deliver more hotels and housing, but it will also create vibrant inner-city precincts that create a global identity for Queensland and support ongoing economic prosperity.

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Another solution would be the creation of a specialised planning tool and concierge process that fast-tracks and prioritises planning and delivery of projects that support Queensland's tourism and events industry. In addition to supporting tourism ventures such as eco-tourism, events centres and hotels, this specialised planning process could also be used to fast-track approval of venues for the 2032 Games in recognition of the benefits these venues hold for the Queensland tourism sector.

Flexible building regulations:

Although separate from the planning system, there are also building regulations that have a unique impact on hotel development due to the nature of the building. Applying residential building code or National Construction Code requirements to hotel projects ignores the differences in the asset classes and how those buildings are used. These constraints extend to areas such as lift-wells and how they are designed to service both residential and hotel purposes.

Encouraging more accessible and inclusive building practices within hotel buildings is also important to accommodate guests with mobility challenges. Member feedback has shown there is a current shortage of accessible hotels in Queensland, raising concerns about our ability to accommodate people during the 2032 Olympic and Paralympic Games. Concessions aimed at relaxing regulatory or planning requirements that can make those designs more feasible, or greater incentives for hotel projects that include strong accessible design is also a tool that should be considered in helping hotel projects to stack up.

Identifying government-owned land for hotel development

Hotels can only work in areas in proximity to key attractions, amenities and transport connections. Unfortunately, a shortage of adequately zoned and located land is making it difficult for hotel developments to proceed.

Public and private partnerships on government-owned land is a great way to incentivise hotel developments while reducing reliance on government funding. Governments are encouraged to undertake an audit of government-owned land and public infrastructure projects with the potential to host hotels and work with the private sector to unlock these sites.

One solution would be to work with Economic Development Queensland to identify government-owned land, including existing Priority Development Areas (PDAs) with the potential to host hotel developments and incentivise the delivery of hotels in these areas.

Overcoming the barriers restricting hotel investment will take a collaborative approach across all levels of government and industry. The recommendations contained in this submission are designed to encourage that collaboration and deliver the benefits to the Queensland tourism sector.

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Our members are well placed to work with government to investigate these solutions and if you would like to discuss this matter further, please do not hesitate to contact me on 0437 693 509 or amcneil@propertycouncil.com.au.

Yours sincerely,

Allan McNeil
Queensland Deputy Executive Director

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