



RETHINK®
INVESTING

HOTELS & MOTELS INVESTMENT:
WHY COMMERCIAL INVESTORS SHOULD ACT NOW

EXECUTIVE SUMMARY

Australia's **hotel and motel sector** is one of the last major commercial real estate classes yet to be fully institutionalised presenting a rare, time-sensitive opportunity to capture premium yields before the market re-rates.

This report draws on Savills' landmark Leased Hotel Market study and their 2025 Australian Hotel Transaction Review to present a compelling, evidence-based case for pivoting investment capital toward hotels and motels. The investment thesis rests on three pillars:

SECTION 01

Superior Yield & Risk Profile

Yields of 6–10% with low operational risk – outperforming industrial, healthcare and retail on a risk-adjusted basis.

SECTION 02

Market Momentum & Transaction Activity

A\$1.91B transacted in 2025, offshore capital surging to 46.3%, and RevPAR growing across every major city.

SECTION 03

First-Mover Advantage & Future Returns

Institutionalisation is inevitable. Early investors capture 20–25% capital uplift as yield compression mirrors the industrial and childcare sectors.

6 – 10%

Leased Hotel Yield Range

A\$1.91B

2025 Total Transaction Volume

46.3%

Offshore Buyer Share 2025

+20–25%

Offshore Buyer Share 2025

9.6%

Hotel Avg Total Return p.a. (since 2005)

+18%

Domestic Visitor Night Growth to 2029

+41%

Intl Visitor Arrivals Growth to 2029

+6.7%

Australia RevPAR Growth 2025

The Leased Hotel Model: Passive Income, Institutional Grade

A leased hotel is structured as a traditional commercial lease, the hotel operator becomes the tenant and assumes all operational risk. The property owner collects stable, contractually fixed rental income, entirely insulated from the day-to-day volatility of room revenues, staffing costs or RevPAR fluctuations. This structure fundamentally differentiates leased hotels from managed hotels, where the owner bears the operational risk.

Key structural features of leased hotel agreements in Australia include:

- Lease terms of 10–30 years to nationally and globally backed operators such as Quest (The Ascott Limited / CapitalLand), Mantra (Accor), Veriu, and Oakwood
- Fixed annual rental escalations of 3–4% per annum, or CPI-linked with fixed minimums providing a reliable inflation hedge
- Triple net (NNN) lease structures in many cases, meaning the tenant is responsible for all outgoings including maintenance, insurance, rates and capital expenditure
- Zero leasing incentives required, unlike office or retail leases, operators do not demand rent-free periods or capital contributions
- Strong tenant covenants backed by multinational institutions, reducing counterparty risk and enhancing asset liquidity

*This **type of lease** structure ensures landlords benefit from stable and **growing cash flows, minimal operational exposure, and high-quality tenancy profiles** making leased hotels an ideal investment for capital seeking secure, long-duration income.*

Yield Advantage: Outperforming Every Competing Asset Class

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Asset Class	Yield Range	Typical Lease Term	Operational Risk
Industrial Property	4.0% – 6.0%	10–20 years	Low
Retail (Fast Food & Supermarkets)	4.5% – 6.5%	10–15 years	Low
Healthcare & Childcare	5.0% – 7.0%	10–20 years	Low
Leased Hotels	6.0% – 10.0%	10–30 years	Low

SECTION 01 | Superior Yield & Risk Profile

Leased hotels deliver the highest yield range in the table above with identical or longer lease terms and equivalent operational risk profiles to industrial and healthcare assets. On a risk-adjusted basis, no commercial asset class currently on offer matches this return profile.

Hotel assets have also demonstrated superior long-term total returns. Since Q1 2005, the hotel sector has delivered an average total return of 9.6% per annum outperforming the all-property average of 8.1% p.a. Only the industrial sector has performed stronger (10.4% p.a.), and this was driven by an extraordinary period of yield compression in 2021–2022 that is unlikely to repeat at that scale.

The Australian Yield Anomaly: A Mispricing Opportunity

In mature global markets, leased hotels trade at tighter (lower) yields than managed hotels, reflecting the security of their income and lower risk. Europe provides the benchmark: in Q4 2024, leased hotel yields in London, Paris, Madrid and other gateway cities sat between 4.5% and 6.0% well below the 7.0–9.0% range for managed hotel equivalents.

Hotel Type	Current Yield — Australia	Current Yield — Europe
Leased Hotels	6.0% – 10.0%	3.0% – 5.0%
Managed Hotels	5.0% – 8.0%	5.5% – 7.5%

In Australia, the inverse persists: leased hotels currently trade at softer yields than managed hotels despite carrying materially lower risk. This mispricing represents a structural arbitrage that will not last. As institutional awareness grows and capital flows into the sector, Australian leased hotel yields will re-rate toward global norms, delivering significant capital appreciation to early investors.

*This yield mispricing creates a **compelling arbitrage opportunity** for investors who move into the market ahead of institutional capital. The spread between Australian and European leased hotel yields implies potential capital value **uplift of 20–25%** as the market normalises.*

Resilience Through Market Cycles & Portfolio Diversification

Hotel investments have demonstrated exceptional resilience during periods of market stress. During the sharp rise in interest rates from mid-2022 through 2024, the hotel sector maintained annual total returns in a tight band of 4–6% while industrial returns slowed sharply, retail remained subdued, and the office sector produced sizeable negative returns.

SECTION 01 | Superior Yield & Risk Profile

Hotels achieve this resilience because:

- Revenue is repriced daily via dynamic pricing, allowing rapid pass-through of inflation to operating income
- Domestic tourism provides a stable, recession resistant demand base with visitor nights projected to grow 18% to 2029 (3.4% p.a)
- Hotel cash flows have low correlation with traditional commercial sectors (office, retail, industrial), offering genuine portfolio diversification
- Leased hotel structures layer an additional buffer on top separating the investor's income from any operational volatility

SECTION 02 | Market Momentum & Transaction Activity

A Market Recovering With Conviction 2025 in Review

Total hotel transaction volume across Australia reached A\$1.91 billion in 2025, across 60 transactions a 2.3% year-on-year increase and broadly in line with the long-term annual average of approximately A\$2.0 billion. This signals a market in structured recovery, with positive momentum building throughout the second half of the year.

\$1.91B

Total 2025 Transaction
Volume

60

Number of Transactions

+2.3%

Year-on-Year Growth

\$2.0B

Long-Term Annual
Average

SECTION 02 | Market Momentum & Transaction Activity

The composition of activity tells an equally important story. While average deal size moderated slightly to \$32.5 million (from \$34.0 million in 2024), reflecting a surge in mid-market activity, price per key remained broadly stable at approximately \$379,500 signalling that investors are underwriting to current cashflow plus executable upside, rather than speculative repricing.

The Return of International Capital Global Validation

One of the most significant developments in 2025 was the dramatic resurgence in offshore investment. Offshore buyers accounted for 46.3% of total hotel transaction volume in 2025 compared with just 12.0% in 2024. This near-quadrupling of international market share reflects Australia's enduring appeal as a safe, transparent, and high-performing investment destination.

Buyer Origin	2024 Share	2025 Share	Key Markets
Domestic	88%	49%	Owner/operators, funds, private investors
International	12%	46%	Thailand (16%), USA (12%), Singapore (10%), Taiwan (7%)

Thailand and Singapore led international capital deployment, driven by favourable currency dynamics and Australia's political stability. In times of global geopolitical uncertainty, Australia consistently attracts flight-to-quality capital and hotels have been a primary beneficiary. This trend is expected to continue, deepening market liquidity and providing additional exit optionality for existing investors.



The Strong Tenant Covenant Ecosystem

A critical enabler of institutionalisation is the quality of tenant covenants available to leased hotel investors. Australia's leased hotel market is anchored by well-capitalised, nationally and internationally backed operators whose financial strength and operational track records de-risk the investment and support asset liquidity:



**Bannisters Hotels
(Not for distribution)**

The Sale of the Banisters Hotels portfolio provides further evidence of the strong investor appetite for institutional-grade regional hospitality assets. Comprising three market-leading hotels across coastal New South Wales, the transaction reflects increasing confidence in the long-term performance of premium leisure-driven accommodation assets and the continued weight of capital seeking exposure to the sector.



**Quest
Dubbo \$17.5m**

The \$17.5 million sale of Quest Dubbo reflects continued investor demand for accommodation assets underpinned by long-term lease security and fixed income growth. The property comprised a 65-key hotel leased to Quest on a long-term agreement extending through to 2048, with annual rental increases of 3%, providing a secure and predictable income stream within one of regional New South Wales' key commercial centres.



**The Sofitel
Adelaide \$154m**

The sale of Sofitel Adelaide for \$154 million represents one of the most significant hotel transactions in Australia's recent history and established a new benchmark for the Adelaide hotel market. The 251-key luxury hotel occupies a prime CBD location and forms part of a landmark mixed-use development, with the transaction reflecting strong institutional demand for premium accommodation assets in major capital cities. The record price achieved further underscores investor confidence in the long-term fundamentals of Australia's luxury hotel sector.

SECTION 02 | Market Momentum & Transaction Activity



Mantra, Albury
\$26.2m

The sale of Mantra Albury for \$26.2 million demonstrates continued investor demand for institutional-grade regional accommodation assets. The 146-room hotel occupies a prominent position within Albury’s CBD and is supported by diversified revenue streams including accommodation, conferencing and food and beverage operations. The transaction provides further evidence of increasing investor confidence in regional hotel markets, particularly assets located within major regional centres benefiting from strong corporate and leisure demand.



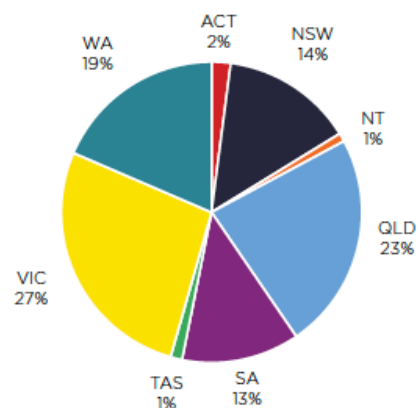
Quest Springfield Central
\$26.7m

The sale of Quest Springfield Central for \$36.8 million highlights strong investor demand for high-quality accommodation assets underpinned by long-term lease security and diversified income streams. The property comprised an 82-key Quest hotel together with complementary healthcare and childcare tenancies, providing a substantial income profile supported by fixed annual rental growth and long WALE.

Operating Performance: Hotels Are Thriving

The investment thesis is further underpinned by strong, improving hotel operating fundamentals across Australia’s major markets. Revenue Per Available Room (RevPAR) grew across every major city in 2025, with occupancy continuing to rise as the demand recovery extends.

2025 HOTEL TRANSACTIONS VOLUME



Source: Savills & MSCI

SECTION 02 | Market Momentum & Transaction Activity

Perth and Brisbane now trade at 1.7 times their 2019 RevPAR levels, and Sydney reached a record Average Daily Rate of \$351 in December 2025. Several major markets have now surpassed pre-COVID occupancy levels outright. This is not a recovery story, it is a **growth story**.

*Hotel trading performance continues to exhibit a **strong growth profile**. With relatively benign supply growth in many key markets, there remains significant further upside potential in both occupancy and ADR across Australia's major cities.*

Supply Constraints Drive Value for Existing Assets

A critical structural dynamic supporting hotel investment values is the constrained supply environment. Elevated construction costs and tighter development financing have significantly limited new hotel supply, with national room supply growth at just 1.0% in FY2024/25. This tight supply-demand balance directly supports trading performance and asset values for existing hotels.

For leased hotel investors specifically, the construction financing dynamic creates an additional opportunity: hotel developers increasingly require pre-leased agreements to secure funding. This structural demand for leases from developers provides institutional investors with a pipeline of purpose-built, pre-leased assets often acquired before construction completion at terms that reflect the developer's financing need rather than market premium.

M A R K E T R E A D Y D E A L

\$30,000,000

NET YIELD
7.03%

NEW ASSET CLASS
SA

HOSPITALITY ASSET

Purchase Details		Cash On-Cash Returns	
PURCHASE PRICE	\$30,000,000	DEPOSIT NEEDED = 5% + COSTS	\$3,564,563
Deposit (assuming 95% debt)	\$1,500,000	COST OF LOAN (Assume 6.50% pa on 95% debt)	\$1,852,500
Stamp Duty	\$1,949,860	CASH FLOW AFTER MORTGAGE COSTS	\$256,875
Building Report*	\$20,000	Return of Equity (Pure Cash Flow Return)	7.21%
Solicitor Cost*	\$8,000	Return of Equity with a 5% Capital Growth Rate	49.29%
Valuation*	\$10,000	Return of Equity with a 7% Capital Growth Rate	66.12%
Other fees*	\$76,703.00	Return of Equity with a 10% Capital Growth Rate	91.37%
TOTAL CASH REQUIRED	\$3,564,563		
Purchase Price + Purchasing Costs	\$32,064,563		
NET ANNUAL CASH FLOW RETURN	\$2,109,375		
NET YIELD ON PROPERTY	7.03%		
Net Yield Accounting for Purchasing Costs	6.58%		

The Institutionalisation Playbook: Australia Has Seen This Before

Australia's commercial real estate market has a well-established pattern: niche sectors held predominantly by private investors undergo institutionalisation a process in which institutional capital recognises the underlying structural quality of the asset class, enters at scale, and drives yield compression that generates significant capital appreciation for early movers.

The industrial/logistics sector is the defining example. A decade ago dominated by private investors, it now attracts the bulk of Australia's largest institutional real estate funds, with yields tightening to levels lower than office and retail. The childcare, fast food and fuel convenience sectors have followed the same arc. In each case, the inflection point was triggered when institutional capital identified long-term leases, strong tenant covenants, and passive income profiles, and began acquiring assets at scale.

*Leased hotels possess every characteristic that drove institutionalisation in other sectors: **10–30 year leases**, strong leases & hotel management agreements in place, triple net structures, zero incentives, and **inflation-linked escalations**. The only thing missing is institutional capital, and that is changing.*

Quantifying the Opportunity: Yield Compression Scenarios

When institutional capital enters the leased hotel sector at scale, cap rates will compress toward the risk-adjusted levels justified by the asset's income security. Three scenarios drawing on comparable compression events in the industrial and healthcare sectors quantify the potential capital value uplift:

Scenario	Current Yield	Future Yield (Post-Compression)	Implied Capital Value Uplift
Base Case (Moderate Compression)	7.5%	6.0%	+20%
Optimistic Case (High Compression)	7.5%	5.5%	+25%
Pessimistic Case (Low Compression)	7.5%	6.5%	+10%

Even in the pessimistic scenario, investors who enter now capture a 10% capital gain on top of their ongoing income yield which itself exceeds every competing asset class. In the base case, that capital uplift reaches 20%, compounding the already-superior income returns into a total return profile that no other current commercial real estate sector can match.

Tourism Fundamentals: A Structural Demand Tailwind

Hotel investment returns are underpinned by a compelling tourism demand outlook that extends well beyond the current cycle:

- Domestic visitor nights are forecast to grow 18% over the five years to 2029 (3.4% p.a.), providing a stable and resilient base demand that is less susceptible to geopolitical disruption
- International visitor arrivals are forecast to increase 41% (7.2% p.a.) between 2025 and 2029, driven by rising Asian household incomes and the ongoing China recovery with TRA forecasting a return to pre-pandemic volumes between 2026 and 2027
- Air passenger movements are forecast to grow 2.6–2.7% per annum over the next five years (BITRE), directly supporting hotel occupancy across all markets
- Brisbane's preparation for the 2032 Olympic and Paralympic Games will generate sustained hotel demand across Queensland for the next decade the Property Council named Queensland the leading destination for hotel capital growth in its December 2025 survey
- The opening of Western Sydney Airport will catalyse new hotel demand in one of Australia's fastest-growing urban corridors

Against this backdrop of demand growth, supply remains deliberately constrained. Construction costs and financing conditions have limited the development pipeline, ensuring that existing assets — and new leased investments — benefit from favourable supply-demand dynamics well into the next decade.

2026 Outlook Conditions Favour the Investor

Looking ahead, the environment for hotel investment in 2026 is constructive across every relevant dimension:

- Transaction volumes are expected to increase, building on the positive momentum from H2 2025 into early 2026
- Offshore capital from Southeast Asia is expected to remain a major and growing source of demand, supporting market liquidity and price discovery
- Hotel trading performance continues to strengthen, supported by increasing room rates and occupancy levels across key markets
- Trading income growth not cap rate compression is expected to be the primary driver of total returns in the near term, before institutionalisation-driven yield compression provides a second, structural uplift

For investors who act in 2026, the combination of above-market income yields, improving trading performance, and the approaching inflection point of institutionalisation represents a once-in-a-decade entry point. The structural forces are assembled. The global precedent is clear. The domestic evidence is compelling.



The Unrealised Advantage

Leased hotels represent a compelling investment opportunity underpinned by institutional quality fundamentals, yet the sector remains relatively underappreciated by the **broader investment market**.

Investors who enter now before institutional capital arrives at scale will capture superior income yields today and significant capital appreciation tomorrow.