Central Coast Motel Association

PO Box 5012 CHITTAWAY POINT NSW 2261

31 March 1999

Mr. Ralph Lattimore Productivity Commissioner PO Box 80 BELCONNEN ACT 2616

Dear Mr. Lattimore

Re: Additional to previous submission - Inquiry into Australia's Gambling Industry

This Association would like to submit the attached documentation in addition to our previous submission regarding major hotel developments on the Central Coast by Registered Clubs.

Our Association wishes to draw your attention to the attached correspondence from Ettalong Beach War Memorial Club Ltd. This letter was forwarded to our association and Mr. Jim Lloyd MP, Member for Robertson in late January 1999. Comments and observations contained therein are of concern to our members and we respectfully request that the Productivity commission give consideration to the contents and the attached notes.

Yours faithfully,

President

- Note (1) The submission presented by our association outlines the concerns of our membership and no input from any other organization was sought.
- Note (2) A preference "to adopt a moral approach to the way in which we compete" is no guarantee that competitors in the contestable market for clubs services will be considered, let alone fairly treated in the marketplace. It is not reasonable, practical or logical that competitors should rely on the goodwill of clubs for their survival.
- Note (3) Has the Ettalong Beach Club or the Registered Clubs Association submitted proposals to the government "to adopt guidelines to stop anti-competitive behavior"?
- Note (4) The writer states that "Many clubs use campaigns no different from those of Casinos in promoting their <u>business</u>". This association is of the opinion that many club trading activities appear to the average consumer as another business providing an enticing array of services.

The question is asked as to whether a fair trading environment can exist in these circumstances, given the financial advantages provided to clubs by virtue of concessional taxation treatment and exclusive gaming franchises.

Note (5) Our Association is concerned as to how "the same tax rules as any other business" will apply to these operations, when the nature of the asset being developed and the practical administration of the facility is considered. It would be impossible to establish what revenue was generated by which entity and the extent of cross subsidization in food, beverages, advertising, labour and cost of funds would be inestimable.

Please refer to the article entitled "You'll see some familiar faces" from the attached newspaper supplement to provide a basic demonstration of the difficulty in establishing profits and the relevant taxation liability for enterprises of this nature.

Considerable commercial benefit is also conferred on the hotel facility by virtue of the immediate proximity of well developed club gaming, entertainment and restaurant facilities.

Note (6) In this latter, <u>dated 22 January 1999</u>, it is stated "the club in question has sought outside operators to carry out the project on a commercial basis. However they have been unable to get any finance or hotel group interested in the Central Coast".

On the same day, 22 January 1999 the attached promotional newspaper was released announcing the "Grand Mecure Ettalong Beach Club"

Note (7) The "substantial evidence that these three projects will in fact increase occupancy of all motels in the area" as has been offered to this association is attached. We have been supplied with 6 selected pages of a report commissioned we understand, by the Ettalong Beach Club.

This report indicates that in 1997 Central Coast average occupancies stood at 57%. This is below industry indicative averages typically referred to in order to substantiate development of additional accommodation rooms. The rate of 44.8% is low by industry standards, and is indicative of an underlying over supply of accommodation rooms. Seasonal variation in occupancies is also significant on the Central Coast, which is a further cause for concern.

Please refer to the attached extract from "Achieving financial success in motels"* with regard to viable occupancy percentages.

Our Association was supplied with insufficient extracts from this report to draw any conclusions as to the validity of the report, however, in consideration of the size and nature of the development, the mutual corporate status of the registered club involved, and the fact that private investors are being sought to participate in the project the question must be asked as to whether recommendations and findings contained in the complete document were subject to independent review?

* Copyright - reproduced with permission from Gull Publications
PO Box 2 Coolum Beach
Queensland 4573
Peter Anderson & Virginia Bowe MNIA



Tel (dir) 02/43430104 Fax (dir) 02/43430148 e-mail: mherbert@ebmc.com.au

22 January 1999

Mr Alan Evans
President
Central Coast Motel Association
P O Box 5012
CHITTAWAY POINT NSW 2261

Dear Alan

I was astonished to see in recent media, criticism by the Central Coast Motel Association relating to clubs in the community building motels. I was preparing to contact you when I received a copy of a letter from the Clubs' Association and would now appreciate the opportunity to discuss the issues with your Group.

Note 1

It is appreciated how the views expressed may have come about, mainly I suspect as a result of the distorted campaign run by the Australian Hotels' Association. However briefly one needs to look at the broader picture.

There is no question that clubs have a privileged position because they hold gaming franchises. At least though, those franchises and the profit derived belong to the community in which the clubs exist. Most clubs are an instrumental part of the social fabric of the community in which they are located.

Obviously clubs provide many other benefits to their communities.

Note3

There are indeed clubs that are anti-competition in their pricing policies. This, you might be surprised to learn, is a thorn in the side of the many other clubs who prefer to adopt a moral approach to the way in which we compete. We would like the government to adopt guidelines to stop anti-competitive behaviour.

Ucte 4

Many clubs use campaigns no different from those of Casinos in promoting their business. Mind you - I don't send a bus to the door of the Casino to pick up patrons - unlike they do to me. As stated earlier, profits made are assets of our communities.

.../2...

Mr Alan Evans / Central Coast Motel Assn 22.01.1999 page -2-

Note 5

The three local clubs planning to establish hotels are doing so under circumstances that will bring the projects under the same tax rules as any other business. It is true the proposals have been made possible by gaming franchises but in each case the club in question has sought outside operators to carry out the project on a commercial basis. However, they have been unable to get any finance or hotel group interested in the Central Coast.

Since its inception, Central Coast Tourism, due to its success in marketing the Central Coast, improved local occupancies from 42% to 57%. CCTI would not have existed without the financial support and participation of clubs on the Coast, in particular the three nominated.

Note 7.

Substantial evidence exists that the development of these three projects will in fact increase occupancies of all motels in the area.

In consideration of the privileges of clubs, award provisions and other regulatory requirer. Its considerably water these down. If these were applied to motels, many would not be viable.

The clubs have met to discuss your view and would welcome an opportunity to meet with you . Ind discuss the position.

Yours sincerely

PETER | HALE

aren. 1 Magadi

Peter Hale

GENERAL MANAGER

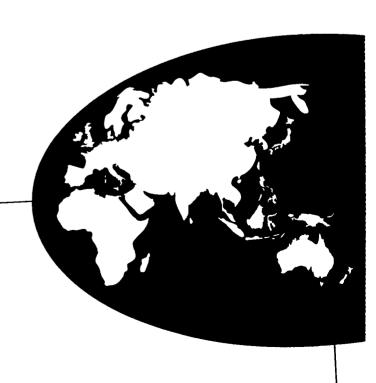
CC: Mr Jim Lloyd, MP



ACHIEVING FINANCIAL SUCCESS IN MOTELS

Tourism Management Series





Transfer to

CHAPTER 1 INTRODUCTION

In the 1970s and 1980s, having dollars in real estate based assets seemed a sweet way to go. There was a widespread belief that nominal capital values would speed ahead of financing costs. For a few short years, this belief was justified. Briefly, yesterday's strategy was to:

- Minimise equity. 1)
- Maximise debt. 2)
- Ignore operating returns. 3)
- Concentrate on 'capital appreciation'. 4)
- Keep leveraging into other properties. 5)

Both hotels and motels were keenly sought investments during the period, due to the high real estate component. Little thought was given to the high fixed costs associated with this component. When the inevitable bust arrived, the bell tolled long and hard. These days, things are different. Proper foundations need to be laid. Increasingly, owners and operators have to concentrate on the following factors:

- Achieving a balanced mixture of equity and low-cost debt. 1)
- Detailed focus on optimising operational returns. 2)
- Improving the value of the business, rather than relying on increasing real estate values. 3)
- Greater productivity through technology and training. 4)
- Wider room sales mix, with increasing emphasis on associated activities such as food and 5) beverage, conferences, etc.
- Using tools such as yield management to improve earnings quality. 6)
- Developing new markets for products and services. 7)

INFLUENCES ON THE INDUSTRY

The accommodation industry is one of variables, which helps keep it fascinating. Some of the major influences include:

The balance between accommodation supply and demand: Commercial accommodation, like most industries, is a multi-tiered market ranging from basic backpacker hostels to 5-star hotels. Each segment has its own individual cost structure and range of facilities. As such, a healthy balance between supply and demand differs between segments. An ideal situation for a 4-star hotel would be an annual occupancy rate of between 75%-80% plus the ability to increase room rates by about 5% per year.

At present there is a general over supply of all facilities across most capital cities and a chronic over supply in major resort areas such as the Gold Coast and Cairns. As a result, a typical 4star hotel in a major capital city currently achieves occupancy rates of around 70% and needs to work hard to maintain room tariffs.

In this environment, profits can only be increased by imposing stringent cost controls and productivity improvements. Attention also needs to be given to the development and optimisation of food and beverage sales, meetings, etc. On the other hand, a privately owned and operated country motel can often survive adequately on low occupancy rates of between 40% - 50%.

- The state of the economies, from regional through to international: Overall demand is generally dictated by the state of the economy or more precisely business activity. The majority of stays in 3-star+ facilities (excepting resort areas) are for business reasons. Although Australia has enjoyed nominally high economic growth in the late 1990s, it is mainly due to persistently excessive consumer spending not inherently robust business activity. As a result, commercial accommodation bookings are only showing mild growth across most regions.
- The level of private disposable income, coupled with competitive travel costs: A key driver in the leisure segment of the accommodation market is the extent of private disposable income. The picture here is quite clouded due to the high levels of personal debt. The top 30% of income earners still generally enjoy significant increases in real income, while the bottom 30% continue to struggle. This consistent tendency favours 4-star+ hotels and the short- break indulgence market.
- Growth in the overall service sector: The service sector continues to grow ahead of the general economy. In common with other developed economies, this looks set to accelerate favouring business class hotels and facilities. Firms in this sector need to travel extensively to service existing and potential clients. It is also a sector enthusiastic about networking meetings, conferences, etc.
- Restructuring of major industries and monopolies: The restructuring, privatisation and
 rationalisation of major industries leads to significant business activity, again mostly favouring
 upper grade hotels and advanced regional motels.
- Lifestyle and demographic demands: With an actively ageing and urban population, lifestyle and demographics will stimulate increased activity across all sectors of the accommodation industry. However, domestic marketing needs to intensify, especially in regional areas. Domestic tourism has only demonstrated sluggish growth over the last few years (2% 3%pa).

SUMMARY

Although the longer-term outlook for the tourism accommodation industry is strongly positive, an excess of supply currently exists in most capital cities and major resort areas. This is mainly due to investment decisions taken before the 1997-99 Asian crisis, coupled with optimistic assumptions about the rate of inbound tourism growth.

Counter-balancing these factors are favourable demographics, weakness in the Australian currency, and the end of the construction boom in new hotels. After a pause, business activity should gradually increase and tourism marketing will begin to properly unlock the significant domestic potential. Inbound tourism will increasingly be longer stay and higher yielding. Operators in all segments will need to continually fine tune products and services to cater for a demanding business and consumer market.

You'll see some familiar faces

Most of the resort's management team consists of many long-time employees of the existing Ettalong Beach Club.

Head of the new resort, general manager Peter Hale, joined the club in 1984 from Mingara Recreation Club.

In his first three years at Ettalong, Peter made a \$1.6 million turnaround and last financial year saw the club's turnover valued at \$15.8 million, a \$1.532 million profit.

ager after 21/2 years as the human resources manager.

The resort's property services has worked at the club for the Elsie Campbell, a long-time be assistant food and beverage

recognise a few familiar faces. new club resort and providing troller. Elsie, of Ettalong, has services for customer comfort been employed by the club for 15 and ambience

John Atkins of Lisarow will assume the role of gaming manager, after working as purchasing manager at the club for the past 14 years.

John will be responsible for the new 400 machine gaming room overseeing all facets of gaming, including player comfort and ensuring the facilities meet customer needs and respond to changing technology.

Developing and managing the pointed assistant general man-resort's food and beverage sector Hale. will be Lyn Hale of St Hubert's Island. Lyn has worked at the same position.

VISITORS to the new resort will sible for the maintenance of the come the resort's financial con-

Ensuring the resort provides its guests with quality entertainment will be the entertainment and marketing manager, Mary Caldwell of Ettalong.

With more than 10 years' experience at the club, Mary willalso be responsible for the coordination of marketing.

Heights will continue her 11-year stint at the club, assuming the role of personal assistant to Peter

The resort has also employed new staff to fill other managerial existing club for five years in the positions, including Allen Jacobsen of Ettalong, who will

Having been at the club for three months, he will be responsible for maintaining all food and beverage products and promotions and ensuring services are kept to resort standards. - .

Allen previously worked as the assistant food and beverage director at the Renaissance Hotel. Sydney, and more recently at the Tinian Dynasty Hotel and Casino, Commonwealth, Northern Mariana Islands.

Matthew Rosee of Gosford is Marilyn Herbert from Umina also new to the club after eight months as personnel officer.

This follows a similar appointment with the Director of Public Prosecutions.

Matthew will be responsible for recruitment, industrial relations, workers compensation and occupational health and safety. He will also train staff to meet the resort's new standards.



The sales team is Lisa Lens, Gerald Goodwin, Ric King and Simone King

Investor protection will be the first concern of the independent entity appointed to be responsible for investors in the resort.

CTM Property has been appointed responsible entity for the resort which is the first strata title project of its kind in Australia under the new managed investment laws. Director of CTM Property and partner of legal firm, Teys McMahon, Michael Teys said CTM's brief was to design and document the fairest system of income distribution ever offered to strata title investors.

"We have produced a system that will deliver owners a flexible range of choices about use and management of their apartments," Mr Teys said.

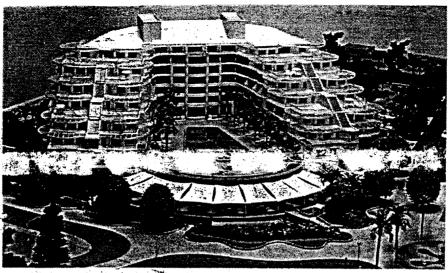
"Operating expenses have been fixed, shifting the risk of unbudgeted expenses and operational losses for the owners to the operator.

"There will be income pooling for" fair distribution of income to owners and our independence from the club as responsible entity will ensure investors are better protected than ever before, the said.

managing 10 properties owned by private investors.



228 luxurious apartments set among lush gardens



Setting new standard for hotels in Australia

THE new \$92 million Grand Mercure Ettalong Beach Club Resort will offer a spectacular resort apartment hotel combined with one of the most exciting ical gardens. licensed clubs in Australia.

hotel will feature 228 luxury resort apartments within one hour's drive or a 45-minute fast ferry ride from Sydney.

"We are setting a new standard for the future of clubs and resorts in Australia," Ettalong Peter Hale said.

providing an 'Australian leisure competitive price."

to celebrate the Australian beach for business travellers. Comfort The Market Place food court will culture and will be set back from the beach amid landscaped, trop-

The seven-storey U-shaped The beachfront resort-style building will be tiered and terraced around an exotic pool and cocktail navilion to take advantage of the views.

> A majority of the suites will balconies with sun lounges.

almost all spaces, including the Inc of New York. "Our main focus will be spa, to water views.

terminals, e-mail and fax links facilities will have the capacity to and exhibition facilities.

superior finishes and high quality beverage outlets. fixtures.

Each suites will have a queensized bed, spa bath, kitchen, walk-in wardrobe, laundry, mini- in The Reef Bar. bar and revolving TV in the living area.

The new 5000sqm club has face the beach and have large been designed in association with two of the world's leading food All rooms will feature large and beverage designers, Joseph Beach Club general manager glass sliding panels that open up Baum and Michael Whiteman

Featuring an indoor village of All suites will contain facili- cafes and eateries, an a la carte jack and roulette. experience' with international ties for state of the art access restaurant and several bars and four-star service and quality at a technology including computer lounges, the food and beverage technically advanced seminar

The resort has been designed and have a large work space area serve up to 10,000 meals a day. has not been compromised, with feature 12 themed food and

> Visitors will be able to dine on the Grand Terrace or surrounded by tropical and sub-tropical fish

> Sporting enthusiasts will be able to enjoy a quiet drink and watch a large screen television in the club's Sports Bar while the Ladies Bar will showcase Hunter Valley wines.

> The club will also feature a state-of-the-art gaming room with 400 poker machines, black-

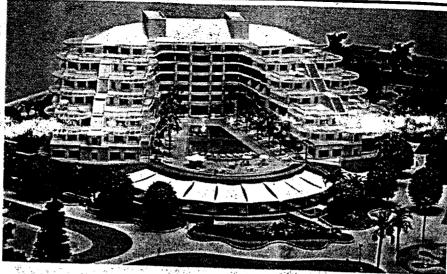
> The hotel will feature large,

A spa bath in every room and a host of dining choices

Ric and Simone King of Lifestyle Realty are the resort marketing specialists to head up the sales and marketing of the new Grand Mercure Ettalong Beach Club Resort. Ric and Simone have moved from Queensland to Ettalona to work on the new resort. They have been involved with Australia's largest developments since 1987. Ric and Simone will be assisted by sales consultant Gerald Goodwin and administrative assistant Lisa Lens, both from the Central Coast. You can find Ric and Simone and their team in the newly-built sales. office, complete with scaled versions of the resort's interior finishes, in the carpark of the existing club. The office opens every day but Tuesday between 10am and 4pm, phone 4344 4744 or 1800 880 098.



The resort will pump millions of dollars into coast economy



Dawning of new age of tourism in the region

\$92m redevelopment will create 1000 jobs

THE \$92 million redevelopment of been approved allowing it to start balconies to maximise water views. the Ettalong Beach Club will create a selling apartments to investors. stunning resort and 1000 jobs.

during the construction phase and Managed Investments Act. 200 will be full-time on completion.

dollars into the Central Coast econ-

It will combine the present club with a 228-room resort-style hotel to be known as the Grand Mercure at \$261,000. Ettalong Beach Club Resort.

It is the first strata titled resort to be Eight hundred of the jobs will be sold by prospectus under the new

Combining a spectacular apart-The project will pump millions of ment resort with a licensed club, a range of investment units will be available including studio apartments and one and two-bedroom apartments priced from \$159,000 and averaging tunity to buy an apartment under

Management of the resort an- be offered for sale. The majority of forecasted return of 7 per cent net per nounced today its prospectus had rooms will feature large, terraced

They will overlook a centrallylocated pool with an outdoor cocktail bar and barbecue area.

The facility will also feature a 300-seat function room, 400-seat entertainment complex and 12 different themed eateries.

Investors will be given the opporthree basic options. They can let the Two luxury penthouses will also apartment through the operator for a

An income subsidy fund of \$3 million will be established to support months in advance. investors' returns for the initial fouryear start-up period.

In return they will receive 14 free nights a year (subject to availability and pre-booking) with additional nights offered at a discounted rate. Secondly, investors who wish to use their apartment for personal use but who still want a return on investment, can let their apartment through the tourism, entertainment and hos-

the days they wish to remove their said.

apartment from the "letting pool" 12

Thirdly, investors can use their apartment strictly as holiday accommodation but will be required to pay all costs associated with ownership.

"The benefit of the development is that investors receive a freehold strata title real estate property that will profit from the growing Australian pitality industry," Ettalong Beach They will be required to nominate Club general manager Peter Hale



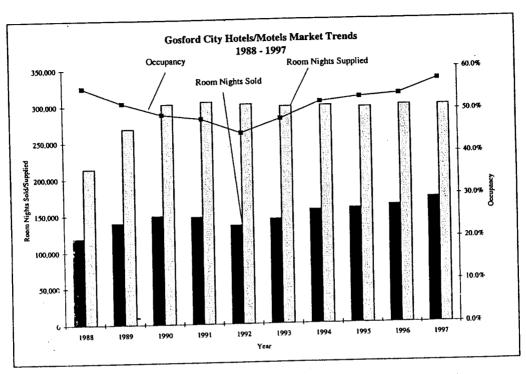


Venue	Location	uly 1998 Rooms	Conference Facilities	
			Rooms	Max Seating
New South Wales:				C 10
Novotel Northbeach	Wollongong	200	12	640
Noahs on the Beach	Newcastle	90	5	300
Mercure Inn Sandcastles	Port Macquarie	56	2	80
Peppers Guest House	Hunter Valley	48	3	120
Lilianfels	Blue Mountains	86	7	150
Beachcomber Resort	Central Coast	61	7 2	250
Holiday Inn Crowne Plaza	Central Coast	196	4	450
Victoria:				120
Lancemore Hill	Kilmore	71	4	130
Lindinderry at Red Hill	Red Hill	40	3	130
Ballarat Village	Ballarat	80	19	250
Blythwood Grange	Ballarat	58	10	200
Club Cape Schanck Resort	Cape Schanck	71	4	300
Nepean Country Club	Rosebud	111	6	110

of the against

Andreas Andreas





Source: Australian Bureau of Statistics

9.2.2 Gosford City

Key elements for Gosford City are:

- Following significant increases in room supply in 1989 and 1990 due to the opening of the Crowne Plaza Holiday Inn, room supply in Gosford has remained static.
- The main demand indicator, room nights sold in hotels/motels in Gosford City, also saw significant increases in 1989 and 1990, reflecting the supply-induced demand growth generated by the opening of the Crowne Plaza Holiday Inn. This surge in demand was followed by two years of declining demand levels, in line with the economic recession in the early 1990s. From 1992 to 1997, demand for hotels/motels in Gosford has experienced average annual growth of 4.8%. The grow: in demand strengthened to 6.3% from 1996 to 1997.
- Due to the static supply situation at the same time as increasing demand, the area-wide occupancy has increased from 44.8% in 1992 to 57.2% in 1997. The occupancy level achieved in 1997 is the highest achieved in the last 10 years.
- Average room rates in the Gosford City local authority experienced a strong decline in 1992 and 1993 in response to economic conditions. Strong growth in room rates occurred in 1994 and 1995, with slight increases in the rate being experienced since 1995. The average room rate over the 12 month period to December 1997 was \$103.



Ramada (405 rooms), ANA (404 rooms) and Gold Coast International (296 rooms). As a result of these new properties opening, demand for Gold Coast hotels increased by 28% in 1986 and 24% in 1987. While the staging of Expo '88 in 1988 and the pilots' dispute of 1989 caused a disruption to the trend, it is clear that the new international hotels on the Gold Coast moved the demand curve upwards.

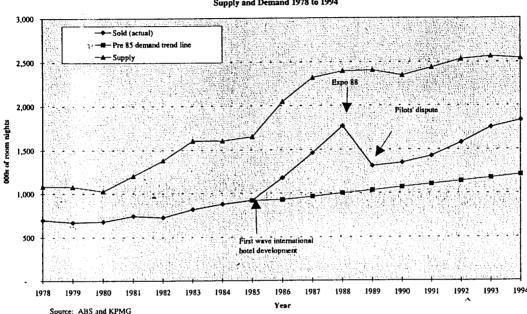


Figure 1: Gold Coast Hotels/Motels
Supply and Demand 1978 to 1994

In order to quantify the extent of supply-induced demand on the Gold Coast we have applied the following formula:

Supply-Induced Demand = Actual Demand - Underlying Demand Trend (Based on pre '85 results)

Based upon this simplistic approach, we have calculated that the new international hotels on the C 'd Coast generated supply-induced demand equivalent to:

- 1230 room nights of demand per additional room in 1986; and
- 270 room nights of demand per additional room in 1987.

10.4.3 Whitsunday Island Resorts.

The Whitsunday Island Resorts have also exhibited similar trends with regard to new resort supply inducing new demand growth.



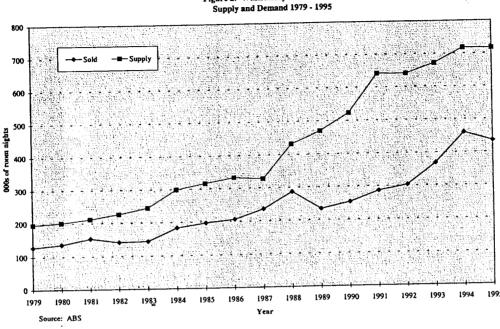


Figure 2: Whitsunday Island Resorts

In the period 1979 to 1983, room supply in the Whitsunday Island Resorts increased by approximately 6% per annum, while demand increased at the rate of 3% per annum. The opening of the early stages of Hamilton Island Resort in 1984 provided the catalyst for future supply and demand growth in the region. In 1984, supply increased by 22% while demand grew by 27%. The opening of later stages of Hamilton Island Resort, the redeveloped Hayman Island, Club Med Lindeman and Daydream Island resorts also had a positive impact. A 32% increase in room supply in 1988 was reflected in a 22% increase in demand. In 1991 and 1992, room supply increased by 37%. Demand growth lagged somewhat due to recessionary conditions in the early 1990s - however it increased by 52% between 1992 and 1994.

Based upon the formula previously described, we have calculated that the new island resorts generated supply-induced demand equivalent to:

- 410 room nights of demand per additional room in 1985;
- 220 room nights of demand per additional room in 1986;
- 140 room nights of demand per additional room in 1988;
- 165 room nights of demand per additional room in 1993; and
- 345 room nights of demand per additional room in 1994.

This high level of supply-induced demand growth indicates that the opening of new resorts enhanced the profile of the Whitsunday Island market and therefore demand growth was attributed to the whole region and not property-specific. The development



of Hamilton Island Resort throughout the 1980s, both the resort and airport components, is recognised as having contributed to this demand growth.

10.4.4 Crowne Plaza, Terrigal

As a more localised example, the Holiday Inn Crowne Plaza would have induced new demand to the Central Coast in the early 1990s as it was the first five star hotel to operate in the area and was dependent on an entirely new market support base for its business. We have assessed the impact of the Crowne Plaza on area-wide demand and found that this property induced new hotel demand onto the Central Coast in the order of 140 room hights of demand per addition room in 1990.

10.5 Conclusion

Based upon our surveys, it appears that a considerable and growing market exists for the conference venues located outside of Sydney but which are accessible to the Sydney corporate market. The three licensed club hotels also trade well, but it is apparent that the success of each is also closely aligned to location, e.g. proximity to an industrial area generates corporate and conference demand for the Rooty Hill RSL. The proposed resort's primary target markets will be the conferences, meetings and leisure segments. As shown, by the experience of Queensland resort destinations and to a lesser extent, the Crowne Plaza in Terrigal, hotels that provide the facilities that match market requirements and that are effectively marketed and managed are able to induce new demand segments, namely the tourist and conference traveller, to a region.

er