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<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<td>Central business district</td>
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<td>Floor space ratio</td>
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<td>MNES</td>
<td>Matters of National Environmental Significance (as defined under the EPBC Act)</td>
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<td>RIS</td>
<td>Regulatory Impact Statement</td>
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<td>SME</td>
<td>Small and medium enterprise</td>
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<td>SSD</td>
<td>State Significant Development</td>
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Executive summary

Governments at all levels recognise the strategic role of the visitor economy and the importance of ensuring there are sufficient numbers and types of hotel rooms and other forms of accommodation in key tourism markets. The national long-term tourism strategy, Tourism 2020, has identified that 6,000 to 20,000 additional short-term accommodation rooms will be required in capital cities, the Gold Coast and Tropical North Queensland to meet the target of doubling overnight visitor expenditure to between $115 and $140 billion by 2020.

Developing hotels is notoriously complex. As well as demonstrating solid returns for investors, all hotel projects must traverse local and state planning systems. Efficient and commercially-focused planning and approval systems are thus critical to ensuring Australia continues to be a favourable location for hotels and other major developments.

This study has examined the regulatory requirements for key classes of hotel assets. A comparative assessment of the regulatory impost for developing a 300 room four star hotel in all Australian capital cities was undertaken, which benchmarked the timeframes and direct costs for all key regulatory processes. To enable accurate comparisons the study excluded issues that often complicate developments (e.g. heritage) which would add further time and costs to the report findings.

The study also examined the regulatory requirements for two regional hotel case studies: a 100 room five star resort on the Great Barrier Reef, and a boutique eco lodge resort along Victoria’s Great Ocean Road. This analysis separately estimated the likely timeframes and costs for commercialising these developments with a focus on the specific requirements for operating in areas of high natural amenity.

To complement this work, a wide range of consultations were undertaken with the following stakeholder groups:

- developers (those currently applying for development and other approvals or who have recently completed hotel developments) and industry advisors
- hotel operators
- relevant Australian, state and territory and local government agencies (including those responsible for planning and investment)

Consultations centred on testing the regulatory mapping and benchmarking analysis, as well as drawing on areas where regulatory processes acted as a commercial impediment. A number of recurring issues emerged principally concerned with: the nature of hotel development risks and the required returns on investments; the costs to proponents presented by development regulations; and the number of regulatory agencies involved. These perspectives have been drawn on in setting out areas for potential reform.

In a forward looking context, the study makes a number of recommendations for improving planning regimes and regulatory processes at the Australian Government and State and Territory level. This includes options for streamlining of processes and reducing costs and risks for proponents.

CBD hotel regulatory benchmarking analysis

Regulatory timeframes

The regulatory benchmarking analysis for new capital city hotel projects shows substantial variation across cities. The processes associated with obtaining development approvals are the most time-consuming, comprising the large majority of regulatory timeframes. With few exceptions, the timeframes for pre-lodgement processes and for obtaining building approval (construction certificates) are relatively consistent across jurisdictions. Adelaide has a markedly elongated pre-lodgement time frame, as does the Sydney one-stage Development Application (DA) process due to the need to hold a design competition pre-lodgement.
Sydney’s development approval processes are the highest among capital cities (87 weeks for a two stage process or 51 weeks for a more streamlined one stage process). Brisbane and Melbourne also have a relatively high approval timeframes for CBD hotel developments compared to other jurisdictions with both city developments estimated to take about 35 weeks to secure approvals, although Brisbane timelines may be reduced to 27 weeks under a code approval.

Overall regulatory timeframes in the Sydney CBD are strongly influenced by whether a two stage DA process applies or whether this is waived. The purpose of the two stage process is to provide certainty for proponents in the form of concept approvals prior to commencing the preparation of detailed project documentation; however the timeframes are considerably higher for two stage. Although waiving of the two stage process has not frequently occurred for this form of project to date (with most waivers relating to alterations and additions, a waiver may be considered for strategic investments and, as such, both pathways are reported in the analysis.

**Regulatory fees**

The regulatory fees for obtaining hotel development approval are varied — both in terms of the types of charges which apply and their amounts. There is a wide range of potential costs faced by developers, from often low-cost application fees (typically under $1,000) up to much larger charges such as developer contributions and building levies.

The two largest direct fee components are the application charges for lodging a DA and fees associated with obtaining a building approval or construction certificate.

The main regulatory cost driver is development contributions (payments towards the provision of infrastructure). These are large, single-item costs which are not applied across all jurisdictions. For example, developer contributions for a four star CBD hotel project were estimated to be in the order of $1 million in Sydney and $2.9 million in Brisbane, noting that the temporary moratorium on infrastructure charges for new four and five star hotels in Brisbane — put in place ahead of the Commonwealth Games and the G20 meeting — was recently lifted.

As a result of large developer contributions and infrastructure charges levied on hotel developers, regulatory costs are highest in Brisbane, Sydney and Canberra. Conversely, due to the absence of a development charge, regulatory costs applying to Melbourne hotel developments are appreciably lower than other large capital cities.

**Site holding costs**

Site holding costs represent a major financial cost to proponents. These are a function of the cost of land acquisition and finance costs, local government rates and charges and timeframes.

Holding costs are largest in Sydney ($1.3 million for the one stage approval process) which reflects the combined influence of nationally high land prices and relatively lengthy regulatory timeframes. When holding costs are adjusted to account for differences in land costs (applying a capital city median site cost of $7 million), the pattern of holding costs across CBDs remains very similar. Using a common land price, holding costs in Sydney for a one stage approval process are around 45% higher than in Melbourne.

This highlights that the major influence of holding cost relativities across jurisdictions are regulatory approval timeframes.

**Regulatory complexity**

The overall complexity of regulatory processes is an important factor in determining red tape costs for businesses, as well as administration costs for government. Analysis shows a high correlation between the length of regulatory processes required and the number of interactions with agencies involved. There is a tendency among some authorities, in attempting to mitigate a range of development risks, to implement complex processes, which in turn adds to timeframes and provides greater scope for ‘issues’ to arise requiring responses by both proponents and agencies.

In this regard, Sydney stands out as having the most complex planning environment, both by time and the number of agency interactions involved. Other jurisdictions are relatively clustered, with the exception of...
Hobart which has the least number of regulatory interactions involved. Of course, the most developed and densely populated cities will have greater development challenges in at least some respects, requiring processes to deal with those challenges. However, it is critical that regulation, in attempting to mitigate risks, does not throw the baby out with the bathwater and deter development.

In an overall sense, the planning approach used in Adelaide provides a good example of how planning processes can be used effectively. It provides a framework based on formal pre-lodgement for large development proposals (over $10 million), allows formal design panel review and involves relatively low direct regulatory costs (less than 0.5% of total estimated development costs). Adelaide’s estimated timeframe of around 29 weeks is much more front-loaded, which provides a platform for managing issues earlier, potentially minimising costs such as specialist consultant reports. As a ‘mid-tier’ city, Adelaide can provide a useful performance benchmark for the larger cities such as Sydney and Brisbane.

Regional tourism accommodation analysis

The two regional case studies examined reflect a core tourism industry priority of developing higher-end accommodation products in regional areas of natural attraction. These forms of development are considered crucial to aligning with demand trends and capitalising on higher value overseas markets.

The timeframe for securing approvals for a large integrated resort development on the Great Barrier Reef was estimated at 136 weeks. This is substantially higher than the approvals times required for CBD based hotel developments, reflecting the more challenging nature of developing in areas of significant natural amenity. The largest element of the regulatory pathway involves the processes for obtaining environmental approval which was estimated to take over a year (58 weeks).

Regulatory costs were estimated at around 3.85% of total development costs for the resort. This was higher than all CBD hotel projects examined, highlighting the impact of a very long approval process and a relatively large developer contribution of over $2 million.

Approval requirements for a boutique eco lodge development along the Great Ocean Road were estimated at around 54 weeks. The likelihood of appeals associated with this form of development is considered to be high, with relevant appeal processes likely to involve a period of approximately 26 weeks in addition to the standard DA process.

Regulatory costs for the eco lodge represented around 0.44% of total development costs. This was less than many of the CBD hotel projects examined, in large part due to lower site costs.

Potential reform options

Both the CBD and regional regulatory analysis have reflected how relevant planning and approval frameworks are codified, what factors are contained in statute, and the day-to-day experience of planning practitioners. That some aspects are not without contention or differences in interpretation is clear. However, the areas of uncertainty identified during this study are the same as that faced by investors. Indeed, the scope for conflicting interpretation likely requires investors to obtain greater levels of specialist counsel, adding to project costs and risks.

The impact of regulatory complexity for international investors is potentially greater. Overseas proponents are generally less familiar with the regulatory environment and typically also need to seek Australian Government approval under national foreign investment policy to undertake any significant greenfield hotel development.

On the basis of regulatory analysis of CBD and regional hotel developments, it is clear that there is scope to improve the timeliness of jurisdictional planning systems, with delays and uncertainty imposing additional costs on proponents. However, the potential negative effect of regulations on investment is very difficult to ascertain.

Governments have the ability to fundamentally change the balance of planning frameworks. The policy goal should be to ensure that planning approvals are as simple, transparent and predictable as possible, while ensuring community interests are appropriately safeguarded.
Potential reforms identified in this report focus on various ‘pressure points’ affecting the costs, risks, timeliness and general investment support for hotel developments provided by planning and approval frameworks. These options are focused on addressing several key issues:

- securing opportunities to streamline existing features of the planning system and provide stronger coordination within government
- identifying where excessive or poorly focused regulation imposes undue costs and risks on developers
- facilitating a more enabling and responsive investment environment

In an overall sense, many of the identified reform options reflect a judgement that long term improvements in the operation of planning regimes are best achieved when developers and agencies engage earlier and in a more meaningful manner — that is, to provide ‘progressive certainty’.

An area of particular reform potential is Sydney’s planning framework which was highlighted as time consuming in comparison to other jurisdictions. As the city is a major gateway for foreign investment and international tourism, continued focussed improvements in regulatory performance have a national dimension and can potentially deliver much broader benefits.

Improving the timeliness of planning processes would require substantial reform commitment over a long period. Driving a reduction in the multiplicity of agencies across all cities would be a useful approach to streamlining processes.

In Urbis’ view, larger city planning systems (Sydney, Melbourne and Brisbane) should be aiming to reduce total project approval times for most hotel developments (where heritage issues are not involved). While facing greater complexity than smaller cities, it is not unreasonable to aim for a benchmark for completion of around 30 weeks, including the attainment of building approvals. This would involve DAs being completed in around 20 weeks, within the total of the 30 week process.

A major area where the Australian Government has responsibility is in environmental protection of matters of national significance, as provided under the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act). There are well identified areas of overlap with state and territory environmental regulation. This mostly affects tourism accommodation developments such as resorts in regional areas or on Commonwealth land.

To minimise duplication and compliance for proponents, the Australian Government and the states are progressing reforms to further delegate Commonwealth approvals on matters of environmental significance to ‘accredited’ state and territory systems. This is a very worthwhile reform direction which should continue to be pursued and bedded down as a priority.

A key focus for improving outcomes relating to environmental approval processes would be to reduce (or eliminate if possible) those cases where timeframes have been materially protracted — sometimes over several years. Indeed, cases where there have been recurrent extensions on Ministerial determinations serve to heighten uncertainty for proponents. They also provide the most pressing examples where perceptions of poor regulatory governance are aggravated.

The Australian Government is also responsible for administering foreign investment rules applying to hotel and resort developments, as well as all other forms of significant direct investment by international investors. The Foreign Investment Review Board (FIRB) advises the Government on investment proposals. In practice, almost all direct foreign investment proposals (across all sectors) are approved without condition. Given the presence of foreign investors and the high percentage of approvals, Australia’s foreign investment framework does not appear to deter overseas interest in tourism accommodation development. There may of course be those who are deterred from commencing the process based on perceptions around FIRB requirements; however, evidence for this is anecdotal.

Hotel development regulations in Australia – supplementary report

The detailed regularly process identified for each hypothetical hotel development, including a breakdown of timeframes and direct regulatory costs for each stage, has been provided in a supplementary report.
This provides an example of the types of steps a developer may need to go through to seek approval for a hotel development. The report also summarises the regulatory regime in each state and territory.

**Recommendations**

**Recommendation 1 — Greater emphasis on pre-approval engagement and case management**

Formal pre approval engagement and a case managed DA process should be given greater emphasis across jurisdictions, where these are not available or not fully utilised.

Where well administered, these measures have the potential to enhance progressive certainty for proponents at relatively minimal costs. Even in cases where they do not reduce existing timeframes, these provide real risk management advantages for proponents.

In this regard, greater flexibility to accommodate smaller changes (i.e. those that do not have a material impact on the development outcome) during approval processes would also assist hotel projects and other developments.

**Recommendation 2 — Better guidance information for new and international investors**

All governments should review the form and nature of guidance material on planning and approval processes.

While there are some good examples of marketing ‘glossies’ promoting the merits of investing in jurisdictions, information on actual development processes and requirements aimed at businesses is less readily accessible.

Some areas where better information would assist proponents include:

- Information on Australian Government environmental approval processes. In a sensitive policy area where considerable scope for regulatory discretion exists, guidelines and general information on frameworks and their administration should be contemporary, highly accessible and complete.
- A list of common pitfalls for proponents when they commence regulatory approvals and how these can be avoided or minimised.
- Process maps outlining general approvals processes, especially when decisions are made at the state level and involve multiple agencies.

**Recommendation 3 — ‘Fast tracked’ DA processes should be available for low risk projects**

Where projects are clearly identified as lower risk developments, an expedited approval pathway should be clearly available.

Recognising at the outset where low risk developments are being proposed (as is the case for many hotel developments) and implementing a ‘fast track’ DA process would improve overall approval timeframes. In a sense, the difference between the one stage and two stage DA processes in Sydney shows the relative timeframe benefits for proponents for instituting an expedited approval pathway for some projects. This does not reduce the onus to streamline timeframes across all available pathways.

In this regard, an immediate reform priority should involve providing direction around the specific circumstances in which the two stage DA process would be waived in Sydney. Two stage DAs are a ‘masterplanning’ process which may better suit large or complex development sites, and may not need to be applied to every building over a certain height should the proponent seek a waiver.

**Recommendation 4 — Fewer regulators are essential for timely and well-functioning approval processes**

Governments should examine the scope for reducing the number of agencies involved in the approvals processes.

There is a strong connection between the number of agencies involved in planning and development regulations and the times to obtain approvals. A greater number of agencies involve higher internal and external interfaces, which push up compliance and administration costs.

Improvements in this area will sometimes take longer to devise and implement, given they may involve changes to the structures of government.
However, some possible options for reducing the number of agencies involved in DAs include:

- Allowing greater use of delegated responsibilities between agencies, such as where low risk projects are identified early (perhaps as part of a ‘fast track’ approval pathway).
- Placing more agency interfaces ‘back of house’ such that costs and meeting times are minimised for proponents.

**Recommendation 5 — Streamline liquor licensing approvals**

Liquor licensing requirements should be streamlined in most states to reflect the inherent risk.

Almost all large four and five star hotels include a licensed bar and restaurant. Obtaining a liquor license is therefore a pre-commissioning requirement for practically all operators. The liquor licensing process, does not reflect the fact that modest bars situated within hotels represent a very low risk development.

Recent amendments to the liquor licensing in some jurisdictions to allow for small bars in city centres have provided opportunities to streamline licensing processes by relying more heavily on zoning and building rules.

**Recommendation 6 — Adopt a more flexible approach to design requirements**

To the fullest extent possible, prescriptive design requirements, especially on more ancillary issues, should be minimised or removed.

This includes placing greater reliance on commercial principles to determine project car parking needs. Even where prescriptions exist (such as potential car park shortfalls in Darwin) but are rarely applied, these should be removed from relevant planning regulations where this can be done without having a significantly adverse impact on traffic flows.

Disability access standards and quantities could also be rationalised to reflect demonstrated requirements and future needs.

- Any reform would require careful consideration due to the social equity implications, noting that the Australian Government has committed to a review of accessible room requirements for new Class 2 (e.g. multi dwelling apartments) and 3 (e.g. hotels) buildings under the BCA.

**Recommendation 7 — Floor space ratio (FSR) bonuses and use of government owned sites have a major role in encouraging CBD hotel developments**

States and territories should explore, as part of ongoing planning reform initiatives, whether FSR bonuses and earmarking of publicly owned land can be viably used to encourage new tourism accommodation developments.

FSR bonuses may provide an effective way to improve the commerciality of hotel sites by increasing the allowable intensity of hotel development, including for mixed use developments. While these bonuses have clear planning implications, they provide scope for facilitating and clearly signalling a strategic priority in hotel developments in a low cost and quickly implementable manner.

The conditions and level of FSR bonuses which could apply need careful planning consideration. Urbis notes that the recent City of Sydney Visitor Accommodation Action Plan concluded that FSR adjustments are “not enough to overcome the effects on risk and supply”.

Earmarking sites (both Australian Government and state owned) which could be released for hotel and tourism-related projects could be a way to help signal long term development opportunities for the industry.

**Recommendation 8 — One-stop shop reforms for environmental approval processes**

Bed down Australian Government-State one-stop shop reforms for environmental approval processes.

This would remove duplication in assessment and approvals processes and support many eco based tourism accommodation projects Australia wide (as well as other projects where environmental approvals are typically needed).

Completing the process will essentially take the initial reform measures further and wider and help establish a ‘one project, one assessment, one decision’ framework as recommended by the Productivity Commission and agreed by COAG.
Recommendation 9 — Streamlining approval processes for developments in national parks and other high natural amenity areas

Governments should explore opportunities to streamline approval processes for tourism development in National Parks and other high natural amenity areas, while retaining their conservation focus.

Some meaningful process has already occurred around increasing the length of tenure for operating in national parks and identifying how private investors can make a proposal to government.

Greater use of pre-approved opportunities for relevant tourism related developments has the potential to reduce regulatory costs and showcase where future commercial opportunities may arise. However, Ministerial call in powers at lower investment thresholds (and greater willingness to use them) could also assist where local opposition to tourism related developments holds back beneficial developments.
Introduction

New hotel developments are subject to a wide range of planning regulations, which affect the cost and timeframe of projects. Regulatory frameworks thus have the potential to hinder timely and innovative hotel projects if they impose unwarranted commercial constraints on investors. Moreover, as the form and quantity of hotel accommodation, especially in capital cities and major tourism centres, is a major element of tourism service offerings, the implications of suboptimal regulation in the hotel sector are far reaching.

Under the national long-term tourism strategy, Tourism 2020, Australia will need an additional 6,000 to 20,000 short-term accommodation rooms (in capital cities, the Gold Coast and Tropical North Queensland) to meet the target of doubling overnight visitor expenditure to between $115 and $140 billion by 2020. While many of the relevant controls occur at a state and local government level, the Australian Government has a clear interest in ensuring Australia’s regulatory environment is efficient, predictable and business friendly.

In this context, Urbis was engaged by Austrade to examine the regulatory burden for developing new hotels in Australia.

Scope

The study examines the regulatory requirements for bringing new hotel projects to market in three distinct categories:

- a 300 room four star hotel in a CBD location across all capital cities
- a 100 room five star resort development on the Great Barrier Reef, including marina and airstrip
- a boutique eco lodge resort in a national park, along Victoria’s Great Ocean Road.

Together, these development categories provide a good cross section of Australia’s hotel market and where substantial investor activity is focused. They also highlight issues faced by all new hotel developers of some form.

To complement this work, a wide range of consultations were undertaken with the following stakeholder groups:

- developers (those currently applying for development and other approvals or who have recently completed hotel developments) and industry advisors
- hotel operators
- state and territory and local government agencies (including those responsible for planning and investment)
- Australian Government Department of the Environment.

Consultations centred on testing the regulatory mapping and benchmarking analysis, as well as drawing on areas where regulatory processes acted as a commercial impediment. These perspectives have been drawn on in setting out areas for potential reform.

A wide range (20) of consultations with industry representatives was conducted. Consultations covered both domestic and international representatives with interests across a range of development types (e.g. boutique hotels and multinational hotel chains). The combined experience of industry representatives covered all jurisdictions reviewed by the study. Consultations were conducted in a commercial in confidence manner.

Policy context

Australia’s regulatory environment frequently comes under scrutiny from business, with concerns that it adds to costs, lowers competitiveness and generally makes investment more time consuming and difficult than it
should be. In certain cases it is argued that regulatory requirements may prevent investment from proceeding, or that delays have significant opportunity costs in a highly seasonal industry.

Several recent studies have examined, either directly or in part, the challenges involved in developing tourism attractions and accommodation facilities, and their role in potentially contributing to an undersupply of hotel capacity (see Box 1). Several well identified development barriers include:

- uncertainty on the feasibility of short-term accommodation investment in Australia
- better returns on investment for other land use activities (such as commercial office space)
- cumbersome and complex regulatory processes, and a lack of projects progressing through the approval process
- a lack of government support through clear incentives and initiatives.

In considering these challenges, this study aimed to ascertain the impost of regulations on hotel projects drawing on a hypothetical – but likely – scenario at a point in time, and to compare these across jurisdictions, with due regard for regional differences. The analysis has identified potential opportunities for improving planning regimes and streamlining processes, consistent with best practice regulatory gatekeeping arrangements, where this can be achieved without undermining the policy objectives of these frameworks.

An important aspect in setting regulations is to recognise the costs and risks imposed on businesses in order to achieve objectives. Many of the issues identified in previous studies were reinforced in consultations with proponents during this study. In this regard, understanding proponents’ experiences with regulatory frameworks has formed a key aspect of gauging the regulatory burden and testing whether frameworks appear different ‘on paper’ than in a commercial environment.
Box 1: Recent analyses on tourism investment issues and regulatory frameworks

The various challenges associated with developing short term tourism accommodation in Australia have been subject to recent examination. Studies undertaken for the Australian Government have tended to highlight an underinvestment in Australia’s tourism industry, both in capital cities and regional centres. Several major development issues have been noted:

- A scarcity of land in capital cities and competition from other land uses with better business cases has contributed to high occupancy rates for hotels, underinvestment in existing stock and substantial turn-away demand during peak periods.
- Towns in regional Australia often have insufficient quality accommodation due to poor levels of investment and regeneration. Regional tourism attractions are often located in areas of natural amenity which typically face a higher regulatory burden, potentially lowering investor interest.
- High operating costs were a major impediment to building new accommodation investments, especially labour, energy and refurbishment expenses.

Recommendations to address underinvestment in Australia’s tourism industry have tended to highlight initiatives where governments can effect more supportive regulatory regimes or undertake active facilitation of specific projects such as through conditional land release. Some identified measures include:

- Providing greater focus on encouraging mixed-use development in inner cities using floor space concessions and height allowances in certain precincts.
- Adopting a capital works deduction bonus to stimulate investment in new developments and encourage refurbishment. This could involve state and local governments utilising preferential zoning specifically for the purpose of tourism development.
- Ensuring tourism is actively and systematically engaged in the planning process and the development of planning instruments. Such measures aim to better integrate the tourism industry’s interests and needs in planning decisions.
- Establishing binding timeframes for approval processes in order to reduce costs and uncertainty for proponents. In particular, Jones Lang LaSalle’s Greenfield Study into Short Term Accommodation Development in Australia found that Australia ranked poorly in assessment timeframes in comparison to other countries.
- Streamlining the development approvals process for tourism development through focussing on consolidation across jurisdictions. Studies concluded that the current regulatory environment creates costly bottlenecks in the hotel project pipeline, potentially leading to subdued investment activity and an undersupply of new accommodation facilities.

Many of the issues around hotel feasibility concerns, higher opportunity costs of land and the length of approvals processes were also identified in this study and form the basis of recommendations.


Report structure

This report is structured in the following chapters.

Chapter One provides an overview of planning and approval requirements for hotel developments across Australia and the overarching rationale for regulations in this area.

Chapter Two outlines the regulatory mapping and benchmarking analysis across CBD hotel developments. It sets out the parameters underpinning the analysis, including the form and nature of the reference hotel developments and their associated cost structures.

Chapter Three outlines the regulatory mapping of two regional resort developments in Victoria and the Great Barrier Reef.

Chapter Four considers key contextual issues relating to hotel development processes and the comparative analysis. It also draws key development perspectives from industry consultations and their implications for regulatory administration.

Chapter Five examines where there are viable opportunities to improve the design and administration of development and planning regimes. It applies a strategic approach to set out potential reform options focused
on lowering costs and speeding up processes. Areas where the Australian Government could facilitate regulatory improvements are also identified.

**Appendix A** provides an overview of state and territory planning regimes.

**Appendix B** outlines technical specifications and cost estimates for the CBD and regional hotel developments and a summary of the benchmarking analysis.

**Appendix C** provides a review of the Australian hotel market.

**Supplementary Report** provides the detailed regulatory process map identified for each hypothetical hotel development, including a breakdown of the timeframes and assumptions used. The report also provides a summary of the planning regime in each jurisdiction, including (where relevant) Australian government, state and local government requirements.
1 The regulatory landscape for hotel development

This chapter examines the regulatory processes for new hotel development in states and territories, as well as the overarching objectives for controls on land use.

Major hotel projects, like most construction activities, are subject to a wide range of government planning and building controls. The existence of external effects underpins government involvement in land use planning and development control provisions. This largely encompasses:

- separating or regulating land uses to minimise adverse influences from one form of land use on another
- protecting or improving the physical environment
- enhancing the character and quality of a landscape
- ensuring appropriate health and safety standards
- managing and addressing congestion and parking requirements associated with a development.

Land use regulations can also focus on meeting broader social and economic objectives which are influenced by the form and nature of the built environment, including:

- ensuring equitable access to open space such as local parks, and to important services like healthcare, public transport, aged care and education
- promoting sustainable practices such as greater utilisation of public transport and cycling, or energy efficient building designs
- coordinating the efficient provision of infrastructure to meet changing settlement patterns and community requirements
- releasing new urban land at rates that serve to constrain costs or to promote certain priority sectors.

Importantly, these issues are largely (but not always) localised in nature, and therefore regulations affecting land developments are predominantly administered at a sub-national level.

Balancing these forms of issues is often innately difficult. It involves, among other things, weighing up the merits of development (including economic outcomes) and redevelopment against the interests of existing businesses and residents, and accommodating changes in forms of development and housing. The environment is also dynamic, with innovations and advances in technology, and changes in community sentiment each needing to be reflected in planning frameworks and decision-making processes.

In effect, the complex judgements required, the long term nature of investments, the multiplicity of stakeholders and a need to ensure due process, drives the timeframes and costs required to administer and comply with development regulations.

1.1 HOTEL DEVELOPMENT FINANCIAL ENVIRONMENT

The planning and management of a major project such as a hotel is a complex and specialised undertaking. It involves coordinating many different activities and considerable pre and post project commitment costs. The capital expenditures in bringing a large hotel to market are heavily front-loaded and represent the largest cost elements. These costs involve land acquisition, design, approvals, financing and construction. Cost structures vary considerably depending on location, star grading and the scale of the hotel.

Another major upfront cost element is the holding cost of a project. Holding costs are the capitalised sum of foregone rental or operational income and finance costs incurred during pre-planning, approval and construction. Any delays arising from obtaining regulatory approvals, weather or design changes increase the holding costs of a project.
Central to a hotel developer’s commercial considerations is whether a hotel project can be profitable — both in absolute terms and relative to other options for the site. Evidence across Australian capital cities over the last decade or so is that the ‘highest and best use’ of CBD sites has tended to be dominated by commercial and mixed use (residential and commercial property) developments rather than dedicated hotels. In response, hotel projects often require some form of incentive by governments, often through dedicated zoning or specific regulatory concessions. These options are discussed later in this report.

There are some features influencing the hotel market which should be noted:

- Hotels have long economic lives, typically well over 20 years.
- Hotels are large long-lived capital assets (‘lumpy’ investments). In the context of local tourism markets, there will often be periods of rapid growth in demand that strain the supply/demand balance, as well as times in which assets developed ahead of demand may be underutilised.
- Similar to other investments, a hotel project is assessed according to the discounted value of its expected future operating profits. New hotel rooms will be built if the return on investment is commensurate with industry benchmarks and risk (and covers the construction cost of the rooms).

However, other factors can influence investment decisions including the relative profitability of other investment opportunities (such as commercial buildings), the project’s position in an investor’s overall portfolio (developers may be seeking to diversify across geographic markets and asset classes), terms of finance and investors’ capital structure.

- Broader factors such as asset prices and the business cycle play a role in driving investment activity. In terms of asset prices, hotel investors have historically been driven by developments in the property market and expectations of capital gains. In particular, new hotel construction may occur in anticipation of future high sale prices and capital gain, even if projected future profits from operating hotels were modest.
- Developers rely on both internal and external sources of finance, which differ in terms of their costs and availability (external funds are generally more costly). In many cases, cash flows are the dominant source of funding which indirectly reduces the cost of external funds and which increases the collateral that can be used to back external finance.

1.2 AUSTRALIAN PLANNING SYSTEMS

Australia’s planning systems provide the structure in which planning decisions are made and given effect. Preparing a development application for assessment is the point at which most developers become actively engaged with the planning system.

Each jurisdiction has different planning instruments and conditions which affect tourism developments, although broader frameworks and pathways are common.

Hotel development approval processes involve two basic steps: planning consent and building consent. Investors may also need to secure other statutory approvals, permits or licences. These may relate to environmental management, particular land uses or connections to network infrastructure. Many of these approvals remain outside the formal planning system (see Figure 1.1).
As noted above, planning regulations are generally aimed at controlling the management of land, the interaction of competing land uses and the amenity of an area. The authority for most planning controls comes from legislation (Planning Acts) at the state or territory level. Generally, authority is delegated under State Planning Acts to local government to implement pre-lodgement and development application approval processes.

The nature of this delegation varies between jurisdictions, but each state government has the power to override local government (‘call in’ powers). States typically have specific thresholds where this occurs and may also apply other criteria such as gross floor area limits within Melbourne’s central city area or capital investment over $100 million in NSW (see Box 2).

**Box 2: State Significant Development (SSD)**

State Environmental Planning Policy in NSW identifies development for tourism related purposes with a capital investment over $100 million as State Significant Developments (SSD). Once nominated, SSD projects are assessed by the NSW Department of Planning and Environment, with input sought from local government, other NSW Government agencies and the community as part of the assessment process.

The Minister also has the power to call in a project as SSD where advice has been received from the Planning Assessment Commission about the State or regional planning significance of the project.

Some planning proposals may trigger Australian Government involvement under the EPBC Act.

Once development approval has been granted, proposals usually obtain building approvals. Building regulations are aimed at controlling methods of construction and the safety of buildings under construction and in use. They usually relate to: physical aspects such as strength, stability, light and ventilation; building design and appearance; and controls over electricity, gas, water, sewage and lifts. These instruments are largely based on state or national standards (e.g. the National Construction Code).
Planning regulations (including environmental regulation) largely involve determinations based on merit and, as such, are generally more subjective than building regulations.

A summary of the relevant legislative instruments governing developments in each state and territory, with a focus on regulations in capital cities and those relating to tourism accommodation development, is provided in Appendix A.

Australia’s foreign investment framework

Many hotel developments in Australia involve foreign interests, whether as developers, operators/franchisors or both. Normal foreign investment rules apply to property for hotel or resort development, including vacant land for development. All investors, whether domestic or international, need to comply with land use planning and development regulations, as examined in this study.

Australia’s foreign investment review framework comprises the Foreign Acquisitions and Takeovers Act 1975, its associated Regulations and Australia’s Foreign Investment Policy. Under the framework, the Australian Government (the Treasurer) has the power to block proposals that are deemed contrary to the national interest or apply conditions to the way proposals are implemented to ensure they are not contrary to the national interest. FIRB is a non-statutory body which provides advice to the Treasury in making decisions.

National interest test

The national interest test that applies is a ‘negative test’. This means that there is a presumption that foreign investment proposals will generally be in the national interest. The onus is on the Australian Government, with advice from the FIRB and other agencies, to test whether any aspect of a proposal would render it contrary to the national interest. The term ‘national interest’ is not defined, but the national interest criteria generally include the proposal’s impact on:

- national security
- competition
- other Australian Government policies including tax and the environment
- the economy
- the community
- where the investor is a foreign government investor, the character of the investor (in particular, whether it operates on a transparent commercial basis, is subject to adequate and transparent regulation and supervision and adopts good corporate governance practices).

Applicable sectors

The foreign investment framework applies to the following:

- Acquisitions of substantial interests in an Australian business valued above $248 million. Substantially greater thresholds exist for New Zealand and US investors, except in prescribed sensitive sectors (which do not include hotel developments).

- Acquisitions of interests in Australian commercial and residential real estate (some exemptions apply to commercial real estate). Prior approval is required for an interest in developed commercial real estate above $54 million, unless real estate is heritage listed where there is a $5 million threshold. New Zealand and US investors have much larger approval thresholds.

- Proposals where any doubt exists as to whether they are ‘notifiable’ (that is, subject to examination under the screening process). For example complexity of the funding arrangements.

- All direct investments by foreign governments or their agencies, irrespective of size.
- Portfolio investments in the media sector of 5% or more and all non-portfolio investments in that sector irrespective of size.

*Application process*

Regardless of whether the investor is privately owned or government related, a statutory 30-day examination period and additional 10-day notification period generally applies once the proposal is formally lodged with FIRB. In practice, most direct foreign investment proposals are approved without conditions.

The hypothetical case studies, if representing foreign investment, would only trigger FIRB approval requirements if they entailed purchase of the land holdings.

Industry consultations during this study did not raise any concerns that Australia’s foreign investment framework was unwelcoming or impeding development in the hotel sector.
2 Benchmarking capital city hotel development regulations

This chapter sets out a comparative assessment of regulatory requirements for a four star hotel development in each Australian capital city. It shows how the complexity of regulatory processes, timeframes and costs differs between jurisdictions.

2.1 REGULATORY MAPPING APPROACH

2.1.1 DESIGN PARAMETERS FOR THE FOUR STAR CBD HOTEL

The exercise involved comparing the regulatory process for a CBD development across jurisdictions. To ensure the regulatory mapping was appropriately standardised, it was necessary to establish some detailed parameters for the hotel. These were motivated by two factors: to ensure the project was commercially ‘realistic’ and that all relevant regulatory requirements were encompassed.

Key development assumptions included:

- **Existing site use**: To minimise undue complexity and enhance comparisons across jurisdictions, analysis assumed the site was currently disused.
  
  Site usage has implications for the costs of development, particularly if there is an income-generating asset on the site. For example continued occupancy of existing tenants until DA is granted may help offset holding costs.
  
  The form of current buildings on the site would also influence demolition costs. However, this was not considered to materially affect the analysis because the cost of demolition would be factored into the land price (i.e. the requirement to demolish an existing structure will involve a commensurate reduction in the land price).

- **New building**: It was assumed that the hotel would constitute a new development rather than a refurbishment of an existing structure. While the latter is a common form of delivering new hotels, particularly in CBDs like Sydney where newly constructed hotels are less likely to be feasible, the costs vary widely and would make comparison across jurisdictions difficult.

- **Site location**: For the purposes of this analysis, a ‘CBD fringe’ location was used, as this is where four star hotel developments are most commonly located. An assumption regarding the site’s location within a CBD was necessary because in some jurisdictions planning controls can differ significantly within the CBD boundary. Furthermore, land values will vary significantly depending on whether a site is in a ‘prime’ location or not.

- **Physical characteristics**: The hotel was assumed to have 300 rooms, a 120 seat licensed restaurant, ground floor retail, and a conference/business centre and gym on the first floor. Using these parameters, along with the site area and industry benchmarks for standard hotel dimensions (e.g. average room size, common area provision, floor-to-floor heights), the physical dimensions of the building (e.g. height, total floor space) were determined. These estimates were required to check the proposed development was compliant with local planning restrictions and whether additional requirements (such as holding a Design Competition) were triggered. The physical dimensions of the building also affect the estimated cost of construction.

- **Parking**: In accordance with the brief, analysis included a provision of 75 car spaces unless this provision did not conform to specific jurisdictions’ requirements. Parking provisions affect the physical characteristics of the building, and hence building costs. For CBD hotels of this type, parking is most likely provided in the basement. An allowance was also made for loading dock areas in the basement.

- **Construction costs**: An assumed cost of construction was established as this impacts on key regulatory issues such as the approvals framework, the ability for Ministerial call-in, the relevant consent authority, and DA fees and contributions. Given the building dimensions, the cost of developing the hotel was estimated using standard building costs (sourced from Rawlinsons Australian Construction Handbook 2014).
Heritage and other constraints: It was assumed that sites had no particular environmental constraints. For example, they were outside heritage conservation areas and did not involve excavation close to the waterfront. These constraints, which would place an additional burden of compliance on the development and potentially involve additional delays, would make regulatory comparisons more subjective and less meaningful.

Estimated building characteristics and development costs for hotel developments, based on the above approach, are detailed in Appendix B.

Project feasibility

The assumptions discussed above were developed with the objective of being as commercially realistic as possible, while allowing consistent comparison across multiple jurisdictions. For the purposes of analysis this necessarily involved some abstraction. When a developer purchases a site, they will aim to maximise their returns and yield and build the maximum allowable on that site (i.e. ‘push the envelope’) rather than build a hotel of a specific size.

In some cases, the assumed hotel parameters may have less certain feasibility based on highest and best use for the site. However, the standardised structure is within the bounds of commercial reality (as testament to contemporary hotels of this very size and composition within CBDs). Any comparative assessment based on a standardised hypothetical development has to necessarily strike a balance between tailored site-by-site solutions and ensuring that meaningful comparisons across jurisdictions can be made.

2.1.2 RESEARCH METHODS

Planning processes for each jurisdiction were mapped based on a review of regulatory and policy instruments, Council and State Government published guidelines, consultation with authorities, and Urbis’ experience in undertaking planning work on behalf of clients in each jurisdiction.

While the focus was on achieving the necessary approvals to commence construction, other approvals required prior to opening were also identified. The study also considered the broader planning framework applying in each location where it is relevant to the specific hotel proposal. These included:

- any planning process incentives or disincentives related to short term tourist accommodation (for example, whether a project constitutes a development of state or regional significance)
- any planning control incentives and disincentives related to short term tourist accommodation (for example, floor space incentives, or stringent development standards for hotels compared to other uses)
- the consent authority, and whether the project could be ‘called-in’
- whether the proponent has review or appeal rights
- whether additional land tenure approval processes apply
- whether any pending changes to the state or local planning framework are likely to address or enhance any concerns in the short term.

2.2 BENCHMARKING ANALYSIS FOR CBD HOTEL DEVELOPMENTS

This section discusses the regulatory benchmarking analysis for a standardised CBD hotel across capital cities. It provides a comparative picture of the regulatory impost, in both time and costs. Analysis of costs included application fees, development contribution rates and the cost of other requirements (such as the Competitive Design Process in the Sydney CBD) to provide a full understanding of the direct project costs. Agency interfaces, including duplications and identification of where local, state and Commonwealth regimes interact, were also identified.

Based on the design parameters set for the study, an approval process was identified and mapped for each capital city which was used to calculate regulatory estimates (refer to the Supplementary report for maps). In relation to the Sydney metropolitan area, there is currently a level of uncertainty regarding the
process that would apply. The current framework allows for one stage and two stage DA pathways. A two stage DA is the most commonly used and involves an initial approval on the building envelope parameters, design competition, and a second stage DA which can incorporate architectural design features from the design competition. A one stage DA essentially commences with a design competition.

The current development framework stipulates that a two stage process is needed. Discussions with NSW agencies, including the City of Sydney, suggests that tourism is considered to be a strategically significant land use (for example, under The City of Sydney’s Tourism Action Plan) for which the two stage process could be waived, particularly given current policy objectives prioritising hotel development and the standard-form nature of the hotel project.

However, it should be noted that the specific regulatory pathway remains somewhat ambiguous. Waivers on the two stage process have rarely been granted in the past for new buildings involving total site redevelopments in Central Sydney, and specific written guidance on this matter does not currently exist. As such, benchmarking analysis for both pathways is reported. A more detailed comparison of the two development pathways is set out later in this chapter.

**Timeframes**

Across capital cities, there is substantial variation in the overall regulatory timeframes (see Figure 3.1).

The timeframes for obtaining regulatory approvals for the standardised four star hotel development in Sydney are the highest among capital cities, at 51 weeks and 87 weeks for the one and two stage approval processes respectively.

Brisbane and Melbourne also have a relatively high regulatory impost on hotel developments, with both city developments estimated to take about 35 weeks to secure approvals. Brisbane City Council has advised that timeframes can, in some instances, be reduced as a result of pre-lodgement and active facilitation practices. However this is not formal policy and has therefore not been accounted for in the quantification of costs.

For other capitals, there is much more consistency, with approvals requiring around 25-30 weeks.

The processes associated with obtaining DAs are the most time-consuming, comprising the large majority of regulatory timeframes. With few exceptions, the timeframes for pre-lodgement processes and for obtaining building approval (construction certificates) are relatively consistent across jurisdictions.

**FIGURE 2.1 – TOTAL REGULATORY TIMEFRAMES APPLYING TO THE CBD HOTEL (WEEKS)**

<table>
<thead>
<tr>
<th>City</th>
<th>Pre-lodgement</th>
<th>DA</th>
<th>Building Certificate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perth</td>
<td>10</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Adelaide</td>
<td>15</td>
<td>35</td>
<td>50</td>
</tr>
<tr>
<td>Darwin</td>
<td>20</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Hobart</td>
<td>25</td>
<td>45</td>
<td>65</td>
</tr>
<tr>
<td>Canberra</td>
<td>30</td>
<td>50</td>
<td>70</td>
</tr>
<tr>
<td>Canberra</td>
<td>35</td>
<td>55</td>
<td>75</td>
</tr>
<tr>
<td>Melbourne</td>
<td>40</td>
<td>60</td>
<td>80</td>
</tr>
<tr>
<td>Sydney (one stage)</td>
<td>55</td>
<td>70</td>
<td>85</td>
</tr>
<tr>
<td>Sydney (two stage)</td>
<td>70</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Urbis estimates

**Fees and charges**

The direct regulatory fees for obtaining hotel development approval are varied; both in terms of the types of charges which apply and their amounts (see Figure 2.2). Direct regulatory fees include development application fees, building fees and construction certificates.
By and large, the level of direct regulatory costs is considerably smaller (often involving various application fees under $1000) than indirect cost components such as developer contributions and building levies. The two largest fee components are the application charges for lodging a DA and the costs associated with obtaining a building approval or construction certificate. The latter can vary substantially and in most cases will involve a private certifier. Fee estimates have been guided by discussions and indicative costings from private certifiers operating in respective capital cities.

FIGURE 2.2 – DIRECT REGULATORY COSTS

![Diagram showing regulatory costs for different cities]

Source: Urbis estimates

When other indirect contributions and levies are included in the regulatory costs imposed on hotel projects, the cost picture changes appreciably (see Figure 2.3). Indirect regulatory fees include development contribution fees and long service levies.

The main indirect regulatory cost driver is development contributions. Simply, these are large, single-item costs which are not applied consistently across all jurisdictions. For example, developer contributions for the hypothetical four star CBD hotel project were estimated to be in the order of $1 million in Sydney and $2.9 million in Brisbane, noting that a moratorium on infrastructure charges for new four and five star hotels in Brisbane ahead of the Commonwealth Games was recently lifted and that in some instances developer credits may be available.

The use of concessions on standard infrastructure charging arrangements, where these are applied, has been used by governments as a means to encourage investment and signal a clear industry development objective. While these initiatives often provide a significant financial payoff to investors, their efficacy in genuinely stimulating new project commitments is an open question. This issue is discussed further in Chapter 4.

Other major levies applied in a differential manner across states and territories are those associated with meeting long service leave entitlements and training requirements in the construction industry. Where these are imposed on a project-by-project basis, they have been included in the cost estimates. In cases where they are funded by developers based on employee wages (similar to superannuation arrangements) they have been excluded. Further detail on these levy arrangements is provided in the Supplementary Report.

On the basis of developer contributions and infrastructure charges levied on hotel developers, regulatory costs are highest in Brisbane, Sydney and Canberra. Conversely, due to the absence of a development charge, the financial regulatory costs applying to Melbourne hotel developments are appreciably lower than other large capital cities.
Bringing the cost estimates together as a proportion of total project costs (site acquisition and construction costs) shows key variance in the relative burden of regulatory processes for capital city hotels (see Figure 2.4) — although the pattern remains strikingly similar to the benchmarking of total financial costs.

In many respects, this comparison is the most complete picture of the overall financial impost from planning regulations across capitals. Some charges may be legitimately higher, for example, because of higher costs in large city centres with the need to address larger external impacts. These factors will also be reflected in overall development costs, including the cost of acquiring land for the hotel development.

Proportional comparison shows whether these drivers are offset, or otherwise.

Financial outlays from regulatory processes are highly variable across capital city developments, both in terms of their absolute imposts and as a proportion of overall development costs. Notwithstanding that developer contributions or infrastructure charges play an appropriate role in addressing external impacts associated with developments, if these were reduced or removed where they currently apply (or imposed where they are not currently levied), the relative cost patterns across jurisdictions would change considerably.

**FIGURE 2.3 – TOTAL REGULATORY COSTS**

Source: Urbis estimates

**FIGURE 2.4 – TOTAL REGULATORY COSTS AS A PERCENTAGE OF DEVELOPMENT COSTS**

Source: Urbis estimates

*Holding costs*
As discussed above, site holding costs represent a major financial cost to proponents. These costs are a function of the cost of land acquisition and finance costs, local government rates and charges, and timeframes. Longer regulatory timeframes will increase the cost of holding and financing assets.

Figure 2.5 shows estimated holding costs for the four star CBD hotels. Holding costs are largest in Sydney (from $1.3 to $2.8 million depending on the approval process) which reflects the combined influence of nationally high land prices and relatively lengthy regulatory timeframes. Conversely, holding costs are lowest in Darwin, at around $115,000, because of shorter approval processes and less expensive land costs.

Due to the major role of land prices in determining holding costs facing developers, estimated holding costs are also shown based on a standardised parcel of land. This has applied a common land price, using a median price ($7 million) of estimated CBD sites across capital cities. The pattern across jurisdictions remains similar, with Sydney standing out has having appreciably higher holding costs for proponents. Using a common land price, holding costs in Sydney are between 45% (one stage) and 216% (two stage) higher than in Melbourne.

This highlights that the major influence of holding cost relativities across jurisdictions are regulatory approval timeframes.

FIGURE 2.5 – SITE HOLDING COSTS

Note: Estimated holding costs based on a normalised land price of $7 million.
Source: Urbis estimates

**Regulatory complexity**

The overall complexity of regulatory processes is an important factor in determining red tape costs for businesses, as well as administration costs for government. Regulatory complexity has various elements, including:

- the length of approvals processes
- number of agencies involved
- number of decision points and level of discretion provided to decision makers
- scope for appeals
- need for public consultation
- information required from proponents.

Importantly, each of these, in isolation and conjunction, has a bearing on procedural certainty. They influence whether processes have greater or lesser potential for delay and thus for slowing down investment in hotel accommodation.
Figure 2.6 provides a high level picture of regulatory complexity across CBD hotel developments. It aims to provide a consistent approach for gauging the number of bodies involved in the approval process, alongside the estimated timeframes required to satisfy approval requirements.

The number of agencies involved was assessed recognising the discrete steps in the regulatory process (i.e. pre-lodgement, DA, building approval etc.). Where these separate phases involved interactions with the same agency (say a local government), these interfaces were counted. However, multiple interactions within the same broad phase were not included. While it is recognised that multiple engagements have time and cost implications for proponents and agencies, many are more procedural and less formalised in nature. It was considered that including these interactions would bias the comparisons between jurisdictional planning regimes.

The analysis shows a high correlation between the length of regulatory processes and the agencies involved. This is unsurprising — longer processes tend to be more difficult to navigate, have more agency interfaces and greater scope for ‘issues’ to arise requiring responses by both proponents and agencies. These issues were underscored by discussions with proponents across all jurisdictions and different forms of hotel developments.

Sydney stands out as having the most complex planning environment, both by time and agencies. Other jurisdictions, with the exception of Hobart, are relatively clustered.

A central implication of this measure of complexity is the visible relationship between the number of agency points and the overall timeframes required. A major thrust of red tape reduction is to address the multiplicity of government bodies involved and the timeframes needed to secure relevant approvals. Here, the potential direction of such reforms — from the top right to the bottom left of the figure — can be seen clearly. Where agency interfaces can be streamlined, approval timeframes have much greater likelihood of being reduced.

This issue is discussed further in Chapter 4.

**FIGURE 2.6 – REGULATORY COMPLEXITY (TIMEFRAMES AND REGULATORY AGENCIES)**

Source: Urbis estimates

**Overall findings**

Bringing together the various elements of the regulatory benchmarking analysis shows some clear pictures. There is considerable range in the overall regulatory timeframes across capital cities, with the processes for obtaining DAs comprising the largest component. Direct regulatory costs also vary widely,
with development contributions increasing the costs for proponents in Sydney, Brisbane and Canberra in particular.

However, while there are outliers in terms of timeframes, costs and regulatory complexity in both directions, looking at jurisdictions which compare well across the board is most instructive in terms of identifying where realistic improvements are possible.

In this regard, the planning approach used in Adelaide provides a good example of how planning processes can be used effectively. It provides a framework based on formal pre-lodgement for large development proposals (over $10 million), allows formal design panel review and involves relatively low direct regulatory costs (less than 0.5% of total estimated development costs).

Its estimated timeframe of around 29 weeks is much more front-loaded, which provides a platform for managing issues earlier, potentially minimising costs such as specialist consultant reports. As a ‘mid-tier’ city, Adelaide can provide a useful performance benchmark for the larger cities such as Sydney and Brisbane.

### 2.3 Regulatory Design and Administration Matters

While the benchmarking analyses of CBD hotel developments showcase the overall time and costs involved in navigating jurisdictional planning regimes, there are additional issues related to the type of regulations imposed on hotel developments and their individual cost implications. Many of these issues were highlighted during consultations with proponents.

- **Information requirements** — A main area of concern remains the level of information required by regulatory agencies for DAs and the attendant costs to proponents. Much of this involves commissioning consultant reports on the traffic, wind, noise, waste management and hydrology impacts of a development. Such studies often cost around $30,000-50,000 each.

  While this information may be required to mitigate risk, it is important to recognise where earlier work commissioned is still relevant (and does not require an update) or where a standard reporting requirement is not relevant to a particular development. A clear understanding of all information required that is provided up front would also assist in smoothing processes and reducing timeframes.

  There are also major cost impacts associated with design competition and review requirements which apply to large hotel developments in certain cities (e.g. Sydney, Adelaide). The cost of design competitions can be in the order of $250,000.

  An additional cost factor involves any changes in design. If aspects (sometimes quite minor) of the development are altered at the request of the regulator during the DA process, further advisory costs are incurred in updating technical assessments. Some changes can appear quite subjective in nature and may not be a requirement under relevant regulations. This issue can be more complex when multiple agencies are involved or decision makers change.

- **Heritage** — While not a focus of this study, heritage issues are a prime regulatory issue faced by proponents. In cases where heritage issues apply, almost without exception, they increase the complexity of development approvals considerably — especially in terms of information requirements and the number of agencies involved. Moreover, these are not uncommon aspects of developments, with heritage issues in some form applying regularly across projects in capital cities. For example, in Adelaide, heritage issues were noted as applying to around 50% of all DAs.

  A particular factor involving development costs for heritage buildings are the indirect costs associated with higher regulatory uncertainty and complexity. It was cited that contractors and builders add additional (sometimes excessive) margins for refurbishment of heritage structures to mitigate the greater risks they face. This essentially adds a ‘cost onto a cost’.

  A further issue is that heritage related developments often involve more innovative ‘iconic’ designs which utilise the existing character of heritage spaces but incorporate a substantial change of use (although not necessarily from a zoning or urban plan perspective). As such, they can greatly contribute to a sense of city identity. An implication is that where these forms of development are deterred, it can potentially discourage place-setting hotel developments.
Prescriptive requirements — Related to the direct costs of planning approvals, there are concerns about highly prescriptive aspects of hotel design. It was noted that these can extend beyond standard issues of structural and operational safety and involve expensive add-ons which could at worst compromise the commerciality of developments, but which typically added onto the project cost base. Car parking requirements were the most notable, which can cost around $40,000-45,000 per space.

The need for car parking will clearly depend on location: CBD, outer metro, or airport based hotels will have different clientele and accessibility needs, as well as opportunities for non-resident parking services.

An additional consideration is whether car parking needed to be constructed in the basement or could be built above ground. Where basement car parking is prescribed (and there are good reasons for providing car parking this way if commercially justified), it adds large construction costs at the very outset which are carried through to commissioning.

At a fundamental level, developers questioned why this was not in all cases a purely commercial issue for proponents, similar to determining the number of hotel rooms. Adding to the issue was the varied application between (and even within) cities. Some cities have no stipulated requirements, while others (e.g. Perth) stipulate a maximum of car parking spaces.

New hotel developments are also required to provide a number of rooms which allow access for people with a disability. These requirements, which are specified under the Australian Government’s Disability Discrimination Act and incorporated with the National Construction Code, were raised as another issue affecting development costs. The issue was not one of underlying purpose but rather the high level of requirements. It was noted that specially fit out rooms tend to be heavily underutilised and because they contain design aspects which other guests often consider less appealing, they typically need to be priced at substantial discounts.

While less significant, other prescriptive design issues involved the provision of public art and green space. Again, these tend not to be considered major impediments but rather as requirements which added to costs. It was also considered to stifle some aspects of design innovations. For example, public art could be built into a hotel facade rather than provided as a standalone commission.

Liquor licensing — Almost all large four and five star hotels include a licensed bar and restaurant. Obtaining a liquor license is therefore a pre-commissioning requirement for practically all operators. The liquor licensing process, which is state based, was noted as a relatively small but overly complex requirement in various jurisdictions. An issue according to proponents, and reinforced by some government authorities, was that modest bars situated within hotels represent a very low risk development which is not reflected in the approval requirements.

An additional factor is when hotel developments involve a management agreement between the asset owner and an established hotel brand. In this case, operational aspects such as food and beverage facilities are agreed between parties well ahead of a DA. The actual licensing process occurs at a much later stage and, as this is often a highly retrospective exercise, any changes to layout or operating parameters are much more difficult to manage.

Insufficient due diligence — Consultations with planning agencies highlighted that some investors are ill prepared and simply have done insufficient due diligence, leading to delays. This can appear to reflect unfavourably on planning systems and the blame for some negative experiences can be unfairly slatted on authorities. (Almost universally, bad stories shape perceptions and are harder to shake than good ones.)

Improving market engagement and minimising these issues, including through more meaningful early engagement with proponents, can form a low cost option for government.

Pathway uncertainty: One v two stage DA process in Sydney CBD

A key issue is the accessibility of information for potential developers upfront. In particular, mapping the process for the Sydney CBD is complex and requires specialist knowledge.

As noted above, there was significant uncertainty in terms of the precise DA pathway which would be applied for a hotel development in Sydney. Based on the initial assessment of information, a two stage
process was identified as necessary. Consultations with NSW agencies identified that it could be possible for a one stage process to apply. As such, both pathways have been reported in the analysis.

Table 2.1 sets out the processes and holding costs associated for the one or two stage development approval process in Sydney alongside each other. This issue is important for various reasons. First, the difference in overall timeframes for these two regulatory pathways is significant — 51 and 87 weeks for the one and two stage pathways respectively. At 36 weeks, the potential additional time requirement is equal to or larger than the entire estimated regulatory processes for development approval in all other jurisdictions.

Second, should the two stage process apply, the additional costs for proponents in terms of project delay and holding costs are likely to be substantial. Based on a site acquisition cost of around $21 million, the holding costs of land over the regulatory timeframes is estimated at $2.78 million, compared to holding costs of $1.27 million associated with the more streamlined one-stage process.

Given the financial consequences of these pathway alternatives for developers, and the stated policy importance of tourism investment within the Sydney CBD, greater prescription on the circumstances in which a two stage DA process would be waived would be a useful and low-cost regulatory reform. This would provide a level of certainty to developers when they make the decision to invest and purchase land in Sydney.

**TABLE 2.1 – SYDNEY HOTEL REGULATIONS, ONE STAGE AND TWO STAGE PROCESS**

<table>
<thead>
<tr>
<th>REGULATORY PROCESS</th>
<th>ONE-STAGE DA PROCESS</th>
<th>TWO-STAGE DA PROCESS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timeframes (weeks)</strong></td>
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<tr>
<td>Pre-lodgement Process</td>
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<tr>
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<td><strong>Costs</strong></td>
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<td>Holding costs of land</td>
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</tbody>
</table>

Note: \(^{a}\) Includes up-front design competition. \(^{b}\) Based on site acquisition costs of approximately $21 million.

Source: Urbis estimates

### 2.4 PROJECT RISK AND FUNDING

Central to the role of planning regulation in the hotel development process are the challenges in successfully commercialising these projects. While they typically do not have a high level of engineering complexity, as opposed to design complexity, the level of public scrutiny they are frequently subjected to is considerable as a consequence of potential changes to visual amenity as well as transport implications, impact on utilities and so on. This is largely reflected in the application of planning and environmental laws, with additional planning and other approvals adding to the time needed for facilities to be built and commissioned.

The benchmarking component of this study is based on the planning requirements which would likely apply for a hypothetical situation at a point in time, developing a large, 300-room, four-star hotel. These scale hotels are typically low frequency developments in most cities — perhaps one or two projects over a 10-year period; this framework helps to underscore key challenges faced by hotel developers that apply in a number of development situations.
It should be noted that improvements in planning regime performance will not directly address these inherent development challenges, an issue widely recognised by developers. They will, however, remove some of the marginal pressures which add to uncertainty and project management issues.

As discussed in the previous section of this report, various development constraints separate to planning requirements are pivotal, including:

- **Access to finance**
- **Cost of land**
- **Holding costs**

As noted previously, the costs of site acquisition are the largest driver of holding costs. Like other development costs, these reduce the amount of potential profit before 'hard' project development has commenced. In many cases, holding land while feasibility and site options are investigated makes commercial sense and is an option deliberately pursued by proponents.

However, holding costs are a key policy issue when they are driven by regulatory requirements, such as the additional time needed to seek development approval. And these essentially compound the impact of direct costs associated with planning requirements, including application fees and any development contributions, since interest must be paid on these expenses until project completion. This is especially burdensome when delays in administration were not anticipated at the start of the process and are outside the control of the proponent.

Importantly, the commercial issues noted above have some implications for regulatory costs.
3 Regulations for regional hotel/resort developments

Regional tourism makes up a significant part of the Australian tourism industry. Tourism Research Australia (2014) estimates that 44 cents in every visitor dollar was spent in regional areas in 2013. As such, the provision of quality accommodation services is crucial to the sustainability and performance of the regional tourism industry.

The following chapter discusses the regulatory arrangements and timeframes for two regional case studies: a boutique eco lodge on the Great Ocean Road, and an integrated five star resort on the Great Barrier Reef.

3.1 ECO LODGE ON VICTORIA’S GREAT OCEAN ROAD

Corangamite Shire is located in Victoria’s south west. The region has significant opportunities for tourism development. The Great Ocean Road, the 12 Apostles, the Port Campbell National Park, fishing, volcanic hills and craters provide scenic drawcards for visitors. In addition, Corangamite also produces gourmet food such as cheeses, eel processing and ice cream.

The Great Ocean Road tourism region currently has a range of existing accommodation providers but is widely considered to require additional developments to capitalise on future tourism service opportunities. Approximately 150 properties already operate in the region, 13 of which are hotels or resorts. These are mostly located in the seaside towns of Torquay, Lorne, Apollo Bay, Port Campbell and Warrnambool.

This case study considers the process of developing a boutique eco lodge resort in a national park along Victoria’s Great Ocean Road. Key aspects of the proposed accommodation development are:

- 50 rooms
- one restaurant with 100 seats
- small bar
- small fitness centre/spa
- pool
- 80 car parks and two coach bays (at grade).

The cost of the eco lodge development is assumed to be approximately $17 million, including site costs of around $3 million. The development is compliant with the Tourism Opportunities Study commissioned by the Corangamite Shire which identifies boutique, high quality accommodation within close proximity to the Port Campbell national park as a specific area for demand driven development.

3.1.1 POLICY ENVIRONMENT

The principal local planning instrument is the Corangamite Shire Planning Scheme which has undergone considerable revision in regards to land use in the last three years. Particularly, zones which were designated for farming and rural conservation uses have been rezoned to facilitate more tourism focused development.

The Victorian Government has also developed the Victorian Coastal Strategy which sets out a long term vision for the planning, management and sustainable use of the coast line.

The case example has assumed that the use of the land for the purpose of a hotel is permissible under the sites current zoning. However, land within National Parks or areas within high natural amenity in close proximity to the coast, fall within a Rural Conservation Zone. Under the provision of a Rural Conservation Zone, use of the land for the purpose of hotel accommodation is prohibited. Accordingly, it is possible that a site specific amendment may be required to facilitate the development. The State Planning Policy and tourism bodies such as Tourism Victoria are generally supportive of tourism development in regional areas.
Land located within a Public Conservation and Resource Zone where the use of land for a camping and caravan park and other alternate forms of accommodation/tourism facility is as of right without the need for planning permit for the use of land subject to meeting the following condition:

- A use conducted by or on behalf of a public land manager or Parks Victoria under the relevant provisions of the Local Government Act 1989, the Reference Areas Act 1978, the National Parks Act 1975, the Fisheries Act 1995, the Wildlife Act 1975, the Forest Act 1958, the Water Industry Act 1994, the Water Act 1989, the Marine Act 1988, the Port of Melbourne Authority Act 1958 or the Crown Land (Reserves) Act 1978.

Planning permission is also required for buildings and works for an accommodation and tourism facility. A planning permit cannot be lodged and is considered prohibited without meeting the above condition. This is aligned with the Guidelines “Tourism Investment Opportunities of Significance in National Parks” which allows a proponent to receive “In Principle Approval” for a proposal that “will also provide the basis for the proponent to commence other statutory approvals” (page 6 The Guidelines). The Guidelines illustrate the degree of consultation and rigour required for the Government to consider a tourism investment in a national park.

Amendments to the Corangamite Shire Planning Scheme may mean that a location previously residing in a farming zone could now fall within a special use or rural activity zone. In either case any new development where natural amenity plays such a key role makes the balance between commercial objectives and sensitivity to the local environment and community especially paramount. In this context new developments must be particularly conscious of environmental impacts, demand for new facilities over existing tourism infrastructure and the responsiveness of design to the natural environment.

3.1.2 DEVELOPMENT AND PLANNING PROCESS

The initial pre lodgement phase consists of early site investigations, concept design and feasibility, and engagement. A formal pre-application meeting takes place with the Responsible Authority. Once the application is lodged, if no further information is requested, the application is reviewed. Concurrent to the application being publically exhibited, it is referred to Statutory Authorities. Given the public interest and a number of active community groups, it is expected that the application would give rise to sufficient objections to trigger Councillor Involvement in the application decision. Once the developer has been notified of the decision, third parties have 21 days to appeal.

If the decision is appealed — a not unexpected outcome given community resistance encountered in other projects — the development then enters the Victorian Civil and Administrative Tribunal (VCAT) process. VCAT (see Box 3) deals with a range of disputes relating to planning and environment, human rights and civil hearings. If no resolution is achieved at a mediation hearing then a planning dispute such as this can be included in the Planning and Environment list. However, since the development cost is greater than $10 million, the project is eligible to be listed on the VCAT Major Cases List which has been established to expedite the resolution of large scale developments. This process requires application by the developer and operates on a user-pays fees basis. A final hearing is conducted which in this case could continue over four days. VCAT reaches a decision six weeks after the hearing.

Assuming the development application is approved, the developer requires a construction certificate. Pre-construction permit conditions must be met for the building permit to be obtained. Once construction begins the application for the on premises liquor licence can be lodged. It will also be necessary to produce plans of management in regards to wildfire, vegetation, patrons, waste, sustainability and sewerage/ water management.
Box 3: Victorian Civil and Administrative Tribunal (VCAT)

VCAT provides a low cost, accessible and independent tribunal for Victoria. VCAT provides a ‘one-stop shop’ for dealing with a range of civil and administrative disputes such as review of local government planning decisions.

A Supreme Court judge heads VCAT as President. Tribunal members are chosen based on a range of expertise and particular disciplines including town planners, lawyers, architects, scientists and engineers. Cases are allocated to specific ‘lists’ or sections depending on their focus. The process, fees and timeframes vary depending on the relevant list. Once an application has been entered onto the list a mediation meeting, directions hearing or compulsory conference may take place depending on the case.

The Planning and Environment List is heard under the Administrative Division. In 2013-14, 2,296 cases were received under the Planning and Environment List and 2,974 were finalised. The median timeframe for a case to be finalised was 22 weeks. Of the cases heard under the Planning and Environment List, 201 were resolved through mediation and 65 resolved through compulsory conference.

The Major Cases List is a sub-list of the Planning and Environment List. If the estimated cost of the development is over $10 million or over $5 million for a dwelling, it may be eligible to be heard under the Major Cases List rather than the Planning and Environment List. In 2013-14, 178 applications were made under the Major Cases List.

Decisions of VCAT can be appealed to the Supreme Court but only on questions of law.

The overall process is detailed in Figure 3.1.

FIGURE 3.1 – REGULATORY APPROVAL PROCESS FOR ECO LODGE IN CORANGAMITE SHIRE

<table>
<thead>
<tr>
<th>Processes</th>
<th>Relevant bodies</th>
<th>Timeframe</th>
<th>Cost Estimate</th>
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<td>SOUTHERN RURAL WATER AUTHORITY</td>
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Timeframe and cost estimates

Table 3.1 sets out the processes and holding costs associated with planning and DAs for a boutique eco lodge project along the Great Ocean Road.

Overall, it was estimated that the relevant regulatory processes would involve a 54 week timeframe, including the likelihood of appeal processes which account for around half (26 weeks) of the estimated approval period. The total regulatory cost over the approval period was estimated at $32,700 (based on site acquisition cost of approximately $3 million), with additional land holding costs of around $189,000.

Regulatory costs represented around 0.44% of total development costs. This was less than many of the CBD hotel projects examined, in large part due to lower site costs. The key difference in outcome between the Great Ocean Road and Melbourne CBD is the requirement for VCAT approvals processes in the former, which can extend the timeframe considerably.
Given the hypothetical form of this assessment, timeframe and cost estimates for obtaining planning approval are indicative. Urbis notes that in other environmentally-sensitive jurisdictions, timeframes for appeals can be extensive. If the VCAT appeals process were, for example, to extend out from 26 to 52 weeks, then this would increase holding costs to $286,000.

A range of highly localised site-specific factors will also be important for regional tourism accommodation developments. These include:

- the costs of roads and trunk infrastructure such as water, waste and electricity connections
- environmental conservation costs, which are often mandated conditions of development approval in areas of high natural amenity (for example, recent conservation-based tourism developments in regional NSW and Tasmania have involved significant habitat management and sustainability initiatives)
- the costs of meeting bushfire and other natural hazard standards.

Each of these elements can also give rise to potential requirements to alter design and operational aspects of a proposed development. This has clear commercial and risk implications, with the direct costs of redesign and additional engagement with authorities often representing a major financial impediment for smaller projects especially (see below).

Of particular note is that uncertainty relating to the regulatory impost is unlikely to be evenly balanced, but weighted substantially on the upside. That is, where approval timeframes and associated costs may differ from those set out above, there is a much greater tendency for the regulatory processes faced by proponents to be more costly and protracted.

Indeed, this is underscored by the Victorian Competition and Efficiency Commission review of the Victorian tourism industry which stressed that planning applications with a tourism-related component are perceived by planners as being more complex than other development applications. As such, they are more likely to require additional information from proponents, be referred to multiple regulatory bodies, involve public notification and objections, and ultimately involve a VCAT appeal.

**Development issues**

The environmental and heritage significance of the area also complicates the development process. In addition to unique natural features there are approximately 200 sites in the Corangamite Shire with a heritage overlay. A number of community groups also generate substantial local resistance such that, if a significant number of objections are received during the formal notification period, Councillor involvement in the application is triggered. Though the eventual outcome of the approval process may not be affected, vested public interest will have a notable impact on timeframe estimates.
An additional issue across the region is that DAs for tourism accommodation are often approved but the development does not proceed. The actual pipeline of projects can be much smaller than the number of relevant DAs. This highlights that regulatory frameworks do not appear to be impeding the development of new projects. Developers are proceeding with approval processes, and incurring the costs of doing so. However, some proponents are subsequently concluding that the commerciality of projects often does not meet required investment returns, with low yields from accommodation investments affecting many providers in the region. This may require other forms of facilitation in addition to supportive local policy development and planning regimes.

A further issue for consideration is the potential costs of any rezoning. Given the range of possible outcomes for timeframes and the lack of direct case studies within the region, this has not been quantified within the benchmarking and case analysis. It is noted, however, that appeals against, and requirements to obtain, rezoning could have a material impact on timeframes, regulatory costs and land holding costs. As with the VCAT appeals process, an additional 26 weeks to complete processes could add $90,000 to land the holding costs and would also likely entail significant advisory fees. This issue is much more likely to be confronted by regional tourism projects looking for a unique site (hotel projects in CBDs are permissible under capital city zoning provisions).

Given the additional costs for seeking a rezoning, smaller boutique developments are far less likely to present a viable option for investors in many cases. Again this places increased onus on local councils being able to identify strategic sites that could be pre-zoned to facilitate appropriate tourism projects.

Specific issues facing smaller regional and boutique projects

The effect of planning and approval regulations on large scale hotel developments receives most policy attention, in large part due to the size of the sector, the effect of accommodation capacity issues in capital city tourism markets and greater exposure to foreign investors. However, regional tourism is pivotal to maximising the length of tourist visitations and diversifying service offerings, and thus forms a major element of the national long-term tourism strategy, Tourism 2020. Regulations facing smaller accommodation developments are thus clearly important for tourism development in regional Australia.

As shown by the longer approval timeframes in this eco lodge case study compared with capital city based projects, the effect of regulatory requirements can have a disproportionate effect on smaller hotel developments. While comparative direct regulatory costs as a proportion of the value of development compared well to the metro projects, they were still larger than most smaller capital cities such as Darwin and Hobart. Indeed, the commercial challenges associated with regional tourism accommodation projects in the Corangamite region and many other regional areas is seen in the high number of projects which do not proceed even after securing a DA.

The significant scope for appeals with this form of development and the time this involves has key development implications. It necessarily represents additional regulatory uncertainty for proponents which must be factored in as part of their project commercialisation activities. It also highlights the level of policy and community sensitivity involved in many projects in areas of high natural amenity.

These issues as they relate to regional tourism accommodation developments and operating in national park areas are discussed in Chapter 5.

3.2 INTEGRATED FIVE STAR RESORT — GREAT BARRIER REEF

The Whitsunday Region encompasses the rural town of Proserpine, the mining town of Collinsville, the coastal settlements of Bowen, Cannonvale, Airlie Beach and Shute Harbour and the 74 Whitsunday Islands. The following hypothetical case study considers the policy and regulatory framework that governs the development process of a large integrated resort development. The size and style of the proposed development is consistent with large luxury resorts that currently exist in the region.

It is assumed to be of a scale that requires multiple decision making points (state and federal government, GBMPA etc.) and therefore warrants declaration as a coordinated project under Part 4 the State Development and Public Works Organisation Act.

The Great Barrier Reef tourism region primarily contains island resorts. There are 11 such establishments spread across islands along the Queensland Coast, with around 1,800 rooms. There are only two developments in the pipeline for next few years (Jones Lang LaSalle 2014a).
This case study considers the process of developing an integrated five star resort on an island in the Great Barrier Reef, Queensland. Key aspects of the proposed accommodation development are:

- 100 rooms (large, resort-style rooms)
- three restaurants with total of 250 seats (1x100 seat, 1x80 seat, 1x50 seat)
- hotel bar
- small retail provision (200 sqm)
- fitness centre/spa
- pool
- small conference/business centre
- 60 berth marina (including mooring space for sea plane)
- helipad.

The estimated cost of the hypothetical five star resort is approximately $62 million including a site cost of around $5 million. This estimate is based on Rawlinson, which allows for a 30% premium over Brisbane costs. This development is consistent with the nature of current developments in the Great Barrier Reef region which capitalise on the natural amenity of the reef, although Urbis notes that there are a number of larger integrated resorts that have been developed in the region, for example the Great Keppel Island Integrated Resort, with a capex approx. $590 million.1

3.2.1 POLICY ENVIRONMENT

The overarching policy framework providing the direction for development regulation within the Whitsunday Region is currently subject to some uncertainty. Policies are shifting at the state and Commonwealth level to assist in fast tracking major projects through reforming a number of planning processes, including environmental regulations.

In 2012, COAG proposed the creation of bilateral agreements between States and Territories and the Australian Government to create a ‘one-stop shop’ for planning approvals. These bilateral agreements would allow states to assess and approve developments under their own assessment and approval regimes with minimal input from the Australian Government.

In Queensland, a portion of the proposed changes have been enacted through a bilateral assessment agreement. This arrangement allows the Queensland Government to provide environmental impact statements (EIS) under its own regulatory frameworks, primarily: the Environmental Protection Act 1994, the Sustainable Planning Act 2009 (SPA) and the State Development and Public Works Organisation Act 1971 (SDPWO Act).

Obviating the need for a separate Australian Government EIS, and making the process as streamlined and simple as possible, are central to Queensland’s planning reform strategy to its system. This reform is in line with COAG’s strategy to strip away unnecessary intervention and allow greater autonomy and flexibility. It aims to enhance economic development opportunities by attracting investment with a focus on four pillars of industry: mining, construction, agriculture and tourism.

Environmental and heritage approvals

Because of apparent environmental implications, the hypothetical case assessment of an integrated five star resort in the Great Barrier Reef has incorporated estimates for obtaining environmental approval. Projects such as these are quite properly the subject of environmental and planning scrutiny, and accordingly these processes are now well accepted by proponents and the community.

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1 Capex figure provided by Queensland Office of the Coordinator-General (OCG)
However, as noted, environmental approval processes can involve considerable complexity. This is largely driven by the existence of unique locational issues, the involvement of different tiers of government (recognising that various streamlining reforms are in train), the ability for appeals, and the inherent risks which are sought to be mitigated by the regulatory frameworks.

In respect to such issues, there have been cases where the timeframes for securing environmental approvals from a range of authorities have been considerable, sometimes many years. For some projects, these delays have been gradual and accretive, involving requests for new information (say for flora and fauna surveys) and deferrals of Ministerial decisions. Proponents highlighted that in certain cases, process certainty at any one point in time has been limited, adding to costs and impeding the ability to manage finances and project development.

Some aspects of regulatory uncertainty relating to environmental approvals (including the application of the EPBC Act) are important to note. First, there are areas where regulatory frameworks, duplication between jurisdictions, policy guidance for businesses and administrative arrangements could be improved. Clearly, regulations addressing such matters are less amenable to regulatory ‘production line’ approaches so the scope for unwieldy and more uncertain processes to persist is greater.

Second, proponents themselves can have a major influence on the existence of regulatory uncertainty and the length of administrative timelines. In this regard, the processes warrant substantial due diligence from proponents, almost always with the assistance of specialist external advice. Where this is limited (sometimes unavoidably because of project financing constraints), proponents can get caught managing processes on the run, which increases the perceptions of framework and administrative shortcomings.

This issue does not in any way diminish the incentives for regulatory reform. If anything, it highlights where complexities prevail and areas where regulators need to focus their attention to improve engagement with business and ensure processes are well understood by large and small proponents alike.

### 3.2.2 DEVELOPMENT AND PLANNING PROCESS

Undertaking resort developments on the Great Barrier Reef is inherently complex and costly. This is a direct consequence of logistical issues associated with distance from large population centres, strict regulatory conditions concerning the protection of the Great Barrier Reef and relatively lengthy regulatory timeframes facing developers. As a result, it is estimated that the cost per room for a resort style development in the Whitsunday Region can be more than 30% more costly than similar standard accommodation in major capital cities (based on Urbis assessments using industry-standard construction cost surveyor data).

The development and planning process for accommodation projects of this nature in this region (and across Queensland) can be separated into three key phases: pre-lodgement process, preparation of an EIS, and the development application stage. Figure 3.2 below outlines the various processes and timeframes that would apply to the resort development. This is similar to the planning processes involved in most jurisdictions, however, due to the close proximity of the development to the Great Barrier Reef there are additional requirements that must be satisfied.

For this type of project, the proponent may choose to make an application to the Queensland Coordinator General for the declaration of a ‘coordinated project’ under the SDPWO Act. This application must be accompanied by an Initial Advice Statement which describes the project, the various government approvals that are required and the preliminary proposals that will be developed to address the key potential environmental impacts of the project. Coordinated projects are usually large, complex and/or may have ‘significant environmental effects’.

**Pre-lodgement process**

The pre-lodgement process involves the proponent preparing an initial Advice Statement for the Queensland Coordinator-General. This is a document required under the State Development and Public Works Organisation Act. This document, which takes the form of a detailed report on the project, is required for projects that are considered ‘complex’ or may have ‘significant environmental effects’. Following provision of the report, the Coordinator-General decides whether or not the project should be considered as a coordinated project.
EIS process

Projects that are considered ‘assessable development’, or are declared to be a ‘significant project’ involve preparation of an EIS. The purpose of the EIS is to ensure that any potential environmental, social and economic impacts are identified and assessed, and that any adverse impacts are sufficiently mitigated. This document is crucial as it requires the proponent to provide parameters about the proposed development and its interaction with the natural environment and methods proposed to mitigate harmful impacts. The EIS process will vary according the legislative instrument that applies to it (e.g. Sustainable Planning Act 2009 in Queensland).

Projects of this nature are typically declared to be a controlled action under the EPBC Act at a Commonwealth level (see Box 4). In this case, the assessment of an EIS is coordinated by the state through the assessment bilateral agreement, with approval required by both the state and Australian Government. Whilst a bilateral approval agreement is currently in draft, effectively negating the need for separate Commonwealth approval, it has yet to be ratified. The process outlined here assumes that the bilateral approval agreement has not been ratified thus requiring Commonwealth approval.

The EIS process will vary according to the terms of reference provided by the Queensland Government following consultation with the Australian Government. The terms of reference will be customised to the type of development, but will require the proponent to address: critical matters such as land use, water resources and hazards; routine matters such as cultural heritage, waste management and biosecurity; and Matters of National Environmental Significance (MNES) such as National Heritage, impact on a listed migratory species and the Great Barrier Reef Marine Park.

The draft terms of reference document is lodged with the Queensland Coordinator-General who seeks comments from the public and then provides recommendations on how to revise the approach or give permission to proceed with the EIS. The proponent then prepares and lodges an EIS based on the terms of reference, which is also subsequently provided for public comment.

The EIS is then considered by the state government as well as being sent to the Australian Government for a separate decision. The satisfactory completion of an EIS is not an approval at the state government level in itself. Approvals and licences still need to be obtained from both local authorities (such as the Great Barrier Reef Marine Park Authority) and other state government agencies. The entire package of material is then assessed by an assessment manager under the Sustainable Planning Act 2009 (Qld): for projects of this scale, decisions under the Act are typically made by the Full Council rather than at officer level.

At the Australian Government level, a comprehensive joint assessment of the EIS between the Commonwealth Department of the Environment and the Great Barrier Reef Marine Park Authority takes place, with final approval by the Australian Government Minister for the Environment. Both the state and Australian Government approval may include several conditions which must be met in proceeding with the development.

Development application process

The final phase of the development and planning process involves obtaining a DA. This phase is overseen by the Whitsunday Regional Council which takes recommendations from the Coordinator-General. After an appeal period the proponent prepares and lodges an application for a development permit. This entire phase is expected to take around 46 weeks.
FIGURE 3.2 – REGULATORY APPROVAL PROCESS FOR INTEGRATED RESORT ON THE GREAT BARRIER REEF

Note:
* Not applicable for projects requiring an IAR.
^ Public release of an IAR is not required in all circumstances

Source: Queensland Department of Tourism, Major Events, Small Business and Commonwealth Games
Box 4: Environment Protection and Biodiversity Conservation Act 1999

The Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) covers environmental matters that are considered to be of ‘national significance’. The vast majority of activities that have some impact on the environment fall to the responsibility of specific state and local level legislative instruments. However, in some cases the proponent of a project will have to obtain Australian Government approval in addition to any approvals under state law.

The significance of the EPBC Act lies in its ability to identify ‘matters of national environmental significance’ (MNES). MNES require approval from the Australian Government Minister for the Environment for actions that are defined as being ‘controlled’ actions.

There are eight MNES which are outlined below:
- World Heritage values of World Heritage Properties
- Wetlands of international importance (RAMSAR wetlands)
- Listed threatened species and ecological communities
- Listed migratory species
- Commonwealth marine areas
- Nuclear actions (including uranium mines)

A controlled action is considered as an action taken by a proponent in the form of a project, development or disruptive undertaking that has some significant impact on:
- a MNES
- the environment of Commonwealth land (such as defence and Commonwealth airport sites).

The EPBC Act allows states and territories to enter into agreement with the Australian Government through ‘approval’ and ‘assessment’ bilateral agreements. While approval bilaterals have yet to be introduced in a working capacity, in practice they devolve the Commonwealth’s approval process to the state’s own approval process. COAG believes such an agreement will mitigate duplication and remove red tape. Assessment bilaterals allow the Australian Government Minister for the Environment to accredit state assessment reports as the only reports required for the assessment of a ‘controlled action’ meaning that reports prepared for the state government are the only source needed for the Commonwealth Minister for the Environment to make a decision on the project.

The Australian Government Minister for the Environment is a central component of the EPBC Act, presiding over the assessment, approval, civil enforcement, suspension and revocation of permits and conditions relating to a development project.

Timeframe and cost estimates

Table 3.3 sets out the processes and holding costs associated with the planning and DAs for an integrated resort project on the Great Barrier Reef. It was estimated that the relevant regulatory processes would involve a 136 week timeframe. The largest parts of this process are the requirements for obtaining environmental approval. This is estimated to take about 58 weeks, although these approvals have considerable uncertainty and have the potential for ongoing delays (see below).

Over the approval period, the holding costs of land were estimated at around $899,000. Regulatory costs represented around 3.85% of total development costs. This was higher than all CBD hotel projects examined, highlighting the impact of a very long approval project and a relatively large developer contribution of over $2 million.

As expected, environmental approvals add considerably to the timeframes when compared with Brisbane CBD, and in fact all approvals stages are lengthier.

TABLE 3.3 – GREAT BARRIER REEF DA PROCESS

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</table>
Qualifications on regulatory timeframes

The regulatory timeframes applying to the Great Barrier Reef resort are subject to considerable uncertainty. Resort developments tend to be individualised in terms of their size and footprint (often larger and lower density) and in many cases are highly integrated into the natural environment, which plays a major role in enhancing the attractiveness and amenity of the development.

As a result of these factors, resort developments often involve very specific environmental approvals. These are often complex and lengthy processes which involve greater scope for delays and additional information requirements. In effect, they are affected by the complexity and scale of the proposed development itself and higher levels of environmental and (often) community sensitivity.

In aggregate, these factors increase regulatory uncertainty and can aggravate costs and risks for developers. This was highlighted by proponents during the course of the study, including notable examples where the timeframes for securing environmental approvals have significantly exceeded the case study estimates and imposed large additional cost burdens. This is perhaps the largest single regulatory hurdle facing hotel developments anywhere in Australia, given the information requirements, timeframes, and the scope for both proponents and regulators to contribute to large process delays.

3.2.3 ONE-STOP SHOP REFORMS TO ENVIRONMENTAL APPROVAL PROCESSES

The regulatory timeframes outlined in this hypothetical case study have been based on the arrangements which currently exist. However, reforms are in train to streamline these processes.

One-stop shop reforms for environmental approvals are aimed at dissolving duplication of environmental assessment and approval processes between states and territories and the Australian Government. They aim to streamline the regulatory pathway and lower costs for business, while ensuring that appropriate environmental standards are upheld.

Currently, a project proponent submitting an application to a state or territory government for environmental approval requires a separate application to the Australian Government if it is likely to have a significant impact on a MNES. This requires the completion of two separate application forms. Approvals from the Australian Government can sometimes take a number of years after state or territory government approval.

An assessment bilateral agreement with the State of Queensland (as with other jurisdictions) is currently in place which enables a proponent to produce a single EIS according to Terms of Reference provided by the Queensland Government. The EIS is then provided once to the Australian Government for comment, allowing Queensland and the Commonwealth to develop a set of conditions. For MNES, Queensland will seek advice from a relevant government agency like the Great Barrier Reef Marine Park Authority.

Negotiation is currently underway concerning the enactment of an approval bilateral. This one-stop shop approach eliminates the two-fold process by establishing assessment bilateral agreements that allow the state or territory to conduct environmental assessments and approvals in compliance with both state/territory and Commonwealth requirements. This will remove a substantial amount of duplication, as shown in Figure 3.3 below. Proponents will deal with the state or territory government which will function as the primary regulator for environmental approvals and will not require assessment and approval from the Australian Government. States and territories will, however, be required to meet national standards for MNES.
Assessment by the Australian Government Department of the Environment, based on historical assessment administration outcomes, concluded that one-stop shop reforms have the potential to realise significant efficiencies for businesses.

Expected savings from the deregulation were estimated at approximately $426 million per year, comprising $9 million in reduced administration costs for businesses and around $417 million in reduced project delay costs.

The Department of Environment noted that estimated savings are likely to be conservative due to numbers of factors being excluded. These included:

- potential savings in preliminary and post-approval stages
- the value of increased investment certainty
- broader economic benefits of public projects (e.g. road infrastructure).

These elements were not incorporated due to a lack of reliable data or because they are explicitly excluded under the Australian Government’s Regulatory Burden Measurement Framework.

The magnitude of these potential savings highlights the merits of pursuing reforms which reduce duplication of approval processes and result in timelier decisions (see Chapter 6).
3.2.4 DEVELOPMENT ISSUES FOR INTEGRATED RESORT PROJECTS

Like smaller scale boutique projects, integrated resorts have some particular development and regulatory issues. Large greenfield resorts occur relatively infrequently, with Australia’s last wave of resorts commissioned in the 1980s (Palm Cove, Port Douglas etc.). Over the last decade or so, most of the international focus in resorts has occurred in Asia, in particular Thailand, Indonesia and Vietnam which dominate this part of the market.

Resorts are typically large, complex and expensive forms of accommodation, which is often driven by their remote location and a requirement to incorporate ancillary infrastructure services (such as trunk water and power) as part of the project. Indeed, integrated island resorts are often among the highest unit cost forms of tourism development.

Resorts also have different risk profiles to metropolitan based hotels:

- Cost over-runs and slippage of development schedules represent substantial risks to resort projects, especially given the considerable scale of investment. As noted, this is exacerbated by the fact that resort developments are among the most expensive forms of tourism accommodation.

- Many resorts operate some distance from major population centres and thus have higher operating costs. A major element in running costs is the cost of labour; and, depending on their level of remoteness, businesses will need to pay a wage premium and may often be required to accommodate workers.

- As they are frequently ‘end-of-the-line’ destinations, resorts have a narrower and less diversified market where demand can fluctuate appreciably in response to changes in sentiment, changes in relative prices (the price of overseas alternatives) and poor weather (e.g. cyclones). A trend towards mixed tourism and residential complexes aims to broaden revenue streams.

- Resorts can also have a higher exposure to airline related risks. Airlines are particularly volatile businesses being exposed to factors such as fuel costs, natural disasters and pandemics, which have a large bearing on their cost base and passenger demand.

There are some major implications stemming from these risks. Projects are more sensitive to cost pressures, and involve a higher risk of commercial ‘stranding’, with fewer or perhaps no alternative site applications (unlike CBD locations). Further, related to their development risks and capital requirements, the ability of proponents to secure finance for resort projects can be particularly challenging, especially in the post-global financial crisis environment.

In this context, development regulations for resort projects, particularly those related to environmental approvals, have the potential to significantly aggravate prevailing commercial pressures. Indeed, the cost of delays and regulatory uncertainty associated with environmental approval processes was highlighted as the largest regulatory hurdle faced by resort proponents.

Crucially, the proportional impact of these regulatory imposts may exceed that applying to hotel development in metropolitan areas.

Much of the current policy disquiet relating to the regulatory burdens arising from environmental approvals has involved mining, energy and bulk commodity transport infrastructure. While these projects typically involve different risks than resorts — and have quite different social licenses to operate — many of the potential consequences of delaying and deferring efficient investment are similar. This includes concerns about hindering the ability to fully capitalise on opportunities from emerging regional economies, which are in no way exclusive to Australia and which could well have a finite window.
4 Regulatory timing, cost and risk issues

This chapter discusses key contextual issues relating to hotel development processes and the regulatory benchmarking analysis.

In broader sense, consultations with industry and agencies raised conflicting views on how well planning regimes and regulators have performed their role. In large part, these very issues motivated the study. Various representations to Austrade by the tourism industry and potential investors and developers suggested that the planning environment in Australia was discouraging and perhaps hostile to efficient hotel investments.

In contrast, discussions with regulators during the study stressed the challenges in making planning assessments and acknowledged that performance has gradually improved over the years. By and large, they did not accept that present performance was suboptimal or that investment was being deterred. Rather, processes and attendant information requirements largely reflected the level of potential external impacts presented by developments and the need to preserve and enhance urban and natural amenity.

4.1 CITY PLANNING CONSIDERATIONS

Analysis shows variance in the timeframes and costs of planning and development requirements applying to large hotel projects. Some larger city systems involve much larger and more complex approval pathways and there is thus considerable scope to compress their approval timeframes for low-risk hotel developments.

A few factors are important in terms of examining the timeframes involved in larger cities. First, authorities are not entirely responsible for the complexity and design aspects of the planning regimes they administer. Second, larger cities tend to have more complex planning environments because external effects are exacerbated by the functional constraints in large centres such as more congestion and greater levels of assessable development, as well as larger stakeholder communities.

The risk today is that efficient, commercial investment will be delayed or even deterred by inappropriate and lengthy regulatory processes. Simpler, more transparent, predictable and accountable regulation is of key importance.

Benchmarking planning regimes is fundamentally complex, reflecting the challenges inherent in land use planning and control. Projects are unique, with hotels differing in terms of service quality, size, and design. Hotel development at the larger end of the scale tends to be infrequent in most cities, which limits the ability to compare actual outcomes of the planning process.

Moreover, similar projects in different locations can give rise to different issues — such as alignment with existing urban forms, congestion and requirements for ancillary infrastructure and services.

Comparisons on the outcomes from regulatory processes are also not definitive. DAs can be given or not, they can be conditional (especially in regards to environmental approvals), changes to project parameters can be required by authorities. It is difficult to isolate the impacts from planning intervention against other potential factors influencing developments. Further, assessments are dependent on the ‘quality’ of development applications. Developers submitting incomplete or non-compliant applications will necessarily lengthen the administrative task.

In this regard, straight like-for-like comparisons are difficult. This was an issue emphasised during consultations with both developers and governments. These challenges do not diminish the value of benchmarking, but they highlight its qualifications.

4.2 THE EFFECT OF HOTEL REGULATIONS ON INVESTMENT

Planning and development regulations impose real financial costs on projects which are intensified when market conditions are softer or when other costs are higher. Thinner and more uncertain project margins are less able to absorb additional regulatory costs, potentially resulting in projects being delayed, shelved and/or altered. It should be noted that these commercial outcomes are not driven exclusively by the costs
of planning regulations — projects are abandoned and modified for many reasons, mostly non-regulatory — but they are unreservedly affected by them.

The analysis did not see any compelling evidence that hotel investments were being deterred. However, it should be noted that it is sometimes difficult to see that investment is being stalled. New hotel development is taking place in capital cities and Australia wide. Nevertheless, while projects are self-evidently occurring under current regulatory settings, it does not mean those frameworks are optimal. We simply do not know with certainty what level and form of hotel investment would have occurred under different regulatory conditions.

Costs such as those associated with approvals for development or hotel operations are unlikely to be threshold factors individually. However, their cumulative impact can be much more substantial. The ‘marginal’ effect is thus potentially greater than suggested by individual cost components.

Importantly, because hotel investment has not been obviously deterred in any of the jurisdictions assessed, there is a risk that costs are not deemed a problem and a level of regulatory ‘validation’ can set in. In Urbis’ view, there is still scope to improve economic efficiency of hotel development outcomes by streamlining regulatory processes, at least in some jurisdictions.

Regulatory costs can also shape the form of development. High construction and operating costs tend to encourage larger three to four star projects, where more rooms can be fitted on sites and food and beverage requirements are relatively lower. That is, developers will look for ways to economise in other areas. The advent of modular pre-fabricated construction techniques which is currently being pursued in Perth is a case in point.

Further, smaller projects do not typically have the scale to absorb higher regulatory and consultancy costs. In this regard, some proponents consulted with stressed that frameworks did not sufficiently distinguish between large and boutique hotel development proposals. External impacts and risks tend to be lower for boutique developments, especially those not in ecologically sensitive areas, and applying similar regulatory requirements could well be excessive.

This issue is also highly relevant to small scale metro developments. Indeed, it was submitted that a particular outcome of applying a one-size-fits-all planning regime could be seen in the type and form of recent hotel developments in Melbourne and Sydney. The Melbourne hotel market has a number of smaller iconic hotels which are largely absent from Sydney where the profile of hotel development is much more homogenous.

Putting aside judgements on the potential dampening effect of current regulatory regimes, the benchmarking highlights how jurisdictions fare in a comparative sense, allowing decision makers to see more starkly where different planning process improvements are possible.

Some key issues should be noted regarding these estimates:

- They reflect how the frameworks are codified, what factors are contained in statute, and the day-to-day experience of planning practitioners. That some aspects are not without contention or differences in interpretation is clear. However, this uncertainty is the same as that faced by investors — especially for overseas investors — who are less familiar with the regulatory environment.

- The estimates represent the advice on timing that Urbis planning specialists would provide a conservative investor entering these city and regional markets. It is possible that more experienced developers and those with a higher risk appetite could achieve faster outcomes (i.e. proponents electing to take a gamble on securing approval). This was highlighted by views that developers gain considerable ‘learning by doing’ experience which makes approval processes less onerous (project specific issues notwithstanding) once they have completed a development process.

- The scope for conflicting interpretation (e.g. timeframes, design conditions and any likely concessions) can be an impediment to regulatory certainty, requiring greater levels of specialist counsel, and adding to project costs and risks.

- The analysis has relied on various assumptions regarding timeframes, approval process tracking, and proponent and regulator responsiveness. We have adopted relatively conservative assumptions.
regarding issues such as document preparation, agency response times and where aspects of the process can proceed concurrently. As noted, many of these are matters of judgement and are necessary to ensure comparisons can be made between regimes. Our overarching approach has, as far as practicable, been consistently adopted.

4.3 REGULATORY RISK AND ASPECTS OF GOVERNMENT FACILITATION

A key message during consultations was the level of regulatory risk presented by development and planning approvals.

An important conclusion is that most development system issues occur ‘on the edges’. Planning approvals and their respective costs are rarely threshold issues for projects. However, there appears considerable scope to improve regulatory and market outcomes. In this regard, it is important to draw a distinction between cost and risk.

As noted, the direct costs of planning and development processes are front loaded. Developer contributions, when they apply, often form the largest single regulatory cost. For hotel proponents managing cash flow and financing constraints, this sequencing can increase the overall burden imposed by these cost requirements.

Another area where costs quickly add up involves the use of external consultants by developers. This includes technical assessments, noise studies and heritage advisers.

While the above factors clearly involve substantial costs for developers, uncertainty or risk is more difficult to manage. Some costs are paid whether or not the proposal is approved, and therefore represent some risk to the developer. Others are paid only if approval is granted.

A couple of issues should be noted. First, these issues tend to be interrelated. More complex requirements and longer timeframes involve greater costs to developers, but they also generate greater uncertainty. Simply, there is greater scope, via more agencies and procedural duration, for risk to creep in.

Second, the equivalence between cost and risk is often difficult to determine. Indeed, smaller and less certain cost requirements may be preferred by many proponents than larger and clearly established regulatory costs. The sweet spot for business is clearly to reduce both cost and uncertainty together.

Recognising the challenges in bringing hotels to market, or to pursue specific development objectives, various direct incentives have been used by governments to mitigate development costs and risks. These seek to directly address aspects of the planning system:

- **FSR bonuses** — The FSR is the relative proportion of the floor area of a building to its site area and is a planning control used to define the size of a building and the intensity of development on a parcel of land. Applying the same FSR to an area ensures structures are of similar scale. FSR bonuses have been used to promote hotel development in certain jurisdictions. These allow developers to increase their yield from a particular site, essentially by allowing more intensive development (for example, more hotel rooms).

- **Developer contribution moratoriums** — Developer contributions seek to ensure that projects fund (whether partially, wholly or otherwise) the additional requirements they place on local infrastructure. These typically constitute the largest direct component of regulatory costs in cities where they apply. Periodic moratoriums have been used, most recently in Brisbane, as a means of reducing costs to proponents.

The effectiveness of a moratorium on development contributions is ambiguous. It is unclear whether developments would have occurred irrespective of these incentives, whether they simply bring forward projects already in the pipeline or whether they actually unlock latent proposals. Developer views about their effectiveness were also somewhat conflicting. Where they appeared to have most impact was in signalling intent by government in driving new hotel developments — until the moratorium is ended.
In this regard, it should be acknowledged that cities like Adelaide that do not apply development contributions have a moratorium permanently in place.

- **Use of strategic crown land** — Governments have used conditional release of key urban sites as a way of promoting new hotels, usually as part of landmark urban renewal projects (a recent example is the Elizabeth Quay project in Perth). How the release is structured has a large bearing on the development incentives. If land is released at a market auction, developers are essentially bidding for the land and will price the hotel as part of the overall precinct development opportunities. Often other forms of development like residential and mixed use property can assist feasibility, in some cases actively cross subsidising a hotel to make the site viable.

This form of facilitation typically addresses various development constraints: it directly makes available strategic urban land where new sites are limited; and it allows developers greater scope to diversify land uses across a larger parcel so that higher yielding developments do not crowd out new hotels.

The recommendations discussed below to drive improvements in planning regulation frameworks and encourage hotel investment draw on many of these measures.

*Additional governance matters*

While outside the scope of this study, a key issue with land planning systems noted by some proponents were highly publicised instances of corruption and cronyism by a small number of developers and decision makers.

The role of governance in planning regimes was seen as central. Where planning systems are complex, opaque and fragmented, there is larger scope for such behaviours to persist. And when coupled with gains driven by pressing urban land constraints, the payoffs generated from favourable planning decisions are necessarily greater.

These systemic issues can also have some perverse consequences. A specific issue was that bureaucratic concerns about getting caught up or implicated in anti-corruption processes was, at times, contributing to regulatory uncertainties for developers. It was submitted that endemic nervousness and risk aversion on the part of planning officials was acting to severely limit the potential for less formal pre DA meetings to provide surety on development parameters, for which these processes are intended.

In the context of such issues, addressing the core governance frameworks and the complexity of the planning environment becomes a reform priority greater than reducing red tape.
5 Potential reform options

Project development regimes are generally complicated, costly to comply with, and involve overlapping responsibilities between levels of government — issues that motivate industry concerns about their impact for getting projects off the ground.

On the basis of benchmarking analysis for CBD hotel developments, it is clear that there is scope to improve the timeliness of jurisdictional planning systems, with delays and uncertainty imposing additional costs on proponents. However, the potential dampening effect of regulations on investment is very difficult to ascertain.

That said, differences in the cost and timeframes for regulatory approvals applying to hotel developments underscore the potential for some jurisdictions to improve how their planning systems are designed and administered. These issues also have a broader context. Indeed, to meet long term growth and productivity challenges, initiatives to reduce red tape and promote efficient private sector investment are urgent.

Any such reforms by jurisdictions to cut compliance costs and reduce risk in planning systems would not be specific to the hotel industry. Importantly, they would yield benefits to other forms of development. A range of potential reform options are discussed below. These options are focused on addressing several key issues:

- securing opportunities to streamline existing features of the planning system and provide stronger coordination within government
- identifying where excessive or poorly focused regulation imposes undue costs and risks on developers
- facilitating a more enabling and responsive investment environment.

Development issues

Planning and development regulations perform a complex function in coordinating a broad range of often divergent public and private interests. The existence of external effects such as traffic congestion, environmental damage and proximity of incompatible land uses underpin government controls on land use. These are mostly (but not always) localised matters; and regulations affecting land developments are administered predominantly at a sub-national level.

Planning systems can have unintended effects on the operation of markets, and these may influence urban development patterns. For example, restrictions on land supply inherent in zoning and consent systems, and the constraints on development potential imposed by detailed development control provisions, can limit the flexibility of land and development markets to match supply and demand. This can stand in the way of urban consolidation and other efficient forms of development. Recognition of the potential for unintended effects in this area is consistent with the greater scrutiny being given to regulation in general.

In a broad sense, planning links investment and community interest. Planning regimes need to respond to the needs and priorities of local communities, as well as the wider interests of the states and territories.

In this regard, planning issues do not stop at local government boundaries. Current planning systems provide few mechanisms other than direct ministerial involvement to address these issues at this wider scale. Indeed, a large issue concerning the inherent complexity of planning systems lies in the blurred boundaries between policy and regulation.

The most significant problem with a system of development control is that decision makers do not always know the intention of overarching frameworks except by interpretation of the regulatory instrument and policies. This will increase the scope for more subjective regulatory decisions.

The current planning systems include a number of aspects that are sound and well administered. However, irrespective of the costs of hotel regulations compared across jurisdictions, the central issue is:
can they perform better? In other words, is there scope for reducing cost levels and improving regulatory efficiency?

5.1 REFORM OPTIONS FOR IMPROVING REGULATORY PERFORMANCE

The following potential reform options have considered various ‘pressure points’ affecting the costs and risks, timeliness and general investment support for hotel developments provided by planning and approval frameworks.

It should be noted that action on one or more of these (or other) areas can allow other specific regime features to be maintained without necessarily delaying overall approval times. In the case of CBD hotel developments, for example, improvements in procedural responsiveness could allow formal design competitions to be held without exacerbating costs for proponents.

Reducing regulatory risks

Some aspects of the development and planning regulations involve more risk than others, and greater costs of compliance and administration. In looking for potential reforms to lower regulatory burdens some strategic risk issues are considered:

- What are the risks of getting regulatory decisions ‘wrong’? This has two elements: providing approval for an aspect of the project that should not be approved (false positive), and not approving something that should be approved (false negative). These two key forms of error tend to have different consequences which can be instructive in determining the requirement and form of regulatory intervention.

- What are the risks of removing some regulatory requirements? Again, how would potential removal or scaling down of regulatory requirements affect risks to the public and costs.

These issues are not exhaustive but provide a sense of the key considerations in identifying where reforms to development regulations could be most prospective. The regimes applying to hotels are not industry-specific, although there are aspects which apply exclusively to short term accommodation developments. They cover other forms of commercial property developments and infrastructure more generally.

In this context, areas where reforms could be useful on the basis of benchmarking and industry consultations ideally account for wider development issues. Without such considerations, industry carve-outs and greater fragmentation risk adding to, rather than detracting from, the overall regulatory burden.

A major element of uncertainty relates to the DA process, which is typically the largest component of the regulatory requirements for hotel developments. This is where most reform attention is needed across jurisdictions.

Where project modifications give rise to additional information requirements, processes and decision-points can become delayed and add to development costs. Advice from proponents was that achieving progressive certainty in approval frameworks should be a core policy goal. This stands at the centre of pre-lodgement and case managed processes adopted in some jurisdictions. They aim to get parties around the table at the outset, often in a less formal context, to work through the information requirements, timeframes and any points of contention — in effect, to identify the ‘show stoppers’ and where design changes may be needed.

The planning approach used in Adelaide provides a useful example of how these processes can be used effectively. It provides a framework based on formal pre-lodgement for large development proposals (over $10 million). While the overall estimated timeframe (29 weeks) for approvals in Adelaide is not the fastest among jurisdictions, nor has it the fewest number of regulatory bodies involved, the pre-lodgement platform has advantages in terms of promoting certainty for proponents. Further, where heritage issues are involved (which were not examined in this study), early engagement becomes even more important because of the greater risks of regulatory delay.
Recommendation 1 — Greater emphasis on pre-approval engagement and case management

Formal pre approval engagement and a case managed DA process should be given greater emphasis across jurisdictions, where these are not available or not fully utilised.

Where well administered, these measures have the potential to enhance progressive certainty for proponents at relatively minimal costs. Even in cases where they do not reduce existing timeframes, these provide real risk management advantages for proponents.

In this regard, greater flexibility to accommodate non material changes during approval processes would also assist hotel projects and other developments.

There are some instances where insufficient preparation by developers has been the primary cause of approval delays. While early and meaningful engagement between proponents and agencies is pivotal, as noted above, there are areas where better and more complete information about process and documentary requirements would assist proponents.

Indeed, this was reinforced by a strong message that proponents ‘learn by doing’ in terms of how they interface with agencies and manage their side of the regulatory process. For less experienced proponents, including those from overseas, access to primer information would be useful.

In any case, improvements to the information base are a straightforward and low cost measure for governments.

Recommendation 2 — Better guidance information for new and international investors

All governments should review the form and nature of guidance material on planning and approval processes.

While there are some good examples of marketing ‘glossies’ promoting the merits of investing in jurisdictions, information on actual development processes and requirements aimed at businesses is less readily accessible.

Some areas where better information would assist proponents include:

- Information on Australian Government environmental approval processes. In a sensitive policy area where considerable scope for regulatory discretion exists, guidelines and general information on frameworks and their administration should be contemporary, highly accessible and complete.
- A list of common pitfalls for proponents when they commence regulatory approvals and how these can be avoided or minimised.

Streamlining regulatory processes

It is understandable that it takes some time for government and planning agencies to come to final decisions on complex approval issues involving high stakes for the parties and the community. However, it also needs to be recognised that delay has a real cost, and that there comes a point where an overly risk adverse approach can yield steeply diminishing returns, for the public and proponents.

In at least some instances, regulatory processes seem to have gone well beyond that point, with decisions taking several years or more. This has mainly involved environmental approvals where Australian Government and state approval processes apply.

For commercial property activities, which are operating in fast changing markets, these delays can translate into unacceptable losses in competitiveness. And where approval requirements are much less complex, such as those examined as part of the CBD project benchmarking, improvements in timeframes would lower holding costs and risks for developers and help promote a more business friendly investment environment.

In practice, it is difficult to see why it should take more than six months for planning agencies to arrive at an approval decision in most cases, subject to information requirements being satisfied by proponents.

In Urbis’ view, larger city planning systems (Sydney, Melbourne and Brisbane) should aim for total project approvals for most hotel developments (where heritage issues are not involved) to be completed in around 30 weeks, including the attainment of building approvals. This would involve DAs being completed in around 20 weeks.
For Sydney, which currently has the longest regulatory approval processes for either a one or two stage pathway, this would require substantial reform commitment over a long period.

**Recommendation 3 — ‘Fast tracked’ DA processes should be available for low risk projects**

Where projects are clearly identified as lower risk developments, an expedited approval pathway should be clearly available.

Recognising at the outset where low risk developments are being proposed (as is the case for many hotel developments) and implementing a ‘fast track’ DA process would improve overall approval timeframes. In a sense, the difference between the one stage and two stage DA processes in Sydney shows the relative timeframe benefits for proponents for instituting an expedited approval pathway for some projects. This does not reduce the onus to streamline timeframes across all available pathways.

In this regard, an immediate reform priority, should involve providing direction around the specific circumstances in which the two stage DA process would be waived in Sydney. Two stage DAs are a ‘masterplanning’ process which better suit very large or complex development sites, and do not need to be applied to every building over a certain height.

Reducing the multiplicity of agencies will be an essential element to streamlining processes and improving their predictability. Indeed, duplication of regulatory responsibilities at the Commonwealth and state level has been a major focus of COAG reform across many different policy areas aimed at reducing the costs of red tape.

Key areas of regulatory reform over the last decade or so have centred on harmonising jurisdiction based regulation for industries which increasingly operate at a national level (e.g. electricity networks, transport regulation, occupational licensing). However, planning and zoning regimes are by their nature highly localised which limits the extent to which specific national harmonisation objectives can be pursued.

That said, COAG’s aims of improving coordination of capital city planning and infrastructure through a formal national urban policy and cities agenda have highlighted a reform purpose in this direction, mainly through agreement of higher level principles.

As with much of the design of regulatory frameworks, there is a clear balance between addressing the external risks of projects and enabling timely investment. There is no single best approach, with much depending on government portfolio structures and how effectively agencies and bodies coordinate. However, it is difficult to see effective and enduring improvements in regulatory timeframes being achievable when there are large numbers of agencies involved.

Two closely related issues involve heritage approvals and liquor licensing requirements.

Heritage approvals are a ‘complexity multiplier’ applying to many hotel developments which introduces additional layers of approval requirements and further costs. While there are justifiable community conservation considerations, this is an area for ongoing streamlining attention. Reforms aimed at reducing the number of agencies involved in heritage issues would also help minimise uncertainty and improve timeliness.

All hotels need liquor licences as part of their operation. This is a relatively minor processes but which appears to take too long in many cases (e.g. around 4-6 months) given the apparent low social risks involved. It also needs to be recognised that freezes on licensing conditions affect all licensed premises, even those which are very low risk. Streamlining liquor licencing approvals is an area where governments could make immediate improvements, especially to reduce the requirement for specialist consultant advice as part of the application process.
Recommendation 4 — Fewer regulators are essential for timely and well-functioning approval processes

Governments should examine the scope for reducing the number of agencies involved in the approvals processes.

There is a strong connection between the number of agencies involved in planning and development regulations and the times to obtain approvals. A greater number of agencies involve higher internal and external interfaces, which push up compliance and administration costs.

Improvements in this area will sometimes to take longer to devise and implement, given they may involve changes to the structures of government.

However, some possible options for reducing the number of agencies involved in DA approvals include:

- Allowing greater use of delegated responsibilities between agencies, such as where low risk projects are identified early (perhaps as part of a ‘fast track’ approval pathway).
- Placing more agency interfaces ‘back of house’ such that costs and meeting times are minimised for proponents.

Recommendation 5 — Streamline liquor licensing approvals

Liquor licensing requirements should be streamlined in most states to reflect the inherent risk.

Almost all large four and five star hotels include a licensed bar and restaurant. Obtaining a liquor license is therefore a pre-commissioning requirement for practically all operators. The liquor licensing process does not reflect the fact that modest bars situated within hotels represent a very low risk development.

Recent amendments to the liquor licensing in some jurisdictions to allow for small bars in city centres have provided opportunities to streamline licensing processes by relying more heavily on zoning and building rules.

Managing a rising cost environment

Related to the issue of regulatory certainty and risk, a core decision facing many developers is whether or not to commit to the large capital costs associated with constructing new accommodation facilities — or indeed whether the returns from a hotel exceed that of alternative uses for a site such as commercial office space.

Cost over-runs and slippage of development schedules represent substantial risks to projects, especially given the considerable scale of investment involved. This was highlighted by estimates of the significant holding costs associated with meeting regulatory approval requirements.

The critical point is to ensure that government policy does not unduly contribute to the overall development cost and risk profile.

With this in mind, planning and approval regulations may not adversely affect investment in the largest hotel or resort developments, but they will present a risk to more marginal projects. It is important to recognise that these matters sits alongside a raft of other major commercial issues that developers need to manage. As such, the marginal impact of regulatory requirements can be much higher than their absolute impact.

This could well involve projects where proponents are new to the Australian business environment, such as overseas investors, or where new services and products are being commercialised (i.e. boutique resorts in remote locations).

While reducing timelines and complexity is the main game, especially during the DA process, there are various areas where direct regulatory costs could be minimised. In large part, these involve more prescriptive design requirements which may be inconsistent with commercial imperatives.
Importantly, unlike developer contribution charges, these represent costs which are ongoing throughout the life of the hotel.

**Recommendation 6 — Adopt a more flexible approach to design requirements**

To the fullest extent possible, prescriptive design requirements, especially on more ancillary issues, should be minimised or removed.

This includes placing greater reliance on commercial principles to determine project car parking needs. Even where prescriptions exist (such as potential car park shortfalls in Darwin) but are rarely applied, these should be removed from relevant planning regulations.

Disability access standards and quantities could also be rationalised to reflect demonstrated requirements and future needs.

- Any reform would require careful consideration due to the social equity implications, noting that the Australian Government has committed to a review of accessible room requirements for new Class 2 (e.g. multi dwelling apartments) and 3 (e.g. hotels) buildings under the BCA.

**Promoting an enabling environment**

Governments have regularly taken more active measures to facilitate hotel developments, including through specific regulatory concessions such as FSR bonuses and conditional release of crown land. Release of key publicly owned sites to promote new hotels has often occurred as part of landmark urban revitalisation projects.

Such measures have real merit given the commercial challenges associated with hotel development and alternative uses for many sites.

**Recommendation 7 — FSR bonuses and use of government owned sites have a major role in encouraging CBD hotel developments**

States and territories should explore, as part of ongoing planning reform initiatives, whether FSR bonuses and earmarking of publicly owned land can be viably used to encourage new tourism accommodation developments.

FSR bonuses provide an effective way to improve the commerciality of hotel sites by increasing the allowable intensity of hotel development, including for mixed use developments. While these bonuses have clear planning implications, they provide scope for facilitating and clearly signalling a strategic priority in hotel developments in a low cost and quickly implementable manner.

The conditions and level of FSR bonuses which could apply need careful planning consideration.

Earmarking sites (both Australian Government and state owned) which could be released for hotel and tourism-related projects could also help signal long term development opportunities for the industry.

More broadly than direct forms of support and market intervention, it is important that industry enabling is affected by overarching regulatory frameworks and the costs they impose.

In Urbis’ view enabling hotel development is more likely over the long term through regulatory best practice rather than specific measures such as FSR bonuses and infrastructure charge discounts or moratoriums. Crucially, this would help all projects, at all times. Other direct options could still be used as a true financial incentive rather than as a compensatory mechanism, as can sometimes occur.

Certain cultural issues within regulatory agencies also have a bearing in terms of enabling the hotel sector.

Proponents noted a range of administrative issues related to their dealings with planning authorities and departments. It was emphasised that an adversarial and negative mindset sometimes existed within regulatory bodies, which in more extreme cases manifested in a culture of ‘no’.

Administering planning and approval regimes is demanding and the financial stakes are often high. Accordingly, without knowing the details of particular examples, including whether there may be
extenuating circumstances, it is hard to draw any firm conclusions about possible cultural shortcomings such as a systematic bias which is inconsistent with the requirements of private development.

That said, cases where approval timeframes are protracted will involve greater risks of engendering negative perceptions. Indeed, the analysis highlighted differences in the time and costs for obtaining DAs across major capital cities, and thus where there is scope for jurisdictions to improve performance relative to comparable jurisdictions.

A further area where gains appear possible involves promoting the capacity for innovative and market-focused accommodation services to be delivered. Projects where this is most likely to have a meaningful impact are those involving mixed use developments, high-end eco developments and where heritage assets are involved. Each of these areas will tend to ‘stretch’ planning regimes, including by bringing into play a greater number of regulatory agencies.

**Assisting hotel investments in regional areas**

The analysis of regional resort projects on the Great Barrier Reef and on the Great Ocean Road highlighted some important issues. Principally, these involved the challenges faced by regional proponents in terms of establishing tourism accommodation in environmentally sensitive areas and obtaining the necessary Commonwealth and state environmental approvals. This stands in contrast to CBD developments where natural environment issues are largely absent and approval times tend to be much shorter.

Some regulatory facilitation initiatives commonly used in capital city planning regimes such as FSR bonuses and mixed use concessions are much less relevant for regional projects. However, allowing greater scale and density of development in regional sites, especially in areas of natural amenity, can play a major role in improving commercial returns.

Streamlining environmental related approvals and securing allowances for land use in areas of high natural amenity such as national parks are thus the major regulatory issues where reform attention is needed.

A key area where the Australian Government has responsibility is in environmental protection of matters of national significance, as provided under the EPBC Act. This is the Commonwealth regulation which mostly directly affects some hotel developments in the planning phase, such as those operating in or near ‘ecological’ settings like marine and national parks.

There are well identified areas of environmental overlap with state and territory environmental regulation. For example, the EPBC Act does not regulate a proposal that will have impacts on matters such as air quality, noise, odour, general amenity or animals that are not listed as threatened or endangered under the Act. Such matters rest with state governments as part of their assessment processes.

To minimise duplication and compliance for proponents, the Australian Government and the states are progressing reforms to further delegate Commonwealth approvals on matters of environmental significance to ‘accredited’ state and territory systems (e.g. the approval bilateral agreement with the Queensland Government). This is a very worthwhile reform direction which should continue to be pursued as a priority.

A key focus for improving outcomes relating to environmental approval processes would be to reduce (or eliminate if possible) those cases where timeframes have been materially protracted — sometimes over several years. Indeed, cases where there have been recurrent extensions on Ministerial determinations serve to heighten uncertainty for proponents. They also provide the most pressing examples where perceptions of poor regulatory governance are aggravated.
Recommendation 8 — One-stop shop reforms for environmental approval processes

**Bed down Australian Government-State one-stop shop reforms for environmental approval processes.**

This would remove duplication in assessment and approvals processes and support many eco based tourism accommodation projects Australia wide (as well as other projects where environmental approvals are typically needed).

Completing the process will essentially take the initial reform measures further and wider and help establish a ‘one project, one assessment, one decision’ framework as recommended by the Productivity Commission and agreed by COAG.

Developments in national parks often face major regulatory barriers in terms of securing approvals for accommodation facilities as well as supporting infrastructure through the EPBC Act and various state National Park Acts.

In terms of promoting an enabling framework for sustainable and eco focused tourism offerings, which are an essential component of Australia’s overall tourism product, greater attention is needed on streamlining approval processes to operate in areas of high natural amenity. Some good progress has already occurred, particularly in Queensland and Victoria on the back of a recent Victorian Competition and Efficiency Commission inquiry. For instance, the maximum lease terms in national parks has been extended from 21 to 99 years to better align with the tenure requirements of investors.

Greater use of pre-approved opportunities for relevant tourism related developments can greatly reduce regulatory costs and help earmark future commercial opportunities. Leveraging private sector expertise in identifying relevant sites is important to ensuring that pre approvals are appropriately located and are thus more likely to be utilised.

In line with this option, state and local government could take an active role in creating a number of model development and management plans on which developers can simulate their development. This is somewhat similar to the concept of zoning, but expands the approach to include best practice environmental management plans.

Smaller scale tourism proposals in areas of high natural amenity also often confront entrenched community resistance, as reinforced in industry consultations. There is a wide diversity of regional attitudes with certain regions having well recognised opposition to many forms of tourism development. Compared to countries like New Zealand and Canada, Australia has relatively low levels of tourism in national parks and other areas of environmental significance.

Helping shift community attitudes will also be important. In this regard, the challenges facing regional tourism accommodation providers could be mitigated by more supportive local policy development and planning regimes which allow full participation from the local community.

The requirement of some EOI processes that proponents submit proposals with detailed development ideas, which may then be appropriated by the local authority, is likely to significantly inhibit potential proponents from putting forward proposals. Urbis considers that future EOIs ensure that Intellectual Property – which is created at significant costs to the developer – rests with the developer.

Recommendation 9 — Streamlining approval processes for developments in national parks and other high natural amenity areas

**Governments should explore opportunities to streamline approval processes for tourism development in National Parks and other high natural amenity areas, while retaining their conservation focus.**

Some meaningful process has already occurred around increasing the length of tenure for operating in national parks and identifying how private investors can make a proposal to government.

Greater use of pre-approved opportunities for relevant tourism related developments has the potential to reduce regulatory costs and showcase where future commercial opportunities may arise. However, Ministerial call in powers at lower investment thresholds (and greater willingness to use them) could also assist where local opposition to tourism related developments holds back beneficial developments.
Economic issues with regulatory harmonisation

Many of the options proposed above, and other reform alternatives, concern potential changes to state and territory planning and approval regimes.

In viewing the differences across jurisdictions and the potential to improve outcomes for city and regional planning regimes, reforms to harmonise requirements (or at least move in a more harmonised direction) often have a strong attraction.

It should be noted that regulatory harmonisation involves both costs and benefits to individual city, state and the national economy. Indeed, there is no absolute ‘correct answer’ to whether harmonisation is desirable across all areas of regulation.

The in-principle benefits of economic harmonisation are often well understood. Moving to a common set of standards (e.g. statutory timeframes or application fees) can yield a range of efficiency benefits, including the achievement of economies of scale and reduced costs for businesses that operate across state boundaries. This can lower barriers to entry and therefore increase competition, ultimately lowering the prices of goods and services for consumers. Harmonisation can also reduce the public finance costs of economic regulation, for example when multiple agencies are subsumed by a single lower cost regulatory body or licensing agency (e.g. the National Construction Code).

The potential costs of harmonisation are not always as obvious or easily understood as the in-principle benefits. Achieving a common standard is an inherently political process, involving negotiation between governments which involves direct costs and other ‘compensating’ factors. It is also not necessarily the case that jurisdictions will agree to accede to the ‘best-practice’ set of standards.

Indeed, it may well be the case that there is no ‘best-practice’ benchmark due to substantial jurisdictional and urban diversity. Rather, the regulations or standards that emerge from these negotiations may be worse for some or even most jurisdictions, and may reduce rather than increase efficiency overall. The process of actually negotiating harmonised standards is in itself very resource-intensive and uncertainty about the eventual outcome of negotiations can deter investment.

There are often good reasons for differences in regulatory approaches and standards, particularly where geographic size and demographic dispersion frequently requires local solutions for local problems — as is typically the case with land use and urban planning. Harmonisation towards regulatory uniformity can impede or prevent policy experimentation and innovation, with potentially high economic costs over the long term.

A particular issue that harmonisation, once achieved, can actually slow the adaptation to new developments. Adjusting the agreed uniform approach requires a new round of negotiations, with all the complexities that invariably involves. As a result, even if the harmonised standard was superior to those which preceded it, there is no assurance it will remain better than the decentralised alternative in the future.

Some general features of industries where harmonisation costs are more likely to outweigh benefits include:

- Industries dominated by highly localised small single-state businesses which have already adjusted to a state-specific regulatory approach and where the costs of understanding and implementing new rules and regulations would be very high.

- Industries where there is no clear single ‘best approach’ of regulating, and so diversity benefits are large.

- Industries subject to state-specific demand or supply shocks (i.e. land release and urban infrastructure investment) that call for a regulatory response and for the timely adaptation of existing regulations.

Notably, these factors each tend to apply to property developments, lending weight to a state-by-state, or city-by-city response.
## Appendix A  State and Territory planning regimes

### TABLE A.1 – SUMMARY OF LEGISLATIVE INSTRUMENTS ACROSS JURISDICTIONS

<table>
<thead>
<tr>
<th>STATE (CITY)</th>
<th>PRINCIPAL PLANNING INSTRUMENTS</th>
<th>CONDITIONS</th>
<th>TOURISM SPECIFIC DEVELOPMENTS</th>
<th>SUPPLEMENTARY NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales (NSW) — Sydney</td>
<td>Environmental Planning and Assessment Act 1979</td>
<td>Vary depending on the form and size of development and the potential impacts and merits.</td>
<td>Tourist accommodation over $100 million in the CBD ($10 million for environmentally sensitive areas) is considered an SSD. Consideration falls to Minister for Planning.</td>
<td>NSW Government is currently reviewing planning system (White Paper released April 2013). The NSW Department of Planning and Environment provides a web-based planning system providing interactive mapping tools, application tracking and other web-based planning tools: <a href="http://www.planning.nsw.gov.au/en-au/building/nsw/e-planningfornsw.aspx">http://www.planning.nsw.gov.au/en-au/building/nsw/e-planningfornsw.aspx</a></td>
</tr>
<tr>
<td></td>
<td>Sydney Local Environment Plan 2012</td>
<td>Regardless of designation, full environmental and statutory compliance assessment is required. Councils can levy development charges through development contribution plans.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sydney Development Control Plan 2012</td>
<td>mur development charges through development contribution plans.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Victoria — Melbourne</td>
<td>Planning and Environment Act 1987</td>
<td>If the development is considered to be a State</td>
<td>Hotel accommodation is permissible, though there are controls on</td>
<td>If more than 16 ‘non-identical’ objections to proposed development are received, the proposal will fall to the</td>
</tr>
<tr>
<td>STATE (CITY)</td>
<td>PRINCIPAL PLANNING INSTRUMENTS</td>
<td>CONDITIONS</td>
<td>TOURISM SPECIFIC DEVELOPMENTS</td>
<td>SUPPLEMENTARY NOTES</td>
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<tr>
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</tr>
<tr>
<td>Melbourne City Planning Scheme</td>
<td>Significant Development (SSD), power falls to the Minister.</td>
<td>development. A car park construction limitation of 0.4 parking spaces per hotel patron is the standard rate in all municipal zones. Construction in excess of this rate requires appropriate justification.</td>
<td>Future Melbourne Committee (FMC) for a decision. The Victorian Department of Transport, Planning and Local Infrastructure provides an interactive web-based tool to assist in identifying overlay controls and zoning: <a href="http://services.land.vic.gov.au/maps/">http://services.land.vic.gov.au/maps/</a>.</td>
<td></td>
</tr>
<tr>
<td>Zone and Overlay Controls</td>
<td>A project may be designated as SSD by the Minister, or if the development is larger than 25,000 sqm. Urban design controls exist for all developments.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Queensland — Brisbane</td>
<td>Sustainable Planning Act 2009</td>
<td>Brisbane is governed by building zones, which may be subdivided into numbered zone precincts which determines types of allowable development. Mixed use zone is the relevant zone for tourist accommodation.</td>
<td>Maximum car parking rate in the city core is 0.25 spaces per room. Size of floor plate dictates whether a development requires an Impact Assessment, or is Code Assessable. Infrastructure charges apply to short term accommodation; however a moratorium provides a potential discount of $5000.</td>
<td>Appeal of a planning decision takes place through the Planning and Environment Court. Brisbane City Council provides an interactive mapping tool to help identify relevant zones and precincts in an area: <a href="http://cityplan2014maps.brisbane.qld.gov.au/CityPlan/">http://cityplan2014maps.brisbane.qld.gov.au/CityPlan/</a>.</td>
</tr>
<tr>
<td>City Plan 2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Queensland — Brisbane</td>
<td>City Plan 2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Australia — Perth</td>
<td>Planning and Development Act 2005</td>
<td>The Western Australian Planning Commission (WAPC) provides the primary framework for local level planning schemes. Parking spaces are subject to the Perth Parking Policy 2012. Development costs exceeding $15 million (or</td>
<td>Permissibility of hotel development in the CBD is dependent on the precinct in which it is located. City Planning Scheme No.2 dictates that the CBD has a strict maximum plot ratio limit. This plot ratio may be increased to 40% for providing high quality hotel accommodation, but will not surpass 50%. State Government has incentivised</td>
<td>Only the owner of a development can request a review of any decision made by the DAP. Perth City Council provides a web-based interactive mapping toolkit to help identify relevant zones and precincts in an area: <a href="http://www.perth.wa.gov.au/planning-development/planning-tools/intramaps-interactive-mapping">http://www.perth.wa.gov.au/planning-development/planning-tools/intramaps-interactive-mapping</a>.</td>
</tr>
<tr>
<td>City Planning Scheme No. 2</td>
<td></td>
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<td></td>
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<tr>
<td>Western Australia — Perth</td>
<td>City Planning Scheme No. 2</td>
<td></td>
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<tr>
<td>STATE (CITY)</td>
<td>PRINCIPAL PLANNING INSTRUMENTS</td>
<td>CONDITIONS</td>
<td>TOURISM SPECIFIC DEVELOPMENTS</td>
<td>SUPPLEMENTARY NOTES</td>
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<tr>
<td>South Australia — Adelaide</td>
<td>Development Act 1993</td>
<td>$7 million outside the City of Perth) have to be determined by the Development Assessment Panel (DAP).</td>
<td>hotel development on a case-by-case basis. Applications must still progress through the standard planning process.</td>
<td>The Planning Strategy for South Australia sets out a 30 year plan for Greater Adelaide and South Australia's direction for planning and development.</td>
</tr>
<tr>
<td></td>
<td>Adelaide (City) Development Plan</td>
<td>Local governments determine the outcome of development applications. Matters of increased complexity may be referred to an independent development assessment panel or state government Development Assessment Commission (DAC). Developments exceeding $10 million will be referred to the DAC or Inner Metropolitan Assessment Committee.</td>
<td>Hotels and tourism accommodation are envisaged land uses within the Capital City Zone. Development proposals exceeding $10 million warrant a free pre-lodgement service.</td>
<td></td>
</tr>
<tr>
<td>Tasmanina — Hobart</td>
<td>Land Use Planning and Approvals Act 1993</td>
<td>Development needs to recognise zoning and overlay controls.</td>
<td>No specific planning framework for tourist accommodation. Hotel accommodation is permissible throughout the central CBD area. Hobart CBD maximum height control of 42 meters, however permission can be obtained to increase this threshold.</td>
<td>The Hobart Draft Interim Planning Scheme 2014 has been prepared as part of a major state-wide planning reform process which brings specific planning parameters to hotel accommodation. New planning controls seeking to encourage investment in high density residential and visitor accommodation.</td>
</tr>
<tr>
<td></td>
<td>State Policies and Projects Act 1993</td>
<td>Project may be declared as state significant if there is significant capital investment or contribution to economic development.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tasmanian Planning Commission Act 1997</td>
<td>SSD to be assessed under</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Resource Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STATE (CITY)</td>
<td>PRINCIPAL PLANNING INSTRUMENTS</td>
<td>CONDITIONS</td>
<td>TOURISM SPECIFIC DEVELOPMENTS</td>
<td>SUPPLEMENTARY NOTES</td>
</tr>
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<td>---------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Northern Territory — Darwin</td>
<td>Planning Act 2009</td>
<td>The Northern Territory Planning Commission is responsible for land use plans for regions, towns and centres and devises assessment criteria.</td>
<td>The applicant has the right to review the refusal, or unacceptable conditions of a development, within a 28 day period.</td>
<td>The applicant has the right to review the refusal, or unacceptable conditions of a development, within a 28 day period.</td>
</tr>
<tr>
<td></td>
<td>Northern Territory Planning Scheme</td>
<td>There is one consistent planning approach for Darwin CBD. Strict 90 meter height limit enforced on all developments. Minimum standard scheme in operation for the supply of parking spaces.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australian Capital Territory (ACT) — Canberra</td>
<td>Planning and Development Act 2007</td>
<td>Land planning and administration based on leasehold system. All land in ACT is owned by the Australian Government. The ACT Planning and Land Authority provides planning</td>
<td>Hotels are considered permissible development with the Commercial Zones Development Code. A medium to large hotel would warrant a merit track development assessment.</td>
<td>The Minister for the Environment and Sustainable Development reserves 'call-in' powers for development application under certain circumstances.</td>
</tr>
<tr>
<td></td>
<td>National Capital Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STATE (CITY)</td>
<td>PRINCIPAL PLANNING INSTRUMENTS</td>
<td>CONDITIONS</td>
<td>TOURISM SPECIFIC DEVELOPMENTS</td>
<td>SUPPLEMENTARY NOTES</td>
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<tr>
<td></td>
<td></td>
<td>advice to the ACT Government. Developments are assessed under either a code, merit or impact track with statutory timeframes for each track.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Table reflects relevant legislation as of December 2014.
## Appendix B  Hotel development specifications and benchmarking summary

### TABLE B.1 – ASPECTS OF THE STANDARDISED CBD HOTEL AND REGIONAL RESORT DEVELOPMENTS

<table>
<thead>
<tr>
<th>HOTEL PARAMETERS</th>
<th>UNIT</th>
<th>SYDNEY</th>
<th>MELBOURNE</th>
<th>BRISBANE</th>
<th>PERTH</th>
<th>ADELAIDE</th>
<th>HOBART</th>
<th>CANBERRA</th>
<th>DARWIN</th>
<th>GBR</th>
<th>GOR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Building characteristics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site area</td>
<td>sqm</td>
<td>1,750</td>
<td>1,750</td>
<td>1,750</td>
<td>1,750</td>
<td>1,750</td>
<td>1,750</td>
<td>1,750</td>
<td>1,750</td>
<td>30,133</td>
<td>11,950</td>
</tr>
<tr>
<td>Above-ground Levels</td>
<td>no.</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total levels including basement parking</td>
<td>no.</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Height</td>
<td>metres</td>
<td>49.3</td>
<td>49.3</td>
<td>49.3</td>
<td>49.3</td>
<td>49.3</td>
<td>49.3</td>
<td>49.3</td>
<td>49.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Gross Floor Area (GFA)</td>
<td>sqm</td>
<td>19,295</td>
<td>19,295</td>
<td>19,295</td>
<td>19,295</td>
<td>19,295</td>
<td>19,295</td>
<td>19,295</td>
<td>19,295</td>
<td>9,040</td>
<td>5,975</td>
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<tr>
<td>FSR</td>
<td>ratio</td>
<td>8.5</td>
<td>8.5</td>
<td>8.5</td>
<td>8.5</td>
<td>8.5</td>
<td>8.5</td>
<td>8.5</td>
<td>8.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Development cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hard costs</td>
<td>$ million</td>
<td>84.4</td>
<td>75.3</td>
<td>71.5</td>
<td>89.3</td>
<td>81.6</td>
<td>79.2</td>
<td>88.5</td>
<td>79.2</td>
<td>43.4</td>
<td>10.7</td>
</tr>
<tr>
<td>Professional fees, statutory charges &amp; other costs</td>
<td>$ million</td>
<td>17.0</td>
<td>15.9</td>
<td>17.1</td>
<td>16.12</td>
<td>15.02</td>
<td>14.81</td>
<td>16.54</td>
<td>14.15</td>
<td>8.72</td>
<td>2.5</td>
</tr>
<tr>
<td>Finance</td>
<td>$ million</td>
<td>19.6</td>
<td>17.6</td>
<td>17.1</td>
<td>20.4</td>
<td>18.7</td>
<td>18.2</td>
<td>20.3</td>
<td>18.1</td>
<td>4.9</td>
<td>822.9</td>
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</table>


<table>
<thead>
<tr>
<th>CITY/REGION</th>
<th>APPROVAL TIMEFRAMES</th>
<th>DIRECT REGULATORY COSTS</th>
<th>TOTAL REGULATORY COSTS</th>
<th>HOLDING COSTS OF LAND</th>
<th>NO. OF REGULATORY AGENCIES</th>
<th>TOTAL DEVELOPMENT COSTS</th>
<th>APPROX. SITE COSTS</th>
<th>COMPARATIVE REGULATORY COSTS % of development costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney (one stage)</td>
<td>51</td>
<td>389,620</td>
<td>2,139,620</td>
<td>1,273,588</td>
<td>14</td>
<td>142,023,227</td>
<td>21,000,000</td>
<td>1.51%</td>
</tr>
<tr>
<td>Sydney (two stage)</td>
<td>87</td>
<td>471,265</td>
<td>2,021,265</td>
<td>2,775,657</td>
<td>21</td>
<td>142,023,227</td>
<td>21,000,000</td>
<td>1.42%</td>
</tr>
<tr>
<td>Melbourne</td>
<td>35</td>
<td>116,130</td>
<td>212,451</td>
<td>585,423</td>
<td>11</td>
<td>122,738,889</td>
<td>14,000,000</td>
<td>0.17%</td>
</tr>
<tr>
<td>Brisbane</td>
<td>35</td>
<td>100,540</td>
<td>3,493,153</td>
<td>570,950</td>
<td>15</td>
<td>119,717,155</td>
<td>14,000,000</td>
<td>2.92%</td>
</tr>
<tr>
<td>Canberra</td>
<td>26</td>
<td>242,043</td>
<td>1,234,287</td>
<td>211,125</td>
<td>15</td>
<td>132,382,033</td>
<td>7,000,000</td>
<td>0.93%</td>
</tr>
<tr>
<td>Hobart</td>
<td>30</td>
<td>10,400</td>
<td>258,515</td>
<td>127,334</td>
<td>5</td>
<td>115,744,533</td>
<td>3,500,000</td>
<td>0.22%</td>
</tr>
<tr>
<td>Darwin</td>
<td>29</td>
<td>74,650</td>
<td>189,081</td>
<td>115,940</td>
<td>14</td>
<td>114,962,656</td>
<td>3,500,000</td>
<td>0.16%</td>
</tr>
<tr>
<td>Adelaide</td>
<td>29</td>
<td>197,546</td>
<td>503,387</td>
<td>253,620</td>
<td>15</td>
<td>122,336,544</td>
<td>7,000,000</td>
<td>0.41%</td>
</tr>
<tr>
<td>Perth</td>
<td>25</td>
<td>469,574</td>
<td>469,574</td>
<td>153,674</td>
<td>10</td>
<td>131,098,072</td>
<td>5,250,000</td>
<td>0.36%</td>
</tr>
</tbody>
</table>

The 'accommodation component of the Sydney hotel is assumed to be less than $100 million, with the balance accounted for by retail, food services etc.

Note: GBR = Great Barrier Reef, GOR = Great Ocean Road (Corangamite)
Source: Rawlinsons Australian Construction Handbook, Urbis
<table>
<thead>
<tr>
<th>Regional resort developments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Great Barrier Reef</strong></td>
<td>136</td>
</tr>
<tr>
<td></td>
<td>$366,444</td>
</tr>
<tr>
<td></td>
<td>$62,042,044</td>
</tr>
<tr>
<td><strong>Great Ocean Road</strong></td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>$75,143</td>
</tr>
<tr>
<td></td>
<td>$16,988,549</td>
</tr>
</tbody>
</table>

Source: Urbis estimates
Appendix C  The Australian hotel market: 2014 review

RECENT TRANSACTIONS IN THE HOTEL MARKET

In 2013, there were a record number of hotel transactions. The transfer of 41 major hotel assets involved total transactions of around $2.2 billion, an increase of 39% on the previous year. The 2014 average, while lower than the previous two years, remains above the 10 year average of $1.1 billion. So far this year, the total value of hotel transactions primarily comprises several large transactions, such as the Lend Lease built International Convention Centre, the Sofitel Wentworth, and Brookfield’s ongoing piecemeal sale of its $600 million hotel portfolio. A summary of recent hotel transactions is provided in Table B.1.

Australian hotel sales are expected to reach $1.5 billion by the end of the calendar year 2014. The vast majority of hotel sales are the result of offshore investment. In the last financial year, around 96% of investment for hotels exceeding $20 million originated from offshore sources. Domestic investment made up 66% of sales under $20 million. Table B.2 summarises the hotel sale environment.

Demand for hotel accommodation is outpacing the available supply of rooms in most major cities in Australia. This is having a favourable economic effect on the market conditions for hotel development. In 2013, 12,000 new rooms were added to the supply pipeline which amounted to $7.4 billion invested. It should be noted, however, that a number of projects are yet to progress beyond the planning stages. Table B.3 provides a select summary of approved hotel development projects across Australia.

TABLE B1 – HOTEL SALES 2014

<table>
<thead>
<tr>
<th>HOTEL</th>
<th>DATE SOLD</th>
<th>TYPE</th>
<th>LOCATION</th>
<th>COMPANY BUYING</th>
<th>SIZE</th>
<th>TRANSACTION ($M AUD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheraton on the Park</td>
<td>TBC</td>
<td>Luxury Five Star</td>
<td>Elizabeth Street, Sydney</td>
<td>Starwood Group (US)</td>
<td>557</td>
<td>400 - 450</td>
</tr>
<tr>
<td>Sofitel Sydney Wentworth</td>
<td>2014</td>
<td>Luxury Five Star</td>
<td>Phillip St, Sydney</td>
<td>Fraser Property Group (Singapore)</td>
<td>436</td>
<td>202</td>
</tr>
<tr>
<td>International Convention Centre Hotel</td>
<td>2014</td>
<td>Luxury Hotel</td>
<td>Darling Harbour, Sydney</td>
<td>Schwartz Family Company (Australia)</td>
<td>600</td>
<td>368</td>
</tr>
<tr>
<td>Blue Sydney</td>
<td>2014</td>
<td>Luxury Hotel</td>
<td>Woolloomooloo, Sydney</td>
<td>Ovolo (HK)</td>
<td>100</td>
<td>35</td>
</tr>
<tr>
<td>HOTEL</td>
<td>DATE SOLD</td>
<td>TYPE</td>
<td>LOCATION</td>
<td>COMPANY SELLING</td>
<td>SIZE</td>
<td>EXPECTED TRANSACTION ($M AUD)</td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
<td>------</td>
<td>----------</td>
<td>-----------------</td>
<td>------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Park Hyatt</td>
<td>2014</td>
<td>Luxury Five Star</td>
<td>Melbourne</td>
<td>Fu Wah International Group (China)</td>
<td>240</td>
<td>135</td>
</tr>
<tr>
<td>Oaks on Lonsdale</td>
<td>2014</td>
<td>Serviced Apartments</td>
<td>Melbourne</td>
<td>Ovolo (HK)</td>
<td>148</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Various publicly available resources

TABLE B2 – HOTEL SALES IN THE PIPELINE

<table>
<thead>
<tr>
<th>HOTEL</th>
<th>DATE OF OPENING</th>
<th>TYPE</th>
<th>LOCATION</th>
<th>COMPANY</th>
<th>SIZE</th>
<th>VALUE ($M AUD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheraton Mirage Resort</td>
<td>TBC</td>
<td>Luxury Five Star</td>
<td>Gold Coast</td>
<td>Pearls Australasia (India)</td>
<td>296</td>
<td>Approx. 170</td>
</tr>
<tr>
<td>Brookfield Portfolio</td>
<td>TBC</td>
<td>Mix</td>
<td>Brisbane, Melbourne, Sydney, Gold Coast, Wollongong</td>
<td>Brookfield (Canada)</td>
<td>1,650</td>
<td>Approx. 600</td>
</tr>
<tr>
<td>The Holiday Inn</td>
<td>TBC</td>
<td>High End</td>
<td>Mascot, Sydney</td>
<td>Schwartz Family Company (Australia)</td>
<td>250</td>
<td>Approx. 60</td>
</tr>
<tr>
<td>Sheraton Noosa Spa</td>
<td>TBC</td>
<td>Luxury Five Star</td>
<td>Noosa, Gold Coast</td>
<td>Valad (Australia)</td>
<td>176</td>
<td>Approx. 100</td>
</tr>
</tbody>
</table>

Source: Various publicly available resources

TABLE B3 – HOTEL DEVELOPMENTS PIPELINE

<table>
<thead>
<tr>
<th>HOTEL</th>
<th>DATE OF OPENING</th>
<th>TYPE</th>
<th>LOCATION</th>
<th>COMPANY</th>
<th>SIZE</th>
<th>VALUE ($M AUD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Four Points by Sheraton Melbourne Docklands</td>
<td>2017</td>
<td>Mixed-use</td>
<td>Docklands, Melbourne</td>
<td>Hiap Hoe (Singapore)</td>
<td>269 Rooms</td>
<td>500</td>
</tr>
<tr>
<td>W Melbourne</td>
<td>2016</td>
<td>Five star Hotel and Apartment</td>
<td>Bourke Street, Melbourne</td>
<td>Jinshan Investments</td>
<td>205 Rooms, 145 Apartments</td>
<td>180</td>
</tr>
<tr>
<td>Ibis</td>
<td>2016</td>
<td>Budget Hotel</td>
<td>Elizabeth Street, Brisbane</td>
<td>Action Hotels (Dubai)</td>
<td>368 Room</td>
<td>90</td>
</tr>
</tbody>
</table>
HOTEL MARKET TRENDS

- Most leisure markets (particularly those with a higher proportion of inbound visitors) have seen a gradual improvement in trading conditions over 2014. Purchasers are continuing to take a medium term view as to a likely recovery in the trading profile and improvement in profitability of assets in these markets, with stabilised yields and Internal Rates of Return (IRRs) reflecting longer term trends. (Colliers International 2015)

- A higher Australian dollar and strong overseas competition (such as the increasing availability of cheap airfares from low cost air carriers) have made overseas holiday destinations comparatively cheaper than domestic destinations. This trend is evident in overseas departures and arrivals data (ABS cat no. 3401.0) which indicates marked increases in residents departing to foreign holiday destinations. However, growth in international arrivals, in particular from China (which is now considered to be one of the most important markets for Australian tourism) has helped to make up for the domestic tourism shortfall.

- Tourism Research Australia (TRA) is forecasting an average 4% growth in overseas visitor arrivals for the next 10 years.

- International tourists are estimated to account for around 38% of tourism industry revenue, and this is expected to grow significantly over the next five years driven by increasing tourist arrivals from China and emerging markets in Asia. Continued development in its middle class and its preference for higher-end product and services should provide increasing opportunities for Australia’s hotels and resorts. In addition, as business conditions continue to steadily improve around the country and internationally, it should lead to increasing demand for hotel accommodation due to a pick-up in business travel. (Tourism Australia 2011)

- Jones Lang LaSalle reports Australia’s hotel development pipeline is at a decade high. Supply is expected to grow at an average rate of 2.6% per annum to 2016.

- Dransfield reports FY2014 RevPAR (revenue per available room) growth of 5.5% is expected, driven by limited immediate supply and continued recovery of its leisure market. Over the medium (FY2014-17) and longer term (FY2014-22), it is expected to grow at 5.5% and 3.9% respectively. In addition, average occupancy rates across the nation were 75.4% in April 2014, up slightly from 73.4% 12 months earlier.

- Jones Lang LaSalle reports the gap between building costs growth and hotel values has narrowed, but still persists. Savills reports that hotel development is now becoming much more viable, with the emergence of modular construction resulting in reductions in development costs and timeframes, or where hotels are constructed as part of a mixed use scheme to offset the hotel development costs.

- Foreign investment for Australian hotels remains strong with $1.8 billion of transactions of the last 12 months.
References


Tourism Australia, 2011, *2020 Tourism Industry Potential: A scenario for growth*


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