HOTEL INSIGHTS
A quarterly digest of key trends in the hospitality sector
Welcome to the Q1 2019 edition of Colliers Hotel Insights, our quarterly magazine for hotel and other accommodation stakeholders across Asia. This edition features key destination trends across Asia, a highlight of key industry disruptors, and a technical section. We also provide insights and opinions on topical issues within the gaming and leisure sectors.

Hotels across Asia Pacific have had a mixed performance to 2018, with overall room occupancy and average daily rate (ADR) showed a slight increase at 70.6% and US$102.47, respectively. This resulted in RevPAR for the region showing growth of some 1.5% for the year. However, we note this figure may have well been improved given ADR would have been negatively impacted by forex currency movements rather than economic fundamentals. In terms of room occupancy, Bali, Beijing, Delhi-NCR, Jakarta, Mumbai and Taipei were the stand out performers, with year-on-year growth in excess of 2%, according to STR. Hanoi, KL, Osaka, Phuket, Sanya and Shanghai being the worst performers.

In local currency terms, Bali, Beijing, HCMC, Hong Kong, Phuket and Sanya, all witnessed increases in excess of 7% in terms of ADR. Kuala Lumpur, Osaka, Phuket, Sanya and Shanghai being the worst performers.

Recent escalation in the trade dispute and political impasse between the USA and China is likely to weigh on business and consumer confidence, thereby tempering future demand growth. This will be combined with potential movements in forex, with some destinations likely to benefit at the expense of others. However, intra-Asia and growing domestic travel in the larger destinations across Asia, is likely to continue to underpin demand in the region.

On that note, good reading!
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HOTELS OPINION

Expect the unexpected in 2019

Our specialists take on key trends to expect in 2019

As mentioned in our foreword, 2018 wrapped up with a mixed performance across destinations. Natural disasters, absorption of new supply, political fallouts and a growing middle class across the region all had an impact. We have provided our forecasts for 2019 in our Q3 publication, with this set to be another mixed year. As extenuating factors continue to prevail on the industry, hoteliers are having to constantly evolve their offering to stay relevant and ahead of the curve. Yes, Asia is still a long way off meeting its maturity in terms of tourism, which owners and investors in the region can take note of.

So what is our take on the key trends to expect in 2019?

> **Japan** – gets the opportunity to hold a preview to the Olympics in 2020 as it hosts the Rugby World Cup between September and November. It will be interesting to see how host cities manage accommodation requirements and the fall out after the tournament is held. This could provide a dry run, though on a much smaller scale, to the Olympics and show what the legacy could perhaps hold.

> **Technology** – is at the forefront of thoughts with the use of AI and more automation being introduced in a very service-led environment. Whilst we applaud this, and in some cases it is a needs-must situation, it would be interesting to see how tech evolves to put the guest first, rather than making it fit the task. After all service is what the industry is built on. We expect more apps and continued revamping of hotel own websites.

> **Loyalty programs** – have begun their re-invention. Having studied a number of these in the past, it seems that hoteliers are finally using this to drive their business on two fronts: encouraging more direct bookings, and rewarding loyalty.

> **Continued brand proliferation** – we expect more international and home-grown brands to continue to grow their presence aggressively across Asia. As the concept of the Hotel Management Agreement (HMA) becomes more prevalent, and investors having bought brands at high valuations need to have a return on capital – expect a push for strong pipeline growth and competition.
What to expect in 2019

Our specialists take on key trends to expect in 2019 (cont’d)

> **Branding and market positioning** – lifestyle, economy, hostels and hotels that can cater to Gen Z. Those will be the key opportunities in an increasingly crowded market where product differentiation, service, and pricing are key determinants for attracting and retaining guests.

> **Key markets** – emerging vs mature. What are the next frontiers? Given high valuations, we expect investors to continue to turn to development projects given the potential for much high returns. Whilst more established markets remain relatively illiquid, offering low yields, investors are prepared to accept more risk in emerging markets with strong medium to long term economic fundamentals. In addition, governments across the region continue to push tourism as a quick win to earn much needed foreign currency and stimulate local economies.

> **India** – is India finally ready to emerge as a major source market following the rapid rise of China’s middle class? As more Indians return home, and reforms continue to push the population out of the middle class trap, we would expect this market, especially given its size and potential per capita spend per tourist, to increase rapidly should India become freed from its middle income dilemma.

> **Capital markets** – will investors continue to drive yields lower across the region? We will take a look at this in our Hotel Investment section.

> **Of geo-politics and grey rhinos** – political posturing, the divergence of western and eastern economies, mature and emerging, will continue in 2019. Investors will need to drown out the noise, with analysts perhaps starting to move away from ‘herding’ in their outlooks. Brexit, the slowdown in the West and China, with their inherent risks, could also well provide opportunities for those with equity, even as the cost of debt remains at some of its lowest levels.

On that note, prepare for another ride in 2019!
Airbnb – Friend or foe?

Airbnb defined

Airbnb is an online community marketplace that bridges people looking to rent out their homes with people seeking accommodation. Airbnb started off in 2008 primarily as a couch-surfing site for people to make some extra cash renting out a spare room and over the years, it has transformed and grown its appeal from budget-minded tourists to savvy business travellers. According to Airbnb, it currently has over 5,000,000 listings for lodging available across 81,000 cities in 191 countries. We note that listings can operate in so called grey areas in many jurisdictions, not least Singapore!

So what is the impact?

So what has been the impact on hotel performance? So far the evidence has been conflicting with parties putting forward reports to support their agenda. In our opinion, the impact can and will vary from destination to destination, and indeed the fundamentals of those particular markets. A good analogy will be with how ride-sharing firms have fared. Evidence suggests that in ‘imperfect’ markets that are usually union or driver led, alternatives that are more consumer friendly are quickly seized upon. Further, where there is already high demand but controlled quality supply, again this environment can be conducive for disruptors. The same applies to Airbnb and its success or not in various markets.

Although there are no available official statistics for the region of Asia released by Airbnb, multiple sources showed that a higher proportion of travellers are gravitating towards Airbnb in mature markets within Asia. In Singapore, the proportion of visitors opting for alternative types of accommodation increased from 19.0% in 2015 to 26.6% in 2017 whereas 20.4% of tourists in Japan utilised Airbnb lodging services compared to only 15.4% in 2016. It is important to note that both of these mature markets have high room occupancy and ADR year-round, and both have or are in the process of tightening legislation around the use of residential units for short-stays.

The impact on hotels in emerging markets was not as severe in comparison. In Thailand, Airbnb welcomed only 1.7 million guests, which is only a mere 4.8%, out of the total number of 35.4 million tourists in the year of 2017.

The key reason for the discrepancy for the magnitude of impact between mature markets and emerging markets is the price difference between hotel rooms and Airbnb rooms. In key mature markets such as Seoul, Tokyo and Melbourne, Airbnb listings are approximately 49% cheaper than the average daily hotel rates. For example, in Tokyo, Japan, a night’s stay at a hotel will set one back an average of US$220 per night while a comparable Airbnb room will cost less than half of that at about US$93 per night. This translates to significant savings of US$127.

The savings for an emerging market like Bangkok pales in comparison with only US$15 per night as hotel room rates are only marginally higher. Thus, tourists are still likely to stick to traditional hotel options due to the amenities, safety, convenience as well as reputation that hotels bring about.

Apart from offering a more competitive price point, Airbnb has also been actively making its move to extend its pool of target audience to include business travellers since 2015. Its traditional target has been leisure travellers. David Holyoke, Airbnb’s global head of business travel, recognises that there is untapped potential in business travel, especially within Asia. Statistics from Airbnb show that corporate bookings within Asia grew by 5.0 times between 2016 and 2017 which is higher than the global average of 4.3 times.

It is wooing business travellers in Asia by developing a search feature that filters out accommodation that are “business travel ready”. For a property to be listed under that category, it must meet certain criteria such as having a 24-hour self-check-in system, wireless internet and a workstation.

This would be appealing to Asia’s business travellers as most see overseas business trips as a perk and will be twice as likely to extend their trips for leisure. This ties in perfectly with the whole Airbnb experience where they get to experience life like a local.
How can hotels be more competitive?

While it would be almost impossible for majority of hotel chains to rival the affordability and personalised experience by Airbnb, hotels do have certain advantages over a typical Airbnb listing.

One aspect that hotels have an edge over is in terms of amenities. Hotels have a wide range of amenities such as restaurants, bars, spas, gyms and function rooms onsite. The ease of access to such amenities would be what certain travellers are looking for.

However, the biggest advantage that hotels have is the structured services it provides. Guests can walk into a hotel knowing exactly what is being offered due to the standardised service provided. Hotel staff are on duty round the clock to tend to their needs and requests. Getting a fresh towel or a change of sheets in the middle of the night would not be an issue. This convenience ensures a comfortable and luxurious experience every single time. In contrast, the Airbnb accommodation quality is highly reliant on each individual host.

Apart from leveraging on their strengths, Hotels should take a leaf out of Airbnb’s book in going the extra mile to offer a degree of personalisation for guests. A simple checklist could be done during the booking process to understand the taste and preference of the guest. The room can then be customised accordingly. Insider tips should also be provided to ensure guests have an authentic and local experience.

Friend or foe, like online travel agents, Airbnb is here to stay. The advantage is knowing that its formula will only be successful in markets that are either mature or imperfect.
DESTINATIONS OF THE QUARTER

Vientiane

Laos, in its true nature, quietly makes it onto tourism investment radar

Officially known as the Lao People’s Democratic Republic, Laos is strategically located in the centre of Indochina and Southeast Asia and is mostly regarded as an “add-on” destination from its neighbouring countries. In recent years, the economy of Laos has performed relatively well, with GDP growth averaging circa 7.5% for the last five years. The economy is set to grow exponentially, underpinned by a high volume of activity in the construction and service sectors, healthy regional growth and strong foreign direct investment (FDI) inflows.

<table>
<thead>
<tr>
<th>Year</th>
<th>Tourist arrivals (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3.33</td>
</tr>
<tr>
<td>2013</td>
<td>3.78</td>
</tr>
<tr>
<td>2014</td>
<td>4.16</td>
</tr>
<tr>
<td>2015</td>
<td>4.68</td>
</tr>
<tr>
<td>2016</td>
<td>4.24</td>
</tr>
<tr>
<td>2017</td>
<td>3.87</td>
</tr>
<tr>
<td>2018F</td>
<td>4.93</td>
</tr>
</tbody>
</table>

Source: Ministry of Information, Culture and Tourism Laos

In 2017, Laos received some 3,868,838 international and 2,236,914 domestic visitors, experiencing an 8.7% drop in international visitors from 2016. With visitors mainly from Thailand (46.5%) and Vietnam (23%), Laos’ tourism market is mostly driven by regional tourists. As such, the stark drop in international visitors is largely due to the sharp 22% drop in its key source regional markets. Moreover, the number of European tourists has also fallen significantly by 27%, further attributing to the drop in total international visitors. Such drastic declines in numbers were mainly due to not only natural disasters, such as typhoons, drought, earthquakes and flooding, but also the lack of visa exemptions, proper road conditions, marketing efforts and direct flights to the country.

Conversely, the number of Chinese visitors has been continually rising over the years with a significant 20% increase from 2016, indicating growing interest from Chinese tourists. This is underpinned by the numerous direct flights from various Chinese cities, with the most number of flights coming in from Kunming.
Laos’s quiet capital comes to life

In 2017, Vientiane has received some 1,347,866 international visitors and 55,953 domestic visitors, experiencing a significant 18% and 14.8% dip in international and domestic visitors respectively as compared to 2016. This is mainly attributed to the numerous flooding cases which occurred in 2017, thereby heavily impacting travel booking trends.

Moving forward, ‘Visit Laos Year 2018 and Beyond’ campaign was launched in 2017 to boost tourist arrivals and create tourism awareness. Coupled with an easing of visa restrictions for several countries such as Russia, South Korea and Scandinavian countries including Denmark, Finland, Norway and Sweden and introduction of direct flight routes from Japan, Laos’ tourism is likely to bounce back and achieve its tourism goal.

Additionally, with the government measures to improve transportation networks and the upcoming China’s Belt and Road Initiative set to be operational in 2021 in Laos, this enhanced connectivity between China and Southeast Asia is set to drive the tourism market forward in the coming years.

Forecasted to reach 5 million international visitors in 2018, this is likely to decline by 6% due to the recent dam collapse and adverse weather conditions. However, with the development of public infrastructure, easing of visa restrictions and rigorous marketing campaigns, the destination is likely to bounce back quickly from this slight setback.

As of 2017, the average length of stay in Laos in general has increased to 5.2 days, as compared to the 4.78 days in 2016. The average length of stay for international visitors is 8.39 days and has generally increased over the years, as the country continues to open its doors to the rest of the world. However, the average length of stay for its key source regional markets remained at 2 days for the past few years, with the majority of regional tourists being day-trippers.

As a result, with Vientiane seen as a hub to other destinations such as Luang Prabang, the occupancy rate in Vientiane stood at 59% in 2017, a slight increase of 5.4 percentage points from the previous year.

Occupancy rates in Vientiane has reached its peak at 74% in 2015 and fallen significantly since 2016, in line with the decrease in tourist arrivals due to lack of marketing campaigns and competitive tourism in neighbouring countries.

The best available rate for luxury hotels in Vientiane ranges from USD$149 to USD$240, while Vientiane’s room supply was at 8,383 rooms, with approximately 560 rooms introduced into the supply as of 2017. The 197-room Crowne Plaza Vientiane from InterContinental Hotels Group (IHG) opened in early 2017, making it the third hotel under IHG to enter Laos. Increasingly, international hotel brands are making its way into Vientiane. This includes the 32-room President by Akaryn, Vientiane set to open in early 2019, the 250-room Holiday Inn & Suites Vientiane by IHG scheduled to open in 2019, and 160-room DoubleTree by Hilton Vientiane, set to operate in early 2020. Additionally, to target more budget-conscious travellers which are more commonly seen in Laos, more hotel brands such as COSI by Centara and Vībe Hotel by Best Western Hotels & Resorts have been introduced in Vientiane to accommodate these travellers.

With the limited hotel supply in Vientiane, there is much untapped potential as the tourism market flourishes and new hotels get absorbed into the market in the coming years. As such, although some hotel projects may not come into fruition due to limited funding and resources, the outlook of Vientiane’s hotel and tourism industry remains cautiously optimistic, as stronger marketing efforts are put in place to encourage longer stays in the country. However, hotel investments in Vientiane will still depend on wider economic issues and the infrastructure development to increase accessibility for travellers and resilience to natural disasters.
HOTEL INVESTMENT AND VALUATION

Capital markets insights

After a strong 2016 and 2017, which witnessed a number of high profile transactions, the dearth of supply meant that the 2018 transaction market was relatively subdued in comparison. Investment in the sector is expected to come in more than 25% down on 2017, as Chinese capital and pricing levels deterred investors.

In 2019, we consider this trend is likely to continue, as owners consolidate their portfolios and seek opportunistic investments as the bid-ask gap remains at historically high levels. Indeed, attention will continue to swing towards more acceptance of development risk as valuations remain high, and investors seek higher returns.

South Korea was one of the more active markets with a number of transactions by local and foreign investors in the mid-market segment, which is seen to offer more value for money. Japan also witnessed a number of transactions in its mid-market segment. In Hong Kong, the transaction market for hotels interestingly remained very much for potential conversion projects, driving prices up for sites where alternative use was preferred.

Overall, despite strong demand driven by both family offices and private equity with Asian real estate mandates, quality inventory remains scarce and thus investors with disposition scenarios in the next 12 months, should consider expediting their process in order to take advantage of favourable market conditions, especially as the outlook for increases in interest rates remains high.

Continuous investment into asset class by institutional investors and the dearth of assets being sold show that yields have been low and are expected to remain low, at least until interest rates increase significantly. In addition, sites that have potential alternative use will continue to depress yields derived on hotel income.

Our broad outlook for cap rates in 2019 remains largely flat with emerging markets compressing, and mature destinations remaining at low levels:

> Stable cap rates outlook – Japan, China Tier 1, Singapore, Hong Kong, Thailand, Cambodia, Indonesia, Macau, Thailand
> Compressing cap rates outlook – Vietnam, Taiwan, India, Philippines, South Korea
> Widening cap rates – Myanmar, China Tier 2 and 3, Mongolia

Recent notable transactions

In this quarter, most of the transactions across Asia were in gateway cities, where investors remain very active.

<table>
<thead>
<tr>
<th>Hotel</th>
<th>Location</th>
<th>Value per room (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ascott Raffles Place</td>
<td>Singapore</td>
<td>1.5 million</td>
</tr>
<tr>
<td>Hong Kong (redevelopment)</td>
<td>Wan Chai</td>
<td>1.4 million</td>
</tr>
<tr>
<td>Novotel and Mercure Stevens (LOI)</td>
<td>Singapore</td>
<td>0.9 million</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Kyun Pila and Mon State</td>
<td>0.4 million</td>
</tr>
</tbody>
</table>

Source: Colliers Research.
Note: USD conversions are at time of transaction and represent approx. values.
LEISURE / CRUISE / GAMING

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Advising on life’s experiences

In a successful destination the product on offer is the experience itself. The best destinations occupy a place in people’s hearts and minds, not just terra firma. From a local attraction off the beaten track to a vast waterfront development, every destination is experienced on the same scale – by individual people making individual choices.

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> Tourism & the Visitor Economy

Recent studies

> Guggenheim Museum, Louvre Museum and Zayed Museum, UAE
> Jurassic Coast World Heritage Site, UK
> Saudi Aramco Cultural District
> Vertical Theme Park, Wuhan
> Shanghai Winterland
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NEXT QUARTER

OPINION
Hotel Feasibility Studies

DESTINATION OF THE QUARTER
> Singapore
> Kuala Lumpur

GAMING UPDATE
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