Colliers Hotel Insight
A quarterly digest of key trends in the hospitality sector

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“Looking at supply development, China’s second-tier cities are seeing higher rates of growth than the first-tier cities. This has brought both opportunities and challenges for markets in cities like Xi’an, Hangzhou, Tianjin, Wuhan and Dalian, which have seen rate declines over the past few years. Thanks to a boom in domestic leisure travel, these markets saw growth in both occupancy and rates.”

- Christine Liu, STR Global

Foreword

Welcome to our Q1 2018 edition of Colliers Hotels Insight, our quarterly magazine specifically for hotel and other accommodation stakeholders across Asia. This edition features key trends in various destinations 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 start to 2018, with room occupancy levels showing a modest increase of 1.5% year to date February, when compared to the previous period. This increase however, came at the expense of ADR which retreated by 4.5%, led mainly by Central and South Asian properties. Bali, Hanoi, Manila, and Seoul all witnessed sizeable drops in RevPar. Whether this sets the scene for the remainder of 2018 remains to be seen given the short time line. It is also interesting to note the negative impact the Winter Olympics had on occupancy levels at hotels in Seoul.

Supply growth in destinations across Asia is likely to continue to weigh on performance, and especially ADR growth. Bali, Jakarta, Shanghai and Guangzhou are some of the destinations expected to witness significant new additions in the coming years.

Recent sabre rattling between the USA and China is likely to weigh to some degree on business and consumer confidence, thereby tempering demand growth especially if it escalates. However, intra-Asia travel and the growing domestic markets in a number of the larger destinations across Asia, is likely to continue to underpin demand.

On that note, hoteliers and their marketing teams should be considering spending some more of their budgets on the Asian and domestic markets – markets that, if handled correctly, can lead to sustained levels of repeat and referral business.
Colliers Hotels

Colliers International launched its specialised hotels division in 1985. Today we provide expertise in capital valuations, management agreements, rental advisory feasibility studies, asset management and transaction advisory services, as well as brokerage across Asia Pacific. Our dedicated hotel specialists are based in Australia, Hong Kong / China, India, Singapore and Thailand.

We regularly act on behalf of major institutional property owners / funds for their valuation needs, from single strata units to composite developments and golf courses. For all valuation purposes, including IPOs, listings, acquisitions, disposals and mergers.

Our multi-lingual and multi-cultural team comprised of highly qualified professionals will help clients achieve their real estate goals. Colliers’ professionals have extensive operating and consulting experience in the hospitality industry across the major asset classes, which provides clients with extraordinary value and a single point of contact, through timely, relevant and forward-looking advice. This global division has exceptional relationships with investors worldwide, required for the timely and effective sale of assets. In addition, they have worked with a wide range of clients including corporate hotel clients, private equity, sovereign wealth funds, independent owners, REITS, governments, and banks.

Our Services

Whether you are a startup or well-established owner, developer or investor, we will help you go through the business life cycle by providing specialised, value-added advices that are tailor-made to your specific needs:

- Market Demand and Feasibility Studies
- Valuations – Property and Business
- Plant and Machinery Valuation
- Impairment Testing
- Capital Markets
- Due Diligence
- Internal Business Reviews
- Operator Search and Select
- Benchmarking and Forecasting
- Growing the business: extensions, refurbishments, brand roll out and expansion
- Asset Management
- Business Restructuring – opco / propco
- Needs Analysis / Economic Impact Studies
- Highest and Best Use / Concept Designs
- Transaction Advisory, IPO and REITS listing
- Management Agreements and Lease Reviews
- Litigation Support and Dispute Resolution Project Management and Leasing
- Tourism Strategy and Master Planning
Hospitality Track Record

Our track record includes all main asset types from hotels to resorts, heritage properties, serviced apartments, vacation homes, casinos, theme parks, spas, and golf, all being completed projects or new developments. Our specialised sector expertise includes:

> Hotels and Resorts
> Golf
> Casinos and Racecourses
> Health and Fitness
> Spas and Wellness Facilities
> Meetings and Events
> Mixed-use Developments
> Travel Trade
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Hotel Trends

High-end restaurants and hotels. Do they fit?

As a combination of wanting to be seen apart from competitors and to create an aspirational ‘destination’, or even as a ‘nice to have’ concept, owners and operators are increasingly viewing high-end restaurants as a core offering. High-end restaurants i.e. those that have a celebrity chef or are Michelin starred are being more commonly used as a parameter on whether the restaurant is worth a visit or a detour. In this article, we will discuss if high-end restaurants and hotels complement each other and if the synergy between both has a significant impact on a hotel’s overall competitive position.

For a start, being a ‘Michelin starred’ restaurant means that they have quality, mastery of technique, personality and consistency in their food. From this alone, we can see that there are several benefits in having a high-end restaurant in the upper upscale & luxury segments of the hotel industry.

Quality of food – Always executing a dish to perfection, Michelin starred restaurants often get ingredients from the finest and freshest sources. Guests who can distinguish the difference in quality will be attracted to hotels, with the convenience of having such a restaurant on their doorstep. This in itself crafts an unique experience to the diner and customer satisfaction is achieved as it exudes an experience that radiates originality and personality.

Brand – When a restaurant is awarded a Michelin star, they already have a perceived brand attached to them. If the hotel focuses on the guest’s experience, they could stand out against freestanding restaurants. This could potentially increase the number of returning lunch and dinner patrons during the peak hours, or even during the off-season period. The image of the hotel will also improve and occupancy rate and revenue will follow suit. As guests may choose to stay in the hotel based on its reputation as a centre for culinary excellence, this plays an important role in maintaining guestroom occupancy. Indeed, some hotels are based around food with rooms being the ancillary offering – take Relais & Chateaux for example.

Marketing – If an existing high-end hotel would like to add their own restaurant to the same standard of a Michelin starred restaurant, this will take up much time and a considerable amount of capital due to the intensive marketing and other efforts involved. This could be in the form of promotions or advertising campaigns which could affect profit margins. If the same space is leased out to a Michelin starred restaurant instead, they would not only generate rental income, but also gain ‘free’ promotion as having the label that means world-wide recognition for creating meals of exceptional standards, attached to the hotel. This will in turn reduce the hotel’s operating costs.

However, as much as we see many positive sides of this combination, this does not necessarily equate to profitability. In fact, hotel restaurants are generally at risk of running at a loss if they do not have a constant flow of customers. While customers may appreciate the quality of the food served, one critical attribute of successful hotel restaurants is their ability to appropriately respond to the changing needs of the market while maintaining a profitable operation. This may well mean the food and pricing must match the aspirations of the local market.

It must be remembered, the cost of running a Michelin starred restaurant is high, with food costs taking up a large portion as only top-quality ingredients are being used in the process. This excludes rent and payroll which eats into profits as well. As such, the profit margins of celebrity chef or Michelin starred restaurants in high-end hotels tend to be in the range of 5-10%. Moreover, hotels that allow chefs to take a cut of the revenue will only see this thin profit margin reduce even further.

In summary, although having a celebrity chef working or a Michelin starred restaurant situated at a high-end hotel can be a marketing tactic, hoteliers must be aware that underlying profits margins could diminish as high overhead costs are inevitable. In short, hotel restaurants must stay abreast of industry trends and seek fresh and distinctive ideas to adapt into their own hotels while consistently make an effort to control their costs. This may well mean just recruiting a good Executive Chef and offering a unique fine dining experience, which in turn may well be more profitable in the long run.
China – the rising demand for hotels

Recent data from STR Global saw China’s RevPAR grow by 5.6% in 2017 when compared to the previous year. This was mainly due to a slowdown in new supply as the market absorbed existing properties, which allowed occupancy and ADR levels to grow. So, what is driving this performance, and is it sustainable?

China, is currently one of the fastest expanding economies in the world, and has seen tremendous growth in GDP, averaging 7.1% for the five-year period to 2017. This was mainly driven by manufacturing and state investment, particularly in infrastructure, and more recently, a rebalancing of the economy towards consumption. The infrastructure investment action plan alone included 303 projects covering railways, highways, waterways, airports and urban rail transit, with 131 projects in 2016, 92 projects in 2017 and 80 projects in 2018. By 2020, investment in tourism is expected to grow to over RMB 2 trillion.

According to the UNWTO, China currently ranks fourth (2016 latest) as one of the most visited destinations, behind France, Spain and the US. As the country industrializes, China is expected to become the world’s most visited country by 2020 as tourism will become one of its primary and fastest growing economic sectors. This is in line with the State Council five-year tourism plan (2016-2020) as the country strives to develop tourism into a major factor for economic transformation and upgrades, whilst improving tourism competitiveness.

Although China witnessed a slowdown in overnight tourist arrivals between 2012 and 2014 due to the Olympic legacy, high pollution levels, food concerns and the strong yuan, tourism arrivals picked up in the last three years. This can largely be attributed to the Chinese tourism board’s promotional campaigns.

According to the China National Tourism Administration (CNTA), between 2015 (56.9 million) and 2016 (59.3 million), tourist arrivals (overnight stays) grew by 4.2%, with overnight travellers expected to increase by 3% between 2016 and 2017 to reach 62 million. Most tourists to China came from South Korea, Japan, Russia and the USA. The strong growth in tourist arrivals could be attributed to visa-free immigration rules for short visits, available to visitors from 53 different countries. In addition, increased direct flights to the country from major source market destinations such as UK, Australia, USA and Brazil have also boosted tourism levels.

China has proactively been taking measures to curb its pollution problems and increase its attractiveness as a tourism destination rich in history, culture and nature. The country is aiming to attract approximately 70.1 million overnight visitors by 2020, with inbound trips projected to grow at a CAGR of 4.3% over the forecast period (2016-2020).

Overseas visitors normally stay in China for an average of eight days. The top inbound destinations are Beijing, Shanghai, Xi’an, Guilin, Chongqing, Chengdu, Kunming, Shenzhen, Hangzhou and Sanya. Tier1 destinations are also mainly seen as large business hubs for Meetings, Incentives, Conference and Exhibitions (MICE) events, although there is an expanding leisure demand. However, whilst foreign visitation to China is significant, even more so is the size of its domestic tourism market.
In 2016, there were 4.44 billion domestic trips made, with this set to increase to 4.88 billion at the end of 2017. This is equivalent to three trips on average per person given China’s population. CAGR grew by a significant 8.5% over the last five years, underpinned by rising household income. Tourism receipts from domestic travel totalled some RMB 3.94 trillion, an increase of 15.2% compared to the previous year. Moreover, growth rates seen in tourism revenue are mostly being witnessed in provinces compared to the Tier 1 cities, indicating that the consumption from domestic travellers has improved through increased consumer confidence.

Domestic tourism has become more popular for a quick getaway as accessibility has improved. This will only grow with China’s infrastructure plan to include 303 projects (from 2016-2018) covering high-speed railways and urban rail transit which will help to support growth in domestic travelling across cities.

China’s outbound tourism has seen an increasing trend too as the growing middle class are becoming wealthier, having higher disposable income for more trips within the country, also. Although the magnitude of outbound trips is only a fraction of those inbound, outbound trips are expected to increase significantly 47.7% from 120.1 million in 2015 to 177.4 million in 2020. This bodes well for overseas destinations particularly popular with Chinese visitors.

RevPAR saw a dip of 1.4% in 2016, from RMB 352.97 to RMB 348.11, mainly underpinned by a decrease in visitation from the transient segment. Lesser group bookings were seen although group occupancy has increased slightly. Considering 2017, the recovery in RevPAR by circa 5.6% could be attributed to the overall ADR growth trend, coupled with strong occupancy aided by growth in overnight visitation. RevPAR in 2018 should also witness an upward trend, especially as China aims to drive tourism numbers by focusing on improving its travel-related products, facilities and service quality through its “all-for-one” tourism initiative.

Over the past three years, despite new supply, hoteliers have consistently witnessed occupancy levels rising with a CAGR of circa 2% recorded over the period, from 64.8% in 2015 to 68.7% in 2017. This growth in demand for hotel rooms significantly outpaced a 3.3% expansion of room supply. Although there is an overall increased demand, these numbers also suggest that some cities are not seeing the same growth as others.

There are strong levels of MICE demand as first-tier cities such as Shanghai, Beijing and Guangzhou become core international MICE destinations, with newly built exhibition centres, convention hotels and transportation systems. China usually experience a high season in April, May, September and October in terms of leisure demand.

Despite the rise in occupancy levels, China’s ADR dropped by 3.4% from RMB 544.5 in 2015 to RMB 526.4 in 2016, however this rebounded slightly up by 1.2% in 2017. Performances varied across the country, with key markets such as Shanghai, Beijing, Dalian, Xian, Guangzhou, Tianjin, Wuhan, Sanya and Hangzhou witnessing significant growth.

We expect visitation to continue to increase steadily over the next few years, as China continue to strengthen ties through the Belt and Road Initiative. Future performance is likely to be impacted by the economic performance of its own domestic market, currency exchange movements and consumer sentiment.

As China strengthens its regulatory practice on foreign investments by private firms, interest in hotel investment within China is likely to grow as Chinese investors are eyeing local investment opportunities to continue expanding the market. Investors will have more opportunities in Tier-2 cities, such as Hangzhou or Suzhou, where pricing will be more competitive as compared to Tier-1 cities.
It is also more common to see domestic operators acquiring hotel management contracts from international brands to achieve higher brand recognition and deeper local expertise. One of such example will be the Beijing Wanda Sofitel, which was rebranded as Wanda Vista Hotel.

The initial yield outlook for hotel investment remains stable and at moderately high levels. We expect the four-star and below market segments to offer good opportunities, as demand in this sector will likely continue to grow. As new hotel supply continues to rise, together with strong demand and infrastructure upgrades across the country, China should see a significant number of hotel transactions in the coming years.
Destination of the quarter – Singapore

Tourism arrivals in Singapore are expected to grow by circa 4% in 2018 following a relatively strong performance in 2017. In 2018, visitor arrivals are expected to reach 18.1m, with a further 3% forecast for 2019. This is a robust performance after the stagnant figures in 2015, and strong growth in 2016, and is mostly underpinned by an increase in visitation from North and South Asia, and in particular China, Indonesia and India. This growth represents a compound annual growth rate (CAGR) of 4.03% between 2011 and 2018f. Over the period, the average length of stay at circa 3.5 days has remained relatively constant. However, total visitor stays (what really matters to hotels), grew by a CAGR of 2.37%. This suggests that there is an increasing day tripping trend, and this is perhaps not surprising given the relative high costs of staying in hotels in Singapore i.e. if you can find one!

A closer look at the trends suggests that whilst visitation is up, average spends has remained relatively constant from 2011 to 2015. Total tourism receipts in 2011 was S$22.3bn. In 2015, this had shrunk to S$21.8bn, a CAGR decrease of 0.45% for the period. This decline in spend is perhaps mostly reflected on the high streets where retailers are experiencing a drop. It also highlights the impact the change in foreign currency can have. Indonesia and Malaysia, which are two of the largest source markets to Singapore, have experienced significant declines in their currencies. This has resulted in an erosion of disposable income, and therefore a reduction in spending. As a result, tourism receipt per capita decreased from S$1,691 in 2011, to S$1,430 in 2015, a drop of 15.4%. However, tourism receipts started to rebound in 2016, increasing by a whopping 8% into 2017, with this forecast to grow by another circa 3% in 2018 mainly attributed to higher spending in sightseeing, entertainment, gaming and shopping for health and wellness products. The increase in tourism receipts was also boosted by more tourist arrivals from high-spending markets such as China, South Korea, the US and the United Kingdom.

According to the Singapore Tourism Board (STB), circa 58% of overnight stays are in hotels, of which 47% of visitors are repeat guests. The main purpose of visit is leisure/VFR (over 57%), with circa 23% here on business/MICE visits. Considering these statistics, it suggests that Singapore still requires a significant amount of hotel rooms to accommodate its visitors, with growth in visitation being tempered by the low level of room supply especially at the mid-market to lower end. This is despite the significant increases in room supply in 2015 (over 5,500 rooms), an addition of 2,567 rooms in 2016 and that
realised in 2017 (circa 3,400 rooms). We note that new room supply in Singapore is expected to slow dramatically in 2018 (628 rooms) and 2019 (circa 1,300 rooms), which will allow the recently added rooms to be absorbed into the market.

This is borne out in hotel performance which indicates that room occupancy remains well in excess of 84% despite the new supply. In any event, a closer look at the room stock versus demand, suggest that hotels in Singapore are full almost all the time during peak periods, especially during Monday to Thursday, and Saturday nights. This suggests that there is a high degree of existing frustrated and latent demand, whereby visitors who wish to come to Singapore either cannot find rooms or have to turn to alternative accommodation providers. From our analysis, in 2011, given that 57% of overnight visitors would stay in a hotel, based on the total number of available rooms at that time would give an implied room occupancy of 121%. From the hotel statistics provided by STB, which indicates that room occupancies for 2011 was 86%, this suggests only circa 40.5% of those requiring accommodation were able to do so in a hotel.

Fast forward to 2017, which suggests that hotel room occupancies will remain at circa 85% for the year, indicates that only 43% of the 57% requiring rooms would have been accommodated. We note that the implied room occupancy for 2016 would have dropped to 112%, given the increase in new supply. We expect this to further drop to 107% in 2017 before rebounding in 2018. Perhaps it’s time to reconsider more development and investment in this sector.

Using the STB statistics, at the end of 2017, hotels in Singapore achieved a slight increase in room occupancy to 84.7%, up from the 2016 performance of 83.1%. ADR, however declined slightly to S$216, resulting in a RevPAR of S$182.61, a decrease of circa 0.2%.

According to data from STR, which collects more internationally branded hotels performance data than the STB, room occupancy of hotels was at 81.2% at the end of 2017, a 0.4% increase on the 2016 performance of 80.9%. ADR was S$269.83, down 3.2% on the 2016 performance. As a result, RevPAR was down 2.8% in 2017 at $219.93.

The decrease in tourism spend has impacted average room rates, which has dropped since 2013, as room occupancies have held up. Whilst much has been made of the impact of new room supply on the market on overall hotel performance, it is perhaps more so the inability of hoteliers to push rates up that has tempered this. Despite the increase in room supply we do not expect room occupancy rates to drop much lower, given the high level of existing frustrated demand. However, whilst we would expect ADR for hotels in Singapore to achieve some growth going forward, we would not expect this to be significant as long as the rupiah, ringgit and yuan remains relatively weak, or weaken even further.
Going forward, as tourist arrivals increase, and given a positive economic and geo-political outlook, we expect room occupancy to continue to grow slightly in 2018. As the new supply is absorbed, we would expect the discounting offered by hotels to stabilise or even reduce resulting in a slight growth in ADR thereby resulting in a RevPAR growth of circa 4% year on year.

Source: STB
China remains one of the main source markets for hotel investment across Asia. China’s decision to impose controls on outbound capital flows in 2016-2017 has had a tangible impact on real estate investment, with Chinese investment in US property decreasing and Chinese investment in Asian property increasing (albeit with a strong focus last year on Hong Kong and other gateway cities). Nevertheless, real estate remains a core investment for most Chinese investors.

Year on year, hotel transaction volume has increased by more than 10%, mainly underpinned by Dalian Wanda’s transfer of its China assets to a related party. The global hotel sector was not immune to a drop-in transaction activity, however, as the core “safe haven” markets show no signs of slowing down in the region. Singapore, Tokyo and Hong Kong assets continue to trade at compressed cap rates and record pricing despite a softening in demand and additional supply.

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 18 months, should consider expediting their process in order to take advantage of favourable market conditions, especially as the outlook for increases in interest rates remain high.

Of note, as asset prices remain high, investors are now considering taking more development risk, however, this risk must be shared with the developer who not only is required to contribute “real” equity into the project, but also to provide put options guaranteeing a mandated exit to shareholders. These terms are not new to hotel developments but becoming more common to developers looking to raise funds for emerging market projects.

### Recent notable transactions

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 at these levels, at least until interest rates increase significantly.

In 2017, 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>Hommachi Garden City (Hotel Portion)</td>
<td>Japan</td>
<td>969,866</td>
</tr>
<tr>
<td>Rosedale Hotel Kowloon</td>
<td>Hong Kong</td>
<td>772,872</td>
</tr>
<tr>
<td>Hotel Jen Upper East Beijing</td>
<td>Beijing</td>
<td>668,793</td>
</tr>
<tr>
<td>Holiday Inn Central Plaza Beijing</td>
<td>Beijing</td>
<td>659,711</td>
</tr>
<tr>
<td>W Hotel Melbourne</td>
<td>Melbourne</td>
<td>604,974</td>
</tr>
<tr>
<td>W Hotel Beijing Chang’an</td>
<td>Beijing</td>
<td>588,558</td>
</tr>
<tr>
<td>iclub Ma Tau Wai Hotel</td>
<td>Hong Kong</td>
<td>512,275</td>
</tr>
<tr>
<td>Oasia Hotel Downtown</td>
<td>Singapore</td>
<td>509,826</td>
</tr>
<tr>
<td>The Bay Bridge Hotel</td>
<td>Hong Kong</td>
<td>497,071</td>
</tr>
<tr>
<td>Newton Place Hotel</td>
<td>Hong Kong</td>
<td>495,746</td>
</tr>
<tr>
<td>Hilton Melbourne South Wharf</td>
<td>Melbourne</td>
<td>443,364</td>
</tr>
<tr>
<td>Hotel Sunroute Plaza Tokyo</td>
<td>Tokyo</td>
<td>386,538</td>
</tr>
<tr>
<td>Ascott Residence Trust China Hotel Portfolio</td>
<td>China</td>
<td>335,419</td>
</tr>
<tr>
<td>Hotel Hyundai properties</td>
<td>South Korea</td>
<td>196,930</td>
</tr>
<tr>
<td>Dalian Wanda China 74 Hotels Portfolio 2017</td>
<td>China</td>
<td>118,943</td>
</tr>
</tbody>
</table>

Source: Colliers Research. Note: USD conversions are at time of transaction and represent approximately values.
Gaming

Update on the Asian Gaming market

2017 witnessed a return to form for Asian gaming. Whilst VIP revenues have continued to witness a significant drop especially in Macau, mass market play continues to gain ground, with 2017 gross gaming revenue increasing by 19%, the first gain since 2013.

The clamp down on conspicuous spending and money laundering on Mainland China had led to a 34.3% decrease in gross gaming revenues (GGR) in Macau alone in 2015, with the VIP/junket segment being decimated. The big winner of this appears to be mainly Cambodia that has largely benefitted from the fall out in Macau, with NagaCorp, Cambodia’s largest casino in Phnom Penh, witnessing a 22% increase in profit for 2015, when compared to the previous year. The latest financial results for 2017 (Interim) shows that Naga2 continues to drive demand. As such, we expect more and more established casinos to focus more on the more lucrative mass gaming market.

Asian gaming has and continues to shift rapidly to new norms. Previous levels of frustrated and latent demand are being quickly absorbed as new supply enters the market, and as governments across Asia realize they are leaving money on the table (or giving it away in some cases) by not penetrating the gaming market, regulating and taxing it at the right levels. This, combined with slowing growth in demand, has meant that investors are no longer witnessing the eye watering returns as with previous investments and must be more discerning. The reality is that the game is changing.

The slowdown in the size of the Chinese and wider Asian gaming market was inevitable. Gaming is largely a discretionary leisure spend, and as such will be subject to cyclical events, and changes in consumer behaviour and confidence. We expect the new norm for Asian gaming to be on the idea of integrated resorts (IR) in one form or another, as this is seen as the most politically acceptable and diversified offering that can have a wider appeal. However, the region is not a one size fit all scenario and one must consider each market individually.

In our estimation, the size of the Asian gaming market, which is directly correlated with GDP growth in Asian source markets (0.91 correlation factor over last five years), is likely to slow in the short to medium term. We estimate that after a period when there was significant latent demand for gaming in the region, supply has now caught up, and the sector is relatively mature. As such, any new supply will have to be competitive and offer a unique product that can capture demand from other established destinations in the short to medium term.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Asia Pac (US$ billions)</th>
<th>Potential GGR (US$ billions)</th>
<th>Existing Asia Pac GGR (US$ billions)</th>
<th>Latent demand (US$ billions)</th>
<th>GGR as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>22,669.7</td>
<td>79.3</td>
<td>79.3</td>
<td>0.1</td>
<td>0.35%</td>
</tr>
<tr>
<td>2016</td>
<td>23,782.6</td>
<td>82.1</td>
<td>82.1</td>
<td>-</td>
<td>0.35%</td>
</tr>
<tr>
<td>2017F</td>
<td>25,714.2</td>
<td>88.6</td>
<td>85.8</td>
<td>2.8</td>
<td>0.33%</td>
</tr>
<tr>
<td>2018F</td>
<td>27,623.5</td>
<td>95.5</td>
<td>90.4</td>
<td>5.2</td>
<td>0.33%</td>
</tr>
<tr>
<td>2019F</td>
<td>29,797.9</td>
<td>103.1</td>
<td>95.3</td>
<td>7.8</td>
<td>0.32%</td>
</tr>
<tr>
<td>2020F</td>
<td>32,167.1</td>
<td>111.2</td>
<td>100.4</td>
<td>10.8</td>
<td>0.31%</td>
</tr>
</tbody>
</table>

Source: IMF WEO October 2016, PWC and Colliers analysis

We expect total gross gaming revenues to be circa US$85.8bn in 2016, following a slowdown in 2015, as new properties in Macau establish themselves. We expect gaming revenues to continue to improve from 2018 onwards in line with anticipated GDP growth for the key source markets in the region. Over time, with is likely to lead to additional levels of latent demand as new supply takes time to enter the market.

The recent announcement that Japan will be legalising gaming is unlikely to cause short term disruption at the operational level, but it may well impact decision making. However, any IR development will only likely to evolve beyond 2023, with the government, quite rightly, signalling a cautious approach in the likely number of licences to be granted in the first round. We believe Japan IR’s have the ability to be truly iconic and unique, largely tapping into the north Asia and domestic markets, with a potential market share certainly larger than Singapore’s.

We believe South Korea, with the large number of integrated resorts (IR) planned, could be in danger of...
oversupply, and in the longer term, may be exposed especially if more casinos are not allowed to offering gambling to locals. The Philippines has its inherent problems, and is very much expected to remain a mass market destination for locals. Recent press articles suggest that Vietnam is set to announce at least four multi billion-dollar IR, however, one would question the feasibility of this even if locals are allowed to gamble (it has recently been announced that two properties will be allowed to accept locals for gambling). This is especially with the increase in supply across the region, and as neighbouring Cambodia is expected to develop its own IR model, in anticipation of Vietnam legalizing locals gambling, which would significantly impact its border casinos. We believe that the true local target market for casinos in Vietnam is much smaller than anticipated at around 9 million.

A close look remains on legislation improvements in Cambodia, India, and Sri Lanka, with Nepal clearly benefiting from the proximity of the latter two markets and their restriction on gambling at the moment. Cambodia with its low-cost base and improved regulation could well offer good IR potential, especially along its south coast. However, we would not recommend more than one large IR. However, much will depend on how Cambodia approaches the issue of tax, with a tax on GGR highly recommended as this is likely to be the least subjective, and can be easily audited.

Gaming is a key driver for international visitation in the region, and if done correctly can add value to local economies, whether it be from income tax contributions, or job creation, and the multiplier effect that can have. As such, the feasibility and economic impact of new developments must be fully assessed. Governments are expected to look towards gaming to realize much needed income tax (even Cambodia, is finally considering the introduction of a structured gaming tax), and as supply catches up with demand, properties in lower cost destinations are expected to be attractive given the higher potential returns i.e. given the right infrastructure and legislation are in place.

Valuations

We expect valuations of existing properties to stabilise or fall slightly across the sector, especially as the non-renewal risks of concessions in Macau rise, and the potential for cannibalisation increases as new IRs open in the short to medium term. This is despite the rebalancing of revenue sources to more non-gaming activities. We expect the more mature destinations such as Singapore, and the older more established Macau destinations, to continue to do relatively well, albeit at a new normal.

According to analysts’ reports, currently, the valuation of the six large casinos in Macau range from 8.2 times (SJM) to 18.3 times (Sands and Wynn). We consider this reasonable albeit given the supply side risks, and significant capital requirements that will be needed for new investments. In addition, even in the heady days before 2014, valuation multiples were not as high, and we do not believe non-renewal risks are priced in, with the consensus being all existing operators will be granted extensions. But as recent activity has shown, nothing is certain anymore. Further, it is likely that the increase in the provision of non-gaming activities, may in the short term have an impact on overall profitability as these offerings establish themselves in the market place, thus impacting yields.
Colliers Hotels Valuations Service

Colliers has a rich valuation experience on multi-market portfolios across Asia Pacific. We undertake more than 250 hospitality valuations each year, including single assets and portfolios for reporting, financing and transaction advisory purposes. Our experience ranges from budget properties to ‘trophy’ assets, many of which also include mixed-use components.

We are currently engaged by a number of clients to undertake the annual valuations for their properties for reporting purposes, on a rolling basis for several years. Our close relationship with clients paired with in-depth knowledge of the local markets allow us to perform valuations accurately and effectively.

The valuation team is supported by our Research and Advisory team within the local markets. The Research and Advisory team works closely with our business service professionals, capitalising on our market expertise to provide our clients the necessary market intelligence across all markets – ranging from data collection to comprehensive market analysis, interpretation and recommendations – required to support sound and practical business decisions.

Our market insight and knowledge are our clients’ property, pivotal in accelerating their success. The overall hospitality team is part of one of the largest in Asia Pacific that performs more than 250 valuations per year in the sector, and includes professionals dedicated solely to hotels, leisure and hospitality valuation work, as well as a number of published authors in the field.

Next quarter:

Opinion – The outlook for the Malaysia hotels
Hotels - Destination of the quarter – Bangkok
Cruising – the market in the East

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