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

Inside this quarter

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Welcome to the Q2 2018 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 strong H1 2018, with room occupancy levels showing an increase of 1.2% when compared to the previous half year. This increase came with strong growth in ADR, which increased by 7.3%, led mainly by North Eastern and South Asian properties. Bangkok, Beijing, Ho Chi Minh City, Hong Kong, Kuala Lumpur, Sanya and Phuket all witnessed double digit increases in RevPAR. Whether this sets the scene for the remainder of 2018 remains to be seen given the short time line.

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 this escalates over the medium term. However, intra-Asia travel and growing domestic markets in the larger destinations across Asia, is likely to continue to underpin demand.

On that note, hoteliers and their marketing team should be considering spending 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.

We note that the Japanese government has passed its integrated resort (IR) legislation on 20 July. This paves the way for an initial three mega IRs in destinations yet to be announced. Perhaps this is Japan’s answer to its Olympic legacy?
Colliers International launched its specialised hotels division in 1985. Today we provide expertise in capital valuations, management agreement and 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 purposes, including IPOs, listings, acquisitions, disposals and mergers.

In Asia, our team of professionals provides hospitality services across Greater China, including the Mainland, Hong Kong, Macau and Taiwan, as well as Bangladesh, Cambodia, Guam, India, Indonesia, Japan, Korea, Laos, Malaysia, Maldives, Myanmar, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, and Vietnam. Our sizeable hotels, hospitality and leisure team includes senior specialists with extensive experience in the sector, giving us a unique advantage and insight.

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 start-up 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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Malaysia is one of the few countries in the world that has enjoyed a long period of sustained high economic growth. However, this has slowed in recent years due to the global economic crisis in 2009 and continued political uncertainty. According to the International Monetary Fund (IMF), from 2012 to 2015, Malaysia recorded a Compound Annual Growth Rate (CAGR) of 5% in real Gross Domestic Product (GDP) growth, higher than most countries in the region. This was primarily due to the expansion of the service sector, construction and manufacturing which all strongly contributed to Malaysia’s GDP growth. In 2016, Malaysia’s economy suffered from a decline in gas prices and weakening of exports of electronic and electrical goods.

Nevertheless, the Malaysian economy improved in 2017 as a result of a firmer commodities outlook and ongoing infrastructure investments being made. In general, Malaysia has excellent infrastructure with Kuala Lumpur International Airport being one of the world’s busiest hub airports. The proposed Kuala Lumpur-Singapore high-speed line, should it be approved, will help drive demand to the destination. Other future key development projects such as the rail connections to China are also likely to drive growth in the longer term.

Malaysia is currently the 12th most visited country in the world, and the 3rd most visited country in Asia after China and Thailand. The Malaysian government has made great efforts to ensure that tourism plays a vital role in the country’s economy. According to the World Travel and Tourism Council’s economic forecast travel, tourism directly contributed MYR65.7 billion (USD16.2 billion) to the country’s GDP equating to 4.8% of total GDP in 2017. This is expected to rise again in 2018 by a further 3.9%.

Tourism Malaysia’s extensive promotion campaign “Visit Malaysia” contributed to the 2014 international arrival numbers of the country, which achieved a record 27.4 million visitors. Impacted by the repercussions of the two Malaysia Airlines incidents, as well as severe haze towards the end of 2014, led to a decrease of 6% in international tourist arrivals for 2015. In 2016, foreign arrivals recorded an upward trend, and a healthy rebound for the overall Malaysian market was observed as figures for international arrivals closed at 26.8 million, an increase of 4% from 2015.

Nevertheless, despite events such as the Kuala Lumpur Southeast Asian Games (SEA Games) in 2017, as well as a weak Ringgit, that were all perceived to boost inbound tourism. Foreign tourist arrivals to Malaysia declined by 3% to 25.9 million in 2017 which was a far cry from the government’s target of 31 million visitors. The slowdown in international visitors has been attributed to the fall in cross border visitors from Singapore, Malaysia’s largest tourism source market, following the implementation of the foreign vehicle levy for Singapore vehicles entering Malaysia. Furthermore, according to Tourism Malaysia another key reason for this decline was because of the congestion at the entry points to Malaysia which drove tourists to consider other destinations. To counteract this, the government is stepping up its efforts to make entry clearances by land and sea faster and much more convenient.

In 2017, the top 10 source markets to Malaysia were all from ASEAN countries. Singapore remained the top source market accounting for some 48% of total international arrivals followed by Indonesia making up 11% and China, third, with 9%.
Moving forward, the national goal of the tourism industry in Malaysia is to target 36 million international arrivals by 2020. To achieve this, the government is significantly bolstering its marketing efforts with campaigns such as “Travel. Enjoy. Respect.” particularly in key feeder markets such as India and China. In 2018, the country expects to receive some 33.1 million visitors, an increase of circa 28% on the previous year’s performance. Tourism Malaysia anticipates that the roll-out of new attractions such as Desaru Coast Malaysia and the 20th Century Fox World Malaysia theme park as well as improvements in visa facilities for visitors from China and India and enhanced connectivity with ASEAN markets will all help to boost the appeal of Malaysia, and achieve their rather aggressive visitor arrivals target for 2018.

Overseas visitors normally stay in Malaysia for an average of 5.7 days. The top inbound destinations are Kuala Lumpur, Langkawi, Malacca, Penang and Kota Kinabalu. Kuala Lumpur is mainly seen as a corporate and a Meetings, Incentives, Conference and Exhibitions (MICE) hub with leisure demand coming from regional and domestic visitors travelling to Kuala Lumpur for shopping and entertainment. However, whilst foreign visitation to Malaysia is significant, even more so is the size of its domestic tourism market.

Main Purposes of Trips by Domestic Visitors

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopping</td>
<td>33%</td>
</tr>
<tr>
<td>Leisure</td>
<td>11%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>4%</td>
</tr>
<tr>
<td>Medical Treatment</td>
<td>3%</td>
</tr>
<tr>
<td>Visiting relatives and friends</td>
<td>44%</td>
</tr>
<tr>
<td>Others</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Department of Statistics Malaysia

Domestic tourism dominates hotel market performance in Malaysia accounting for 63.2% of total arrivals to hotels in 2016 (latest available), of which Kuala Lumpur accounts for circa 19% of total domestic arrivals. Overall, the city attracted some 17 million visitors in 2016, reversing the downward trend witnessed in 2015. According to the Malaysia Inbound Tourism Association (MITA), the increase in domestic tourism can be attributed to the weakening of the Ringgit which has pushed Malaysians to holiday at home. According to Tourism Malaysia, the most common reasons for travelling within Malaysia are visiting friends and relatives (43.6%) closely followed by shopping (33%).

Malaysia’s outbound tourism continues to increase steadily despite the fluctuating ringgit and economic uncertainty. Nevertheless, travel patterns have changed over the years, leading to a preference for destinations closer to home such as Indonesia, Thailand, Vietnam and Cambodia. According to Mastercard’s Future of Outbound Travel in Asia Pacific Report, international outbound travel trips by Malaysian residents are estimated at 11.9 million in 2016 (latest available), and are forecasted to grow by an average of 3.5% per year to reach 14.2 million trips by 2021.

RevsPAR reached an all-time high of RM274 (USD67) in 2013. However, in 2014, the additional supply of 52,500 rooms could not be fully absorbed by the rising number of incoming tourists leading to significant drops in both hotel occupancy and ADR. The repercussions of this combined with the Malaysian Airlines incidents impacted Malaysia’s hotel performances even further in 2015 leading to a RevPAR decrease of circa 21.9% to RM214 (USD53).

However, there were signs of marginal improvement in 2016 and 2017 with RevPAR increasing slightly to RM220 (USD54) and having a further increase to RM244 (USD60). This trend appears to be continuing in to 2018 with year-to-date RevPAR up circa 11.2% over the same period in 2017.

Over the three-year period between 2014 and 2016 (latest available), Malaysia saw a CAGR of circa 7% in the total number of hotels and available rooms. Despite the growth in demand for hotel rooms increasing consistently to 2016, demand has been outpaced by the amount of supply that has come in to the market. This has also had an impact on hotel room occupancy which has dipped from 66.2% in 2014 to 63.9% in 2016, as demand growth could not keep pace with the level of new supply. However, there were signs of improvement in 2017 with
occupancy levels reaching 67.1%. In-line with the improvement in occupancy levels, Malaysia’s ADR increased by 6.2% from RM343.6 (USD85) in 2015 to RM364.8 (USD90) in 2017. Hotel performances varied across the country, with some markets such as Kuala Lumpur and Langkawi witnessing some growth as demand continued to outpace supply. This might have attributed to the increase in RevPAR by a significant 14% from RM214 (USD53) in 2015 to RM245 (USD60) in 2017.

Moving forward, we expect visitation to Malaysia to continue to grow albeit at a less aggressive pace. The country’s continued tourism marketing efforts and easing of visa restrictions (especially for China and India) are likely to continue to drive demand in the short to medium term. However, Malaysia’s growth will much depend on factors such as wider economic issues, foreign currency movements and geo-political events. Nevertheless, as the destination has shown time and again in the past, it can recover quickly from any event.

Hotel investment in Malaysia has experienced several years of lacklustre which is unlikely to see any form of major reversal in the short term. This is due to factors such as interest rate hikes, affordability concerns and the ongoing increases in supply entering the market. In 2016, the Malaysian Government announced the much needed ban on the issuance of hotel licences in Kuala Lumpur in an attempt to resolve the rather grave issue of supply glut entering in the city. Unfortunately, this did little to alleviate investor’s persistently weak sentiment in both Kuala Lumpur and Malaysia as a whole.

Nevertheless, the initial yield outlook remains stable at a moderately high level. Whilst we expect the number of hotel transactions in Malaysia to remain somewhat subdued, we may start to see glimmers of increasing investor interest in markets such as Penang and Sabah.
According to the IMF, the Thai economy is expected to achieve a CAGR of circa 3.2% in GDP growth over the next five years, with inflation growing at circa 1.9%. This is well above the previous five-year period which was sluggish as a result of the political events that weighed heavily on Thailand’s overall economic performance.

Bangkok has witnessed strong growth in tourist arrivals after the relaxing of its visa rules and the increase in low cost carriers and destinations served since 2012. Following the political fallout in 2014, it recovered strongly in 2015 after the martial law was lifted. In 2016, international visitor arrivals grew by 9% to 28.5 million and the domestic market increased by 11.2% to 16.6 million. The growth momentum continued in 2017 due to the political tension between China and South Korea and the eruption of Mount Agung in Bali, causing many tourists to turn to alternative travel destinations nearby.

The destination’s attractiveness, the growing Chinese market and medical tourism sectors have all contributed to this growth. Moreover, the improved flight connectivity and increased frequency of direct flights from destinations such as Russia, the Middle East, China and Maldives, has helped. However, Bangkok is currently experiencing a lack of capacity in its two major airports and overcrowding of infrastructure. Thus, it will now have to overcome this challenge by expediting the expansion of both airports and other infrastructure projects.

As the destination has shown time and again, it can recover quickly from geo-political events and as such, the outlook for tourism visitation to Bangkok remains cautiously optimistic. However, much will still depend on wider economic issues and the infrastructure development to prevent further overcrowding.

In 2017, Bangkok’s room supply grew to nearly 78,000 rooms with the most notable additions being the Park Hyatt (222 rooms) and 137 Pillars (34 rooms). According to STR Global, there are a further 8,600 rooms that will be added to supply between 2018 and 2022 representing an 11% increase over current hotel room stock.

RevPAR increased by a CAGR of circa 2.8% for the period of 2011 to 2017. From 2011 to 2013, occupancy grew steadily and soared to a peak of 80%. This was mainly underpinned by robust visitor demand. However, in 2014, occupancy dipped by circa 32 percentage points to 55% due to political instability, which disrupted tourism significantly. Nevertheless, the market recovered well, resulting in the rebound of occupancy and ADR, which lead to a whopping 49% increase in RevPAR from THB1,790 (USD54) in 2014 to THB2,675 (USD80) in 2017.

As a result of strong visitor arrivals, quality assets continued to be keenly sought after by both local and foreign investors. Nevertheless, hotel investment in Bangkok is likely to continue to be driven by REITs and local high net worth investor (HNWI). The increasing cost of land and desirability of assets in the city has driven yields down. In addition, the political uncertainty has left international investors on the sidelines, creating a more insular market.
Destinations of the Quarter – Korea

The Republic of Korea’s (“South Korea” or “Korea”) economy has performed relatively well over the last few years with GDP growth averaging circa 2.8% over the last five years. This is a remarkable performance considering the number of headwinds the country has recently faced, which includes the impeachment of its President, the Samsung Galaxy fall out and geo-political tensions with North Korea and China.

South Korea received some 13.3 million visitors in 2017, a significant decrease of circa 23% on the previous year’s performance of 17.2 million. As tourism is unusually reliant on the Chinese source market in particular, the drop in numbers is mainly underpinned by the deterioration in the relationship with China following the THAAD issue. The fall-out from the political protests surrounding the presidency has also resulted in growth stagnation.

However, as 2018 so far has shown, tensions on the Korean Peninsula have eased and tourist arrivals to Korea tend to rebound quickly. International tourist arrivals were up 3.1% year to date May 2018 when compared to the same period last year. This is despite a continued drop in Chinese tourists, with other Asian countries, Europe and the Americas picking up the slack. This is an interesting trend and demonstrates that the destination, given its increasing accessibility through Incheon, is able to attract new source markets. Moreover, Incheon airport had a 13% increase in number of flights in 2017, some of which includes America, Europe, US, Mongolia and Taiwan.

In the short run, the outlook for tourism visitation to South Korea remains cautiously optimistic. However, much will depend on the relationship between China and South Korea resulting from the geo-political fallout, as the China market accounts for circa 31.3% of annual visitation each year.

In Seoul, an increase in room supply has been over the recent years, as the hotel market remains very competitive even among existing hotels. In 2017 alone, there was an additional 6,507 rooms added to the supply, a 13.8% increase on the previous year. This is set to further increase significantly with an estimated 19,077 new rooms in the pipeline between 2018 and 2020. Whilst some of these projects may not come to fruition, nevertheless the supply pipeline will continue to place downward pressure on ADR.

Looking at hotel indicators, the data suggests that hotel room occupancy has dipped from 2016 to 2017, from 73.5% to 67.9%. This was mainly due to the fall out with China following the THAAD crisis which began in July 2017. The impact of this continues to be felt in 2018 with room occupancy at 62.9% year to date May, compared to the 66.1% achieved in the prior year. Given the recent easing of tensions on the Korean Peninsula, we would expect this performance to improve towards the latter part of the year.

With the drop-in room occupancy in 2017, ADR fell by 5.5% when compared to the previous year to KRW 166,963 (USD148). This resulted in a 12.7% drop in RevPAR. Nevertheless, we would expect this to recover towards the end of 2018 as tourism performance once again picks up.

Despite the sluggish market performance, investors continue to aggressively bid for quality hotel assets in Korea. This is due to a unique feature in the market where existing hotels are managed under a long-term master lease structure featuring minimum guarantees by the operators. This sparks interest in domestic investors, and is increasingly catching foreign investors’ attention. Nevertheless, hotel investments in Korea will depend on geo-political events and wider economic issues on hand.
Destinations of the Quarter – Japan

After years of stagnation, according to the IMF, Japan’s GDP is set to grow at an annualized rate of circa 0.6% over the next five years. This relatively robust growth will be mostly driven by domestic consumption, and significant investment in the country’s tourism infrastructure. The Japanese economy recorded an average annual growth rate of 1.2% between 2012 and 2017, making this one of the longest periods of economic growth as the country has managed to weather the global financial crisis in the West and demand for its exports has driven expansion. This is combined with increasing domestic consumption.

Tourist visitation to Japan has also increased dramatically in recent years. According to the Japan National Tourism Organisation (JNTO), tourism to Japan for 2017 was 28.5 million international arrivals, up circa 19% from the previous record high of 24.04 million in 2016. This is mainly due to a combination of factors including increased presence of low cost airlines, easing of visa restrictions, coupled with the weak yen. As it is more expensive for Japanese to travel overseas, with staycation being a popular option, hoteliers have enjoyed record room occupancies, with yield maximisation strategies focusing on ADR. Visitation is expected to continue to increase in 2018, with the Rugby World Cup in 2019 and 2020 Olympics set to further boost numbers.

Tokyo will be hosting the Summer Olympics in 2020. As there are some similarities between Tokyo and London cities, we would expect visitation patterns in the build-up and legacy, to follow that of London.

Being the main development project in the city, Tokyo 2020 is expected to drive demand in visitation up, causing a strong ripple effect from the city to other destinations around Japan. The potential of the future development of Integrated Resorts (IR) as part of an Olympic legacy could be a future significant demand generator for the city. In addition, future plans on expanding Narita and Haneda Airport by 2020 and Tokyo Disney by 2022 will continue to drive and cater to more demand.

Whilst the outlook for tourism visitation to Tokyo remain optimistic, downside risks remain: geo-political, possible sharp rises in interest rates, currency movements, infrastructure development including new hotel supply, and operational restrictions including staffing shortages.

The existing room stock in Tokyo was estimated to be around 101,144 rooms at the end of 2017, with an additional 5,319 rooms anticipated over the next three years. In view of the Tokyo 2020 Olympics, Tokyo is forecast to have a shortfall of around 3,500 rooms.

However, the fear of shortage of accommodations subsided with the recent expansion of the minapaku private lodging market which took effect in June. This places more supply and options into the market, which in turn alleviates latent demand.

From 2011 to 2015, hotel occupancy has seen an increase of 12.3 percentage points and reached its peak of 91% in 2015. Throughout this period of high occupancy, ADR has also seen a whopping 34% growth as hoteliers continued to raise prices to secure higher profit. In 2016, ADR continued to increase by circa 14% to JPY 18,346 (USD165). However, there was a sharp drop in occupancy of 6 percentage point from 91% to 85.5%. The increase in hotel prices over the years has weighed down on demand. Moreover, the stronger yen also reduced demand from foreign tourists. However, despite this RevPAR has seen a net increase of 7%, mainly underpinned by the increase in ADR.

The trend in ADR continue to rise to JPY 19,020 (USD171) in 2018 YTD May (latest available). We could also see that occupancy is picking up slowly, from 85.5% in 2016 to 86.8% in 2018 YTD May as rooms in Tokyo remain tightly supplied. This resulted in a 5.2% increase in RevPAR over the same period. As tourist numbers surge ahead of the 2020 Olympics Games, new supply can be quickly absorbed into the market. Future performance is likely to be impacted by the hosting of the Olympics, and the legacy that it will leave behind. However, this may be mitigated by currency movements and the region remains sensitive to wider geo-political events.

![Graph showing Tokyo Hotel KPIs from 2011 to 2018 YTD May]

Source: STR Global (Hotel Market Data & Benchmarking)

<table>
<thead>
<tr>
<th>Stage of investment cycle: Mature</th>
<th>Average across all hotel categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield expectation: 3.5% plus</td>
<td>3.5%</td>
</tr>
</tbody>
</table>
Hotel Investment and Valuation

Capital markets insights

China remains one of the main source market for hotel investment across Asia. The country’s position to restrict offshore capital flows last year clearly has had a direct impact, with outbound investment decreasing and deals closer to home in favour. 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.

Geo-political tensions have led Asian real estate investors to refocus on regional investments, while global interest in trophy and opportunistic acquisitions continues.

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>Hilton Tokyo Odaiba Hotel</td>
<td>Tokyo</td>
<td>1,202,222</td>
</tr>
<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>Renaissance &amp; Coco Garden Resort Okinawa</td>
<td>Japan</td>
<td>381,721</td>
</tr>
<tr>
<td>Outrigger Portfolio</td>
<td>Various</td>
<td>291,000</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 approx. values.
Leisure

Gaming in Japan - the new El Dorado?

In our first publication in Q1 2017, we first discussed the potential of gaming in Japan. Given the recent IR implementation act, we believe this is a good time to update our outlook.

After lengthy debates, the IR Implementation Act was finally passed on 20 July by the Diet. However, much is left to be discussed and decisions made in terms of practical implementation and control. It is understood that the first step will be to set up a Casino Management Board, which will fall under the auspices of the Ministry of Land, Infrastructure, Transport and Tourism. This is likely to take place by next summer. Following this, the RFP process for the initial three IRs will be launched. Local governments seeking an IR licence will then need to seek investment partners with whom they will submit their bids. It will therefore not be before 2020/21 that the government will identify the three destinations for IR development. Given this timeline, we would not expect any IR development to eventuate before 2025/26.

It is expected, and quite rightly in our opinion, that no more than three IRs (possibly two large and one smaller satellite properties) are allowed as part of the legacy following the Olympic Games. We expect, despite most expectations, that investment here will be largely locally driven, with the highest potential for the involvement of international companies being through either a joint venture or management agreement.

Investment in the sector in Japan is likely to be significantly expensive and our recommendation would be for potential investors to work with the Japanese government to perhaps secure Olympic sites that can be readily converted. This will potentially drastically reduce construction costs. The high level of investment required combined with higher operating costs, and challenges to be faces especially in regard to labour, is likely to extend the payback periods for investments in Japan. As such, anyone expecting a Macau or Singapore level of return would be advised to consider this in their financial models.

As such, whilst payback in some destinations for IRs costing circa US$10bn were expected to be within three to four years, for Japan this could well be five to seven given the higher spec and quality that would be demanded.

We expect the Japanese gaming regulation model including taxing to follow that of Singapore, albeit with a few tweaks especially in regard to VIP gaming and allowing of locals to gamble.

We anticipate by 2021, when the first IR construction may begin, the potential gross gaming revenues in Japan would be circa US$20bn. This places it second behind Macau and higher than Las Vegas. The key source markets, apart from domestic, is likely to be mostly North Asia, which may well impact properties in Vladivostok, South Korea and even Macau, especially in the early years of operation as the novelty effect takes hold. In addition, as with the changing Macau model, we would expect IRs to be positioned towards attracting a sizeable mass market, with facilities to include significant non-gaming activities. This, in our opinion, is perhaps what would appeal to the national government when considering its decision to licence.

For gaming research, consultancy and valuation please contact us: govinda.singh@colliers.com
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. 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 teams within the local markets. The Research and Advisory teams 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.

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 several published authors in the field.

Next quarter:

Opinion – The Olympics and Japan
Hotels - Destination of the quarter – Busan
Cruising – the market in the East

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