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HOTELS PIVOT TO STAY AFLOAT

Disappointing arrivals and tourist expenditures compel hotel operators to innovate as future of global air travel remains bleak

Insights & Recommendations

The Philippine leisure sector continues to suffer from sluggish arrivals of foreign tourists and subdued spending from local tourists.

The hotel market is likely to suffer from delayed completion of new projects as developers factor in a slow recovery.

Colliers recommends that operators continue to target returning OFWs* looking for quarantine facilities and professionals searching for flexible workspaces.

Operators should highlight compliance with health and sanitation protocols and take advantage of perks lined up by the government for the sector.

Colliers also encourages operators to expedite the implementation of innovative and technology-driven services.

		H2 2020	Full Year 2021	2021–25 Annual Average
Demand	> Data from the Department of Tourism (DOT) show that total foreign arrivals dropped by 84% in 2020 due to global travel restrictions. We do not see arrivals from the country's top source markets, such as South Korea, picking up in the next 12 months.	1.3 million	2 million	6.8 million
Supply	> No new hotel rooms were completed in H2 2020 due to pandemic-induced construction delays. Colliers only sees the delivery of about 1,020 rooms in 2021, lower than our pre-pandemic projection of 2,160 rooms.	0 rooms	1,020 rooms	1,870 rooms

		HOH/ End H2	YOY/ End 2021	Annual Average Growth 2020–25 End 2025
Occupancy	> Colliers saw occupancy reaching only 20% in 2020 due to disappointing foreign arrivals and subdued local demand. We expect occupancy to remain about 30% in 2021 as international and domestic travel are unlikely to recover in the next 12 months.	-5pp 20%	+10pp 30%	+8pp 70%
Room Rates	> ADRs** have dropped by 18% compared to pre-pandemic rates. Colliers projects ADRs to drop by another 10% in 2021. We attribute the drop to low occupancies, foreign arrivals and expenditures. We do not see a recovery in rates in the next 12 months.	-2% USD65	-10% USD59	9% USD94

Source: Colliers International
Note: USD1 to PHP48 as of the end of H2 2020. Demand is tourist arrivals. *Overseas Filipino Workers; **Average Daily Rates.

RECOMMENDATIONS

Offer COVID-19 testing as part of amenity packages

In our view, hotel operators should consider offering convenient and affordable on-site COVID-19 testing as part of their amenity packages[1]. Hotels may consider partnering with an accredited laboratory or a hospital to conduct the Reverse Transcription-Polymerase Chain Reaction (RT-PCR) or rapid antigen COVID tests. By partnering with these facilities, hotel operators can increase guest confidence while providing immediate support for any guests testing positive from the virus. The government has also approved the implementation of saliva testing, which is a cheaper and less invasive procedure for COVID-19 testing. We encourage hotel operators to consider adopting this alternative procedure.

Highlight compliance with health and safety protocols

Colliers believes that hotel operators should strictly follow the health and safety protocols implemented by the government. Hotels' compliance with the anti-pandemic efforts laid out by the Department of Tourism should also be highlighted to attract more guests and recapture demand once market sentiment improves, driven mainly by the revival of global air travel.

Technology-driven innovative services

Despite the pandemic, hotel operators should continue using technology to improve customer experience. Aside from the typical technology-enabled services such as contactless check ins, smart & keyless room controls and 24/7 mobile connectivity, operators should also consider introducing self-cleaning robots and contactless payment channels to minimize physical contact and raise sanitation standards.

In our opinion, the pandemic and the physical distancing protocols implemented have only highlighted the need for hotel operators to innovate using technology-driven services. Sheraton and Hilton Manila have introduced spaces for dining and recreational activities that are protected by outdoor bubble pods. The newest facility offers a 360-degree view of the hotel and pool, a six-course menu and massage services.

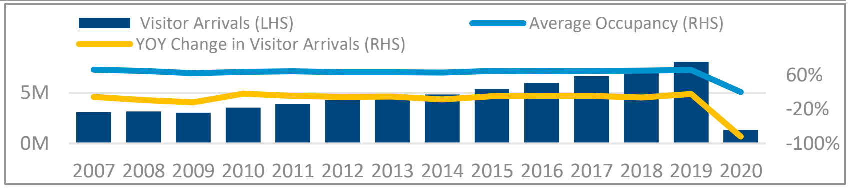
Monitor government incentives and regulations

Colliers encourages hotel operators to monitor the perks granted by the government to the leisure sector. For instance, the Board of Investments (BOI) has approved tax incentives[2] for tourism enterprises to upgrade and modernize their facilities for health and safety purposes. These include an income tax holiday for three years and duty-free importation of capital equipment. Upgrades may also include the renovation of guest rooms, function rooms and recreation areas.

Conversion and repurposing of rooms into flexible workspaces and pop-up restaurants

Hotels such as Seda Residences Makati and Aruga Apartments by Rockwell have converted some of their hotel rooms into private offices and flexible workspaces, given the slow guest demand due to the pandemic. Among the amenities are Wi-Fi connectivity, office supplies, weekly cleaning services and access to a common pantry area. Colliers believes that demand for these facilities is likely to rise, given that more firms are willing to implement alternative schemes such as remote working. Hotels may also consider partnering with well known or in-house restaurants to offer pop-up restaurants where guests can order through the hotel reception and have their food delivered to their rooms. While implementing these, hotel operators should strictly observe physical distancing protocols implemented by the local and national governments.

Occupancy rate, visitor arrivals and YOY change, 2007-2020



Source: Department of Tourism

FOREIGN ARRIVALS SLUMP IN 2020

Foreign arrivals into the country fell significantly due to global air travel restrictions. Data from the Department of Tourism (DOT) show that foreign arrivals in 2020 dropped by 84% YOY in 2020 to 1.32 million from 8.3 million in 2019.

[1]Hotels offer accommodation with COVID test packages. [2]Tax incentives for tourism firms approved: DOT.

Tourist receipts also declined by 83% YOY to PHP81.4 billion (USD1.7 billion) from the record-high of PHP482.16 billion (USD10 billion) in 2019. As international travel restrictions remain in place, the DOT is likely to continue its domestic tourism push by reopening more tourism destinations such as Boracay, Baguio, Ilocos region, and El Nido and Coron in Palawan, provided that the local government units (LGUs) follow the prescribed health and safety protocols. With travel restrictions in key markets such as South Korea, China, United States and Japan unlikely to be lifted soon, Colliers does not see a rebound in foreign arrivals in the next 12 months.

SUBDUED OCCUPANCY IN 2021

Colliers saw hotel occupancy in Metro Manila further decline to 20% in H2 2020 from 25% in H1 2020. We have observed that the arrival of several thousand Overseas Filipino Workers (OFWs) in H2 2020 was unable to lift hotel occupancies. Meanwhile, the tourism department has recently accredited 15 four and five-star hotels in Metro Manila that can operate as leisure-based hotels[3]. However, we do not see this development having a significant impact on occupancies in Metro Manila, as Filipinos continue to limit expenditure on essential goods and services.

In response to the growing number of COVID-19 cases in the country, several hotels have been converted into quarantine facilities for front-line medical workers and repatriated OFWs. In our opinion, hotels are likely to remain as quarantine facilities, as tourist and leisure groups are still cautious of travelling due to the pandemic. Hence, we see average occupancy reaching below 30% by the end of 2021.

The pandemic and the lockdown imposed by the government all over the country have severely disrupted hotels' operations. This resulted in the temporary closure of Marco Polo Hotel in Davao City and Makati Shangri-la Hotel due to an uncertain business environment. We do not see demand recovering to pre-pandemic levels in the next 12 to 18 months. Even news about the potential roll-out of a COVID-19 vaccine in the Philippines by the second or third quarter of 2021 is unlikely to immediately lift the local leisure sector.

Meanwhile, the International Air Transport Association (IATA) said that global air travel is unlikely to return to pre-COVID-19 levels until 2024[4].

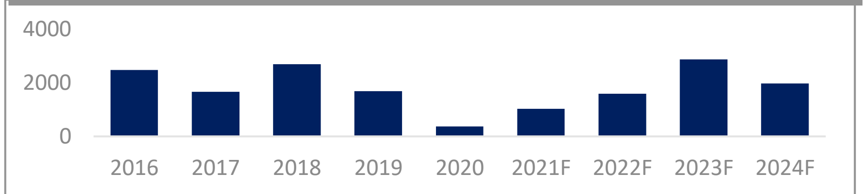
The tourism department has also been banking on leisure-based hotel stays and the domestic market to prop up hotel occupancy. However, this is not likely to have a significant impact on ADRs and hotel occupancies in Metro Manila, as consumers are still likely to skimp on non-essential spending, including restaurants and hotels. Data from the Philippine Statistics Authority (PSA) showed that the restaurants and hotels sub-segment contracted by 43.5% in 2020, a reversal from the 6.6% growth in 2019.

TURTLE-PACED COMPLETION

Only 375 new hotel rooms were completed in 2020. This is about 78% down from our initial projection of about 1,700 rooms in H1 2020. In 2021, Colliers sees the delivery of about 1,030 rooms, significantly down from our initial estimate of 2,160 rooms. In our view, the construction of most hotels is likely to be put on hold or deferred due to a slow recovery of the leisure sector as projected by IATA, local stakeholders and industry groups.[5]

From 2021 to 2024, we see the completion of about 1,900 rooms per annum. This is less than the 2,100 annual completion that we recorded from 2016 to 2019. Among the new hotels that are scheduled for completion from 2021 to 2024 are the 350-room Seda Hotel Bay Area, the 191-room Hotel Okura Newport, 300-room Ibis Styles Hotel, and the 529-room Kingsford Hotel at the Bay Area. With a sluggish leisure market, we do not expect a substantial delivery of new hotels in the next 12 to 24 months.

Metro Manila hotel supply forecast (2016-2024F)



Average room rates by star classification, H1 2020 vs. H2 2020

Star classification	H1 2020	H2 2020	% change (HOH)
3-star	3,566 (USD74)	3,331 (USD69)	-6.6%
4-star	4,705 (USD98)	4,802 (USD100)	+2.1%
5-star	8,957 (USD187)	8,878 (USD185)	-0.9%

Source: Colliers International. Note: USD1 = PHP48 as of the end of Q4 2020. [5]Hotels hit by drops in business travel, MICE

[3]DOT: Only 15 hotels in Metro Manila accredited for 'staycation'. [4]Air travel will not recover until 2024 – IATA.

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