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LAGGING BEHIND PEERS

Philippine tourist arrivals and spending trail Asian counterparts

Summary & Recommendations

Colliers sees foreign arrivals reaching between 7 to 7.2 million in 2018, exceeding arrivals in 2017, but behind the government's goal of 7.4 million.

Manila continues to lag behind its Asian neighbours in terms of tourist arrivals and average daily rates (ADR), but the push to attract more leisure investments by improving infrastructure and implementing sustainability programmes should support arrival growth and sustain healthy hotel occupancy and ADR growth from 2019 to 2021.

Colliers encourages developers to establish more homegrown brands; landbank near airports that are due for modernization; explore air service agreement opportunities; and monitor tourism projects implemented by relevant government agencies.

		H2 2018	Full Year 2019	2018–21 Annual Average
Demand	Colliers sees sustained demand from traditional source markets over the next 12 months. But demand could be dampened by the decrease in the number of tourists passing through Manila from 2020 to 2021.	3.7 million	7.2 million	7.2 million
Supply	From 2019 to 2021, Colliers sees an aggressive completion of local hotel brands established by national developers, with annual completion of 1,800 new hotel rooms.	1,000 units	1,800 units	1,800 units
Occupancy	We project a slightly higher occupancy rate of 70% annually from 2019 to 2021 as we expect overall subdued completion of new hotel rooms.	68%	70%	70%

		HOH / End Q4	YOY / End 2019	Annual Average Growth 2018–21 / End 2021
Room Rates	Colliers sees Metro Manila's daily rates rising by about 2% annually over the next three years as the completion of new hotel rooms tapers off.	2.6% USD75	2% USD76	2% USD80

Source: Colliers International
Note: USD1 to PHP53 as of end-Q3. 1 sq m = 10.76 sq ft

Colliers INTERNATIONAL

RECOMMENDATIONS

The continued improvement of the country's infrastructure network, sustained arrivals from major tourism markets, and implementation of tourism department-initiated programmes should ensure a more competitive leisure market over the next two to three years. To take advantage of the opportunities, we encourage developers and operators to consider implementing the following measures:

More two-and three-star hotels in the fringes of business hubs

In our opinion, developers should consider the peripheries of major business hubs as possible locations for budget hotels. The fringes of Makati, Ortigas, as well as northern Quezon City are feasible sites for these hotels. The Makati fringe area has also become a viable location for hostels such as Lub D, which mainly caters to millennial travelers and 'staycationers'.

Development of homegrown brands

Colliers believes that the success of Seda and Aruga have shown that homegrown hotel brands can compete with international brands, especially those that cater to the three- and four-star market. 8990 Holdings has also launched its own hotel brands and plans to open facilities in key cities and tourism sites across the country. Colliers believes that national developers should aggressively explore the possibility of launching their own hotel brands in destinations around the country to capture the thriving foreign and domestic travel markets.

Position near airports up for modernization

In our opinion, developers should start acquiring parcels of land near the regional airports that are up for modernization. SM and the Filinvest have been active in expanding their hotel portfolio in Clark in anticipation of the full modernization of the international airport in 2020 as well as the staging of the Southeast Asian (SEA) games in December 2019.

For example, the 260-room Marriott hotel in Clark opened in September 2018. We also recommend that developers expand their meetings, incentives, conferences, and exhibitions (MICE) facilities in Clark as it is becoming a preferred destination for international events and conferences.

Monitor air service agreements between governments and airlines

We encourage hotel operators to closely monitor air service agreements inked by the Philippine government with other countries as well as partnerships firmed up by local air carriers. Philippine Airlines, for instance, is reviving its flights to India in Q1 2019 while AirAsia Philippines is opening more flights to Macau, Kunming and Chengdu in China.

ARRIVALS UP, BUT BEHIND TARGET

The latest data from the Department of Tourism reveal that foreign arrivals from January to October 2018 reached 5.9 million, up 7% yoy. Given the trend, the tourism department is likely to miss its target of 7.4 million tourists in 2018. We now see arrivals between 7 million and 7.2 million, still about 6% to 9% higher than the 6.6 million posted in 2017.

Korea is still the Philippines' top source market, with about 1.3 million Korean tourists visiting the Philippines for the first 10 months of 2018. Arrivals from China continue to record the fastest increase, with visitors reaching 1.06 million, up 31% yoy. Other major sources of arrivals are the United States and Japan, accounting for a combined 23% of total arrivals during the period under review. Other key markets during the period were Australia, Taiwan, Canada, United Kingdom, Singapore, Malaysia, Hong Kong, and India.

Colliers is optimistic that foreign arrivals will continue to rise over the next three years given the sustained interest from markets such as China, Japan, Korea, United States, Australia, and Taiwan. Colliers believes that the tourism department's goal of attracting 10 million international tourists remains daunting but programmes such as cruise tourism, homestays, and *Invite Home A Friend* should enable the government to realize its objective. The government plans to complement these with a more aggressive global advertising campaign as well as a sustainable tourism programme which should ensure that accommodation facilities across the country comply with environmental and local government policies.

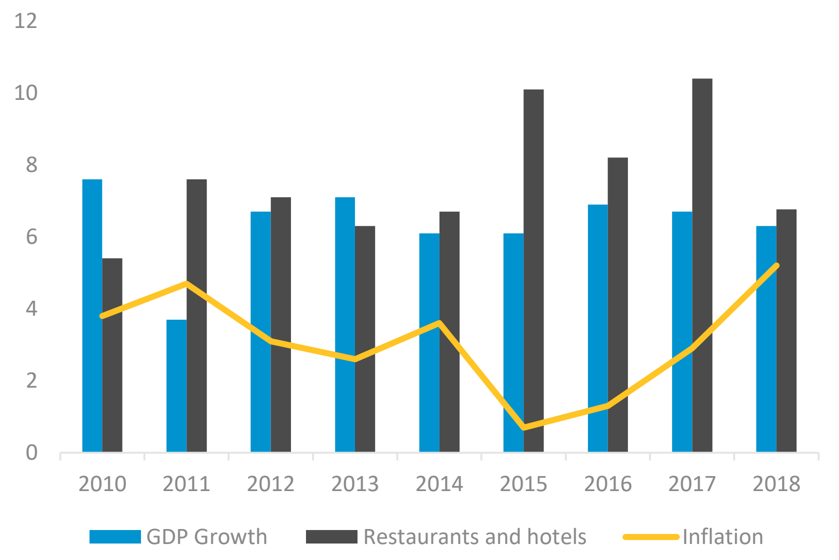
The rehabilitation of Boracay island is a test-case of the country's sustainable tourism programme. Colliers believes that the rehabilitation bodes well for the long-term growth and competitiveness of Philippine tourism.

LEISURE – A SPENDING DRIVER

The hotels and restaurant subsector continues to drive consumer spending in the country, rising by 6.8%[1] in the first three quarters of 2018 despite higher inflation. The segment has been growing by an average of 8%[1] since 2010, faster than the country's GDP growth.

The growth in tourists and tourism spending is reflected in tourism's rising proportion of GDP, which has increased from 8% in 2010 to 12.2% in 2017, according to latest data from the Philippine Statistics Authority (PSA). Based on the data from the PSA, this indicates that Filipinos continue to allot a significant portion of their disposable incomes to restaurants, hotels, and other leisure-related activities.

Restaurant and hotel spending



Source: Philippine Statistics Office
[1] https://psa.gov.ph/

HOTEL OCCUPANCY STABLE AT 69%

Overall hotel occupancy in Metro Manila stood at 68% for the second half of 2018. The increase in foreign tourists was partly offset by the completion of more hotel rooms in Metro Manila.

The overall occupancy rate for 2018 was 69%, which is slightly higher than our initial forecast of 65% to 68%. This is attributed to strong performance of three-star hotels which cater to key source markets such as China and Korea as well as sustained demand from local tourists.

We project an occupancy of 69% in 2019 as we expect a subdued completion of new hotel rooms over the next 12 months.

We see similar occupancy from 2020 to 2021 as the delivery of new hotel rooms in the country's capital tapers off coupled with a more aggressive completion of new hotels in nearby urban areas such as Clark. Developers have been aggressive in building new hotels in Clark as they intend to capture any rise in tourist arrivals in light of the scheduled completion of the modernized Clark International Airport.

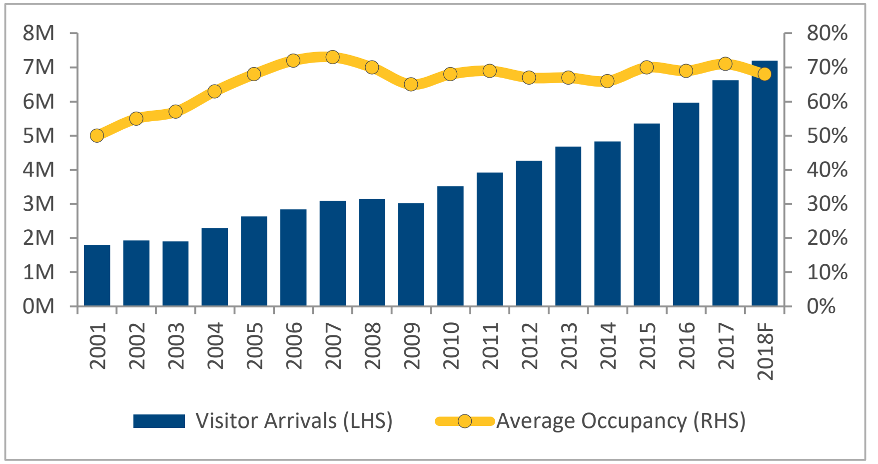
Colliers recorded the opening of more than 1,000 new hotel rooms in H2 2018. Among the new hotels completed during the period were the 357-room Hilton Manila and the 390-room Sheraton Manila in the Newport Area; and Vista Land's 130-room Mella hotel in Las Pinas. Okada Manila added 190 rooms during the period bringing the 2018 hotel room completion to 2,700, a record-high in Metro Manila.

HOMEGROWN BRANDS IN THE PIPELINE

From 2019 to 2021, Colliers sees an aggressive completion of local hotel brands established by national developers. Among the national players that have aggressively developed their own hotel brands are Ayala Land, Filinvest, Rockwell, 8990 Holdings, Eton, and Vista Land. The bulk are planned to be spread across integrated townships across Metro Manila. Foreign brands we expect to complete new projects over the next 12 to 24 months are Okura, Mövenpick, Mandarin Oriental, and additional rooms from Okada Manila.

About 40% of the 5,500 new hotel rooms due to be completed from 2019 to 2021 are classified as three-star. Colliers expects the annual completion of about 1,800 new units per year from 2019 to 2021.

Occupancy rate, Metro Manila



Source: Colliers International

ADR GROWTH REMAINS FLAT

Hotels across Metro Manila sub-locations recorded mixed results in H2 2018. Hotels in Quezon City posted average daily rate (ADR) growth of 3% for three-star hotels and 1% for four-star hotels. Fort Bonifacio hotels' ADR rose between 1% and 4% during the period while three- and five-star hotels in Makati CBD posted flattish growth. Meanwhile, hotels in the Manila Bay Area decelerated by about 2% and 3%.

Colliers sees Metro Manila's daily rates rising 2% per year over the next two to three years as the completion of new hotel rooms tapers off. This is faster than the flattish growth recorded in 2018. We do not see a substantial increase in rates over the next three years as aside from the additional hotel rooms, existing hotels in Metro Manila are likely to face greater competition from new rooms due to be completed in key areas such as Clark in Pampanga. This could affect the number of foreign travelers that pass through Metro Manila given the regional airports' accommodation of more international flights.

The new rooms in the pipeline are likely to put ADR and occupancy rates under pressure over the next two to three years. This, however, should partially be offset by the projected rise in foreign visitors by the tourism department. The Department of Tourism expects total arrivals to reach 10 million in 2022.

Hotel room rates, Metro Manila (USD)

Location	3-Star	4-Star	5-Star	Average %Change
Makati CBD	60.6	108	187.9	2%
Fort Bonifacio	-	143.1	221.3	3%
Manila Bay	77.8	118.9	177.1	-2%
Quezon City	56	57.7	-	2%

Source: Colliers International

MANILA ADRs LAG BEHIND

Rates of foreign branded hotels in Manila continue to lag behind their counterparts in other Asian economies. Colliers attributes this to the relatively lower number of foreign arrivals in the Philippines compare to other Asian economies. This results in the Philippines receiving the least amount of tourism receipts versus other comparable Asian Countries.

Hotel Rates in Selected Asian Cities

City	The Peninsula Hotels	Shangri-La	Marriott	Hyatt	Conrad Hotels & Resorts
Hong Kong	581	350	236	319	289
Tokyo	802	560	357	518	517
Shanghai	375	245	163	157	294
Bangkok	349	182	206	187	205
Singapore	-	289	309	294	368
Manila	168	162	207	223	182

Source: Colliers International

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