Colliers Quarterly

MANILA | HOTEL

8 February 2018

Record-high arrivals sustain occupancy

Joey Roi Bondoc Research Manager | Manila

Foreign arrivals to the Philippines reached a record-high in 2017 and this sustained hotel occupancy rates across Metro Manila. We believe that continued arrivals from the country's major sources of visitors coupled with the improvement of the country's infrastructure backbone and aggressive implementation of tourism marketing programmes should play a key role in attracting more tourists in 2018. Given the profiles of the country's traditional visitors and emerging tourist markets, we recommend that operators continue developing two and three star hotels in fringe locations and four and five star accommodation in key business districts. With the ongoing improvement of the country's transport infrastructure, we encourage firms to consider developing hotels near transport terminals including the proposed subways and airports and diversify outside Metro Manila. Developers and operators should emphasise cultural and historical aspects of old buildings that could be redeveloped into accommodation facilities. To encourage similar projects, local and national governments should consider granting attractive incentives to potential developers.

Forecast at a glance

Demand

We expect foreign arrivals to grow by between 10%and 15% in 2018, to reach 7.3-7.6 million due to sustained demand from traditional visitor markets such as Korea, Japan and China. Over the next two to three years, the demand for two and three star hotels will continue to be driven by Asian and domestic tourists while demand for four and five star hotels should be propelled by expanding activities in key business districts.

Supply

Colliers sees at least 3,400 new rooms being completed this year. From 2019 to 2021, we see an annual increase of about 1,900 units to Metro Manila's stock. More than half of the new rooms will be in the Manila Bay Area.

Vacancy rate

We project a lower occupancy rate of 65- 68% this year due to the significant number of new rooms projected to open, especially in the Manila Bay Area. Colliers sees occupancy rebounding to 65-70% in 2019 to 2020 as delivery of new rooms tapers off.

Rent

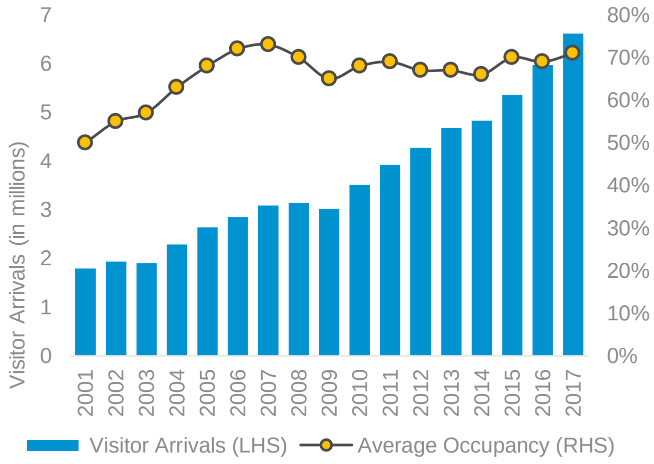
Colliers expects average rates across Metro Manila to grow by 2% to 3% annually over the next two to three years.

Record-high visitors

International arrivals reached a record-high 6.62 million in 2017. The figure is 11% higher than the 5.97 million international visitors recorded in 2016. The figure is in line with Colliers' projections for 2017.

Visitors from neighbouring countries continue to dominate arrivals. Data from the Tourism department show that in 2017, 1.61 million Koreans visited the country followed by Chinese and Japanese tourists. The three markets accounted for 45% of total visitors during the year. Meanwhile, arrivals from the USA, another key visitor-generating market, reached 957,813. Other major sources of international visitors were Australia, Taiwan, Canada, the UK, Singapore, Malaysia, and India.

Visitor Arrivals



Sources: Colliers International Philippines Research; Department of Tourism (DOT)

Colliers is optimistic that foreign arrivals will continue to rise over the next three years given the sustained interest from Chinese, Japanese, Korean, and American tourists as well as the rising arrivals from the Philippines' emerging tourist markets such as Indonesia, Vietnam, France, Germany, and the UK. Coupled with the improvement of the country's infrastructure backbone and aggressive implementation of the Tourism department's cruise tourism, homestay and "Invite Home A Friend" programmes, Colliers is optimistic that foreign arrivals will grow by a faster 10-15% this year.

Hotel occupancy rates surged in November and December. We attribute this strength to the country's hosting of the regional summit from November 11 to 14 and the holiday-induced spending on hotel accommodation, restaurant and other related businesses. The fourth quarter is a traditionally strong period for the hospitality sector primarily buoyed by 'staycationing' Manila residents, and foreigners and Overseas Filipinos Workers (OFWs) who spend holidays in the Philippines.

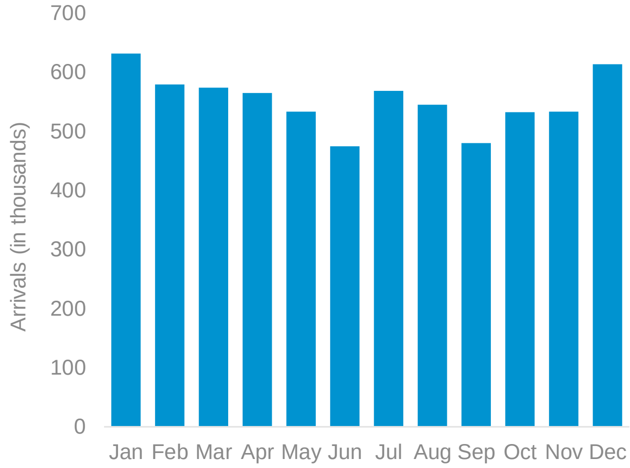
The Hotels and Restaurant subsector continues to drive consumer spending in the country, rising by 9.7% in 2017 from 8.1% recorded a year ago. It has been growing by an average of 8% since 2010, faster than the country's GDP growth. This indicates that Filipinos continue to allot a significant portion of their disposable incomes to restaurants, hotels, and other leisure-related activities. This is shown by the growing number of domestic tourists, most of whom are millennials and employees who are encouraged to travel throughout the country due to cheaper airfares.

Hotel occupancy stable at 70%

Overall hotel occupancy in Metro Manila stood at 69% for the second half of 2017. Overall occupancy rate for 2017 was 70% factoring in the 71% occupancy recorded from January to June. The overall occupancy rate for 2017 is at the high end of the 65-70% occupancy rate projected by Colliers.

We project a lower occupancy rate of 65-68% in 2018 due to the significant number of new rooms projected to open especially in the Manila Bay Area. Colliers sees occupancy rebounding to 65-70% in 2019 to 2020 as the completion of new rooms tapers off.

2017 Arrivals per month



Source: Department of Tourism

More than half of rooms that opened in 2H 2017 are two and three-star hotels with average daily rates ranging from USD30 to USD120. Among these are Tryp by

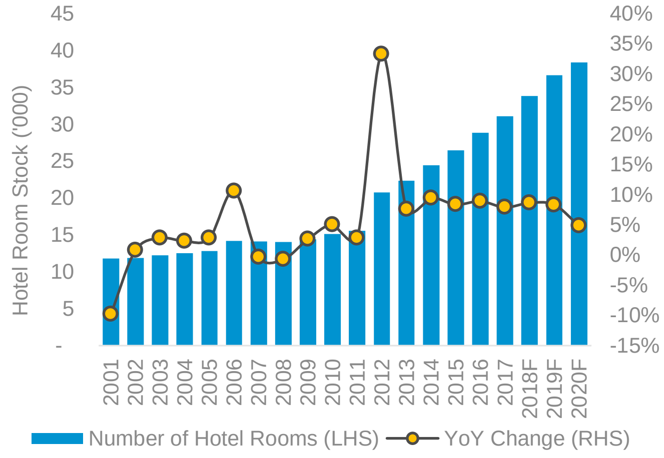
Wyndham hotel located in the Mall of Asia complex. The hotel is Tryp's first in Southeast Asia and offers 195 rooms.

Other hotels that opened during H2 are the 144-room Hop Inn Hotel in Makati fringe and 150-room Red Planet Hotel in the Manila Bay Area.

Most of the hotels that opened from July to December 2017 are budget hotels that primarily cater to Chinese, Koreans and Japanese tourists as well as millennials who are 'staycationing' in Metro Manila.

Close to 1,600 new hotel rooms were completed last year, lower than the 1,660 delivered in 2016.

Metro Manila Hotel Room Stock

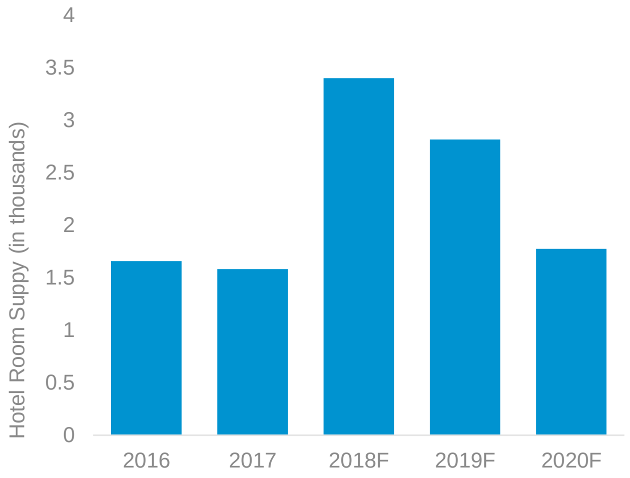


Sources: Colliers International Philippines Research

Fort Bonifacio and budget hotels to drive 2018 completions

We still expect two and three star hotels to play a major role in driving hotel room completion in Metro Manila this year. However, more than 10% of projected new supply in 2018 will come from a five-star hotel in Fort Bonifacio - Grand Hyatt Manila – due to be completed in 1Q. This hotel will offer 461 guestrooms and a 1,190 sq m (12,810 sq ft) Grand Ballroom. The second tower of Ayala's Seda BGC Hotel (342 rooms) is projected to open in 2H as well as Dusit D2 the Fort (125 rooms). Once completed, the three new hotels will account for close to 30% of the new hotel rooms projected to be completed this year.

New Hotel Room Supply



Sources: Colliers International Philippines Research

Red Planet will open two new hotels in 1H. These are the 170-room Red Planet in Binondo, Manila and the 167-room Red Planet in Aurora in Quezon City.

The southeast Asian brand Lub d is opening a 230-room hotel in Makati fringe. Some 90 rooms will be completed in February.

We see an average of 1,900 rooms being completed annually between 2019 and 2021. Among the major ones in the pipeline are Seda hotels in City Gate Makati, Arca South, and Manila Bay Area; as well as Rockwell's Aruga hotel and the new Mandarin Oriental in Makati CBD.

Growth of hotel rates slows to 1.1%

In Metro Manila, average hotel room rates rose by a slower 1.1% to USD91. Rates in 1H 2017 grew by 2%. Average rates in Manila Bay Area hotels declined by 0.4% due to the significant number of available rooms in the casino-hotels in the area.

Average Room Rates

Location	1H2017	2H2017	Growth Rate
Alabang/Muntinlupa	80.5	81.8	1.6%
Manila Bay Area	94.6	95.0	0.4%
Makati	93.5	98.2	5.0%
Downtown Manila	59.4	62.4	5.0%
Pasig/Mandaluyong	84.7	85.8	1.3%
Quezon City	62.3	63.7	2.3%

Sources: Colliers International Philippines Research

Hotel rates in the Fort Bonifacio area rose by an average of 3.5% in 2H. The Fort Bonifacio area continues to enjoy rising occupancy and daily rates due to sustained demand brought about by outsourcing and traditional businesses operating in business district. We see the transfer of the Philippine Stock Exchange (PSE) operations and Senate to BGC as a major driver of hotel occupancy rates in the area over the next two to three years.

Quezon City hotel rates rose by 2.3% from flattish growth in 1H 2017 due to stable demand coupled with the lack of quality accommodation. Hotels in the city also benefited from rising demand for Meetings, Incentives, Conferences, and Exhibitions (MICE) facilities from government agencies and businesses in Quezon City and nearby cities.

Downtown Manila rates rose by a faster 5% compared to 2% rise in 1H 2017 while hotels in Ortigas Center and other parts of Mandaluyong recorded flattish growth.

We see average rates across Metro Manila growing by 2% to 3% annually over the next two to three years. Colliers sees hotel room rates in the Manila Bay Area recording flattish growth over the next 12 to 24 months given the projected new completions especially among casino-hotels. We see the growth of hotel rates in Quezon City and Fort Bonifacio rates slowing down over the next two to three years given the projected new supply. Colliers sees Makati CBD posting flattish growth in daily rates annually until 2020.

Overall, we expect the country's leisure sector to thrive this year. To take advantage of the opportunities, we encourage developers and operators to consider implementing the following measures:

More hotels within transit-oriented projects

Developers should build more hotels within transit-oriented developments to capture a larger share of the commuting public.

Eton will develop a 200-room three-star hotel within its township in Quezon City. The hotel should capture commuters from the Metro Rail Transit’s (MRT) Quezon Avenue station aside from employees and commuters within its Eton City township and from other parts of Northern Quezon City and Bulacan.

Ayala is building a 265-room Seda hotel within its Arca South estate, the former site of government-owned Food Terminal Inc. (FTI). The integrated community is right beside the Taguig Integrated Terminal Exchange (ITX) which is projected to capture about 4,000 buses and 160,000 passengers daily. This excludes the number of employees and residents in the estate’s office and residential buildings.

Filinvest Land is constructing a 228-hotel room within its Activa development in Cubao, Quezon City. The project, to be named Canvas Hotel Activa, will complement the development's offices, malls, and condominiums. The project is near the MRT and light rail transit’s (LRT) Araneta-Cubao stations and bus stations going North and South of Luzon. The hotel’s viability should be boosted by Filinvest’s unsolicited proposal to build a passenger walkway to and from the LRT and MRT stations. The proposal has been submitted to the Light Rail Transit Authority (LRTA).

A number of key rail and subway projects are expected to be implemented over the next four years. We encourage developers with significant landbank to develop two and three star hotels near the stations of Metro Rail Transit (MRT)-7 and the proposed Manila Subway and Northern and Southern Luzon passenger rail projects.

Diversify outside Manila

The government has yet to decide on a comprehensive airport development plan for Luzon. Ongoing projects in Luzon include the expansion of the Clark International Airport. The contract has been awarded to Megawide-GMR consortium, the firm constructing the second terminal of Mactan-Cebu International Airport (MCIA). The government has also approved the modernization of the Ninoy Aquino International Airport (NAIA) and seven large corporations, including five with property development units, are considering forming a large consortium for the implementation of the project. Aside from these projects, a couple of holding firms have also submitted unsolicited proposals to develop airports in Bulacan and Sangley in Cavite. Hence, we encourage developers and operators to consider these urban areas outside of Manila as possible locations for future hotel projects, particularly as arrivals through the Manila airport (NAIA) could decline with the operation of these alternative gateways.

Emphasise historical value

Among the recently completed hotels and condotel (condominium operated as a hotel) are Rizal Park Hotel and Admiral Baysuites. The former is the restored Army Navy Club built in 1899 while the latter is the redeveloped Admiral Hotel completed in 1939. The Admiral Hotel was once the tallest building in Manila and used by the Japanese Navy as their headquarters during the Second World War. We encourage operators of these hotels to emphasise the cultural and historical aspects of their facilities. Colliers believes that developers should explore other historical structures that could be redeveloped into hotels and other accommodation facilities. To encourage more investors, both local and national developers should tout an attractive set of incentives to potential developers.

More resort-oriented hotels

We believe that the development of three-star and four-star hotels in resort destinations will be more visible over the next two to three years. Most of these projects will be built in Cebu, which is among the most visited destinations outside of Manila. Rockwell and Filinvest are developing new facilities while Ayala Land will operate the former Cebu City Marriott Hotel under the Seda brand next year. The Ascott Limited is planning to open Citadines Cebu City in 2019 and Somerset Gorordo by 2021 while Double Dragon has disclosed plans to build Jinjiang hotels. Other notable projects include Duros Land's 23 Minore Park Hotel; Grand Land and Dusit International's Dusit Princess Hotel; Udenna's integrated casino-resort; and Megaworld's hotels under the Belmont brand. Aside from Cebu, we believe that Cebu, Bohol, Davao, Bacolod, Iloilo, and Cagayan de Oro remain the most viable locations for resort-oriented development.

For more information:

Joey Roi Bondoc
Manager | Research
+632 858 9057
joey.bondoc@colliers.com

Dinbo Macaranas
Senior Manager | Research
+632 858 9047
randwil.macaranas@colliers.com

Contributors:

Richard Raymundo
Managing Director

Kasi Yute
Research Analyst

David Young
Chief Operating Officer