Colliers Flash

TAIWAN | HOTEL MARKET

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Accelerating success.

Investment Opportunities in Hotel Market

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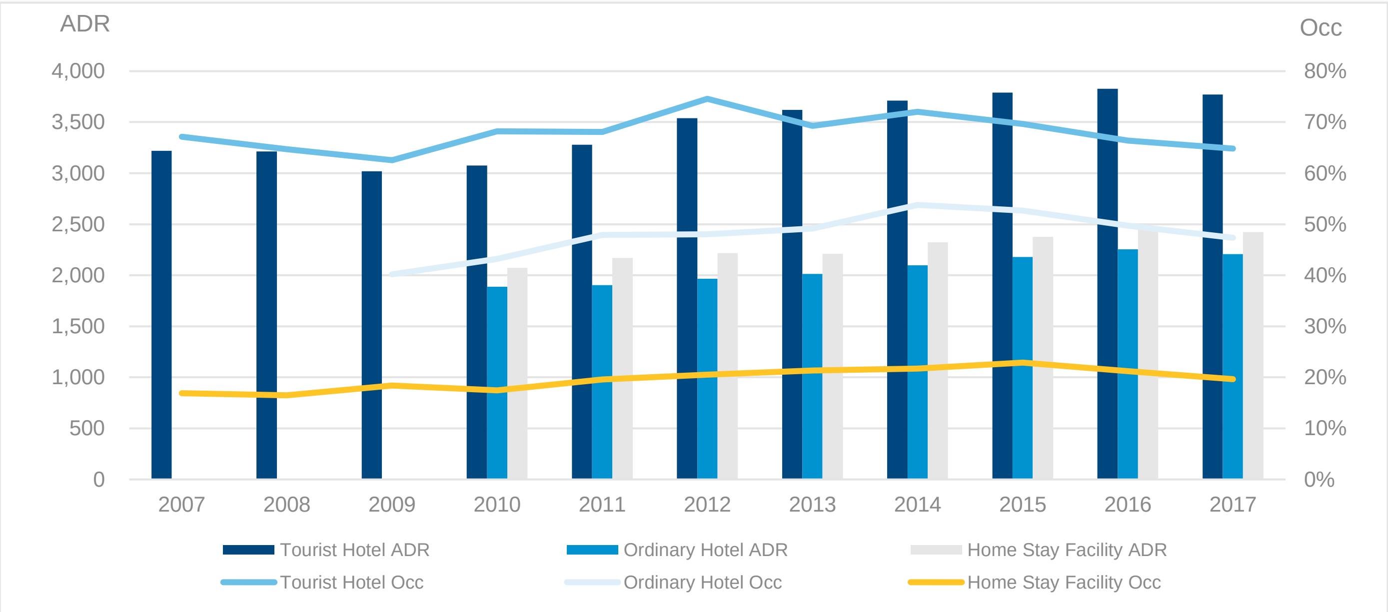
Taiwan hotels face tough market conditions as tourist arrivals stagnate despite a change in traditional source markets. This is combined with the high level of new hotel supply that recently entered the market, and as corporate travel experiences a slowdown. Owners and operators are advised to focus high-end resorts and hotels towards meeting the needs of domestic tourists, with internationally branded mid and lower-end markets providing significant growth opportunities.

Lodging places are divided into tourist hotels, ordinary hotels and home stay facilities in Taiwan

Taiwan's lodging market is divided into three broad categories according to regulations: tourist hotels, ordinary hotels and home stay facilities. They are classified according to construction and equipment standards, site area, operation, management and service quality, of which tourist hotels offer the highest standards, followed by ordinary hotels and home stay facilities. The number of rooms of tourist hotels was 21,171 in 2007 and 29,353 in 2017 while the number of rooms of ordinary hotels was 121,461 in 2007 and 170,679 in 2017. In the meantime, the number of rooms of home stay facilities was 12,032 in 2007 and 34,868 in 2017. Figure 1 shows that the average daily rate (ADR) of tourist hotels is the highest, followed by home stay facilities and ordinary hotels. In terms of occupancy, tourist hotels rank higher than both ordinary hotels and home stay facilities.

Figure 1: Historic ADR and occupancy of lodging places

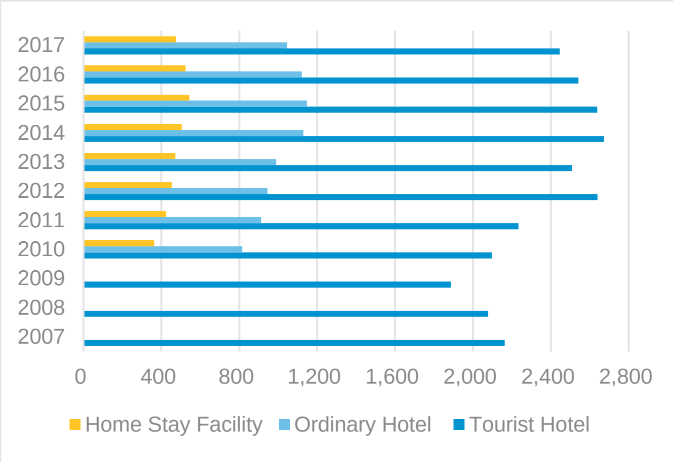


Source: Tourism Bureau

RevPAR comes under pressure

Since 2014, new supply in the hotel market has reached over 10,000 rooms every year. As a result, the growth rate of hotel ADR has decreased or turned negative, with occupancy rates on the decrease since 2014. The highest RevPAR (revenue per available room) achieved for tourist hotels was in 2014, whilst for ordinary hotels, it was in 2015.

Figure 2: Historic RevPAR of lodging places



Source: Tourism Bureau

For Taipei's tourist hotels on average, the ADR was NTD4,384 (USD146.1) and occupancy was 73.2% in 2017, a RevPAR of NTD3,209 (USD107.0).

On the assumption that each room occupies 13 ping or about 43 sq m, if hoteliers rent Grade A or Premium Grade offices in Taipei to run tourist hotels, and hope to control the proportion of rental cost to room revenue below 20%, we estimate that they will need to keep RevPAR above NTD4,500.

Table 1: The proportion of rental cost to room revenue

Monthly rent / RevPAR	2,200	2,600	3,000	3,400
3,000	32%	38%	43%	49%
3,500	27%	32%	37%	42%
4,000	24%	28%	33%	37%
4,500	21%	25%	29%	33%
5,000	19%	23%	26%	29%
5,500	17%	20%	24%	27%
6,000	16%	19%	22%	25%
6,500	15%	17%	20%	23%

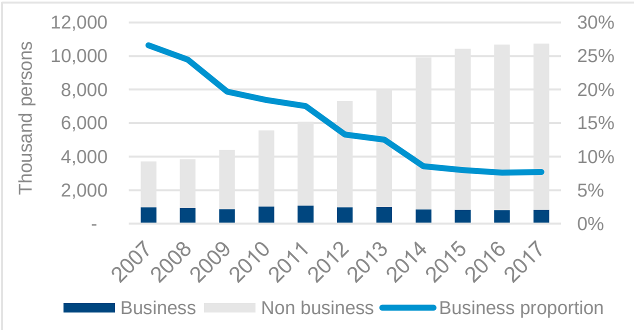
Source: Colliers

Challenges for hoteliers

> Business travel is decreasing

Even though tourist arrivals have exceeded 10.0 million for three successive years, the number of business visitors to Taiwan decreased to 830,000 in 2017 versus 1.06 million in 2007.

Figure 3: Tourist arrivals and purposes

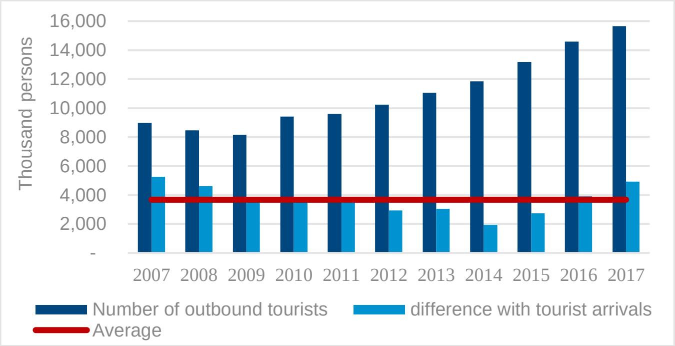


Source: Tourism Bureau

> Domestic travel may be curtailed as the stronger NTD, compared to say the Japanese yen, continues

The number of outbound tourists is higher than inbound tourists every year and the average difference has been around 3.67 million persons between 2007 and 2017. With large seats supplied by low-cost carriers and a favourable exchange rate versus the Japanese yen, the number of outbound tourists has increased by over 1.0 million per year since 2015. The difference between the number of outbound and inbound tourists expanded to 4.91 million in 2017.

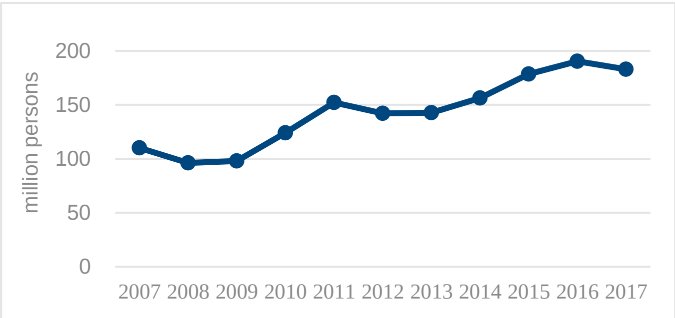
Figure 4: Numbers of outbound and inbound tourists



Source: Tourism Bureau

Taiwanese citizens account for 45% of occupied rooms in tourist hotels. We see a risk that people may reduce domestic travel frequency owing to growing outbound travel and decrease demand for domestic lodging facilities. The number of domestic tourists decreased 7 million to 183 million in 2017 and it was 190 million in 2016.

Figure 5: Numbers of domestic tourists



Source: Tourism Bureau

> Emerging non-traditional lodging places

The hotel industry faces competition from non-traditional lodging places. Some houses are being used to provide tourist accommodation through the platform of Airbnb and online travel agents. And some domestic people like to camp.

Suggestions to owners and investors

> Meet domestic needs for high-end resorts and hotels

Seven resort hotels stood at the list of the top ten hotels by RevPAR in 2017, and domestic tourists account for the majority of their occupied rooms. Except for Silks Place Yilan, all resort hotels are located in scenic attractions and hot spring zones. Silks Place Yilan is famous for Cherry Valley roasted duck and kid-friendly.

> Invest in mid to low-end internationally branded hotels

The penetration of mid and low international hotel brands is very low in Taiwan, and investors may consider that this class offers a better growth opportunity, especially as development costs for high-end hotels remain high. Certain Japanese brands are aiming at this market at present. For example, H.I.S. Hotel Holdings from Japan has directly acquired shares of one of the largest mid to low-end hoteliers - the Green World Hotel in 2017.

> Introduce technology and market tools

Technology can lower costs and improve guest experience. Hoteliers should try to encourage more direct bookings rather than relying on online travel agents.

> Seek expert opinions

There are many stakeholders involved in hotel development and management, each of whom face different issues. Each party should seek expert opinions before and after signing contracts.

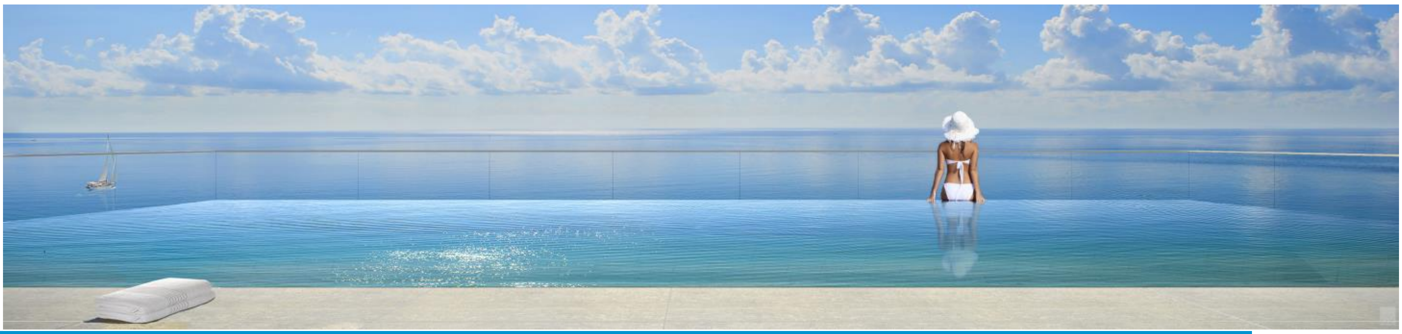


Table 2: Top 10 tourist hotels by RevPAR in 2017

Hotel name	RevPAR (NTD)	ADR (NTD)	Occupancy (%)	Domestic tourist (%)	FIT (%)
The Lalu	8,940	11,401	78.4	73.4	79.8
Grand View Resort Beitou	7,926	13,808	57.4	44.5	84.1
Le Méridien Taipei	7,100	8,605	82.5	22.7	92.3
W Taipei	6,684	8,500	78.6	10.2	87.9
Fleur de Chine Hotel	6,300	7,783	80.9	81.4	47.8
Silks Place Yilan	6,031	8,896	67.8	87.2	92.6
Hotel Royal Chiaohsi	5,199	7,000	74.3	89.2	75.1
Humble House Taipei	5,071	5,986	84.7	14.8	84.8
Silks Place Taroko	4,646	7,327	63.4	80.5	72.0
Cesar Park Kenting	4,551	5,218	87.2	83.3	68.3
Tourist hotel average	2,445	3,772	64.8	45.0	64.7

Source: Tourism Bureau and Colliers

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