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SAILING IN UNCHARTED WATERS

Hotel operators to highlight innovations amid limitations

Insights & Recommendations

The Philippine leisure sector continues to suffer from the sluggish impacts of the global pandemic and imposition of travel restrictions.

Like other property markets, the hotel segment is likely to suffer from delayed completion of new projects as developers factor in a sluggish recovery.

Colliers recommends that operators continue to target returning OFWs* and professionals looking for co-living facilities and flexible workspaces.

We recommend operators highlight compliance with health and sanitation protocols and take advantage of concessions lined up by the government for the sector.

Colliers also believes that now is an opportune time for operators to ramp up use of technology in providing innovative services.

		H1 2020	Full Year 2020	2020–24 Annual Average
Demand	> Colliers sees foreign arrivals dropping by more than 50% in 2020 due to the pandemic and travel bans. We project a significant decline from major markets such as United States, China, and Korea. We see a slow recovery in domestic tourism starting 2021.	▼ 1.3 million	▼ 3 million	▼ 6.2 million
Supply	> Colliers saw the completion of 375 rooms in H1 2020. We project a muted completion for the remainder of 2020 due to the impact of the lockdown and pandemic. Colliers expects subdued delivery up to 2022 as developers take a wait-and-see stance.	▲ 375 rooms	▼ 1,725 rooms	▲ 1,530 rooms

		HOH/ End H1	YOY/ End 2020	Annual Average Growth 2019–24 End 2024
Occupancy	> Colliers projects occupancy to reach 30% in 2020 due to the substantial drop in foreign arrivals. This is significantly lower than the 72% posted in 2019. Occupancy will likely remain below 50% up to 2021 as local and foreign air travel continue to be disrupted.	-46pp ▼ 25%	-42pp ▼ 30%	-1pp ▼ 70%
Room Rates	> Colliers expects average daily rates (ADR) to drop by 30% in 2020 due to lower occupancy. We do not see a pick up in ADR over the next 18 to 24 months as the leisure sector continues to suffer from the global economic crunch and limited spending of local tourists.	-16% ▼ USD66	-30% ▼ USD55	0% ◀ ▶ USD74

Source: Colliers International
Note: USD1 to PHP50 as of the end of H1 2020. Demand is tourist arrivals. *Overseas Filipino workers.

RECOMMENDATIONS

Highlight compliance with health and safety protocols

Colliers believes that hotel operators should closely monitor anti-pandemic efforts being implemented by the national government. For one, hotels should comply with the health and safety protocols being imposed by the Department of Tourism (DOT) and highlight their compliance to recapture demand once market sentiment improves.

Be cautious in dropping rates

Colliers believes that hotels should thoroughly consider decisions to immediately lower rates at this point as these are unlikely to prop up occupancies given the significant drop in foreign and domestic tourists. We also do not see international and local air travel reverting to pre-pandemic levels in 2020. We encourage operators to closely monitor indicators including foreign and domestic tourist arrivals; leisure spending as a percentage of personal consumption; allowed domestic and international flights; and overall growth of the country's gross domestic product (GDP) and factor these into their pricing strategies starting Q1 2021.

Target employees in business districts, returning OFWs

The COVID-19 pandemic and lockdown have resulted in a 68% drop in foreign arrivals from January to June 2020, resulting in 16% decline in average daily rates (ADR) in June as compared to the pre-lockdown rates in mid-March. During the lockdown and suspension of public transportation, hotels have served as halfway houses for outsourcing employees and quarantine facilities for returning Overseas Filipino Workers (OFW). We encourage hotel operators to continue obtaining accreditation from government agencies to accommodate BPO workers and OFWs.

Innovative services using technology

Colliers believes that despite the pandemic, hotel operators should continue utilizing technology to enhance customer experience and customize accommodation offers. In our opinion, operators should expand these technology-enabled services aside from the typical keyless check-in, and 24/7 mobile connectivity and smart room control. In our opinion, the pandemic and physical distancing protocols likely to be implemented once COVID-19 wanes only highlight the need to roll out innovative hotel services using modern technology.

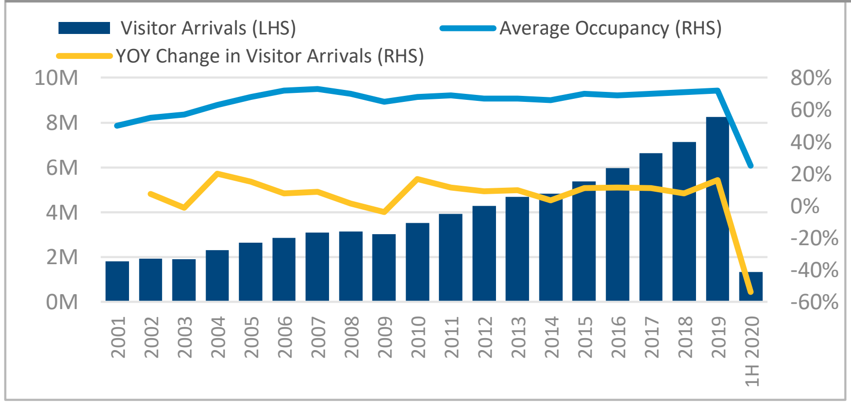
Monitor government concessions

Colliers encourages hotel operators to stay up to date and maximize various concessions likely to be implemented by the government for the leisure sector. For one, operators should closely monitor the implementation of the bubble tourism[1] being planned by the Department of Tourism (DOT), covering Boracay, Baguio, Bohol and Siargao Island. In our view, hotel operators should tap government support for manpower upskilling thru various webinars hosted by DOT. Operators should also consider implementing flexible work arrangements (e.g. part-time and staggered hours) rather than reducing their workforce. Nearly 14 out of 100 employed Filipinos are in tourism-related enterprises[2].

Pivot to co-living and flexible workspace

Colliers believes that hotel operators should be more agile given the anemic demand brought about by the pandemic and the global economic crunch. In our opinion, some hotel operators should consider other leasing models and repurpose their facilities into co-living facilities and flexible workspaces. These schemes, however, should comply with the government-mandated physical distancing measures. These promotions should be promoted aggressively on social media and target the millennial and mobile workforce.

Occupancy rate and visitor arrivals and YOY change, 2001-1H 2020



Source: Department of Tourism

[1] 'Travel bubbles': DOT eyes tourists from virus-free countries to visit PH
[2] Tourism industry hikes share in GDP to 13%

2020-2021 FOREIGN AND LOCAL TOURIST NUMBERS PLUNGING

In our H2 2019 hotel report released in February 2020, we highlighted the potential drop in Chinese arrivals due to the then China-centric nature of the outbreak. The virus, which has since evolved into a pandemic, is likely to affect arrivals from the Philippines' other major source markets such as South Korea, USA, Japan, and Taiwan. These countries, including China, covered about 70% or 5.8 million of the 8.6 million foreign arrivals in 2019.

The latest data from the Department of Tourism (DOT) show that foreign tourist arrivals for the first six months of 2020 declined by 68% YOY. An official breakdown has yet to be released by DOT but the latest figures reveal a 67% drop in expenditures to USD1.6 billion (PHP81.1 billion) from USD2.5 billion (PHP121.5 billion). This partly supports Colliers' finding of a 16% decrease in average daily rates at the end of June 2020 compared to their ADR in March 2020.

OCCUPANCY TO DROP TILL 2021

Colliers saw hotel occupancy in Metro Manila dropping to 25% in H1 2020 from 71% in H2 2019. We attribute the drop to the substantial decline in foreign arrivals due to the pandemic and travel restrictions imposed in several countries.

Most of the hotel guests during the lockdown which started mid-March were returning OFWs, health workers serving as frontliners, as well as professionals working in Metro Manila whose daily commute was limited by the suspension of mass transportation in the capital region.

While the Philippine government already announced that it will likely allow the entry of foreign nationals with long-term visas starting August 1, this is not enough to stoke international arrivals. Also, no new entry visas shall be issued, a stark contrast from the previous *visa upon arrival* scheme for Chinese tourists implemented in 2017 which is among the reasons attributed to the surge of Chinese visitors.

Chinese tourists reached 1.74 million in 2019, nearly triple compared to only 675,000 in 2016.

With a significant decline in foreign tourists, hotels are likely to depend mostly on Filipinos being repatriated, as well as professionals within business districts on long-term stay including those employed by outsourcing firms.

With several tourists and leisure stakeholders still wary of travelling due to the pandemic, we do not a see a significant improvement in hotel occupancy for the remainder of 2020 until the end of 2021.

LIMITED NEW SUPPLY

Only about 375 rooms were completed in H1 2020. Colliers sees the delivery of about 1,725 new hotel rooms in 2020 from 1,694 in 2019. This figure is also down from our initial forecast of about 3,100 rooms due to be completed in 2020.

Our projected delivery in 2020 is less than the average of 2,000 new hotel rooms completed from 2010 to 2019. As the leisure market still reels from the adverse impacts of the global recession brought about by the pandemic and lockdowns, Colliers sees the delayed delivery of several hotel projects across Metro Manila.

Average room rates by star classification, H2 2019 vs. H1 2020

Star classification	H2 2019	H1 2020	% change
3-star	3,866 (USD77)	3,566 (USD71)	-7.8%
4-star	5,821 (USD116)	4,705 (USD94)	-19.2%
5-star	10,750 (USD215)	8,957 (USD179)	-16.7%

Source:: Colliers International
Note: USD1 = PHP50 as of the end of Q2 2020

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