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Open skies

Quicker pace of hotel sector recovery in the offing

Insights & recommendations

The Philippines is starting to welcome more foreign travelers while domestic tourists are driving hotel occupancies and leisure-related spending across the country. The tourism sector's share to economic output and total employment is beginning to improve, supporting industry analysts' projection of a quicker pace of recovery. Colliers recommends that hotel operators and other stakeholders:

- Prepare for the gradual resumption of MICE† events
- Craft flexible packages for business and leisure travelers
- Seize opportunities from public and private sectors' initiatives to attract foreign tourists while improving Philippine tourism infrastructure such as airports and expressways.

		H1 2022	Full Year 2022	2022–24 Annual Avg
Demand	Revenge travel is starting to kick in. The continued improvement in foreign tourist arrivals should lift hotel occupancy and leisure spending nationwide.	814,144 arrivals	2 million arrivals	4 million arrivals
Supply	From 2022 to 2024, we see the annual delivery of 2,650 new rooms in Metro Manila. The Bay Area and Quezon City are likely to account for over 60% of the new supply.	843 rooms	1,830 rooms	2,650 rooms

		HOH/ End H1	YOY/ End 2022	Annual Avg Growth 2021–26/ End 2026
Occupancy	Occupancy in Metro Manila improved in H1 2022. In our view, rising demand from staycations and foreigners will drive occupancy for the remainder of 2022.	+3pp 47%	+11pp 55%	+5pp 70%
Room Rates**	ADRs* rose by 5.4% in H1 2022 from 4% growth in H2 2021. We expect rates to increase by a faster 8% in 2022 supported by recovering local and foreign demand.	+5.4% USD66	+8.0% USD68	+4.8% USD85

Source: Colliers. Note: USD1 to PHP54 as of the end of H1 2022. Demand is tourist arrivals. †MICE = Meetings, Incentives, Conferences and Exhibitions; *Average Daily Rates.

> "The Philippines is starting to lure tourists back to its shores. We are seeing a rise in foreign arrivals while improving consumer confidence is propelling the domestic market. Higher-than-expected economic growth in Q1 2022 and further easing of travel restrictions should support the sector's recovery beyond 2022. However, hotel operators should be mindful of the offsetting impacts of rising inflation and peso depreciation."
>
> **Joey Roi Bondoc**
> Associate Director, Research

Recommendations

Gradual reopening of MICE facilities

Results from our [Q4 2021 briefing survey] show that 57% of the respondents are willing to attend a face-to-face event, an improvement from only 20% who responded in the affirmative in [Q2 2021]. In our opinion, hotels should start the gradual reopening of Meetings, Incentives, Conferences and Exhibition (MICE) facilities especially now that private firms and government agencies are starting to implement in-person events. Hotels should also adhere to health and safety protocols and offer flexible MICE packages to corporate clients.

Flexible packages for business and leisure travelers

Colliers recommends that hotel operators craft flexible packages for business travelers especially those on a longer stay conducting due diligence. Flexibility should be in terms of pricing, free cancellation and upgrade policies. This scheme is also suitable for foreign leisure travelers using Manila as a pitstop before going to other tourist destinations in Visayas and Mindanao.

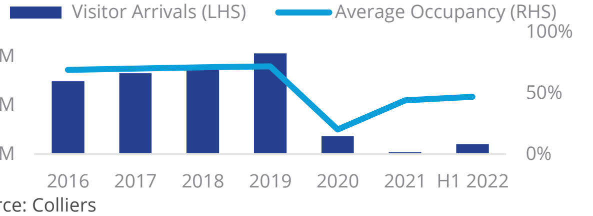
Maximize public and private sector initiatives to lure back tourists

The new Department of Tourism (DOT) administration is looking at promoting Mindanao and other destinations across the country.[1] It also intends to work with various Local Government Units (LGUs) in building infrastructure to improve connectivity to emerging tourist spots. We encourage developers to look at the viability of building hotels and MICE facilities in these destinations. For instance, the new SMX Convention Center in Clark, Pampanga[2] is likely to benefit from the modernization and expansion of the new Clark International Airport.

Meanwhile, hotel operators and other industry groups should observe government programs to lure travelers from the Philippines' traditional tourism markets including Japan, South Korea and China, which accounted for 52% of total foreign arrivals from the pre-Covid 2017 to 2019 period. Hotel operators should also mount partnerships with international airlines that are planning to resume flights to the Philippines. South Korean airlines[3] Fly Gangwon, Jeju Air and Jin Air launched and resumed operations to the new Clark International Airport. Cebu Pacific also resumed direct flights from Manila to Sydney.[4]

In our view, hotel operators should firm up partnerships with airlines offering innovative products and services. Earlier, AirAsia introduced the AirAsia Super App which enables travelers to book flights, hotels, travel packages and purchase duty-free products using a single app.[5]

Foreign arrivals and Metro Manila hotel occupancies, 2016 – H1 2022



Source: Colliers

Foreign arrivals up 1,299%

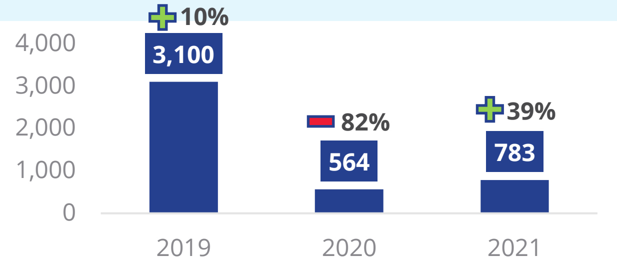
Data from DOT reveal that foreign arrivals reached 814,144 as of H1 2022, up 1,299% from the 58,177 international tourists recorded a year ago. The uptick in foreign arrivals was due to the government easing travel restrictions for foreigners starting February 10 including the dropping of the Covid test requirement prior to entering the country.[6] In 2022, the tourism department sees foreign arrivals reaching 2 million from 163,879 in 2021.

[1] EYE ON MINDANAO: DOT to make tourism more inclusive: Frasco ; [2] SMX Convention Center Clark formally opens in Pampanga ; [3] South Korean airline Fly Gangwon resumes operations in Clark

[4] Cebu Pacific resumes Manila-Sydney flights; [5] airasia Super App officially launched in PH, set to excite and further grow e-commerce — airasia newsroom; [6] RT-PCR test no longer needed for fully-vaxxed travelers

Meanwhile, the share of tourism to the country's economy also showed signs of optimism. In 2021, Data from the Philippine Statistics Authority (PSA) show that the sector's contribution to GDP reached 5.2% from 5.1% in 2020. Domestic trips also rose by 38% to 37.3 million from 27 million trips in 2020.[7]

Domestic tourism expenditures, in PHP billion



Source: Philippine Statistics Authority

Tourism-related employment reached 4.9 million in 2021 from 4.68 million in 2020. This accounted for about 11.1% of total employment in the country.

The International Air Transport Association (IATA) projects that global passenger traffic may likely return to pre-Covid levels by 2023, or a year earlier than its previous forecast, due to pent-up travel demand.[8] Meanwhile, the Philippine Hotel Owners Association (PHOA) said that demand is likely to revert to pre-pandemic levels by 2024, stressing that the "next year and a half will be crucial."[9]

Occupancy nears 50% mark

In H1 2022, average hotel occupancies in Metro Manila reached 47%, up from 44% in H2 2021. We attribute the improvement to the gradual return of business travel especially amongst investors conducting due diligence; local guests' growing propensity to spend on leisure, likely supported by a rise in demand from the staycation market in April to June; and a slight rebound in foreign arrivals due to relaxation of entry restrictions. According to our recent Colliers Hospitality Insights report, a sustained recovery in international travel will become more apparent in H2 2022, providing a solid base for 2023 and beyond. Colliers believes that leisure travel will lead recovery, followed by business and MICE groups.[10] Colliers projects occupancy to hover above 50% by the end of 2022, supported by holiday-induced spending and the return of Filipinos working abroad.

ADRs tilt to the upside

In H1 2022, ADRs increased by 5.4% HOH from a 4% growth in H2 2021. From 2020 to 2021, ADRs saw a cumulative drop of about 20% compared to pre-Covid levels. In 2022, we project ADRs to grow by 8% supported by growth in foreign arrivals and expansion of the domestic market.

Average daily rates by classification, H2 2021 vs. H1 2022

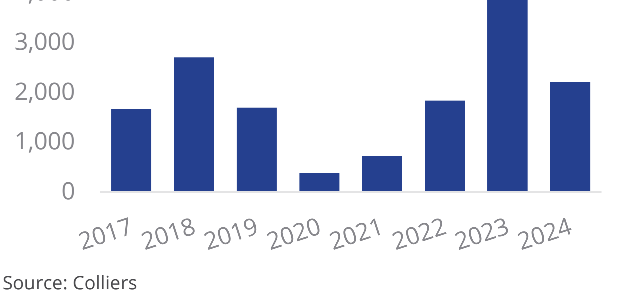
Star classification	H2 2021	H1 2022	% change (HOH)
3-star	PHP3,480 (USD64)	PHP3,563 (USD66)	+2.4%
4-star	PHP4,738 (USD88)	PHP4,760 (USD88)	+0.5%
5-star	PHP8,361 (USD155)	PHP9,689 (USD179)	+15.9%

Source: Colliers; Note: USD1 to PHP54 as of the end of H1 2022.

Healthy new supply

In H1 2022, Colliers saw the delivery of 834 rooms, following the expansion of Kabayan Hotel (307 rooms) in Pasay City, Lime Resort Manila (305 rooms) and opening of Hop Inn in Ortigas CBD (231 rooms). By the end of 2022, we estimate about 1,830 rooms coming online. Among the hotels due to be completed are Red Planet Hotel The Fort (245 rooms) and Lansons Place Hotel (250 rooms). From 2022 to 2024, we project the annual completion of 2,650 rooms. The Bay Area and Quezon City should account for more than 60% of the new supply.

Metro Manila hotel annual new supply and forecast (2017-2024)



Source: Colliers

[7]Philippine tourism's share to economy inches up in 2021 ; [8]Airline body IATA now sees industry recovery in 2023 | Reuters

[9]Philippine tourism industry seen to reach pre-pandemic levels by 2024 ; [10]Colliers | Hospitality Insights | Q1 2022

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