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HOTELS | ASIA | Q4 2019

HOTEL INSIGHTS

A quarterly digest of key trends in the hospitality sector

FOREWORD

THE OUTLOOK FOR 2020

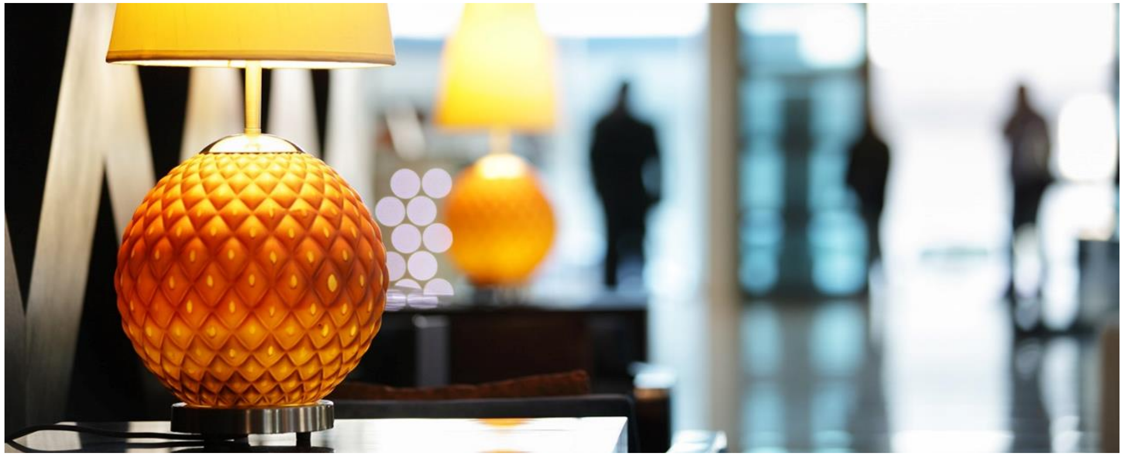
"..While the global economy is doing well overall…a raft of uncertainties are set to put a damper on pricing…

'The risks and ambiguity have increased over the past few months – not least the threat of escalating trade wars, the impact of Brexit, possible oil supply shocks, and the growing likelihood of recession,' said Kurt Ekert, CWT's president and CEO…

Asia's expansion has slowed down due to worsening US-China relations, tighter global financial conditions, and natural disasters. But the region remains the most dynamic, with steady GDP growth, benign inflation, and a sense of optimism…

Hotel: Asia's hospitality industry is booming with hotel investment volumes predicted to grow 15% year-on-year. Japan will host the Rugby World Cup later this year, and the Olympic and Paralympic Games in 2020, which will boost visitor numbers to the region. The Japanese hotel market is seeing a sharp increase in supply to accommodate the anticipated surge in visitors to the country during these events…"

– Extract from TTG Mice article (Aug 2019)



Welcome to the Q4 2019 edition of Colliers Hotel Insights.

This edition features two destinations: China and Siem Reap, our early forecast for 2020 and a highlight of the investment market. We also touch on the medical tourism sector.

Hotels across Asia Pacific continued to have a tough year in Q3 2019 when compared to the corresponding period in 2018. Overall room occupancy and average daily rate (ADR) decreased from 70.1% to 68.9% and US$102.38 to US$98.39 respectively year-to-date September 2019. This resulted in RevPAR for the region showing a decline of some 5.4% year-on-year. We note this figure would have been negatively impacted by forex currency movements together with declines in Australia, New Zealand, China, Malaysia and Vietnam. In terms of room occupancy, Delhi-NCR, Hanoi and Seoul remain the stand out performers, with year-on-year growth in excess of 3.8%, according to STR. Hong Kong, HCMC, Jakarta and Phuket led the field in being the worst performers.

In local currency terms, Bali, Ho Chi Minh City, Hanoi, Manila and Tokyo, all witnessed increases in excess of 3.8% in terms of ADR. Hong Kong, Jakarta, Kuala Lumpur, Osaka and Phuket witnessed declines.

It is evident that the continued escalation in the trade dispute and political impasse between the USA and China continues to weigh on business and consumer confidence, thereby tempering demand growth. Japan hosted the Rugby World Cup which may have been dampened slightly by the typhoon. Singapore appears to have benefited from the fall-out from Hong Kong, whilst Pacific and Indian Ocean destinations continue to find favour. On this note, happy reading!

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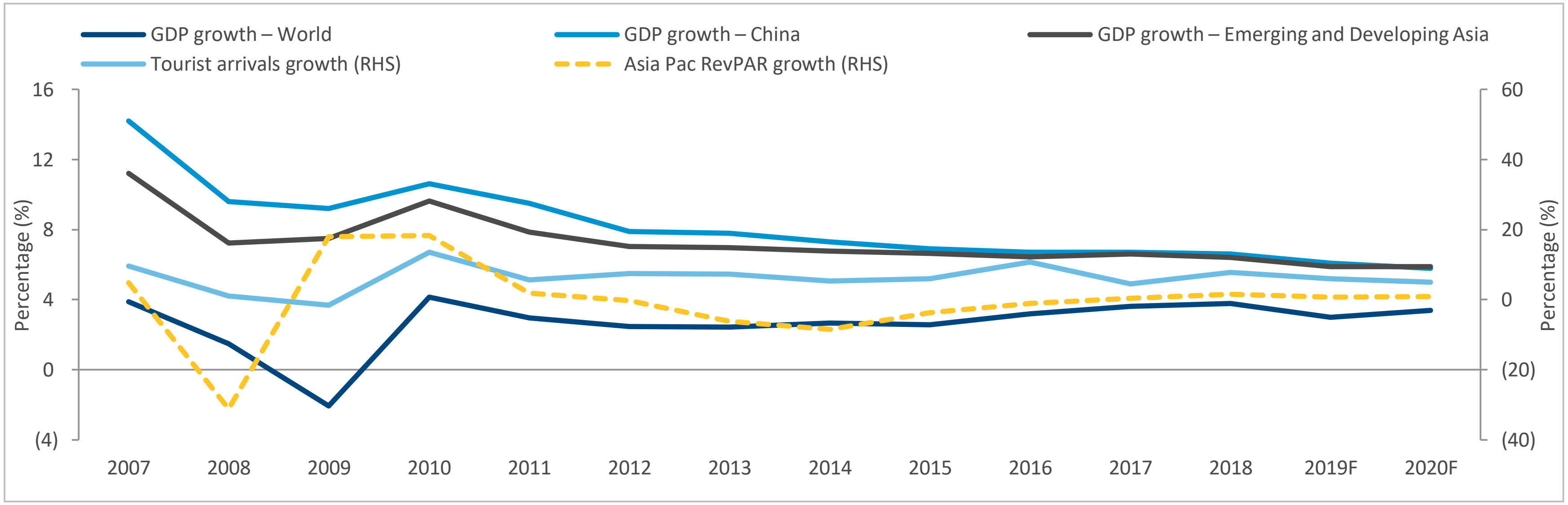


HOTELS OPINION

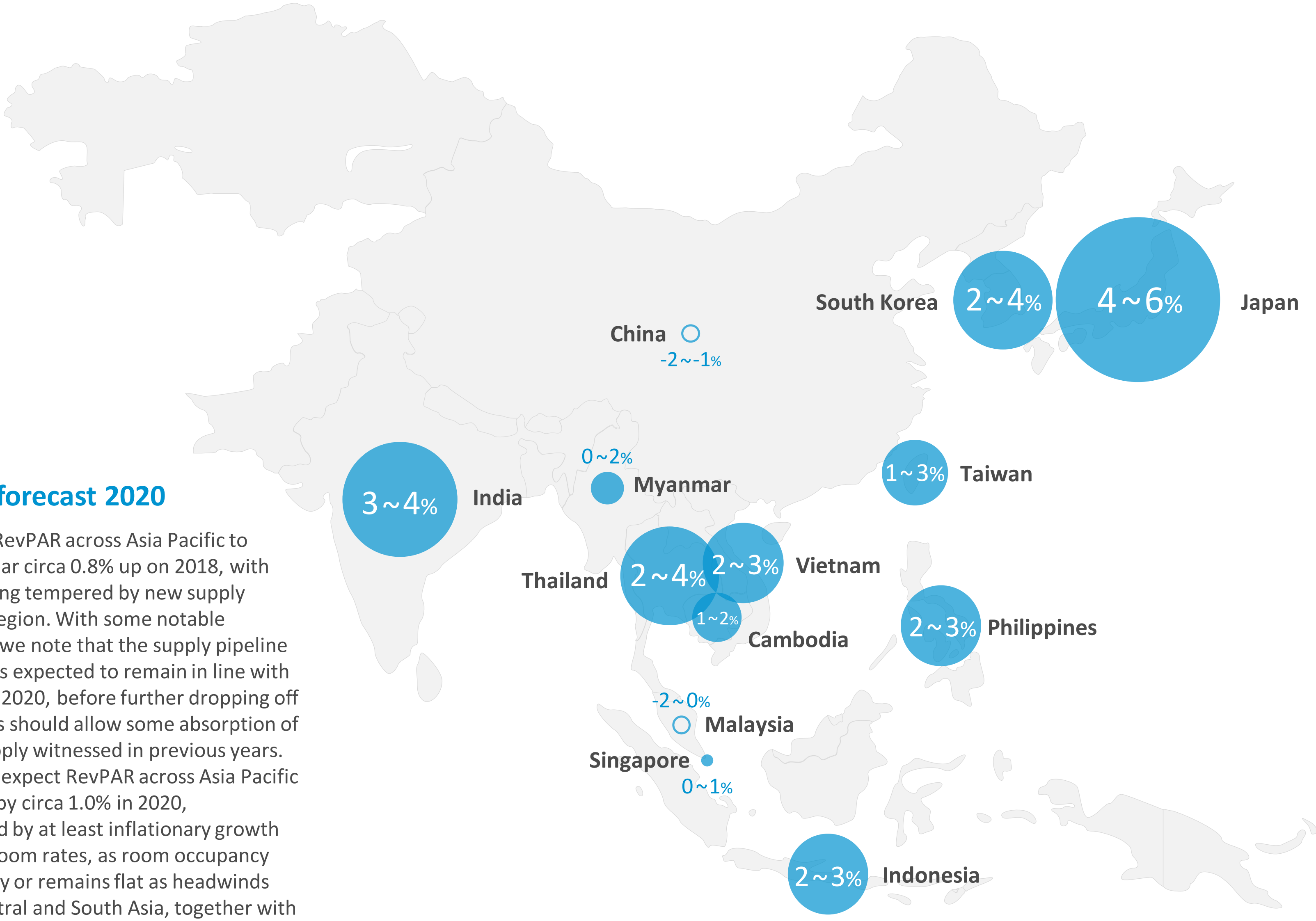
Our forecast for 2020

Our specialists view on RevPAR growth across destinations in Asia

Tourism arrivals in Asia Pacific is set for another stellar year of growth (circa 6%) in 2019 according to the United Nations World Travel Organisation (UNWTO). Growing purchasing power and enhanced visa facilitation were cited as being two of the largest factors contributing to this increase, with China and India being the largest outbound markets across the region. This growth is despite the ongoing trade dispute between China and the USA and highlights the strong intra-regional travel, making Asia one of the more decoupled destinations from factors in the West. Despite a slowing China, we expect tourist arrivals to grow circa 5% in 2020. The summer Olympics in Japan, Hanoi's first F1 Grand Prix, the return of several large MICE events and continued growth in disposable income should underpin this performance in 2020. However, headwinds prevail. Key risks will remain any further escalation of the US/China dispute, forex movements, geo-political events and oil prices.

CORRECTION

In our Q3 publication we mentioned that Marina Bay Sands' proposed expansion will include a "new 15,000 capacity conference center". This should be a "new 15,000-seat arena". Our error.



RevPAR forecast 2020

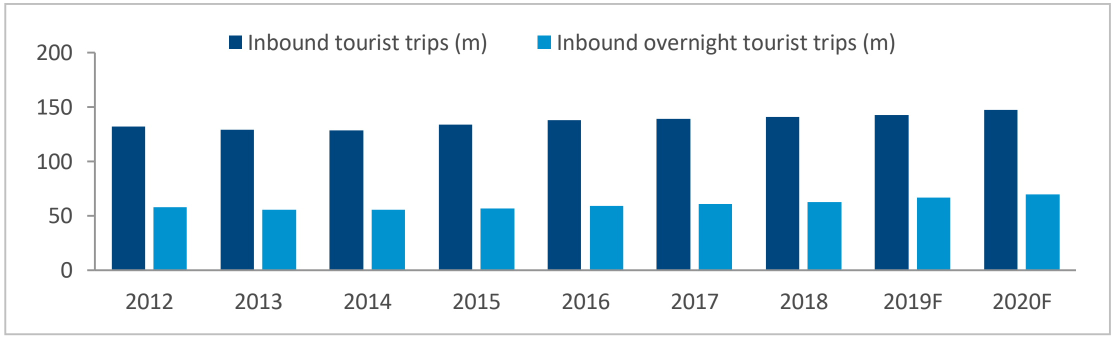
We expect RevPAR across Asia Pacific to finish the year circa 0.8% up on 2018, with demand being tempered by new supply across the region. With some notable exceptions, we note that the supply pipeline across Asia is expected to remain in line with demand for 2020, before further dropping off in 2021. This should allow some absorption of the new supply witnessed in previous years. As such, we expect RevPAR across Asia Pacific to increase by circa 1.0% in 2020, underpinned by at least inflationary growth in average room rates, as room occupancy slides slightly or remains flat as headwinds prevail. Central and South Asia, together with South East Asia are likely to be the highest growth markets, whilst, we expect further negative RevPAR growth across China.

DESTINATIONS OF THE QUARTER

China

A domestic affair

China inbound arrivals and overnight stays, 2012–2020F (millions)



Source: Ministry of Culture and Tourism of People's Republic of China

Recent data from STR Global saw China's RevPAR grow by 1.7% in 2018 when compared to the previous year. This was mainly due to subdued demand for business travel amid trade tensions, especially in Tier-1 cities, given their higher exposure to foreign trade and high-tech industries. Can China continue to keep its positive growth, and is it sustainable?

China has seen tremendous growth in real GDP, averaging 6.9% for the five year period to 2018. Depressed by the US-China trade war, 2019 growth of about 6.0% will be the lowest since 1990; even so, however, China will add nearly the equivalent of Switzerland to the global economy this year. Recent growth has been mainly driven by manufacturing and rapid state investment, particularly in infrastructure, and more recently, a rebalancing of the economy towards consumption. The infrastructure investment action plan alone included 303 projects covering railways, highways, waterways, airports and urban rail transit, with 131 projects in 2016, 92 projects in 2017 and 80 projects in 2018. By 2020, investment in tourism is expected to grow to over RMB 2 trillion.

According to the UNWTO, China currently ranks fourth (2017 latest) as one of the most visited destination, behind France, Spain and the US. As the country industrialises, China is expected to become the world's most visited country by 2020 as tourism will become one of its primary and fastest growing economic sectors. This is in line with the State Council five-year tourism plan (2016-2020) as the country strives to develop tourism into a major factor for economic transformation and upgrades, whilst improving tourism competitiveness.

Although China witnessed a slowdown in overnight tourist arrivals between 2012 and 2014 due to the Olympic legacy, high pollution levels, food concerns and the strong yuan, tourism arrivals picked up over the last four years. According to the China National Tourism Administration (CNTA), between 2015 (56.9 million) and 2018 (62.9 million), tourist arrivals (overnight stays) grew at a compound annual growth rate (CAGR) of 3.4%, with overnight visitors expected to increase by 3% between 2018 and 2019 to reach 64.8 million. The majority of tourists to China came from South Korea, Myanmar, Vietnam, Japan and USA. The strong growth in tourist arrivals could be attributed to visa-free immigration rules for short visits, available to visitors from 53 different countries. In addition, increased direct flights to the country from major source market destinations such as USA, UK and Australia have also boosted tourism levels.

China has proactively been taking measures to curb its pollution problems and increase its attractiveness as a tourism destination rich in history, culture and nature. The country is aiming to attract approximately 70 million overnight visitors by 2020, with inbound trips projected to grow at a CAGR of 10.5% over the forecast period (2016-2020).

Overseas visitors normally stay in China for an average of eight days. The top inbound destinations are Beijing, Shanghai, Xi'an, Guilin, Chongqing, Chengdu, Kunming, Shenzhen, Hangzhou and Sanya. Tier-1 destinations are also mainly seen as large business hubs for Meetings, Incentives, Conferences and Exhibitions (MICE) events, although there is an expanding leisure demand. However, whilst foreign visitation to China is sizeable with latent potential, even more so is the size of its domestic market.

In 2018, there were approximately 5.54 billion domestic trips made, with this set to increase to 6.06 billion at the end of 2019. This is equivalent to more than four trips on average per person given China's population. CAGR grew by a significant 11.2% over the last five years, underpinned by rising household income. Tourism receipts from domestic travel totalled some RMB 5.13 trillion, an increase of 12.3% compared to the previous year. Moreover, growth rates seen in tourism revenue are mostly being witnessed in provinces from Tier-2 cities and below, indicating that the consumption from domestic travellers has improved evidently through increased consumer confidence.

Domestic tourism has become more popular for a quick getaway as accessibility has improved greatly. This will only grow further with China's infrastructure plan to include 21 new projects in 2019 covering high-speed railways, urban rail transit and new airports which will help to support growth in domestic travelling across cities.

China domestic demand vs GDP

Source: Ministry of Culture and Tourism of People's Republic of China, World Bank

China's outbound tourism has seen an increasing trend too as the growing middle class are becoming wealthier, having higher disposable income for more trips within the country. Although the magnitude of outbound trips is only a fraction of their inbound, outbound trips are expected to increase significantly by 47.7% from 120.1 million in 2015 to 177.4 million in 2020. This bodes well for overseas destinations such as Thailand, Japan and Singapore as they are particularly popular with Chinese visitors.

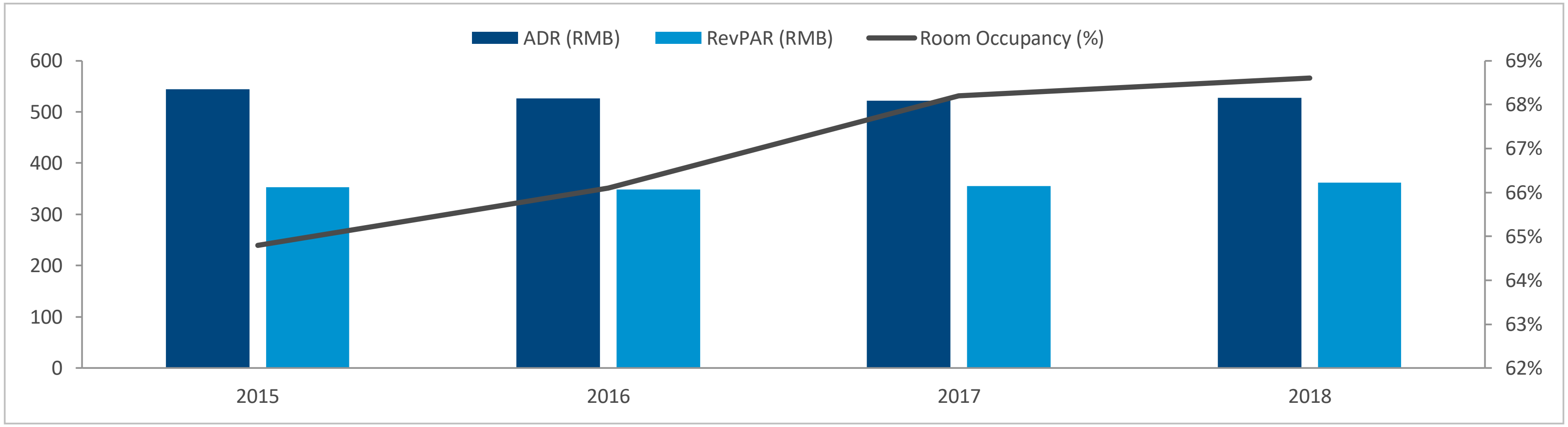
In terms of hotel performance, RevPAR saw a dip of circa 1.4% in 2016, from RMB 353.0 to RMB 348.1, mainly underpinned by a decrease in visitation from the transient segment. Lesser group bookings were seen although group occupancy has increased slightly. Considering 2017, the recovery in RevPAR by circa 2.1% could be attributed to the strong occupancy aided by growth in overnight visitation, although overall ADR dipped slightly by 1.0% to RMB 521.3. RevPAR in 2018 should also witness an upward trend, especially as China aims to drive inbound tourism numbers by focusing on improving its tourism-related products, facilities, and service quality through its "all-for-one" tourism initiative.

Over the past three years, despite new supply, hoteliers have consistently witnessed occupancy levels rising with a CAGR of circa 1.4% recorded over the period, from 64.8% in 2015 to 68.6% in 2018. This growth in demand for hotel rooms has outpaced a 3.3% expansion of room supply. Although there is an overall increased demand, these numbers also suggest that some cities are not seeing the same growth as others. We also note that as tensions are raised over the economic uncertainty associated with the prolonged trade war, demand for business travel will directly be impacted with the outcome yet to be known.

There are strong levels of MICE demand as first-tier cities such as Shanghai, Beijing and Guangzhou become core international MICE destinations, with newly built exhibition centres, convention hotels and transportation systems. China usually experience a high season in April, May, September and October in terms of leisure demand.

Despite the rise in occupancy levels, China's ADR dropped by 4.3% from RMB 544.5 in 2015 to RMB 521.3 in 2017. However, this rebounded slightly up by 1.1% to RMB 527.2 in 2018. Performances varied across the country, with key markets such as Shanghai, Beijing, Dalian, Xi'an, Guangzhou, Tianjin, Wuhan, Sanya and Hangzhou witnessing significant growth.

China Hotel KPIs (RMB)



Source: STR

As of 2019, hotel sentiments remain low as year-to-date RevPAR has dropped in most top-tiered cities. However, most domestically driven cities have seen some improvement recently, except for Shenzhen and Shanghai, which have higher exposure to foreign trade. Sanya on the other hand, has an oversupply of hotels which led to weaker performance in RevPAR. We note that Guangzhou has registered some positive year-to-date RevPAR growth, given its limited hotel supply.

Nevertheless, we expect visitation to continue to increase steadily over the next few years, as China continues to strengthen ties through the Belt and Road Initiative. Future performance is likely to be impacted by the economic performance of its own domestic market, currency exchange movements and consumer sentiment.

As much as China continues to strengthen its regulatory practice on foreign investments by private firms, interest in hotel investment within China is likely to grow as Chinese investors are eyeing local investment opportunities to continue expanding the market, especially in Tier-2 cities such as Hangzhou or Suzhou, where pricing will be more competitive as compared to Tier-1 cities. However, hotel transaction has dropped by 43% from US$1.7 billion (excluding US$2.9 billion Wanda portfolio transaction) in 2017 to US$1.0 billion in 2018. Only two transactions happened in Q4 2018, with a total consideration of US$33 million. Given concerns over economic uncertainties and foreign direct investment rules, investment sentiment may be moderate in the near to medium term.

The initial yield outlook for hotel investment remains stable and at moderately high levels. We expect the four-star and below market segments to offer good opportunities, as demand in this sector will likely continue to grow. As new hotel supply continues to rise, together with strong demand and infrastructure upgrades across the country, China should see a significant number of hotel transactions in the coming years.

For private equity investment, we consider the upper four-star and below attractive and sizeable investment targets. With its predominantly domestic market, these are good potential ‘cash cows’ allowing for refurbishment and repositioning under well known brands.

Oyo is clearly making headway into this market, and its success is clearly underpinned by its revenue guarantee and willingness to front upfront refurbishment costs. However, as domestic demand slows as trade tensions grow, we would expect some caution going forward.

DESTINATIONS OF THE QUARTER

Siem Reap

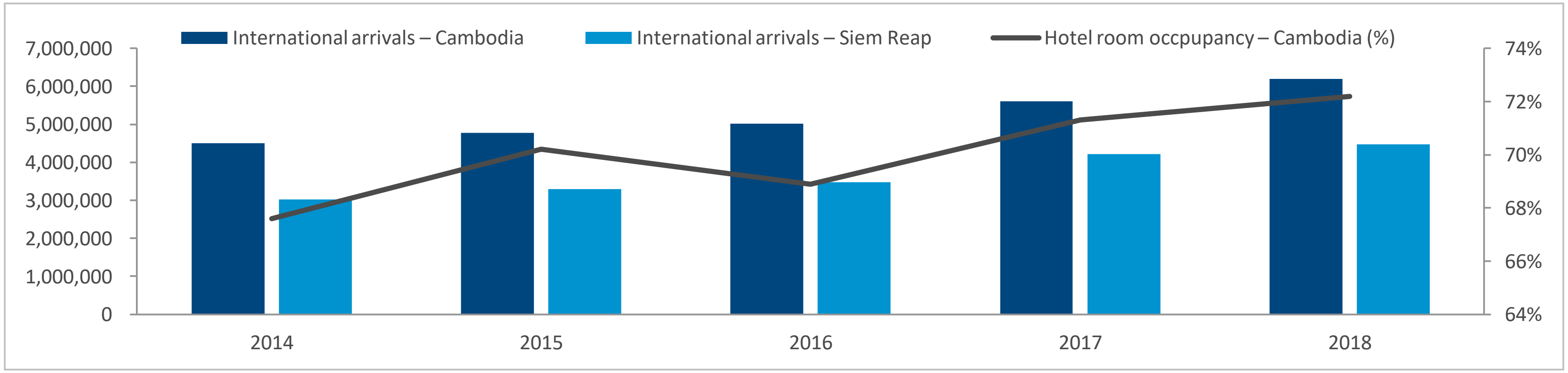
A revival of fortunes?

Siem Reap, with its world heritage site of Angkor Wat, has been on the must-see list of many travellers. It is the prime destination for the majority of international tourists to Cambodia, although this is changing as Phnom Penh and Sihanoukville expand their offerings. Despite this, it is expected to remain one of Cambodia's leading leisure destinations limited only by its infrastructure and airlift capacity.

These are however, set to improve, with the planned expansion of Siem Reap Airport, due for completion in 2023, and improvement works to National Road 6 linking to Phnom Penh and Sihanoukville. Cambodia has long been a stop-over destination, and its inherent lack of infrastructure and direct airlift has hampered its progress of becoming a direct destination of choice. However, since the expansion of NagaWorld in Phnom Penh and the increase in direct flights to that destination, Siem Reap has benefited from onward connections. As such, the destination witnessed a 21.0% increase in visitation between 2016 and 2017, with this continuing in 2018. However, growth has been tempered in 2019 (Jan-Apr year-to-date), mainly due to the negative press surrounding development and visitation to Sihanoukville. With its huge tourism potential, the city has more internationally branded upmarket and luxury hotels than Phnom Penh. We note that between 2005 and 2010 the city absorbed a large amount of new supply, which dampened room occupancies and average room rates. This has led to a slow-down in the pipeline for new hotels with only 541 rooms expected to come online by the end of 2020.

As investors chase yield, both Phnom Penh and more so Siem Reap could potentially offer good bargains in the short-term. Hotel investment yields in Siem Reap can range circa 7%+ for well located, internationally branded properties. With increased airlift and point to point service, the upside potential for tourism to Siem Reap lies beyond just leisure, and can be extended to the lucrative meetings, incentives, conferences and events, for example. The destination's low cost base, could make ideal especially during times of budget constraints.

International arrivals Cambodia and Siem Reap



Source: Ministry of Tourism and Cambodia Airports

HOTEL INVESTMENT AND VALUATION

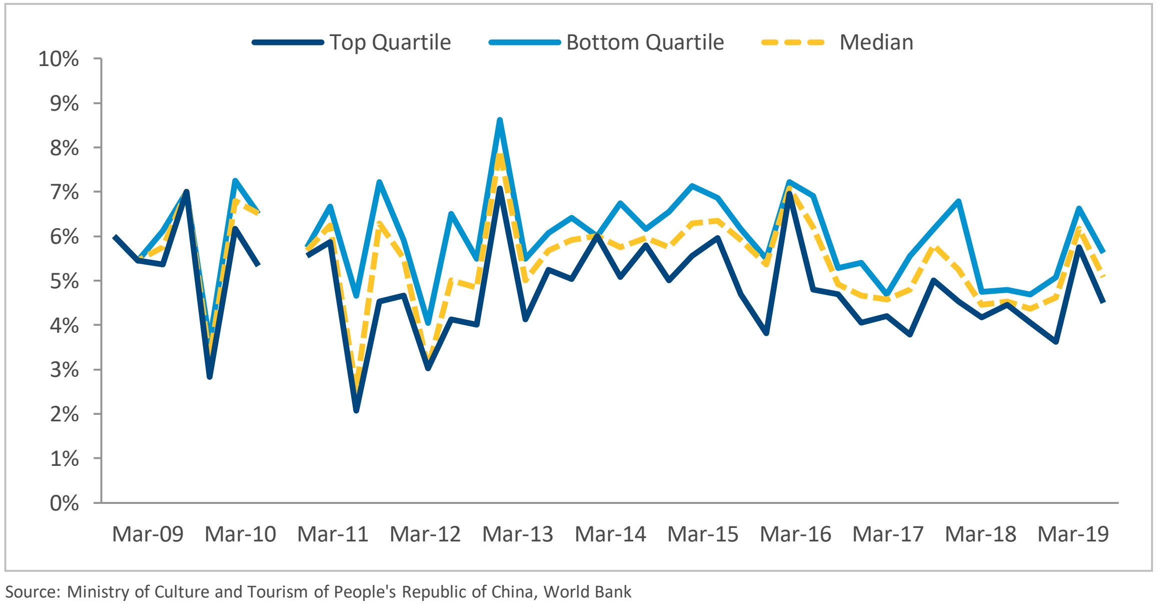
Capital markets insights

Across the region, investment remains subdued to Q3 2019, with total volume down 21% compared to the previous three quarters according to data from RCA. This is largely underpinned by high valuations in mature markets, and the ongoing uncertainty surrounding Brexit and the China/US trade dispute. Consolidation remains the preferred option with Ascott REIT merging with Ascendas Hospitality in Singapore, and OUE's Commercial and Hospitality Trusts merger.

The most liquid markets were Japan and South Korea with China, Singapore and Hong Kong also witnessing strong interest. Relatively active, but smaller markets included Vietnam and Thailand.

Yields remain at relatively stable levels compared to the previous period, suggesting that valuations have plateaued, with yield compression possibly at its highest. Going forward, we expect Japan to remain an active market in Asia, however, with investors chasing yields, expect more interest in emerging destinations.

Yield (cap rate %)



Source: Ministry of Culture and Tourism of People's Republic of China, World Bank

Recent notable transactions

In this quarter, most of the transactions across Asia were in gateway cities, where investors remain very active.

Hotel	Location	Value per room (USD)
Darby Park	Singapore	1,565,000
Andaz Singapore	Singapore	1,003,000
The Kimberley Hotel	Hong Kong	1,003,000
13 Hotel	Macau	957,000
Hilton Odawara	Japan	751,000

Source: Colliers Research.
Note: USD conversions are at time of transaction and represent approx. values.

WELLNESS / MEDICAL TOURISM

A note on wellness in Asia

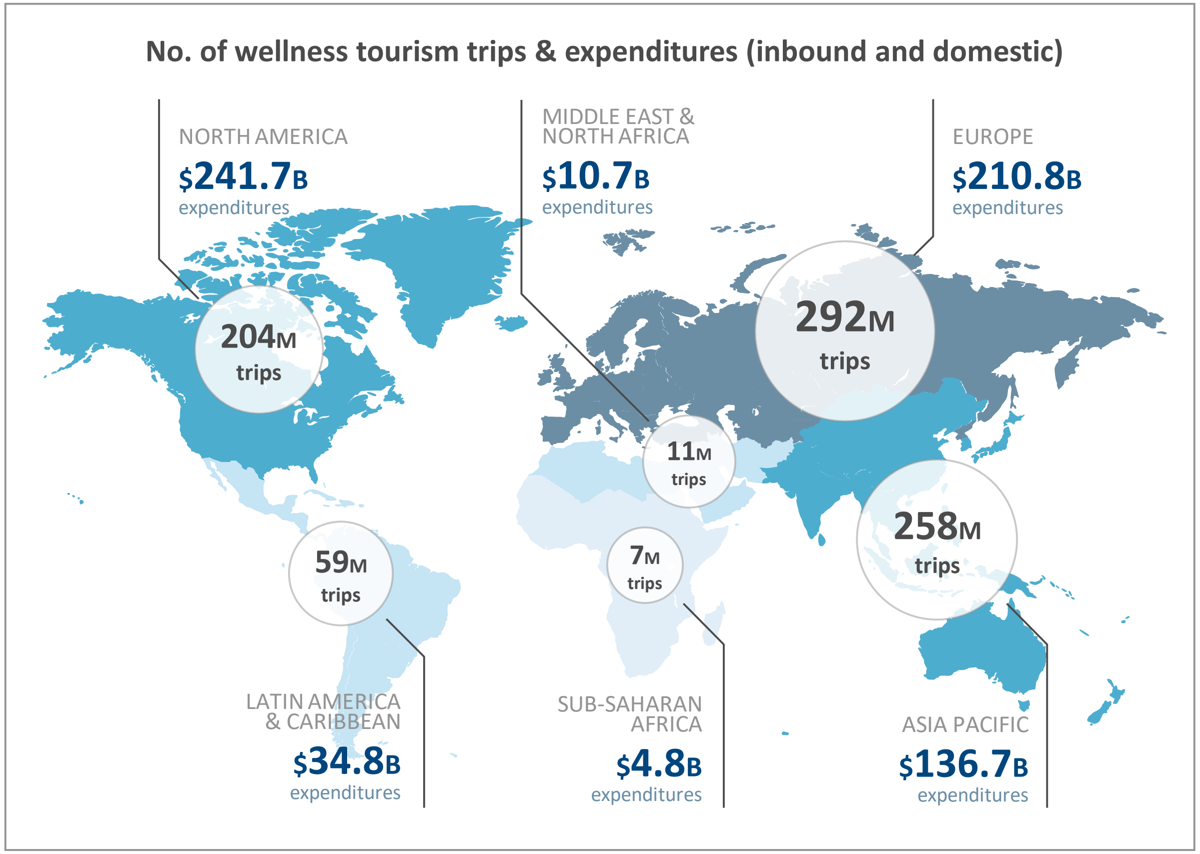
From the office space to home and lifestyle, wellness has become a staple part of our daily lives. The drive to remain fit as we live longer and retire later has led to the evolution of an industry that up to a decade ago was largely seen as a lifestyle commodity. These days, from gyms and yoga rooms to urban spas, and retreats, wellness has quickly become part of our everyday lives.

According to the Global Wellness Institute, the total wellness market has grown at a rate of 6.5% between 2015-2017 and is worth some US$639 billion. This is compared to the 3.2% for overall tourist arrivals over the corresponding period. The Global Wellness Institute also notes that over the past five years Asia was the #1 destination for wellness travellers, with trips in Asia increasing by 33% alone between 2016 and 2017, with China and India being the leading markets.

Further, according to Transparency International, the corporate wellness market in Asia Pacific is set to reach US$7.4 billion by 2024, with China and Japan being the largest markets.

So what are driving these trends? Lifestyle choices, underpinned by growth in wealth and longer ageing are key factors driving these trends. In addition, and particularly for female visitors, wellness is an essential part of travel.

Wellness tourism by region 2017



Source: Global Wellness Institute

Extending into medical tourism, Asia remains one of the top destinations with Thailand, Singapore, South Korea, Malaysia and India being the top five. India is well known for specialising in more invasive treatments including heart surgeries, whilst Singapore and South Korea, more cosmetic procedures.

As such, the outlook for wellness and indeed medical tourism remains strong and we would recommend developers and owners to consider including facilities in properties. Ideally, this should move beyond the provision of a fitness room ‘because we have to’, towards a revenue generating proposition. This could well be managed/leased to third parties where the expertise lies.

ABOUT COLLIERS HOTELS

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- Management Agreements and Lease Reviews
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- Benchmarking and Forecasting
- Tourism Strategy and Master Planning
- Asset Management
- Needs Analysis / Economic Impact Studies
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- Sports stadiums
- Integrated and mixed-use
- Destination Consulting

NEXT QUARTER

OPINION

Disruptors in the hotel industry

DESTINATION OF THE QUARTER

- HCMC
- Singapore

CRUISE UPDATE

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