Asia Pacific Hotels, H1 2018

Transactions remain upbeat amid healthy tourism growth

HOT TOPICS

• International visitor arrivals to Vietnam reached 7.8 million in H1 2018, representing growth of 27.2% y-o-y, the strongest increase in the region.

• Asia Pacific hotel market occupancy for the 12 months ending July 2018 increased slightly by 120 basis points y-o-y to 71.3%, supported by the healthy growth in international tourism arrivals.

• Markets registering high occupancy of more than 80% for the 12 months ending July 2018 include consistent performers such as Melbourne, Sydney, Tokyo, Osaka, Singapore and Hong Kong.

• Strong growth in international arrivals ensured hotel rates kept pace with hotel demand and occupancy growth.

• Hong Kong, Ho Chi Minh City and Bangkok led RevPAR growth in local currency terms for the 12 months ending July 2018.

• Solid demand from domestic and overseas investors contributed to Asia Pacific hotel transaction volume of US$ 5.1 billion in H1 2018. Activity was strongest in Japan, China, Hong Kong and Australia.

• Major deals included Guangzhou R&F Properties’ purchase of Dalian Wanda Group’s hotel portfolio of 73 properties for approximately RMB 17.5 billion.

ECONOMIC OUTLOOK REMAINS POSITIVE

The World Bank expects global economic growth to remain positive in H2 2018 before gradually weakening over the next two years. This is due to the anticipated slowdown of growth in advanced economies and declining demand for global commodities. Several major risks to global growth persist, including U.S.-China trade conflict, political uncertainty and geopolitical tensions.

The economic growth outlook for Asia Pacific remains healthy. However, escalating trade conflict between the U.S. and China remains a key downside risk to growth projections, given the importance of both countries as export markets. Tighter financial conditions in ASEAN could drag on domestic demand and result in slower GDP growth for the region.

INTERNATIONAL TOURIST ARRIVALS RISE

United Nations World Tourism Organisation (UNWTO) data show that international tourist arrivals in the first four months of 2018 grew by 6.2% over the same period in 2017. The robust growth exceeded forecasts of 4% to 5% for full-year 2018, as all regions performed steadily.

In addition, recent UNWTO Panel of Tourism Experts survey findings indicate strong confidence in the global tourism outlook for the May-August period on the back of strong tourism arrivals in many destinations.
VIETNAM RECORDS STRONG TOURISM GROWTH

International visitor arrivals to Vietnam reached 7.8 million in H1 2018, representing growth of 27.2% y-o-y, the fastest increase in the region. The strong showing was a result of tourism promotion initiatives such as increased participation in tourism trade fairs, marketing on social networks, the pilot implementation of electronic visas for 40 countries and visa exemptions for five Western European countries.

Japan welcomed a total of 15.9 million visitors in H1 2018, representing 15.6% y-o-y growth over the same period last year. The increased number of tourists reflected the effectiveness of social media promotional campaigns launched in Europe and the U.S. in 2018. The weaker Yen has also been a factor.

Thailand continued to see growth in international tourist numbers, recording an increase of 12.5% y-o-y in H1 2018. Tourist arrivals from East Asia accounted for approximately 73% of arrivals, representing y-o-y growth of 12.8%. This was largely due to stronger arrivals from China, which accounted for 2.76 million visitors in Q2 2018, a 21.3% y-o-y increase. Malaysia was the second largest feeder market, bringing 0.9 million visitors during the same period, representing an increase of 4.3% y-o-y.

Despite recording a dip in international visitor arrivals in 2017, Korea received a total of approximately 7.2 million visitors H1 2018, a rise of 6.9% y-o-y over the same period last year. This was likely due to its hosting of the Winter Olympics in February 2018.

HOTEL OCCUPANCY RECORDS STEADY GROWTH

Asia Pacific hotel market occupancy for the 12 months ending July 2018 increased slightly by 120 basis points y-o-y to 71.3%, supported by the healthy growth in international tourism arrivals.
MATURE MARKETS RECORD HIGH OCCUPANCY

Markets registering occupancy of more than 80% for the 12 months ending July 2018 included consistent performers such as Melbourne, Sydney, Tokyo, Osaka, Singapore and Hong Kong. These mature markets often reach full capacity and operate at above 80% occupancy with minimal fluctuations. The impressive figures also indicate strong market fundamentals, with hotel demand growing at a much faster rate than supply.

ADR IN LOCAL CURRENCY REMAINS RESILIENT

Strong growth in international arrivals ensured hotel rates kept pace with hotel demand and occupancy growth. Asia Pacific ADR for the 12 months ending July 2018 increased by 5.4% y-o-y. Some markets continue to see downside risks such as possible oversupply or competition from online hospitality marketplaces. Recent currency fluctuations have also contributed to the slower growth, meaning that any analysis of hotel performance in USD terms must be treated with caution. In local currency terms, a few markets showed slight declines on a y-o-y basis, including Singapore, Seoul and Taipei.

HONG KONG LEADS REVPAR GROWTH

Hong Kong, Ho Chi Minh City and Bangkok led RevPAR growth in local currency terms for the 12 months ending July 2018, supported by strong international arrivals. Vietnam performed especially well in H1 2018, with RevPAR expected to continue growing as more international hotel operators remain keen to expand their presence, especially in Danang, Cam Ranh and Nha Trang.

MARKET OUTLOOK REMAINS UPBEAT

The UNWTO expects global demand for international tourism to grow by 4.0% to 5.0% in 2018. Asia Pacific will be the strongest performing region, with growth projected at 5.0% to 6.0%. CBRE Hotels expects the strong demand growth in Asia Pacific to translate into improved trading conditions across key hotel markets.
INDONESIA EXPECTS SURGE IN ARRIVALS

Indonesia is likely to enjoy a surge in international tourist numbers in H2 2018 due to its hosting of major events including the 2018 Asian Games in August and the World Bank and International Monetary Fund’s (IMF) annual meetings in October. These events will attract a large number of international and domestic travellers and will support Indonesia’s goal of receiving 17 million international tourists in 2018. The government plans to augment several Indonesian airports with low-cost carrier terminals as demand for budget flights surges.

NEW HOTEL SITES RELEASED IN SINGAPORE

Developers in Singapore continue to seek sites to construct new hotels. Two sites for hotel developments (one on the Confirmed List and one on the Reserve List) were released by the Urban Development Authority (URA) in the H2 2018 Government Land Sales (GLS) programme. The additional rooms are expected to cater to the expected growth in demand in light of the limited new supply after 2020.

JAPAN CONTINUES TO PERFORM WELL

Hotel demand in Japan remain robust and is expected to continue growing in the run-up to the 2020 Tokyo Olympics and Paralympics. International tourism arrivals continue to record impressive gains. In addition to growing demand for the three major hotel markets of Tokyo, Osaka and Kyoto, regional cities such as Sapporo, Nagoya and Fukuoka are also reporting high occupancy and RevPAR.

TOURISM GROWTH BOOSTS THAI MARKET

The Thai hotel market has performed strongly since 2015 on the back of healthy tourism growth. This has been supported by a range of government measures including visa exemptions, reduced visa charges, additional routes/airports and the continued growth in arrivals from within Asia as well as from new markets such as Russia. This has also resulted in higher hotel occupancy in markets in emerging secondary provinces. In Bangkok, total room supply is forecasted to grow by approximately 6.3% y-o-y for full year 2018, with more than 55% of new supply classified as mid-tier hotels. However, Thailand’s overdependence on the Chinese feeder market and the influx of new mid-range supply could exert downward pressure on room rates.

VIETNAM REPORTS HEALTHY CONDITIONS

Vietnam’s hotel market is expected to continue growing on the back of rising demand. The addition of international brands such as Hilton, Hotel Indigo, Holiday Inn, Mandarin Oriental and Four Seasons in key markets is set to induce demand by creating destination awareness for the country. However, upscale 4 and 5-star hotels are expected to face pressure from the new supply as well as other channels such as Airbnb, which is attracting more listings from the recent influx of high-end condominiums. Nevertheless, hotel operators that can successfully create a unique offering will continue to fare well.

DARWIN AND GOLD COAST OUTPERFORM

Australia welcomed just under 3.2 million international visitors in the first four months of 2018, representing 6.2% y-o-y growth over the same period of 2017. The 2017 China-Australia Year of Tourism Agreement has seen China emerge as the largest source short-term visitor arrivals. Strong tourism growth and stable supply continues to allow hotel operators to raise room rates. Among key markets, the top performers were Darwin and Gold Coast, which registered annual RevPAR increases of 8.2% and 7.1%, respectively, for the year ending June 2018.
NEW ZEALAND REVPAR GROWTH SLOWS

The lack of major events following a busy 2017 resulted in a slowdown in growth in international visitor arrivals to 3.8% from 10.2% in the year ending June 2017. Arrivals from the U.K., Germany and Japan have declined over the past 12 months, but China, Korea and India have provided double digit growth. The real impact of the slowdown has been felt in the shoulder and low season months of April and June, during which visitor arrivals fell by 9.0% and 7.8%, respectively, and nationwide occupancy rates decreased by 1.1 and 4.0 percentage points, respectively. Lower occupancy in H1 2018 resulted in a significant slowdown in RevPAR growth in all major hotel markets with the exception of Queenstown, which continued to enjoy strong growth.

HOTEL INVESTMENT RECORDS STEADY RISE

Asia Pacific hotel transaction volume totalled USD 11.9 billion for the 12 months through June 2018, an increase of 17.8% y-o-y1.

Solid demand from domestic and overseas investors contributed to transaction volume of USD 5.1 billion in H1 2018. Activity was strongest in Japan, China, Hong Kong and Australia.

Strong activity in China was mainly due to Guangzhou R&F Properties’ purchase of Dalian Wanda Group’s hotel portfolio of 73 properties for approximately RMB 17.5 billion.

Other major deals included the acquisition of the hotel assets of the Banyan Tree China Hospitality Fund for RMB 1.35 billion by Shanghai Yuewan Enterprise Management, a joint venture vehicle formed between Banyan Tree Holdings and Chinese real estate developer Vanke.

Activity in Japan remained strong. Domestic investors continue to dominate the market, with developers and railway companies especially active. Developers retain a strong appetite for land and the hotel development market has been very active for some time. However, domestic investors are likely to face increasing competition from overseas Asian investors, led by Chinese groups, who are displaying strong interest in Japanese hospitality assets.

Australia continued to see a lack of investment activity after a quiet 2017. Q2 2018 saw transaction volume decline further. Nevertheless, there continues to be strong demand from local and overseas investors, with the current weak activity due mainly to the lack of stock, especially at the topeast of major CBD markets.

Figure 7: Asia Pacific Hotel Transaction Volume (Rolling 12 months through June 2018)

Source: RCA, CBRE, July 2018

* Including transactions that are worth more than 10 million USD each, and excluding related-party transactions
Deal Flow Picks Up in Singapore

Singapore saw the completion of three hotel transactions in H1 2018, most of which involved smaller mid-tier and boutique shop house hotels. The largest transaction saw WANGZ Hotel change hands for SGD 46 million or SGD 1.12 million per room. Transactions remain limited as it remains challenging for investors to find quality assets at attractive prices.

Hong Kong continued to see hotel owners applying for planning permission to convert their properties into offices, although this strategy is mainly being used to raise the appeal of the asset to potential buyers. The higher value of other property classes at present, especially offices, has resulted in several hotel sales. CBRE Hotels expects more hotels to be made available for sale if office values continue to rise.

Vietnam witnessed strong investment demand in H1 2017, as comparatively higher yields continued to lure investors. Demand from foreign investors has primarily been led by Asian-based groups seeking hotels in large cities and resort destinations. Local developers have also been active, with BRG group acquiring Sedona Suites Hanoi. BRG’s other recent projects include Four Seasons Hotel Hanoi, Hilton Hanoi Westlake and DoubleTree by Hilton Hanoi Westlake.

The outlook for hotel investment in Asia Pacific remains upbeat on the back of healthy tourism demand fundamentals. CBRE Hotels expects investors to continue targeting regional markets in pursuit of higher yields.

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