



# CBRE Hotels Limelight Asia

Hotel Market Trends Insight

SINGAPORE HOTEL MARKET OUTLOOK

Issue 2, 2010

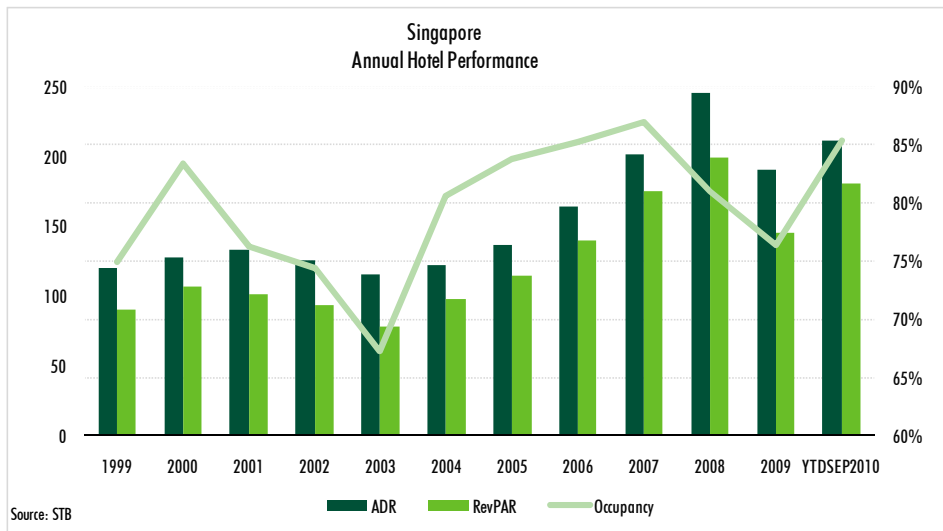


**CBRE** | Hotels  
CB RICHARD ELLIS

## SINGAPORE HOTEL MARKET OUTLOOK – END 2010

The Singapore hotel market has been on a roller coaster rides for the last 2 – 3 years. Having achieved an all time peak RevPAR performance in 2008 it dropped dramatically in 2009. After 5 years of growth which averaged over 20% the close to 27% fall was sudden and predicted by few.

It is easy now to look back on the global financial crisis and see the results in the short term. Equally one can analyse in detail the extraordinary recovery that has occurred in Singapore. 2010 has seen occupancies rise to 85.3% for the YTD, room rates (ADR) grow to \$211.4 (a rise of 11.0%) and RevPAR is consequently \$180.6, a 24.0% increase.



What are the reasons for this and what the likely outlook? In this paper we look at the historical trends with a focus on the recent past and then try to ascertain the key issues going forward.

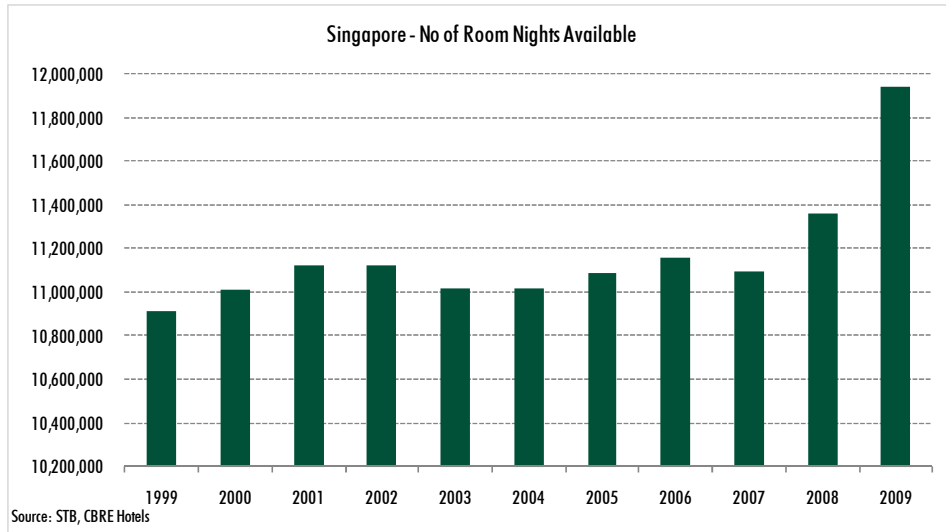
The main issues are as follows: supply, demand, occupancy, room rate (ADR) and, consequently, revenue per available room (RevPAR), costs, profitability, investor and developer interest and values. These are all interlinked but for simplicity we will address them in order.

*The historic data in this paper is based upon Singapore Tourism Board publications but the projections, addition supply data etc are based on research by CBRE Hotels.*

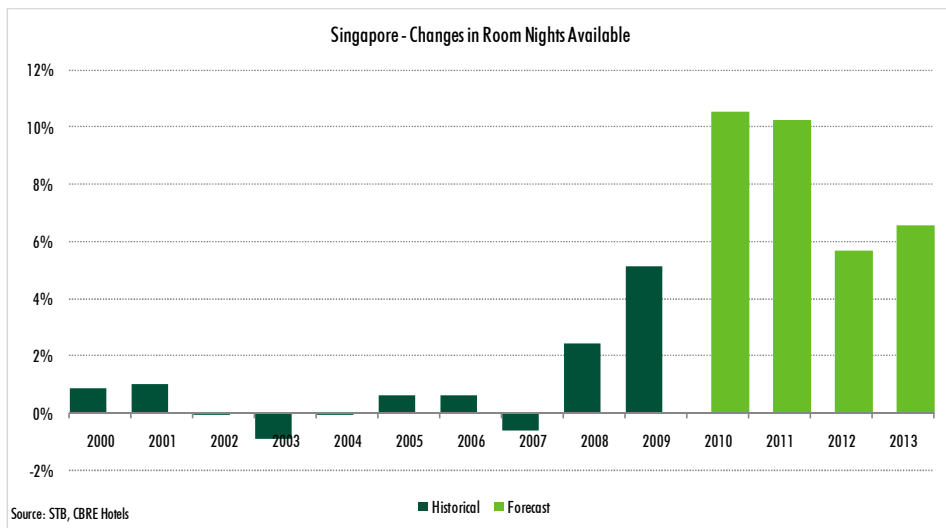


**SUPPLY**

After many years of near static supply (there was less than a total increase of 10% over 10 years) the number of gazetted hotel rooms increased by 4.5% in 2009.

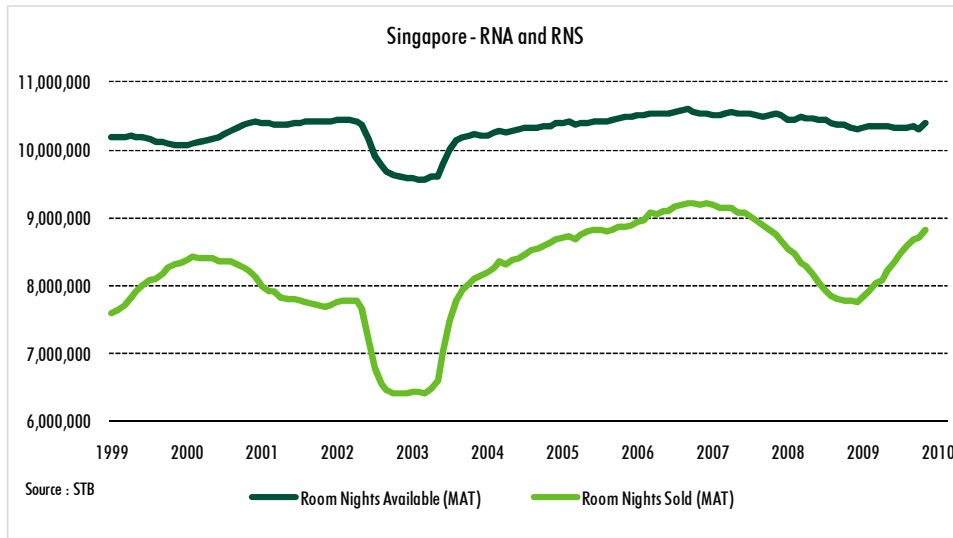


The real concern at the beginning of 2010 was the impending additional supply. Although the 2010 year has not yet finished it appears that annual supply will grow by over 10% with a similar growth rate the next year. The actual number of hotel rooms being added in 2011 is only 6.5%, but since many were added during the course of 2010, particularly from April/May onwards the impact on the RNA across the full year is greater. This looks set to drop to close to 6% for each of the following two years.

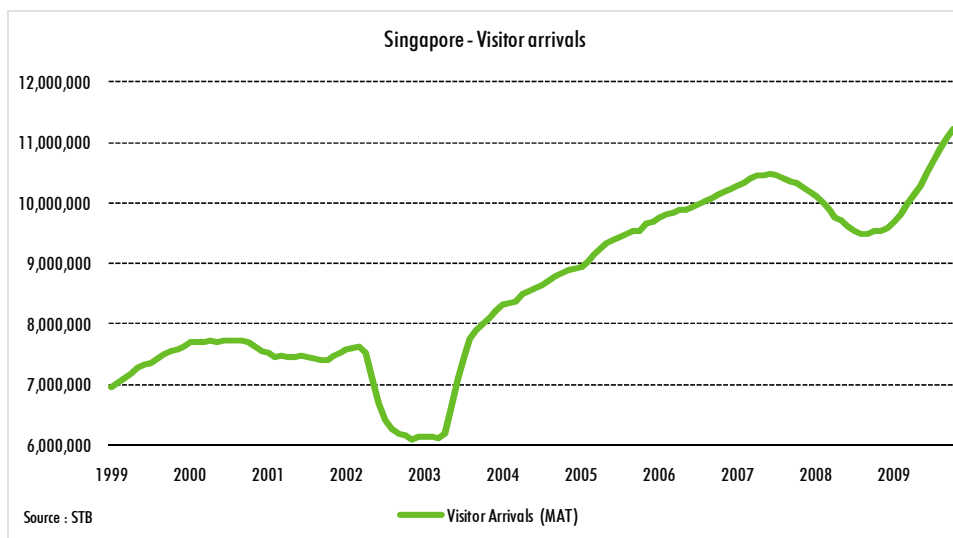


**DEMAND**

The demand levels grew well over the ten years up to the end of 2007. The only major setback was the SARS crisis around 2003.



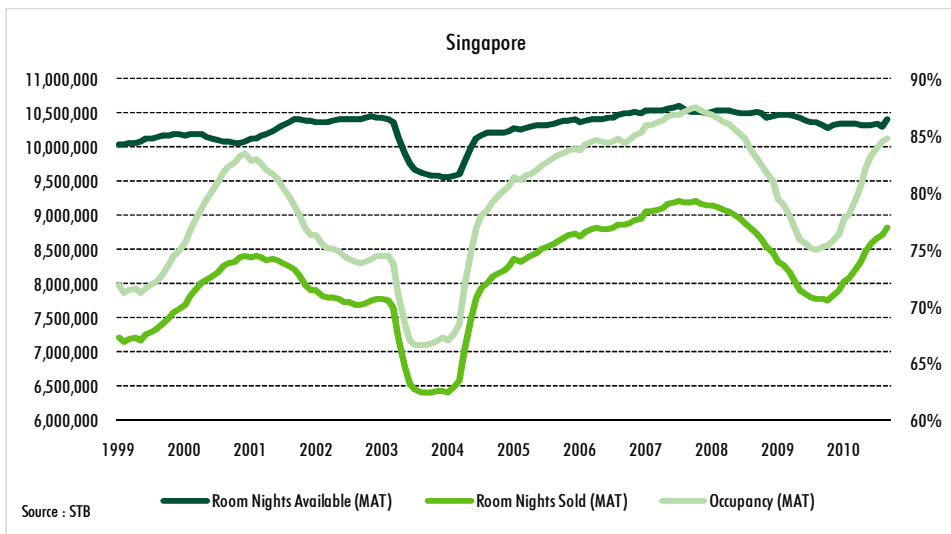
The main source of demand has been international rather than domestic. Hence Visitor Arrivals serve as a good indicator of demand. It is apparent however the average annual growth in arrivals (4.24% in the nine years to the end of 2008) exceeded that for room nights sold (1.33%) indicating that visitors were staying for shorter periods, or not using hotels. This indicates that demand appears to have been constrained by a lack of capacity. In the four years to December 2008 some 40% of months had occupancy exceeding 85% and in more than 10% it exceeded 90%. In addition room rates grew rapidly, as discussed below, which inevitably had some constraining impact on demand.



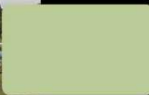
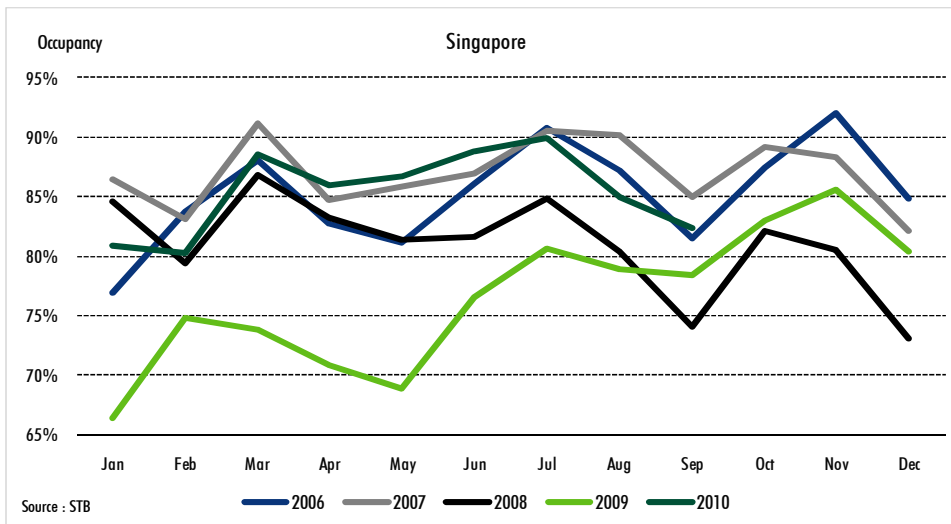


**OCCUPANCY**

The combination of room nights available (RNA) and room nights sold (RNS) is measured as occupancy levels. The graph below shows the moving average figures. The volatility is apparent but it is also clear that occupancy levels have recovered to close to peak levels, an extraordinary achievement given the position twelve months ago.

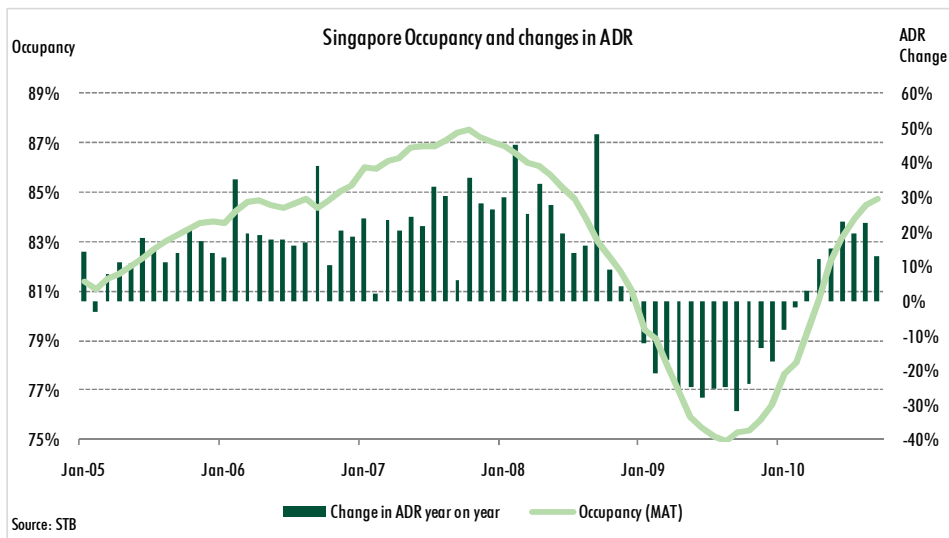


The cyclical levels of demand are apparent in the graph below. It is also clear how occupancy fell from May 2008 and reached a low in January 2009. Since then there has been a strong recovery with record levels achieved in several months this year.

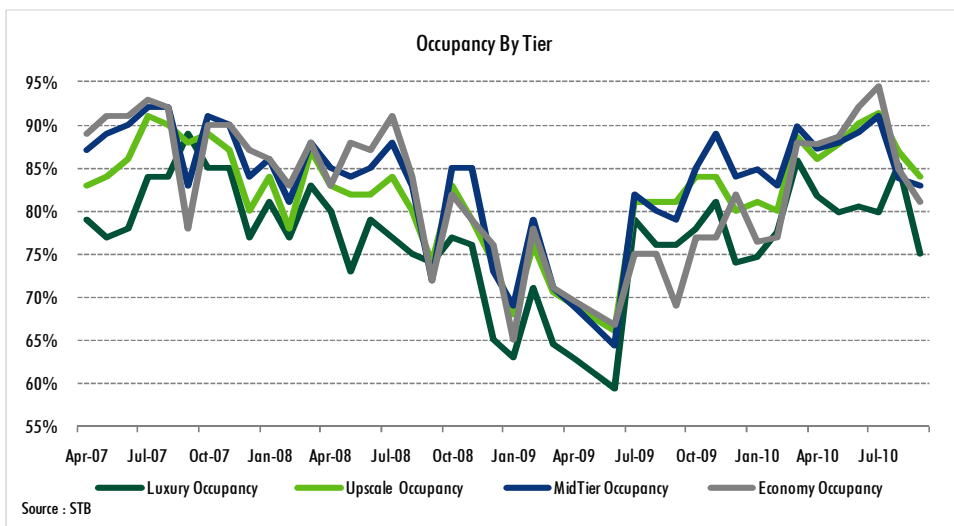


**ROOM RATES AND REVPAR**

Unsurprisingly there is a direct relationship between occupancy levels and room rates (ADR). The graph below indicates that when marketwide occupancy is above 80% room rates increase, below that they have, historically, fallen. The actual relationship is more complex but it does indicate that at say 85% occupancy levels the ADR is likely to be between 10% and 20% higher than the year before.



The rise in occupancy up until early 2008 resulted in ADR growing from \$125 in 2004 to \$245 by the end of 2008. Changes in ADR tend to lag changes in occupancy. This lag was up to 18 months in some markets but appears to have been reduced, in Singapore, to between 6 and 12 months.

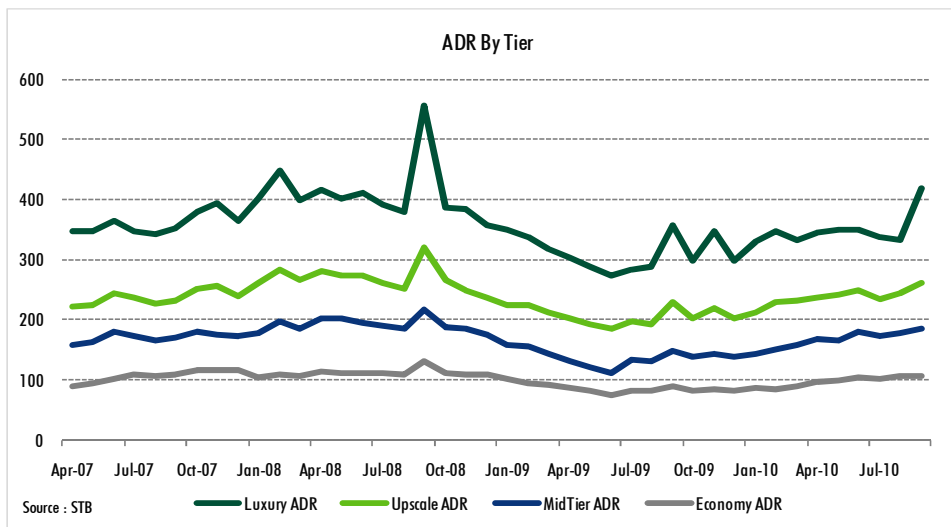


In terms of occupancy over the last three years it is apparent that the luxury segment was badly impacted during the GFC. Hotels are now trading in a fairly narrow range, all generally 80%.

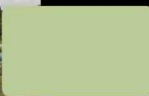
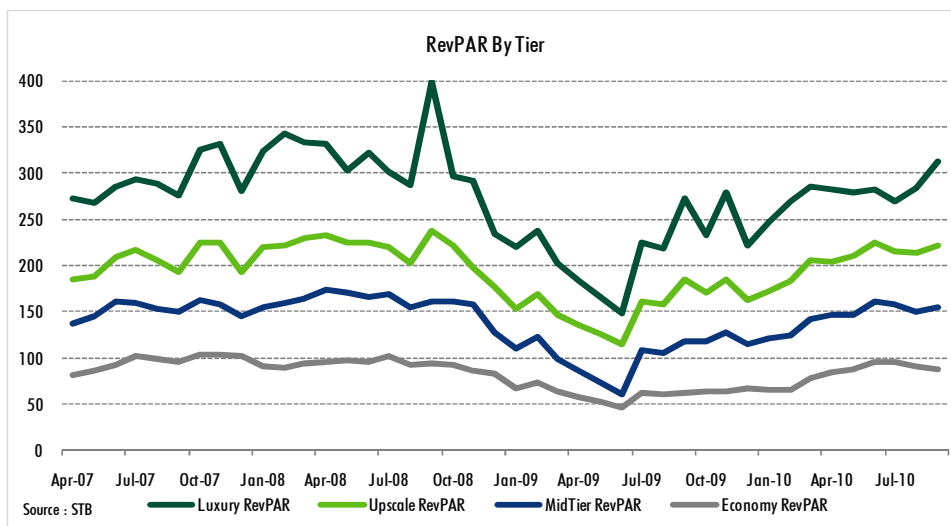


## ROOM RATES AND REVPAR

Economy hotels have been consistently around the \$100 mark in terms of ADR. The mid tier hotels have shown a substantial improvement since mid 2009 as have the luxury and upscale properties. The combination of this has resulted in a rapid recovery in RevPAR for luxury properties and a good level of growth in the upscale and mid tier sectors.



It should be noted that this data indicates the relative volatility of luxury hotel revenue compared to other tiers. In summary the lower the tier the lower the volatility that is generally experienced.

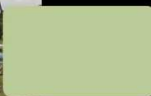
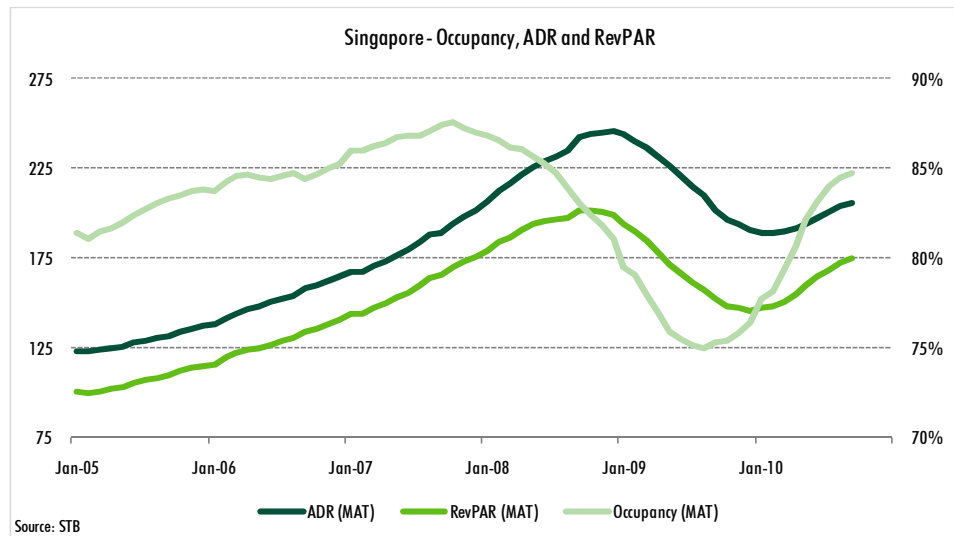


**ROOM RATES AND REVPAR**

The fall in occupancy led ADRs to fall below \$190 in early 2010, but they have recovered to be at over \$205 on a MAT basis by September 2010.

The result is that RevPAR (which may be calculated by multiplying the occupancy by the ADR) peaked on a MAT basis at over \$200 in October 2008. It fell rapidly to \$145 by December 2009 which was a fall of close to 27% on the same period the previous year.

2010 has shown an extraordinary recovery. In the months of May and June 2010 RevPAR was up over 44% compared to the year before. Overall the last 12 months have seen RevPAR increase by 15% on a MAT basis.



## COSTS AND PROFITABILITY

The recovery of the last 12 – 18 months coupled with a substantial increase in room supply at the same time as restaurant numbers have increased has put pressure on staffing and operating costs. Despite this the relative increases in revenues have resulted in rapid rises in net operating income in most hotels. Our research indicates a wide range of changes in profitability, often dependant on the ability to address the challenges of the 2009 year. However increases of 25% - 50% are common.

## INVESTOR AND DEVELOPER INTEREST

Singapore is a small market and there are few sales giving a clear indication of values. The notable publically reported sales in 2009-2010 have been:

Property	Contract Date	Sale Price	Rooms	Star Rating	Price per room
Hotel Nostalgia	Jun 2009	S\$ 22.00M	50	0.0	S\$ 440,000
Swissotel Merchant Court	Aug 2009	S\$ 265.35M	476	5.0	S\$ 557,457
Raffles Hotel	Apr 2010	S\$ 384.00M <sup>(1)</sup>	103	5.0	NA
Ibis on Bencoolen	Jul 2010	S\$ 210.00M	538	3.0	S\$ 390,334
Park Regis Hotel	Aug 2010	S\$ 218.00M <sup>(2)</sup>	203	4.0	NA

<sup>(1)</sup> including retail space

<sup>(2)</sup> including office space

(Source: CBRE Research)

The URA have made a number of sites available for development. Reported transactions only for hotel development use include the following:

Location	Contract date	Site Area (m <sup>2</sup> )	Plot Ratio (GFA)	Name of Successful Tenderer	Successful Tender Price	Psm per gross plot ratio	Lease (Years)
Balesier Road / Ah Hood Road	Aug-08	17,661	39,571	HH Properties Pte Ltd	S\$ 73,300,000	S\$ 1,852	99
Kallang Road / Jellicoe Road	Oct-08	4,219	18,986	Citywide Land Pte Ltd	S\$ 51,000,000	S\$ 2,686	99
Short Street	Jun-09	1,164	4,077	Fragrance Assets Pte Ltd	S\$ 15,510,000	S\$ 3,804	99
New Bridge Road	Sep-09	4,482	15,687	Leedon Investments Pte Ltd	S\$ 67,699,800	S\$ 4,316	99
Clemenceau Avenue / Havelock Road	Sep-10	5,502	11,555	RB Capital Hotels Pte. Ltd.	S\$ 101,113,000	S\$ 8,751	99

(Source: URA)

This shows:

- A continued strong interest in owning and developing hotels in Singapore
- Key strong prices being paid for development sites
- Yields have tightened as investors have become more comfortable with the growth potential
- There is a lack of transactional activity with few hotels being publically marketed as being available for sale.



**THE OUTLOOK**

Forecasting future hotel performance is fraught with difficulties, particularly in rapidly evolving markets such as Singapore. However by studying the historical performance trends and factoring in some key assumptions, CBRE Hotels has developed performance expectations for the next year. These key assumptions include no change in the length of stay or the proportion of arrivals staying in hotels.

Visitor Arrivals in 2011	Change in VA over 2010	Forecast occupancy	Forecast change in ADR
12,000,000	0.00%	77.50%	2.50%
12,600,000	5.00%	81.25%	10.00%
13,200,000	10.00%	85.25%	15.00%
13,800,000	15.00%	89.00%	22.50%

Although the occupancy falls if there is no growth in visitor arrivals – due to the increased room supply – ADR is expected to rise since the beginning of the year occupancies are projected to be over 80%.

We consider the extremes of 0% and 15% growth in visitor arrivals to be unlikely. Amongst other things the Singapore market has never achieved an occupancy rate of 89% for a whole year. Hence the likely outcome is occupancy in the range of 81% to 85% and an increase in ADR of 10% - 15%. However there are always risks and uncertainty in this being achieved.

It is difficult to predict future hotel performances accurately. However it is clear that recovery is already well underway, and we expect improvements in hotel performance to continue in the coming years. Fortunately, the hotel market in Singapore is part of a larger tourism development strategy, which when combined with existing strong market fundamentals, will ensure the market is well positioned to capitalise on tourism and business demand.



**ABOUT CBRE HOTELS**

CBRE Hotels is dedicated to being the hospitality industry's premier full-service, international service provider of sales advisory, finance, market research and valuation services, focused exclusively on the hospitality sector, to meet the capital needs of investors and individual owners of hotel properties.

We provide global insight and tailor-made solutions from experienced consultants who are passionate about the hotel business. CBRE Hotels, with its dedicated teams in the Asia Pacific, Americas and EMEA, responds quickly and seamlessly to cross-border, cross-regional and global assignments.



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