Briefing
Hotel sales & investment

January 2017

Image: Hyatt Regency Osaka, Japan

SUMMARY

The total value of investment sales increased by 13.0% year-on-year (YoY) to US$9.87 billion in 2016.

- 65.7% of the transaction volume came from 3 countries: Japan, Australia and China, in descending order.

- Properties in Japan represented 33.1% of all investment sales in Asia Pacific (APAC), with US$3.26 billion worth of transactions, and volumes increased by 5.8% YoY.

- Australia had the second highest transaction volumes with US$1.66 billion, 16.8% of the region's total volume. However, transaction volumes decreased by 31.5% YoY.

- China had the third highest transaction volumes with US$1.55 billion, representing 15.8% of the region's total volume. This was an increase of 155.3% YoY in transaction volumes.

- Cap rates on regional hotel real estate continued their long, gradual compression in 2016. Cap rates for prime Tokyo hotel property are now sub-4.0%, tighter than a year ago.

"Due to tight cap rates in core Tokyo, Hong Kong, Singapore, Sydney and Melbourne transactions, we began to see increases in market share for traditionally non-core assets as investors searched for yield farther afield." Savills Research

Market overview

The fourth quarter of 2016 registered US$1.79 billion worth of investment transactions, representing a 31.5% decrease from Q4/2014 (US$2.61 billion). Approximately 51 hotels across 11 countries were sold in Asia Pacific.

Japan's largest single real estate transaction of 2016 was Hulic's acquisition of Hotel Grand Pacific Le Daiba from the Keikyu Corporation in April for approximately JPY67 billion (US$602 million). However, a significant transaction was recorded in this last quarter of 2016 – the sale of the Hyatt Regency Osaka by Gaw Capital Partners to Hoshino Resorts for JPY16.0 billion (US$155.8 million). Gaw Capital Partners has generated a large capital gain from the sale, largely due to the growth in the Japanese tourism sector and the asset management work done by the firm's hospitality arm, GCP Hospitality.

As a result of high demand for core real estate, and with pricing at historic peaks, investors are searching for new alternatives. While some look for more creative strategies in the value-add and opportunistic space, others have found resorts destinations or emerging markets a feasible alternative.

Northern and Eastern Asia

Japan

Japan's hotel market is booming. Despite the large YoY drop in total real estate investment volumes in Japan, investment in hotels has generally kept pace with 2015, amounting to JPY355 billion. This is 5.8% up from 2015's JPY335 billion. The boom is primarily being driven by Japan's phenomenal growth in inbound tourism. The country has seen double-digit YoY increases in international arrivals every year since 2011, and the government is working to increase visitors still further through the Olympics in 2020. This, combined with a historical supply shortage, has spurred market players to invest heavily in hotels throughout 2016. There is some concern, however, about possible recent supply and sluggish operating indicators.

Cap rates on quality hotel assets have compressed below 4%, and stand to tighten further in 2017. Non-stop development and investment may begin to make some market players nervous; however, Japan's hospitality infrastructure has been lacking for many years, and requires expansion if it is to keep pace with the current rate of tourism growth.

South Korea

In South Korea, major hotels are owned and operated by large conglomerates, and there are only a couple of hard-asset hotel transaction cases per year. In the past two to three years, limited service hotels have expanded in the market due to new tourism infrastructure and newly-launched limited service hotel brands opening with management contracts based on the master-lease structure. This unique master-lease structure, which mitigates the investment risk by guaranteeing minimum levels of operating income, has led to institutional investors starting to participate in hotel investments.

Last quarter, the Hotel Conrad hotel in Yeoido, was sold as part of the IFC complex deal by AIG Global RE to a JV between Brookfield AM and China Investment Corp. In early 2016, the Solaria Nishitetsu Hotel (312 rooms), including M plaza in Myeong-dong, a prime retail area in Seoul, was sold for KRW450 billion (US$372.6 million). The second largest transaction in Asia Pacific was the Belle-Essence Hotel Seoul (former Renaissance Seoul) for approximately KRW683 billion (US$600 million), which is now permanently closed as it is planned for redevelopment.

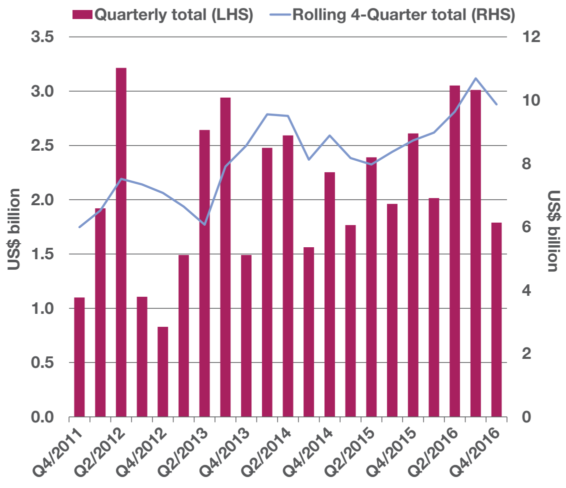
Greater China

In 2016, properties in China represented 15.8% of APAC hotel transactions, third on the list of countries with the most transactions. There were 13, single-asset hotel transactions this year in China, and most of them were big ticket transactions. Given the sheer number of hotels in China, the number of transactions is very low. Investments have been focused on the hotel/serviced apartment sector, where the majority of core, secured income, long-term stable assets can be found. Two major transactions was recorded this year: in Beijing with the sale of the New Century Grand Hotel Beijing for RMB2.0 billion (US$301.3 million), representing US$915,916 per key; and the Amenity Centre in Shanghai for RMB2.54 billion (US$386.9 million), representing US$796,040 per key.
In Hong Kong, activity continued to be boosted by mainland Chinese investors' purchases, based on confidence fuelled by relatively limited new supply and high occupancy rates. Total transactions in Hong Kong reached US$287 million. Last quarter, the Butterfly on Morrison Boutique Hotel was sold for HK$ 880 million (US$113.5 million) to the Hong Kong-based Gale Well Group.

In Taiwan, along with the quick escalation of inbound tourists, many non-professional investors are entering into the budget hotel industry or acquiring strata-office space to lease to hoteliers. The risk of a large reduction in the number of Chinese

GRAPH 1

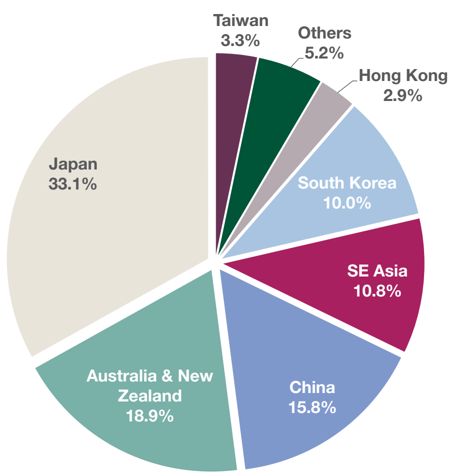
Investment sales transaction values, Q4/2011–Q4/2016



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by location, 2016



Source: Savills Research & Consultancy

visitors caused non-professional investors start to put their hotels up for sale. In this beginning stage, the price gap between sellers and buyers is wide. Sellers' relatively high expectations for asset values may impede the closing of deals and result in a calmer market in the short term.

South Asia and Southeast Asia

There were only 22 transactions in Southeast Asia in 2016, worth US$1.06 billion, an increase of 58.7% YoY. This increase in volume was mostly supported by Vietnam, Malaysia and Thailand.

In Vietnam, two major deals happened, including the sale of the Duxton Saigon, which has been renamed Saigon Prince Hotel, for approximately US$49.3 million to a local investor, and the sale of the InterContinental Asiana Saigon for US$75.1 million to Singapore-based Mapletree. This year saw significant cooperation among foreign and local developers and investors for investment in Vietnam. The Tokyo-based Mitsubishi Corporation has joined hands with Bitexco to develop a US$300 million residential project which is part of the mixed-use, 90-hectare The Manor Central Park in Hanoi. Indochina Capital and the Japanese contractor and real estate developer Kajima Corporation also sealed a US$1 billion joint venture partnership named ICCKajima in September to invest in the Vietnamese real estate arena, initially focusing on the residential and hospitality sectors.

With four transactions this year in Malaysia, the total volume of transactions increased by 109.5% YoY, to MYR1.24 billion (US$302 million). All four transactions were in Kuala Lumpur, including, notably, the Doubletree by Hilton Kuala Lumpur for MYR388 million (US$194,462 per room) to the Singapore-based Royal Group, and the Renaissance Kuala Lumpur Hotel for MYR765 million (US$205,890 per room) to the Bangladesh-based S Alam Group.

The investment sales market in Singapore has stalled in 2016, with no transactions. The gap between buyers' and sellers' expectations is still too wide and expected to remain as it is for 2017.

Australia and New Zealand

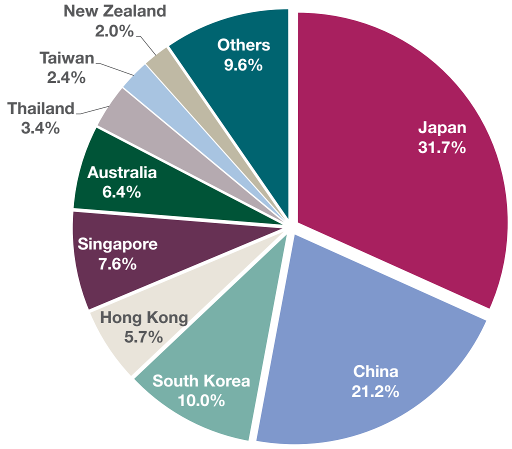
2016 was a slow year for major transactions in Australia, with hotel transactions in excess of AU$2.23 billion (US$1.66 billion) and 62 hotel assets changing hands, a decrease of 31.5% when compared to 2015. The average deal size this year was AU$35.9 million, compared to last year's AU$48.3 million. Only eight transactions were recorded in Sydney and Melbourne; the large majority of the transactions was in the second- and third-tier cities such as Surfers Paradise or Cairns.

Foreign investor buying remained active, with two major transactions in the last quarter of 2016. The first was the sale of the Travelodge Docklands Melbourne for AU$107.0 million (US$81.9 million). The sale price reflected an initial yield of sub-6.0% and was acquired by Singapore's Sing Holdings. Another major transaction was an Ibis portfolio, consisting of 15 hotels (1,595 rooms), for a total value of approximately AU$200 million (US$148.5 million), which was bought by Accor Hotels from the Abu Dhabi Investment Authority. The portfolio includes the 250-room Ibis Melbourne and the 200-room Ibis Sydney Airport, as well as five Ibis Budget hotels in Sydney, two in Melbourne, and one each in Newcastle, Dubbo, Coffs Harbour, Canberra and Brisbane Airport.

In Christchurch, New Zealand, the 154-room Novotel and 155-room Ibis hotels were sold for a combined purchase price of approximately NZ$43 million to an offshore investment company with an existing New Zealand hotel portfolio. The sales mark the end of a 15-month divestment programme by Host Hotels & Resorts of the company's entire New Zealand hotel portfolio.

GRAPH 3

Investment sales transaction volumes by buyer origin, 2016



Source: Savills Research & Consultancy

TABLE 1

Selected investment transactions, Q4/2016

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
Hyatt Regency Osaka	Osaka, Japan	155.8	324,535	Hoshino Resorts
Butterfly On Morrison Boutique Hotel	Hong Kong	113.5	1,220,166	Gale Well Group
Conrad Seoul Hotel	Seoul, South Korea	124.2	286,335	Brookfield AM JV CIC
Ibis Portfolio	Australia	148.5	74,361	Accor
The Boathouse Phuket	Phuket, Thailand	16.8	443,017	Hotel Properties Ltd

Source: Savills Research & Consultancy, RCA
Note: JPY/USD = 102.7; THB/USD = 35.6; AUD/USD = 1.34; HKD/USD = 7.75

OUTLOOK

The prospects for the market

- More and more investors are discussing alternative investment destination as core investment opportunities grow limited and cap rates continue to tighten, especially in Japan, Hong Kong, Singapore or Australia. Popular topics are resorts in Thailand, Vietnam and Indonesia, limited serviced hotels or office conversions in Seoul, and business hotels in second- and third-tier cities in China. These opportunities have some issues, such as scalability, potential oversupply and lack of underlying infrastructure, but enjoy first-mover advantages.

- Cities and regions such as Seoul, Osaka, Chongqing, Beijing, Bangkok, and Ho Chi Minh City, generally look like a strong story for 2017, with improving local economies and reasonable levels of development likely to combine to deliver better-than-normal hotel performance growth over the next two to three years.

- On the back of one of the strongest years for Asia Pacific, the region is slated to see volume at the same level of 2016, between US$9 billion and US$10 billion, with Japan, China and Australia continuing to drive most of the transactions in 2017.

TABLE 2

Savills view of initial yield required to gain entry to these markets today in hotel investment

Beijing	4.5%-5.0%
Hong Kong	3.0%-3.5%
Melbourne	5.5%-6.0%
Seoul	5.0%-5.5%
Shanghai	4.5%-5.5%
Singapore	3.5%-4.0%
Sydney	5.5%-6.5%
Tokyo	3.5%-4.5%

Source: Savills Research & Consultancy

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