Savills World Research
Asia Pacific

Briefing
Hotel sales & investment

October 2016

Image: Lebua at State Tower Hotel, Bangkok, Thailand

SUMMARY

Future acquisitions in Asia Pacific (APAC) will continue to be yield-driven, with emphasis placed on a longer-term view of the asset class.

- The quarterly total of investment sales rose by 15.0% from US$1.9 billion in Q3/2015 to US$2.3 billion in Q3/2016.
- Japan continued to be the location with the largest transaction volumes, with 38.4% of Q3 sales, worth JPY88.2 billion (US$865.5 million).
- Australia was the location with the second largest transaction volumes, with 31.8%, or A$943.2 million (US$716.4 million).
- Malaysia was the location with the third largest volume of transactions, with 8.3%, worth MYR765.0 million (US$187.4 million).
- Forty transactions were closed this quarter, while 46 transactions were recorded over the same quarter the previous year.
- Most transactions were domestic, with 14 (or 35% of the total number) being cross-border acquisitions.
- By purchaser origin, Japanese buyers were the most active, representing 30% of all transactions.

"In view of the sustained, Asia-wide, high demand for hotels, particularly in the core destinations, we expect prime yields for individual types of properties to remain stable. Supply of hotels for sale is limited." Savills Research

Market overview

Q3/2016 registered US$2.26 billion worth of investment transactions, representing a 15.0% increase over Q3/2015 (US$1.96 billion). The number of transactions was also significantly lower. Forty transactions were closed this quarter, while 46 transactions were recorded over the same quarter the previous year. The average transaction price was US$56.4 million, which was significantly higher than the US$42.6 million in Q3 a year ago. Japan commanded the largest share of total sales volume in the region this quarter, and all 13 transacted assets were acquired by Japanese investors. We expect growth of transaction volumes for the region for full-year 2016 to be subdued, mainly due to the lack of opportunities in core markets.

Eastern Asia[1]

Japan continued to be one of the most active markets in APAC. Despite a quarter-to-quarter decline in sales volume of 32.1%, the total volume of JPY88.2 billion (US$865.5 million) was still the highest in the region. The hotel investment market has seen a series of large transactions in 2016, even as other sectors of Japan's real estate market have retrenched. Japan's explosive growth in inbound tourism and its chronic lack of room supply have created a real interest in the hotel market, and players are leaping to take advantage. The Real Estate Investor Survey by the Japan Real Estate Institute (JREI) reports that expected cap rates on economy hotels in prime Tokyo locations have compressed from 5.4% to 5.0% since 1H/2015. Hotel transactions frequently occur outside the nation's capital, however – only seven transactions occurred in Tokyo in 1H/2016, according to Real Capital Analytics – resulting in a wide range of cap rates. We assume actual transaction cap rates to be much lower than JREI's surveyed figure of 5.0%, because winning bidders tend to expect aggressive increases in ADR.

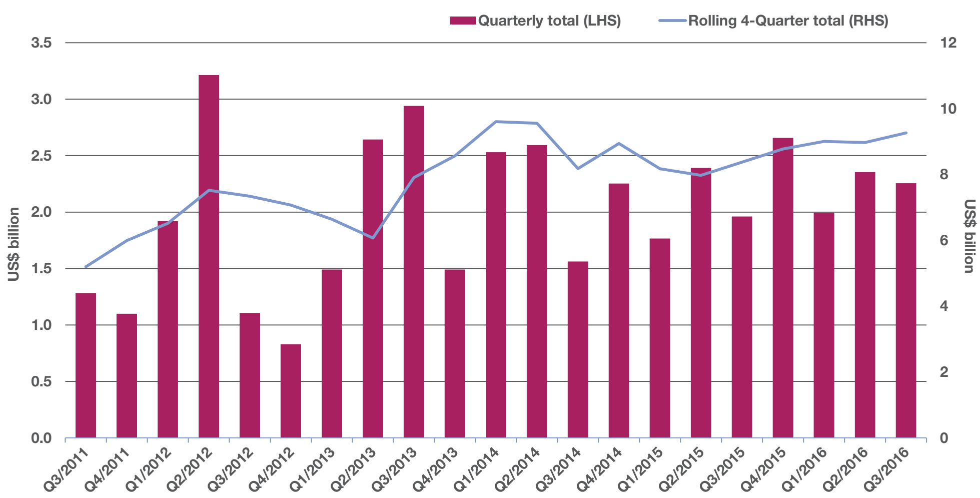
The largest buyer of the quarter was Japan Hotel REIT Investment Corporation (JHR) with the purchase of three hotels – Hotel Vista Grande Osaka, Hilton Nagoya and Hotel Ascent Fukuoka. The total sale was worth approximately JPY47.1 billion. Hotel Vista Grand Osaka will be rebranded into Holiday Inn Osaka Namba by the end of 2016, according to a JHR press release. Hotel Vista Grande Osaka was the largest transaction in Japan, sold by GK Apollo for JPY27.0 billion (US$267.3 million), or JPY85.9 million (US$851,275) per key. This was followed by Hilton Nagoya which was acquired at JPY15.2 billion (US$150.9 million), or JPY33.1 million (US$328,207) per key.

In June, Japan's Land, Infrastructure, Transport and Tourism Ministry announced a plan to relax the floor area ratio of buildings by 1.5 times, or up to an additional 300 per cent for hotel constructions. The new standards are expected to substantially increase accommodation capacity following Japan`s continuous increase in foreign visitors and the upcoming 2020 Tokyo Olympics. Although based on this relaxed regulation, each local government is required to decide on their regional floor area ratios under the City Planning Law, and therefore the price of the land for hotel usage in major cities is expected to increase.

In China, sellers' expectations remained high, and the continued lack of debt financing for hotel projects has led major Chinese hotel investors to continue to look overseas for either tourism-related investments or refocus into investing in commercial assets or

GRAPH 1

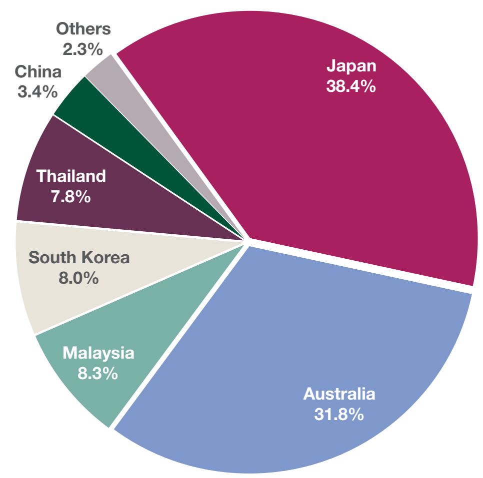
Investment sales transaction values, Q3/2011–Q3/2016



Source: Savills Research & Consultancy, RCA

GRAPH 2

Investment sales transaction volumes by location, Q3/2016



Source: Savills Research & Consultancy, RCA

1 Japan, China, Hong Kong

companies in other industries with high growth potential.

Chinese investors' interest in Australian assets was evident in this quarter, concluding five transactions there with a total of A$474.7 million (US$352.8 million), representing 15.6% of total volume in the quarter.

Hong Kong's first transaction of 2016 was closed this quarter, with the sale of A3 Hotel in Temple Street at HK$108 million (US$13.9 million), or HK$2.4 million (US$309,400) per key.

Southeast Asia[2]

There were only two transactions in Southeast Asia this quarter. The Renaissance Kuala Lumpur Hotel changed hands between IGB and S. Alam Group for MYR765 million (US$187.4 million), or MYR840,659 (US$205,890) per key. There was no transaction in the same period the previous year. Malaysia has suffered from the sharp fall in international tourist arrivals, particularly those from China, since the airline disasters of two years ago. This quarter, however, the Malaysian Inbound Tourism Association reported that the Chinese source market had shown some signs of recovery. According to Tourism Malaysia, international visitor numbers for 1H/2016 grew 3.7%, with remarkable increases from China and Thailand at 32.1% each and Laos at 26.8%.

The Singapore hotel investment market remained inactive this quarter, due mainly to the lack of suitably priced assets and the tightened control of room stock by the Urban Redevelopment Authority. In Q2 and Q3, some 2,200 new rooms were added, mostly outside the central area, and 66% of the total was in the midscale category. Room nights sold for 1H/2016 rose 6.4% year-on-year, according to the Singapore Tourism Board. As of July 2016, the city state registered an increase of 11.5% year-to-date (YTD) for inbound international visitors. The Chinese source market jumped remarkably by 49.2%, followed by Thailand at 14.9%. This upward trend, however, is likely to be impacted to a certain extent by the Zika outbreak in August which has prompted a few countries to issue advisories warning travellers of the dangers of the mosquito-transmitted disease.

Australia and New Zealand

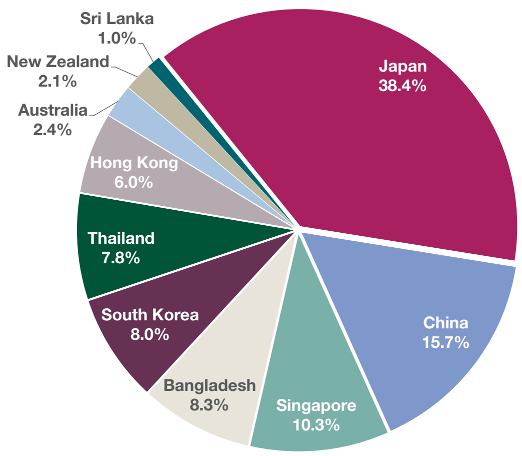
There were 17 transactions in Australia, totalling approximately A$943.2 million (US$716.4 million) this quarter, compared to 16 in the same period last year. In terms of volume, however, there was a remarkable increase from A$381.2 million (US$282.3 million) recorded in Q3/2015 compared to this quarter.

One recent notable sale was that of Novotel Melbourne on Collins from LaSalle Investment to Singapore-

2 Malaysia, Singapore

GRAPH 3

Investment sales transaction volumes by buyer origin, Q3/2016



Source: Savills Research & Consultancy , RCA

TABLE 1

Selected investment transactions, Q3/2016

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
Hotel Vista Grande Osaka	Osaka, Japan	267.3	851,275	Japan Hotel REIT
Swissotel Nai Lert Park	Bangkok, Thailand	176.2	542,332	BDMS
Amaya Kudarah Maldives	Kuda Rah, Maldives	23.0	450,980	Hayleys PLC
Park Regis City Centre	Sydney, Australia	35.3	289,215	Cornerstone Capital
Renaissance Kuala Lumpur Hotel	Kuala Lumpur, Malaysia	187.4	205,890	S. Alam Group

Source: Savills Research & Consultancy, RCA
Note: JPY/USD = 101.0; THB/USD = 34.6; AUD/USD = 1.33; MYR/USD = 4.08

listed Frasers Hospitality Trust for A$237 million (US$ 178.7 million), or A$623,684 (US$470,290) per key. The purchase was part of the Trust's plan to grow its hotel portfolio. Melbourne's hospitality sector has been given the boost to grow, driven by the completion of Melbourne Airport's Terminal 4, the expansion of the Melbourne Convention and Exhibition Centre, and development of several projects such as the Docklands and Fishermans' Bend. Tourism Australia expects total visitor nights in the state of Victoria to grow at an average of between 4.0% and 4.6% for the next three years.

So far this year, the Australia market has been resilient and attractive for overseas investors due to its currency fluctuations which has led to an increase in inbound travellers and, consequently, hotel performance.

New Zealand has captured a fair amount of interest from investors so far this year. Investment volume for the first three quarters of this year totalled NZ$236.4 million from 11 transactions. New Zealand Trade and Enterprise released a report this year pointing out the shortage of hotel rooms in the country and highlighted investment opportunities to cope with this shortfall, especially in key cities such as Auckland, Queenstown, Rotorua and Christchurch. It also reported that in 2015, Auckland and Queenstown had consistently high occupancy rates of above 80% throughout the year, while Rotorua and Christchurch had seasonal peaks of also above 80%. Based on historical preferences, upscale and luxury rooms are expected to have a strong demand.

In recent years, New Zealand has seen remarkable growth in international visitor arrivals, rising 9.6% for full-year 2015; growth for the eight years prior to this did not rise above 6.0%. For 2016 YTD July, international visitor arrivals grew an impressive 11.2%.

OUTLOOK

The prospects for the market

Asian hotel property markets have been relatively resilient to the global economic uncertainties, given the strong domestic demand and wider policy options. Timing is key for investors at the moment, and they will continue to cautiously search for opportunities, particularly in prime locations.

Major locations such as Tokyo, Hong Kong, Singapore and Sydney remain the focus of major hotel investors in the region; however, resort destinations such as Phuket, Koh Samui, Danang, Bali and Cebu will be on investors' radars for the next few months, as they offer greater returns.

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