Savills World Research
Asia Pacific

Briefing
Hotel sales & investment

November 2017

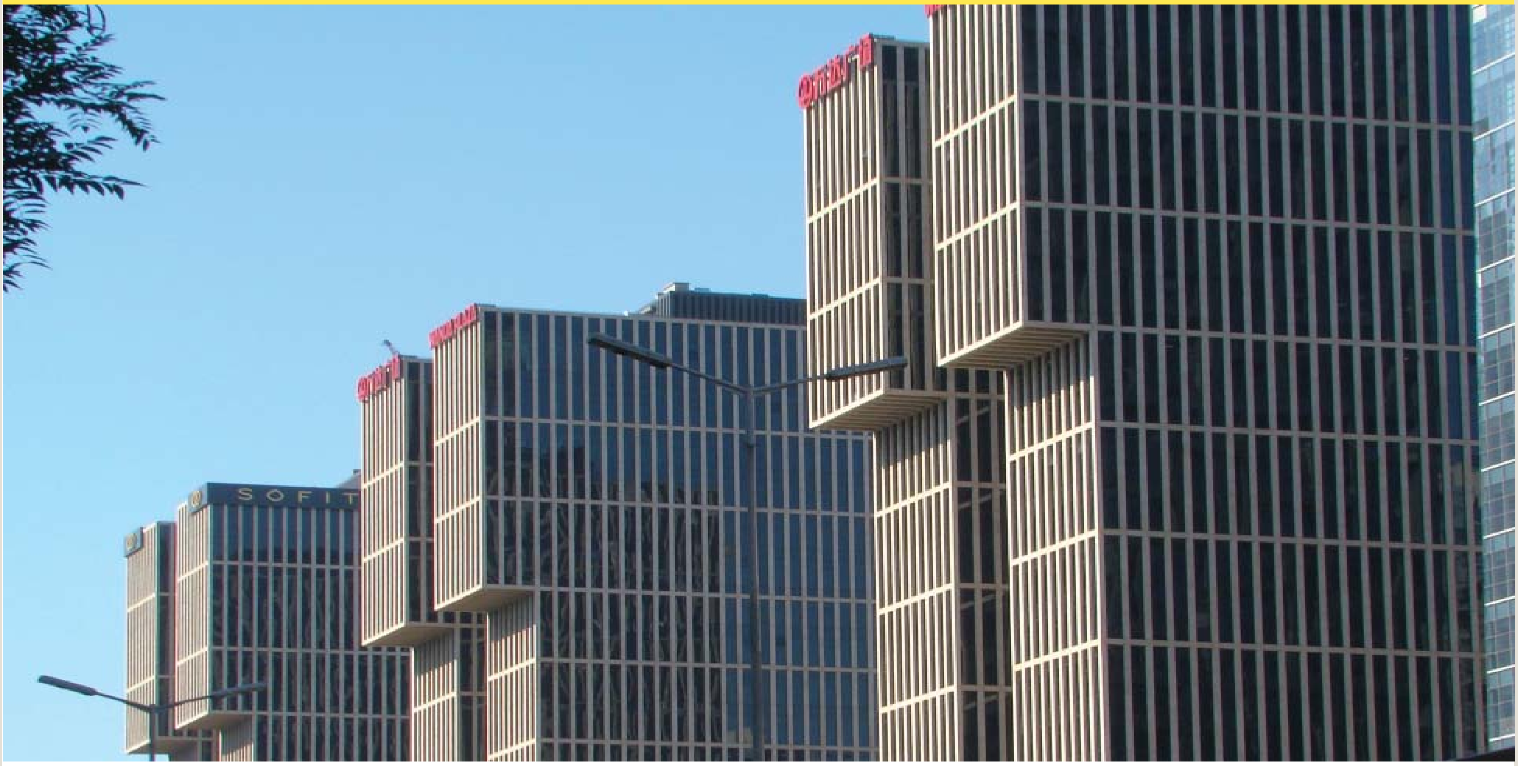


Image: Wanda Plaza Beijing

SUMMARY

The total APAC hotel investment volume surged in Q3/2017 to US$4.77 billion, making this quarter the most active in 2017 so far.

- The total value of investment sales in Q3/2017 reached US$ 4.77 billion, collectively, while the transaction amount in the third quarter of 2017 recorded an increase of 55.2% compared with Q3/2016.
- China represented 70.1% of all investment sales in APAC with US$3.35 billion worth of transactions in the third quarter, taking the lead which is usually held by the Hong Kong market.
- Australia came in a distant second, representing 8.1% of the transaction volume with US$384.9 million. This represents a slight decrease of 7.8 % compared with the previous quarter.
- By purchaser origin, China-based R&F properties was the single biggest purchaser this quarter. Excluding Chinese buyers, Singaporean buyers represented 28.1% of the rest of the investors, followed by Thailand and South Korea-based buyers at 16.7% and 15.8% respectively. These buyers outperformed traditional purchasers such as those of Hong Kong and Japanese origin.

"The investment sales market picked up tremendously in the third quarter, partly due to large scale transactions in China. Both domestic and cross-border investors are still actively looking for opportunities offering stable returns." Savills Research

Market overview

The third quarter of 2017 registered US$4.77 billion worth of investment transactions with a total of 115 properties changing hands across ten countries in Asia-Pacific. Collectively, the transaction amount in the third quarter of 2017 recorded a quarter-on-quarter (QoQ) increase of 55.2% compared with Q3/2016, making Q3/2017 the most active quarter in 2017 so far.

The largest transaction this quarter was the sale of Dalian Wanda Group's hotel portfolio of 77 properties, across various cities in China, to Guangzhou R&F Properties who bought the hotels for RMB19.9 billion, or US$2.94 billion. Combined with other transactions in China, the total transaction volume in the country reached RMB22.1 billion or US$3.35 billion.

Excluding the investment volume in China, it is observed that regional investors are more active in cross-border acquisitions with more investment activity taking place outside the key markets such as Hong Kong and Japan. In one noteworthy transaction, US-based Host Hotels & Resorts sold the Hilton Melbourne South Wharf to Singapore-based UOL Group for AU$230 million, or US$174.4 million. In addition, Thailand-based Strategic Hospitality F&L REIT also purchased two Indonesian properties from Agung Podomoro Land for US$233.4 million.

The significant rise in total investment volume, QoQ, was mainly due to the increase in transactions in lower frequency hotel sale markets such as China, Indonesia and South Korea, where deals are often opportunistic and off-market. While these may not be the key markets where major investors are actively looking for acquisitions, some assets may bring strategic added value for investors. Generally, investors are still on active lookout for stable investments to mitigate growth outlook, especially in established markets. It is also expected that some big ticket deals are in the pipeline to close by the end of the year.

Northern Asia[1]

Investors are still vying for Japanese assets, given the optimistic outlook of the tourism industry. Inbound-tourism continues to experience double-digit growth while the number of repeat visitors is increasing. The development of integrated resorts (IR) is also expected to be a strong driver for Japan's hospitality industry. In developing these resorts, the country can offer new entertainment experiences, on top of existing world-class natural and cultural attractions. IRs would attract a new group of travellers to Japan and create a favourable environment for upscale hotel investments.

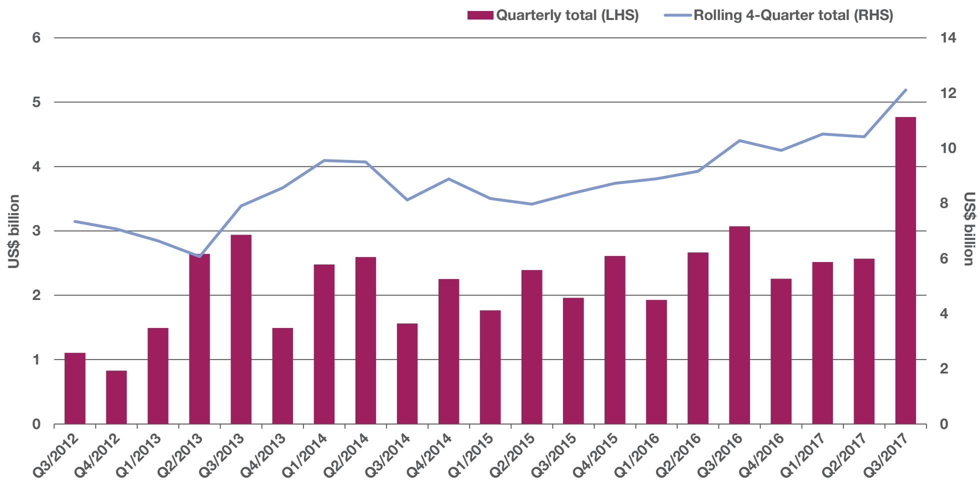
However, compared with previous quarters, the available supply of quality hotel assets for sale is reducing. This is especially so after the local REITs have started to actively absorb most of the available assets for their long term holdings. Quarter on quarter investment volume dropped by 84.8% to JPY16.3 billion, but compared to Q2/2017, the transaction volume in Q3/2017 has remained at a similar level. Again, this is not indicative of a lack of interest, but rather a lack of available assets in key cities.

In Q3/2017 the largest transaction was the sale of the 330-room Hotel Nikko Nara which was sold to Japan Hotel REIT by JH Nara Bridge Fund GK for approximately JPY10.4 billion or US$92.1 million. The number of deals

1 Japan, South Korea

GRAPH 1

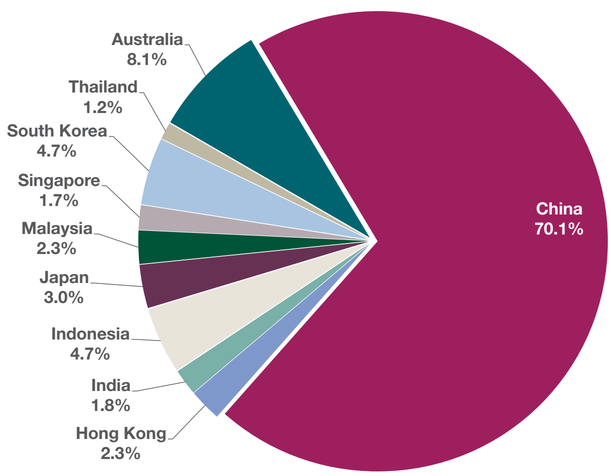
Investment sales transaction values, Q3/2012–Q3/2017



Source: Savills Research & Consultancy, RCA

GRAPH 2

Investment sales transaction volumes by location, Q3/2017



Source: Savills Research & Consultancy, RCA recorded this quarter was also less compared to previous quarters, with all located in secondary cities. These sales generate relatively healthy yields compared to the expected yield in key Japanese cities such as Tokyo and Osaka. Despite a relatively quiet third quarter, more transactions in key cities are either in the process of closing or in discussions in the coming quarter.

In South Korea, the transaction volume was boosted by the sale of Hyundai Heavy Industries' entire stake in Hotel Hyundai, which consists of three properties with a total of 900 rooms, for KRW200 billion, or US$173.2 million, to private equity investment firm Hahn & Company. This was part of Hyundai Heavy Industries' management improvement plan to sell off non-core businesses. Despite general market interest in the South Korean tourism and hotel sector, propelled by its cultural and entertainment exports, recent political instability and concerns over its relationship with China, its biggest inbound source market, South Korea faces potential headwinds in the short term which may affect overall investment confidence.

Eastern Asia[2]

The largest single transaction in Q3/2017 is the eventual sale of Dalian Wanda Group's hotel portfolio of 77 properties, across various cities in China, to Guangzhou R&F Properties for RMB19.9 billion, or US$ 2.94 billion. Wanda intended to use the sale proceeds to reduce their debt pile and move towards "asset light" operations. Combined with other transactions in China, the total transaction volume in the country surged to RMB22.1 billion, or US$3.35 billion. While investors are constantly on the lookout for strategic assets in the first-tier cities such as Beijing and Shanghai, properties in these key cities usually come with a hefty price tag and a short lease. Alternatively, some local investors are focused on opportunistic assets, with more potential upside, located in peripheral areas of major cities, or up-and-coming second-tier cities.

2 Greater China

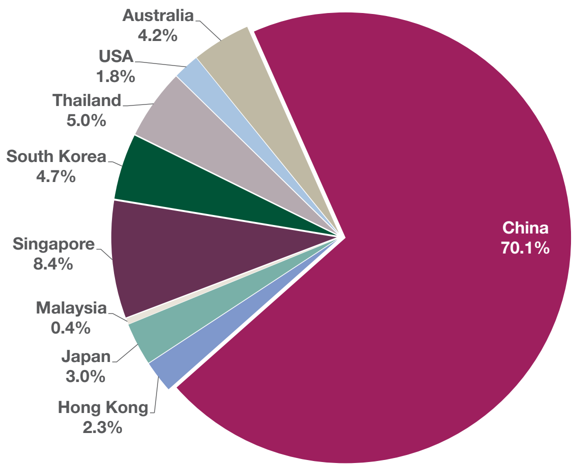
In Hong Kong, activity slowed significantly in the third quarter, with only two tracked transactions. As per Q3/2016, the third quarter seems to historically have limited traction regarding transaction volume. The total investment amount in Hong Kong in Q3 was HK$850 million, or US$108.9 million, compared to HK$108 million in Q3/2016. Although the premium price tag on Hong Kong properties can be a deterrent for some investors, Hong Kong remains a stable and mature market, especially for domestic hotel investment fuelled by high hotel occupancy rates.

South Asia and Southeast Asia

While Singapore is always a key entry market for investors and brands who are keen on entering Southeast Asia, deals are few and far between due to high prices and limited yields. Given market conditions, Singapore is generally more suitable for investors who are looking at more stable long-term holdings. In Q3/2017, two limited-service hotels, Sloane Court Hotel and Chinatown Hotel, were sold for SG$80.5 million and SG$31 million respectively. The former is set for a residential redevelopment and the latter will continue to operate as a hotel after concept repositioning.

GRAPH 3

Investment sales transaction volumes by buyer origin, Q3/2017



Source: Savills Research & Consultancy, RCA

Indonesia saw two hotel transactions as a portfolio sale. Thailand-based Strategic Hospitality F&L REIT purchased the two properties, located in Jarkata and Bali, from Agung Podomoro Land for IDR2.97 trillion or US$233.4 million. This cross border transaction is one of the few transactions recorded in Indonesia in recent years.

In Malaysia, Kingdom Holding Company and EHC International Limited sold the Four Seasons Resort Langkawi to Hotel Properties Limited, a Singapore listed company for MYR384.4 million, or US$90 million. Although real estate prices have dropped for oversea investors, due to a weakened Malaysian Ringgit, investor interest in the market is lukewarm due to generally poor hotel performance in Malaysia.

TABLE 1

Selected investment transactions, Q3/2017

Hotel	Location	Approximate sale price (US$)	Approximate price per room (US$)	Buyer
Hilton Melbourne South Wharf	Melbourne	174.4 million	440,503	Success Venture Pty Limited (UOL Group Ltd)
Hotel Sofitel Bali Nusa Dua Beach Resort	Bali	125.1 million	301,404	Strategic Hospitality F&L REIT
Wanda Hotel Portfolio	China	2.9 billion	-	R&F Properties

Source: Savills Research & Consultancy, RCA
Note: AUD/USD = 1.258; IDR/USD = 13,310

Thailand saw three hotels transacted this quarter, amounting to THB1.9 billion, or US$56.2 million. Singapore-based budget hotel operator Hotel 81 purchased the two Premier Inn hotels in Bangkok and Pattaya for a combined price of THB1.4 billion or US$41.1 million from UK-based Whitbread.

Australia and New Zealand

Australia had the second-highest transaction volumes with AU$496.4 or US$384.9 million, keeping up with the transaction volume from the previous quarter. However, this represents a fall of 46.6 % compared to the country's total transaction volume in Q3/2016. The most prominent sale was the acquisition of the 396-room Hilton Melbourne South Wharf by Singapore-based UOL Group, from Host Hotels & Resorts and Plenary Group, for AU$230 million or US$174.4 million. After the acquisition, UOL plans to rebrand the hotel with its own hotel brand, Pan Pacific, in order to expand its portfolio presence in Oceania. Other transacted hotels this quarter were comparatively smaller deals in secondary locations, with the value of the transactions falling into the range of AU$6 to AU$70 million.

While the Australian market has continued to capture the interest of investors, especially Asian investors, with positive hotel demand and supply conditions and a consistently high hotel performance, domestic buyers were more active in Q3/2017, focusing on smaller properties in regional destinations.

OUTLOOK

The prospects for the market

- The hotel market is seeing more operator consolidation and portfolio acquisitions in an effort to achieve strategic growth in key geographical areas or gain exposure to different market segments. In particular, joint ventures between non-traditional and traditional hotel players may bring new synergy to the market.
- Overall prime yields should remain stable, while investor confidence improves in the secondary markets. We predict that prime yields may harden further in Japan and Hong Kong, while we do not expect any major changes elsewhere until the end of 2017.
- Regional cross-border investors have accounted for US$1.85 billion in deals so far this year. They are particularly active in Australia and Southeast Asia, where they are playing an important role in the regional hotel investment market.

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