

Briefing Hotel sales & investment

July 2015



Image: Melbourne, Australia

SUMMARY

This quarter was another high-volume period for investment in Asia Pacific hotels, with a total of just over US\$1.95 billion from 41 transactions.

- The first half of 2015 saw US\$3.02 billion worth of transactions, a 32% decrease on 1H/2014.
- The Australian market saw the most transactions this quarter with US\$1.13 billion, 58% of all investment sales in the Asia Pacific region.
- Japan was the second most active market this quarter, despite 1H/2015 volumes decreasing by 32% compared to 1H/2014.
- This quarter, transactions occurred in 11 countries. Listed in descending order of volumes they are: Australia, Japan, South Korea, China, Malaysia, Maldives, Indonesia, Vietnam, India, Thailand, and New Zealand.
- Quarterly hotel sale volumes in eight countries increased compared to the same quarter last year. Notably, Australia and Korea experienced increases of 337% and 69% respectively while China experienced a 54% decrease.
- Companies from nine countries invested in Asia Pacific hotels.
- Investors from Singapore were the most active, with US\$587 million or 30% of all investment sales in Q2/2015. Investors from China were second with 23%, while investors from Hong Kong, and Japan followed, both with 14% of total Asia Pacific transactions.

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“With 73% of all investment sales in the Asia Pacific region in 1H/2015, Japan and Australia remain the most attractive markets for Asian investors. We believe that a few portfolios and single hotel assets will be transacted by the end of 2015.”

Savills Research

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→ **Market overview**

The Greek debt crisis and the looming US Federal Reserve interest rate hikes seem to be the most popular topics amongst investors at various hotel conferences in the region at the moment. However, Asia is far better placed today to withstand these adjustments, and historical references to past liquidity crises are less relevant now. That's not to say there will be no risks in the coming months, but buyers and sellers should stay upbeat and selective.

The 40% decrease in hotel transactions in the first half of 2015 compared to the same period last

year, in US dollar terms, may reflect the particular profile of hotel owners in Asia. In Europe and America, hotels are more likely to be held by institutional investors, but in many Asian countries hotels are held by High Net Worth Individuals or large family conglomerates that are not under any financial pressure to sell their assets.

Japan

The second quarter of 2015 continued to see a strong transaction market in Japan, with 11 hotels sold for a total of JPY2.64 billion (US\$622 million). For the year to date (YTD), Japan represented 13% of all Asia Pacific hotel investments. It is the second highest transaction country

after Australia YTD, despite a 32% decrease in transaction volumes compared to 1H/2014.

Japanese companies have been extremely aggressive in their acquisitions this year. In particular, Hoshino Resorts REIT acquired two portfolios of limited-service hotels this quarter. They acquired the five-hotel Candeo Hotels portfolio from Tameike Kanzai for JPY4.22 billion (US\$35.1 million) as well as the three Comfort Hotels from Takataya for JPY3 billion (US\$25 million).

The largest single-asset transaction was Japan Hotel REIT's acquisition of the Okinawa Marriott Resort & Spa from Lone Star for nearly JPY15.0 billion, JPY41.4 million per room (US\$120.4 million, US\$333,573).

No transactions were in Tokyo this quarter, this shows that the hospitality boom is a Japan-wide phenomenon. Furthermore, Japanese investors are comfortable with diversifying their investments in areas outside of Tokyo. The capital has seen hotel prices increase drastically, making investment untenable in many prime locations.

Japan's tourism and hospitality industry sentiment is extremely positive. YTD May 2015 RevPAR is 13.4% higher than YTD 2014 RevPAR according to Smith Travel Research.

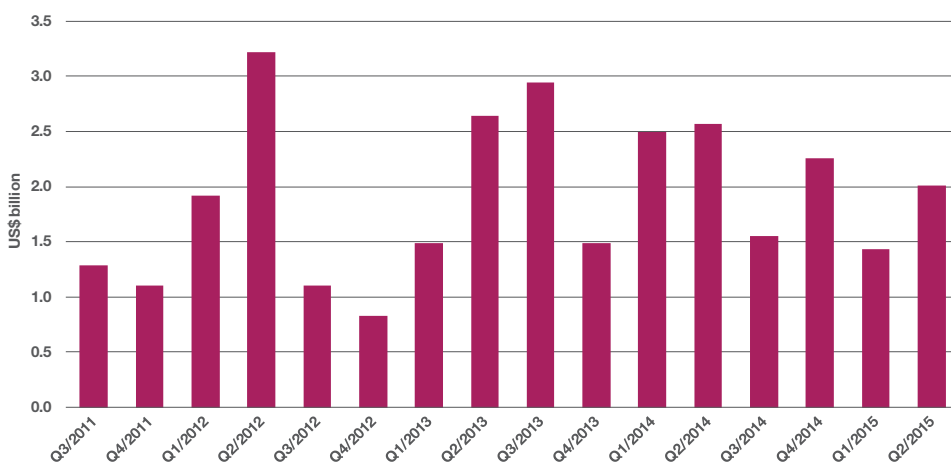
By purchaser origin, Japanese investors represented 13.8% of Asia Pacific hotel transactions, with US\$804 million worth of transactions. This is a 51% decrease from 1H/ 2014.

Greater China

There was only one transaction in mainland China; the MixC hotel project in Shanghai was sold by a joint venture between China Resources Land and Shanghai Shentong Metro Group to Hong Kong's Shun Tak Holdings. The two hotels totalling 478 rooms within the MixC project were sold for RMB700 million (US\$113 million). This project was sold as a turn-key project to potentially house Shun Tak's two flagship hotel brands in China which will be in operation by the end of 2017.

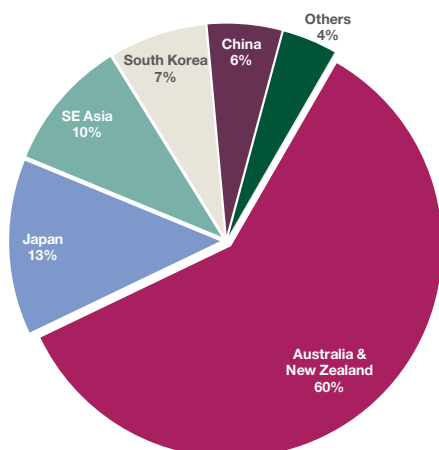
The Four Seasons Pudong Shanghai hotel, carpark and unsold branded residences are under contract to be sold to Wing Tat Development from Shui On Construction and Materials

GRAPH 1 **Investment sales transaction values, Q3/2011–Q2/2015**



Source: Savills Research & Consultancy

GRAPH 2 **Investment sales transaction volumes by location, Q2/2015**



Source: Savills Research & Consultancy
 *SE Asia including Viet Nam, Thailand, Malaysia and Indonesia.
 Others including Maldives and India.

and Hotel Properties for RMB632.5 million (US\$102 million).

For 1H/2015, total hotel investment volume was RMB924 million (US\$112 million), an 83% decrease compared to the same quarter in 2014.

The macroeconomic outlook has weakened since the announcement that China's 2015 GDP forecast was set at 7%, the lowest rate in 11 years. Furthermore, 2014 GDP was the lowest in 24 years. However, the Chinese domestic travel industry continues to grow and China is still the country with the most foreign visitor arrivals in Asia, and the fourth most in the world according to UNWTO statistics. By tourism receipts China ranks third, moving up two places in 2014.

In the first half of 2015, Chinese investors were the third most active in the reviewed region, representing 17% of Asia Pacific hotel transactions, 3.9% less than 1H/2014. In 2014, Chinese buyers were the second most active investors in the region with 21% of all transactions. Macroeconomic conditions in China may contract Chinese appetite for overseas assets, or conversely, investors may increase foreign investments to diversify risk outside of China.

In Hong Kong a 50% share of New World's three hotels was sold to the Abu Dhabi Investment Authority and New World joint venture. The Grand Hyatt Hong Kong was sold for HK\$5.8 billion, HK\$10.8 million per room (US\$752 million, US\$1.39 million). The Renaissance Harbour View Hotel Hong Kong was sold for HK\$9.27 billion,

HK\$10.83 million per room (US\$1.2 billion, US\$1.4 million). The Hyatt Regency Tsim Sha Tsui Hotel was sold for HK\$3.39 billion, HK \$ 8.89 million per room (US\$437 million, US\$1.15 million).

By purchaser origin, Hong Kong investors represented 8% of Asia Pacific hotel transactions in 1H/2015; this is a 56% decrease from the same period last year.

Southeast Asia

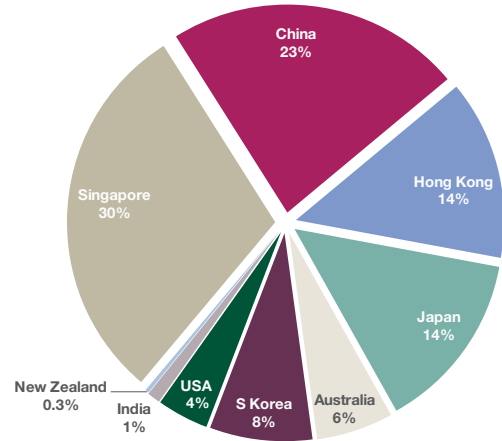
Hotel investment activity in Southeast Asia was nearly US\$200 million this quarter. For the first half of 2015, the total volume was US\$446 million or 13% of all Asia Pacific transactions, which was a decrease of 52% compared to 1H/2014.

Indonesia, Thailand, Vietnam and Malaysia saw one transaction each. For the first half of 2015, only Vietnam experienced a small increase in transaction volumes (2%) while other countries with transactions saw decreases: Indonesia -4%, Malaysia -44% and Thailand, with the largest decrease, at -89%.

In Malaysia, the Royal Group from Singapore acquired the 540-room Double Tree by Hilton in Kuala Lumpur from BlackRock for MYR388 million, MYR718,519 per room (US\$105 million, US\$194,462). This was the largest single-asset transaction in Southeast Asia for this quarter.

In Koh Samui, the AKARYN Koh Samui Resort & Spa was purchased by Outrigger Enterprises and rebranded to AKARYN Koh Samui Resort & Spa, price undisclosed. In Vietnam, the

GRAPH 3 Investment sales transaction volumes by buyer origin, Q2/2015



Source: Savills Research & Consultancy

193-room Hyatt Regency Resort in Da Nang was sold to Hong Kong's Gaw Capital from Indochina Land for VND645 billion, VND3.3 million per room (nearly US\$ 30 million, US\$154,694).

By purchaser origin, Singaporean investors were the most active in Asia Pacific for 1H/2015, spending US\$822 million. Although this is 46% less than 1H/2014, Singaporean companies still represented 24% of Asia Pacific hotel acquisitions. This quarter, Singapore invested in 10 hotels, nine of which were outside of Singapore, reflecting their propensity to invest abroad.

Australasia

Australia was the strongest market for hotel transactions, with 60% of all Asia Pacific transactions for this quarter.

TABLE 1 Selected investment transactions, Q2/2015

Hotel	Location	Approximate sale price (US\$ million)	Approximate price per room (US\$)	Buyer
Westin Sydney	Sydney	348.4	837,463	Far East Land/Sino Land
Hilton Sydney	Sydney	345.8	597,197	Bright Ruby Resources
Hotel at Shanghai MixC integrated commercial development	Shanghai	112.9	N/A	Shun Tak Holdings
Okinawa Marriott Resort	Okinawa	120.4	333,573	Japan Hotel REIT
Double Tree by Hilton KL	Kuala Lumpur	105.0	194,462	BlackRock

Source: Savills Research & Consultancy
 Note: JPY/US\$ = 123.3960; AU\$/US\$ = 1.3110; RMB/US\$ = 6.2052; MYR/US\$ = 3.7805

→ For the first half of 2015, Australia's share is less, at 44%, but it is still the country with the most transactions in Asia Pacific.

Total hotel sales for the first half of 2015 totalled A\$1.96 billion (US\$1.54 billion), an impressive 282% increase on the first half of 2014. This is nearly 10 times the annual growth rate in Australian hotel transaction volumes from 2013 to 2014.

Two iconic hotels, the Hilton Sydney and Westin Sydney, exchanged in the last quarter. The 579-room Hilton was acquired by Bright Ruby Resources from Hilton Worldwide for A\$442 million or A\$763,385 per room (US\$346 million or US\$597,197). The 416-room Westin is in the process of being acquired by Far East Land and Sino Land Company jointly, from the Government of Singapore Investment Corporation (GIC) for A\$445 million or A\$1,070,512 (US\$348 million, US\$837,463). The two buyers

were Chinese and Singaporean, respectively, Asian investors continue to favour Australia due to its stable investment environment and strong Asian visitor arrival growth.

Nine of 17 hotels were bought by Australian investors; the others were from China, Hong Kong, Singapore and America. Australian buyers were the fifth most active purchasers in the region in 1H/2015. Representing 6% of Asia Pacific hotel transactions, this is an 86% increase on 2014. Notably, only two of 21 transactions by Australian investors in 2015 were outside Australia, and these were in New Zealand. This is similar to the spending pattern of Japanese investors.

There was one transaction in New Zealand, the sale of New Zealand Dorchester Place for NZ\$8 million. 1H/2015 represented a 50% increase on 1H/2014. ■

OUTLOOK

The prospects for the market

- As visitor numbers continue to increase in Australia, China, Japan, Thailand and Vietnam, hotel occupancy, ADR and RevPAR are likely to continue to grow and this, in turn, will support hotel transactions going forward.
- In Japan and Australia, a few portfolios and single hotel assets are expected to be transacted by the end of 2015 – however, investors reviewing opportunities in these two countries are experiencing high competition from both domestic and overseas buyers. The limited supply of assets available for sale in core areas is exerting a downward pressure on yield.

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