

# Briefing Hotel sales & investment

April 2014



Image: Phuket, Thailand

## SUMMARY

Strong demand for real estate investments sustained the momentum of transactions going into 2014, with investors competing for quality assets.

■ The total value of hotel investment sales increased by 49.8%, from US\$1.49 billion in Q1/2013 to US\$2.23 billion in Q1/2014.

■ The China hotel market contributed US\$612 million or 27.4% of all investment sales in the reviewed quarter.

■ Singapore investors invested nearly US\$798 million or 35.7% of all investment sales in Q1/2014.

■ Hotel investment sales in Hong Kong and Australia/New Zealand

increased, with transaction volumes surging 613.3% and 117.1% respectively year-on-year (YoY).

■ Investment sales in Japan declined the most, with transaction volumes falling 27.1% YoY.

■ Investors will push more hotels onto the market in 1H/2014, looking to capitalise on improved market sentiment. Regional cap rates continue to soften, with yield expectations for prime assets ranging between 3.5% in Hong Kong and 9.0% in Ho Chi Minh City. These include Singapore (4.0%),

Tokyo (4.5%), Seoul (5.0%), Bangkok, Kuala Lumpur and Shanghai (all 7.5%).

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 “We have seen a significant increase in transaction activity by high net worth individuals and the smaller private groups. There is a large pool of funds available for assets in good condition in affluent locations, particularly freehold stock.” Savills Research  
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➔ **Market overview**

The first quarter of the year registered approximately US\$2.23 billion worth of investment transactions, representing a 49.8% increase over Q1/2013 (US\$1.49 billion).

Two major transactions which occurred in Q1/2014 provide good examples of investment market trends. The sale of Ginza I Tower, including Hotel Mercure Ginza, in Japan with a transaction volume of circa JPY12 billion (US\$118.8 million) to Hulic Co, Ltd showed that demand

for core assets in Tokyo remains at an all-time time high. The second transaction was for Sutera Harbour Resort in Kota Kinabalu by Singapore Exchange-listed property developer GSH Corp Ltd, which acquired a 77.5% stake from Sutera Harbour Resort Group, owned by Datuk Edward Ong Han Nam.

**Northern Asia<sup>1</sup>**

Japan's brighter economic outlook, combined with signs of a cyclical recovery in property fundamentals,

<sup>1</sup> South Korea and Japan.

significantly boosted investment sentiment in the first quarter of 2014. The recorded hotel investment volume was US\$439 million in Q1/2014, and there is a strong appetite from investors for well positioned assets due to the improved long-term outlook for hotel investment.

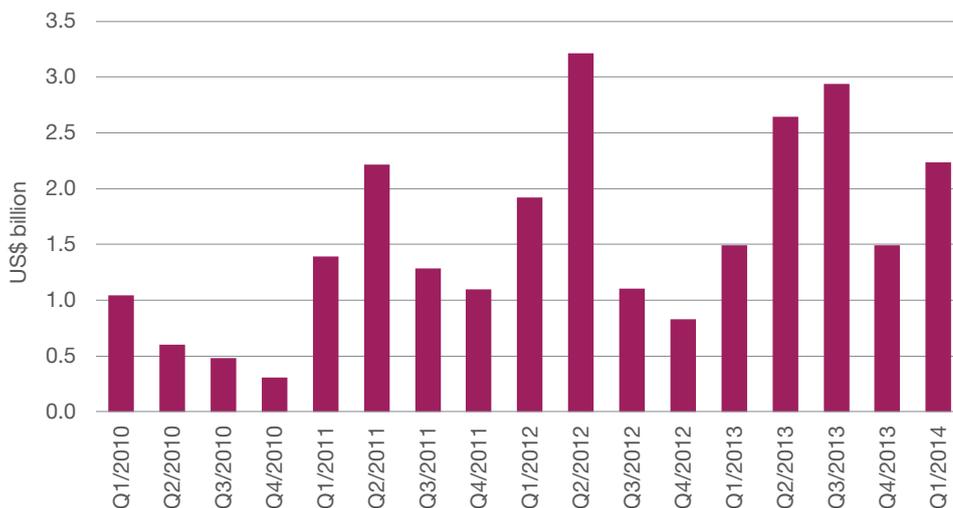
Benchmark transactions were completed by several overseas groups, including the acquisition of the 14-storey Hotel Alpha-One in Yokohama by Germany-based SEB Asset Management for a total of JPY4.6 billion (US\$44.9 million). Hong Kong-based Gaw Capital has recently acquired the 480-room Hyatt Regency Osaka from Obayashi as its first hotel asset in Japan. However, the value of the transaction has not been disclosed.

A portfolio of nine Comfort Hotels was acquired by Anabuki Kosan from Taisei-Yuraku Real Estate Co, Ltd in the first quarter with a total transaction volume of approximately JPY6 billion (US\$58.4 million). The properties acquired are Comfort Yokohama, Comfort Niigata, Comfort Otemae, Comfort Okayama, Comfort Takamatsu, Comfort Hakata, Comfort Annex Fukuoka Nishijin, Comfort Kumamoto and Comfort Kagoshima. Red Planet Japan will make an initial JPY10 billion (US\$100 million) investment over the next six years to open 20 hotels by 2020, for which a number of sites have already been confirmed in and around Tokyo and other major Japanese cities.

The Singapore-based Ascendas Hospitality Trust (AH-Trust) has recently entered a conditional sale and purchase agreement with Ainodake Godo Kaisha to acquire Namba Washington Hotel Plaza in Osaka, Japan for JPY8.9 billion (US\$87 million). The hotel would be AH-Trust's second acquisition since its initial public offering in July 2012 and the second Japanese asset in AH-Trust's portfolio. The transaction is expected to be closed by April.

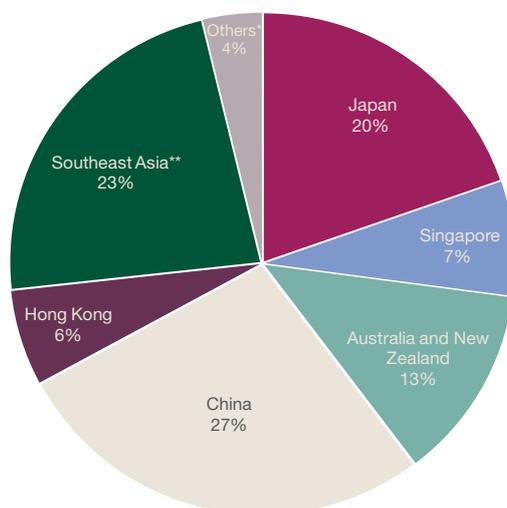
In South Korea, there are a number of properties on the market or currently being negotiated for sale, with transactions involving securitisation,

GRAPH 1 **Asia Pacific hotel investment sales transaction values, Q1/2010–Q1/2014**



Source: Savills Research & Consultancy

GRAPH 2 **Asia Pacific hotel investment sales transaction volumes by location, Q1/2014**



Source: Savills Research & Consultancy

\*Others includes South Korea, Sri Lanka, India.

\*\*Southeast Asia includes Indonesia, Malaysia, Thailand, Viet Nam, Philippines, Bhutan, Laos and Cambodia.

→ and sale and leasebacks being vigorously executed. At the beginning of this year, it was announced that Genting Singapore Plc, Southeast Asia's largest casino operator by market value, will develop a casino resort on South Korea's Jeju Island with a total investment of US\$2.2 billion jointly built with Hong Kong-listed Chinese property company, Landing International Development Ltd, which will initially target visitors from eastern and northern China.

A consortium including Las Vegas-based Caesars, Lippo Ltd from Hong Kong and Singapore's OUE Ltd is investing in the development of an integrated resort complex in Incheon, South Korea for an estimated cost of US\$ 2.2 billion, which would include a casino for overseas visitors only. The complex will be built in several phases, and the hope is that it will be open in time for the 2018 Winter Olympics in Pyeongchang, South Korea.

### Eastern Asia<sup>2</sup>

China hotel transactions reached RMB3.7 billion (US\$612.1 million) in Q1, up 75.7% from the same period last year. A notable transaction during the reviewed quarter was the acquisition of the 666-room Galaxy Hotel in Shanghai by Yangguangxinye from Shanghai Jinjiang International Hotels for a total transaction volume of RMB1.2

<sup>2</sup> China, Macau, Hong Kong and Taiwan.

billion (US\$208.7 million). Portfolio transactions are proliferating, with a total volume of RMB215.6 million (US\$35.6 million) for the sale of Amanfayun and Aman Hotel at Summer Palace from DLF to Adrian Zecha JV Peak Hotels & Resorts Group.

Rebounding interest in limited service properties was witnessed, with transactions totalling RMB108.6 million (US\$17.7 million) in Q1, including the sale of U Inns Jingtangshan in Jian, Jiangxi province and the sale of 3961 Caoan Road in Shanghai. An increase in hotel acquisitions by private buyers and overseas investors was a noteworthy trend in Q1/2014.

Despite Hong Kong witnessing an obvious downturn in investment sentiment in the general property market, there was a total of three major transactions over HK\$1.07 billion (US\$138 million) recorded in Q1, up 276.4% from the same period of last year. The most significant deal was the sale of the 55-room Mercer by Kosmopolito by Norwood Asia Ltd to Ascott Limited for HK\$10.54 million (US\$1.36 million) per room. Demand for limited service hotels with a small number of rooms currently dominates the Hong Kong hotel transaction market, while veteran local investors were once again active in the hotel sector. The variety in both buyer profiles and

the property sectors involved are proof that these experienced market players still see value in the local property market, albeit in the medium to long term.

### Southeast Asia<sup>3</sup>

Hotel investment activity in Southeast Asia, excluding Singapore, started to pick up in Q1 in terms of total transaction volumes, up 22.9% from the same period of 2013. The total transaction volume was US\$511.7 million, mainly due to the contribution of the sale of the Aman Resort portfolio to the hotel chain's founder, Adrian Zecha JV Peak Hotels & Resorts Group, by DLF, one of the largest Indian developers. The portfolio includes a total of ten properties in Indonesia, Laos, Bhutan, the Philippines, Thailand and Cambodia, with a total transaction volume of US\$150 million, representing approximately 44% of total transactions in Southeast Asia.

The property market cycle in Viet Nam is believed to have bottomed out, whereas many other regional markets remain near the top of their cycles. The acquisition of the 278-room Movenpick Saigon by a Hong Kong-based company from VinaCapital represents an example of overseas investors' increasing interest in Viet Nam, due to attractive interest rates and stable exchange

<sup>3</sup> Thailand, Viet Nam, Malaysia, Singapore, Indonesia and Philippines.

TABLE 1 Selected Asia Pacific hotel investment transactions, Q1/2014

Hotel	Location	Approximate sale price (US\$ million)	Approximate price per room (US\$)	Buyer
Mercer by Kosmopolito	Hong Kong	75.0	1,359,767	Ascott Limited
Shanghai JC Mandarin Hotel	Shanghai, China	350.1	681,119	Confidential
Park Hyatt	Melbourne, Australia	120.5	502,232	Fu Wah International Group
Aman portfolio	Various cities	226.0	368,082	Adrian Zecha JV Peak Hotels & Resorts Group
A portfolio of Comfort Hotels	Various cities, Japan	57.5	75,946	Anabuki Kosan

Source: Savills Research & Consultancy  
JPY/US\$ = 103.1; A\$/US\$ = 1.11; HK\$/US\$ = 7.75; RMB/US\$ = 6.08

→ rates. Changes in Viet Nam’s land management laws and more open government policies are expected in 2014, signalling the country’s commitment towards a long-term strategy to attract overseas investment.

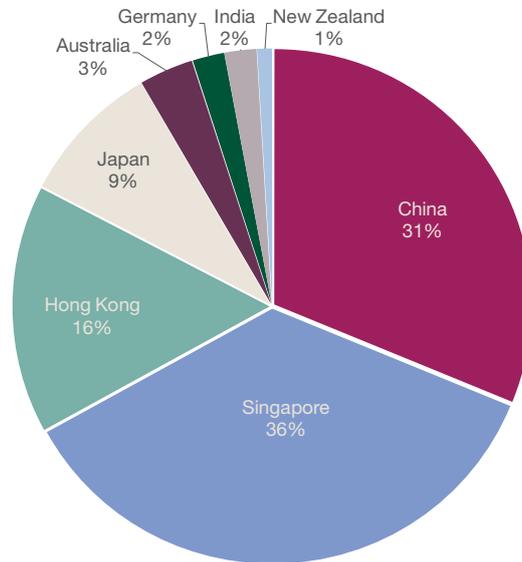
Sutera Harbour in Kota Kinabalu, with a total of 956 units, was acquired by Singapore-based GSH Corporation Ltd for 77.5% of the total interest for RM903 million (US\$275.7 million). This includes Pacific Sutera, The Magellan Sutera, and the Sutera Harbour Marina and Country Club.

The Thai economy grew at a slower pace, as political unrest affected local and international demand, as well as tourism, increasing pressure on the central bank to cut interest rates and support expansion. As a result, total transaction volumes declined by nearly 15.5% in Q1, compared with the same period of last year. However, popular destinations such as Phuket and Koh Saumi were resilient, as demand from international arrivals increased and hotel investment activity remained high. Several properties in Phuket and Koh Samui are currently on the market or under offer, and as such, it is expected that Thailand will record another strong year of transactions in 2014.

At the beginning of this year, Royal Group acquired the 215-room The Sentosa Singapore (formerly known as The Beaufort Singapore) from HKR International Ltd for S\$210.9 million (US\$166.9 million), representing less than S\$1 million per room, taking into account its remaining lease of about 60 years. This transaction was the first and only deal for the reviewed quarter, as well as the first resort hotel sold in Singapore in recent years.

The leisure hotspot Sentosa Island is ready to open yet another hotel to meet the demand of visitors. Far East Organization won the tender for a 60-year leasehold site on Artillery

GRAPH 3 **Asia Pacific hotel sales transaction volumes by source of investment, Q1/2014**



Source: Savills Research & Consultancy

Avenue for an upfront land premium of S\$32 million (US\$25.2 million) from Sentosa Development Corporation.

**Australia and New Zealand**

In the first quarter, six hotel assets were transacted for almost A\$289.9 million (US\$259.8 million), with the most notable being the Park Hyatt Melbourne. Core hotel assets in the gateway cities of Sydney and Melbourne remain the most sought-after by international investors, especially of Southeast Asian and Chinese origin. The 240-room Park Hyatt Melbourne was acquired by Chinese Investor Fu Wah International Group for a transaction price of A\$562,500 (US\$512,466) per room. Also in Melbourne, the 148-room Oaks on Lonsdale was acquired by Hong Kong-based hospitality company Ovolo Group for A\$472,973 (US\$422,034) per room. Both properties transacted at 6.50% passing yields.

Interest in the sale campaign of Sofitel Wentworth Sydney has reportedly been strong, currently standing at around A\$200 million or

A\$458,716 (US\$423,283) per room.

The development of new hotels is picking up and as a result we could see offshore investors acquire hotels on forward commitments as a way to secure assets in a tightly held market. During Q1 the Ritz-Carlton Hotel Company, L.L.C. and Fast Consortium, a leading Asian residential developer, signed an agreement for the development of The Ritz-Carlton, Perth, heralding the much-anticipated return of the luxury Ritz-Carlton brand to Australia. Also in Perth, Starwood announced the first Australian hotel under the Aloft brand to open in Perth Riverdale in 2016.

In New Zealand, the 283-room Hotel So at 165 Cashel Street, Christchurch was sold by Singapore-based Ewart Trust to Russell Property Group and Dominion Constructors for a total transaction price of NZ\$25.5 million (US\$21.1 million). There has been a renewed interest of late in the acquisition and development of hotels in New Zealand, particularly in the core cities of Auckland and Wellington. ■

# OUTLOOK

## The prospects for the market

- The prognosis for private equity in 2014 looks good. Institutional buyers, REITs, pension funds and high net worth individuals will continue to view hotel real estate markets as a strong source of uncorrelated returns and positive cash flow, particularly in the developed markets. As one might expect, targeted strategy allocations by investors are reflective of current economic and market opportunities.
- Investment activity across the region will remain stable or increase slightly as major global risk factors are seen to be reducing, albeit not yet disappearing. Australia and Japan will again be the major targets for domestic and international investors.
- Markets such as Viet Nam, Thailand, Indonesia, the Philippines and South Korea are still on the radar of every developer and opportunistic investor.
- For that reason, an investment volume of approximately US\$9.0 billion is likely to be achieved in the hotel property market in 2014.

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