Briefing
Hotel sales & investment

October 2014

Image: Sofitel Darling Harbour, Sydney

SUMMARY

The growing volume of capital waiting to be deployed relative to the limited purchasing opportunities available is placing further downward pressure on cap rates.

- The total value of investment sales fell by 61.6% year-on-year (YoY), from US$3.12 billion in Q3/2013 to just US$1.20 billion in Q3/2014.
- Year-to-date September investment sales volumes dropped by 20.4% from the same period last year.
- Australia contributed US$475.7 million or 39.6% of all investment sales in the reviewed quarter.
- USA accounted for nearly US$331.3 million or 27.6% of all investment sales in Q3/2014.
- Investment sales in China and South East Asia declined by 66.8 % and 56.3% YoY respectively.

"We expect regional and international investors to continue to expand their activities in Asia Pacific, and as a result of this more competitive market for prime assets, we predict that prime yields in major destinations could harden, taking them to pre-crisis levels by the end of this year." Savills Research

Market overview

The third quarter of this year registered approximately US$1.2 billion worth of investment transactions, representing a 44.9% decrease over Q3/2013 (US$2.2 billion).

Two major transactions concluded in the third quarter provide good examples of investment market trends. Firstly, the sale of the Sofitel Sydney Darling Harbour which represented the largest single asset hotel transaction in Australian history which will be the first new luxury hotel to be built in Sydney in 15 years. Secondly, the acquisition of Tokyo Bay Maihama Hotel Club Resort by Hulic was recorded as the largest single asset transaction in Japan in the first three quarters of this year.

Northern Asia[1]

Supported by the steady expansion of the economy, backed by increased corporate profitability and a significantly weaker yen, Q3 was a bright quarter for hotel investment in Japan with a total of 8 hotels transacted for a total of JPY46.9 billion (US$459.8 million), which added to the year to date transaction volume to US$1.9 billion, 14% from the same period of last year.

Tokyo is back on the radar of domestic and international hotel investors. Factors attracting private capital include the high occupancy rates and stable yields on offer. Moreover, Tokyo's successful bid to host the 2020 Summer Olympic Games offered further impetus to sustain the positive momentum into the mid- to long-term.

The most notable single asset transaction in Tokyo was the acquisition of the 703-room Tokyo Bay Maihama Hotel by Hulic for a sale price of approximately JPY30 billion, (US$295.3million), equating to circa JPY 70.1million (US$689,978) per room, with a projected initial yield of circa 6.0%.

Apart from central Japan, Hokkaido and Okinawa also succeeded in attracting investors as both offered higher yields of over 6.5%. The most recent transactions are the acquisition of Mercure Hotel Sapporo and Mercure Hotel Okinawa Naha by Japan Hotel REIT for a price of JPY 9.0 billion (US$87.5million).

Eastern Asia[2]

China has completed 5 major transactions and 2 off-plan projects in Q3 for a total transaction value of US$121.9 million, up 16.3% from Q2/2014.

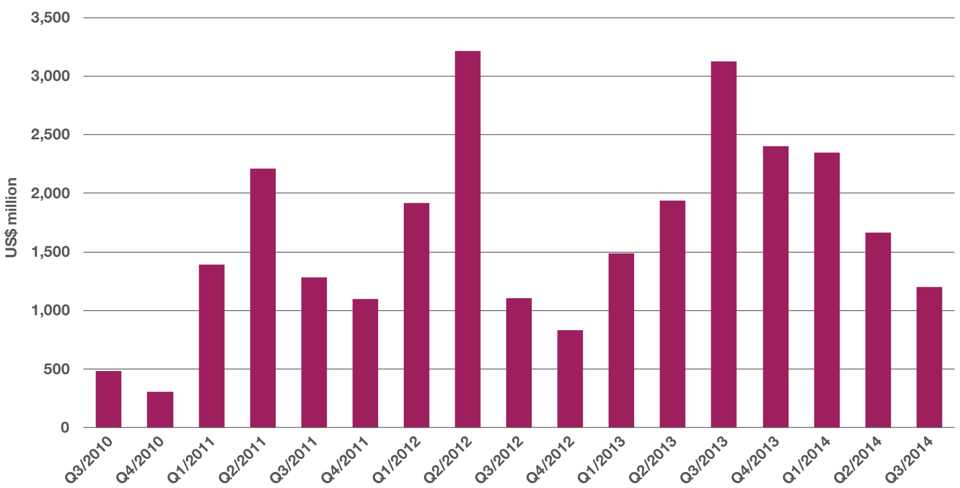
With the economic slowdown and the increased supply of 5-star hotels highlighting the fragility of the high end hotel market, investors are seeing more opportunities for mid-scale hotels where there is a growing base of demand and operating profit margins are higher. This included the acquisition of the Holiday Inn Downtown Beijing by Beijing Properties for a total

1 Japan

2 China, Hong Kong and Taiwan.

GRAPH 1

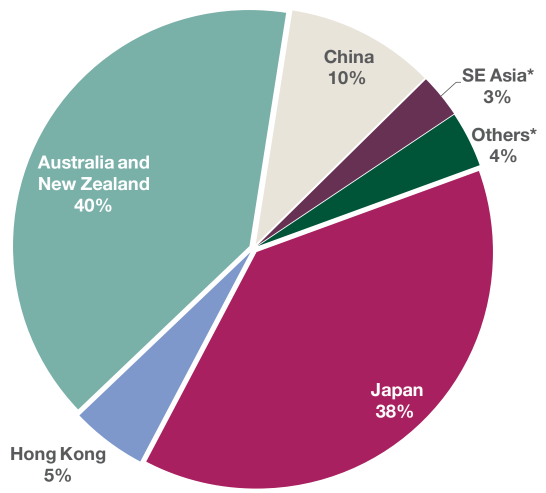
Investment sales transaction values, Q3/2010–Q3/2014



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by location, Q3/2014



Source: Savills Research & Consultancy
*SE Asia including Thailand and Malaysia.
Others including Maldives, Fiji and Taiwan.

of RMB554.2 million (US$90.2 million), equating to RMB1.6 million (US$263,188) per room.

International hotel investors continue to show a preference for core assets in 1st tier cities such as Shanghai and Beijing, and provincial capitals such as Wuhan and Xian. Chongqing become the new destination for opportunistic investors recently as CapitaMalls Asia invested in a super-scale mixed-use development comprising a shopping mall and eight towers for residential, office, serviced residence and hotel use in Chaotianmen Chongqing. The project is expected to be completed in 2017 for a total of more than RMB21.0 billion (US$3.4 billion). The investment values of the serviced residence and hotel are estimated to stand at RMB66.5 million (US$10.7 million) and RMB133.0 million (US$21.4 million) respectively.

It is noticeable that a few transactions completed in China are changing hands via related parties for example Ascott Residence Trust acquired a portfolio for Citadines serviced apartments from CapitaLand in various cities, and Great Eagle Holdings Limited and Shui On Land are currently proceeding with the transaction of Langham Xintiandi Hotel in Shanghai, which expect to close by the fourth quarter.

In Hong Kong, the 50-room Mira Cube hotel located in Knutsford Terrace in Tsimshatsui was sold by Miramar Group to Hong Kong based Real Honest Ltd for HK$480.0million (US$61.0million), approximately HK$9.6 million (US$1.2 million) per room. This hotel is expected to open in January 2015 and will continue to be managed by Miramar Hotel Group.

The total volume of transactions including hotel and serviced apartments for the first three quarter was recorded at HK$2.2 billion in Hong Kong, a drop of 72.1% from the same period last year. It should be noted that transactions of serviced apartments represented 42% of total transactions. With long run high occupancy rates and high operating profit margins, serviced apartments clearly offer an attractive alternative to hotels.

Southeast Asia

Hotel investment activity in South East Asia remained quiet over Q3/2014.with a few deals still in their closing stages. However, the total transaction volume in South East Asia for the past 9 months was registered at US$1.03 billion, up 36% from the same period of last year.

Serviced apartment investment has increased in popularity in South East Asia with two branded serviced apartments sold in Malaysia and Thailand: Somerset Ampang Kuala Lumpur with a transacted price of US$52.8 million; and Oakwood Apartments Trilliant Bangkok for an undisclosed price.

A notable single asset transaction was the sale of the 30-rai beachfront Movenpick White Sand Beach Pattaya in Thailand for THB858.9

TABLE 1

Selected Asia Pacific hotel investment transactions, Q3/2014

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
Sofitel Darling Harbour Sydney	Sydney, Australia	336.9	546,988	Schwartz Family Company
Tokyo Bay Maihama Hotel	Tokyo, Japan	295.3	689,978	Hulic
Holiday Inn Downtown Beijing	Beijing, China	89.7	261,651	Beijing Properties
Mercure Hotel Sapporo	Sapporo, Japan	58.0	204,621	Japan Hotel REIT
Blue Sydney	Sydney, Australia	30.2	302,546	Ovolo Group

Source: Savills Research & Consultancy
JPY/US$ = 102.1; A$/US$ = 1.07; RMB/US$ = 6.15

million (US$26.5 million) and THB3.3 million (US$100,402) per room. This was sold by Apex Development to local buyer Pornthep Pronprapa.

Hawaii-based Outrigger Enterprises Group has purchased the Konotta Island Resort situated in the Gaafu Dhaalu Atoll of the Republic of the Maldives from Crystal Lagoon Pvt Ltd for an undisclosed price. Following a property renovation, the hotel is expected to open as the Outrigger Konotta Maldives Resort in July 2015.

There were few major hotel transactions recorded in Singapore for the reviewed quarter. Notwithstanding, China's Nanshan Group - which is involved in diversified businesses ranging from aluminium and golf courses to education and wine - is said to be in negotiations to buy a 396-room hotel in Midlink Plaza on Middle Road on a completed basis. Talk in the market is that a price of about S$270 million is being discussed. The site, which has a balance lease term of about 65 years, is being redeveloped into a hotel with some strata retail space.

Australia and New Zealand

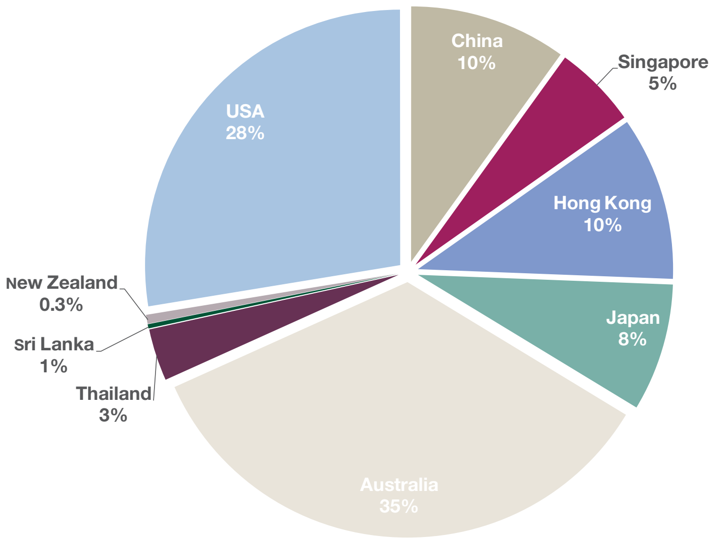
During the three months to September 2014 Savills recorded 11 hotel transactions totaling approximately A$510.1million (US$475.7million), down 55.6% on the same period in the previous year.

During the first nine months of this year, 26 properties were sold, with a total transaction volume of A$ 991.1million (US$917.0 million), approximately 36.4% less than the first three quarters of 2013.

The decrease in the three months and the nine months to September 2014 was primarily driven by the sale of the TAHL portfolio to ADIA in September 2013.

GRAPH 3

Investment sales transaction volumes by buyer origin, Q3/2014



Source: Savills Research & Consultancy

The sale of Sofitel Sydney Darling Harbour in August was recorded as the largest single asset hotel transaction in Australian history, and was purchased by Australian hotel owner Jerry Schwartz. The circa 600-room luxury hotel which will be developed by Lend Lease and managed by Accor at the new International Convention Centre will become the landmark for the State Govern ment's $2.5 billion international convention, exhibition and entertainment precinct at Darling Harbour being delivered by the Lend Lease-led Darling Harbour Live consortium.

In New Zealand, Singapore based hotel operator Millennium & Copthorne Hotels Group has bought over 30% of partial invests from New Zealand based developer Maori Trustee for a portfolio of 7 hotels with a total transaction value of NZ$47.1 million (US$41.3 million).

Savills is currently expecting total sales of hotels in Australia to reach $2.0 billion for the 2014 calendar year. Although slightly lower than the preceding two years, this will be considerably higher than the 10 year average ($1.3 billion) and will round off an extremely strong period of hotel investment in the country. Recently, a number of large single assets are under contract by local or overseas investors including the Grand Hyatt Melbourne, Hyatt Regency Perth and Sofitel Gold Coast.

OUTLOOK

The prospects for the market

■ Despite the increasing willingness of investors to look beyond Tokyo, Sydney, Hong Kong and Singapore, sourcing stock remains an issue. It was expected that more single assets would be sold out of last year's portfolio deals, but this did not materialise. As a result total APAC transaction volumes to date for 2014 are 20.0% down on the same period last year totaling approximately US$5.2 billion.

■ This lack of stock combined with improved investor demand and confidence in the sector has meant that yields have compressed over the first nine months of the year. Continued pipeline constraints may result in additional downward yield pressure going forward.

■ Looking to the remainder of 2014 and into 2015 we expect some boost to sales volumes from the opportunistic divestments of owners taking advantage of improved trading, yield compression and the weight of purchaser capital.

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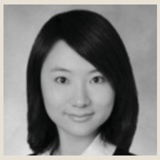

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