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Savills World Research
Asia Pacific

Briefing
Hotel sales & investment

April 2013

Image: Bangkok, Thailand

SUMMARY

Having adopted a 'wait and see' approach at the end of 2012, investor activity is steadily increasing in the region.

- The total value of investment sales fell by 10.8%, from US$1.48 billion in Q1/2012 to US$1.32 billion in Q1/2013.
- The Japanese market contributed US$540 million or 40.9% of all investment sales in the reviewed quarter.
- Japanese investors invested about US$528 million domestically, or 40.0% of all investment sales in the region in Q1/2013.
- Investment sales in Singapore and China rebounded, with transaction volumes surging 264.1% and 57.2% respectively, year-on-year (YoY).
- The Australia market contributed 7.5% of 2013's total year-to-date transaction value.
- The appetite of investors for hotel properties is steadily increasing in Asia Pacific, with a focus on the Australasian hotel markets, Southeast Asia and the region's global cities reflecting the ongoing interest for key gateways and stable, transparent economies.

"Investment activity across the region will continue to increase as major global risk factors are seen to be reducing, albeit not yet disappearing. Australia and Japan will be major targets for cross-border investors, while markets such as Thailand, Indonesia and South Korea are continuously sought-after." Savills Research

Market overview

The first quarter recorded approximately US$1.3 billion worth of investment transactions, representing a 43.8% increase over 2012's last quarter total of US$918 million, but a decrease of 10.8% from US$1.48 billion in Q1/2012.

Although a gap in price expectations between buyers and sellers is making it difficult to complete transactions, a consistent pipeline of deals in Hong Kong, Japan, Thailand and Australia is forecast by the end of this year. Markets such as Singapore, Hong Kong, Sydney and Tokyo, with limited land supply, will be the main targets of domestic investors in the region. Intra-regional cross-border investments were mainly seen from Singapore, with the acquisition of Angsana Velavaru in the Maldives by CDL HREIT, Hong Kong, with the Hotel Fortuna Foshan purchase in China by Lai Kin Hak, and New Zealand, with the Holiday Inn on Flinders purchase by Carter Group.

Northern Asia[1]

Japan witnessed US$540 million worth of investment transactions in Q1/2013, representing a 19.8% decrease over the US$673 million seen in Q1/2012. The Japanese real estate market is expected to be stimulated by aggressive economic measures, such as the emergency stimulus of approximately US$116 billion approved by Prime Minister Shinzo Abe in the reviewed quarter. The government also aims to achieve 25 million tourists by 2020, compared with 8 million visitors in 2012. The latest transactions in Japan confirmed the continuing strong interest of domestic investors such as J-REITs, especially in cities outside Greater Tokyo, as investors expand their geographical sphere in order to secure required returns in the range of 7% to 9%.

1 South Korea and Japan.

Strong international demand, coupled with positive Asian markets, drew investor attention to Korea, despite the low the level of transparency in the country. Domestic institutional companies, holding abundant capital, are usually willing to pay high prices for properties, as very rarely do prime hotels in Seoul appear on the market. Meanwhile, JR AMC purchased Chungmuro Tower in the CBD for KRW63.7 billion in order to convert it to a hotel, following its previous two investments in hotel developments – Wise Building in Myeong-dong (Hotel SKY Park 2) and Myeong-dong Central (Hotel SKY Park 4).

Eastern Asia[2]

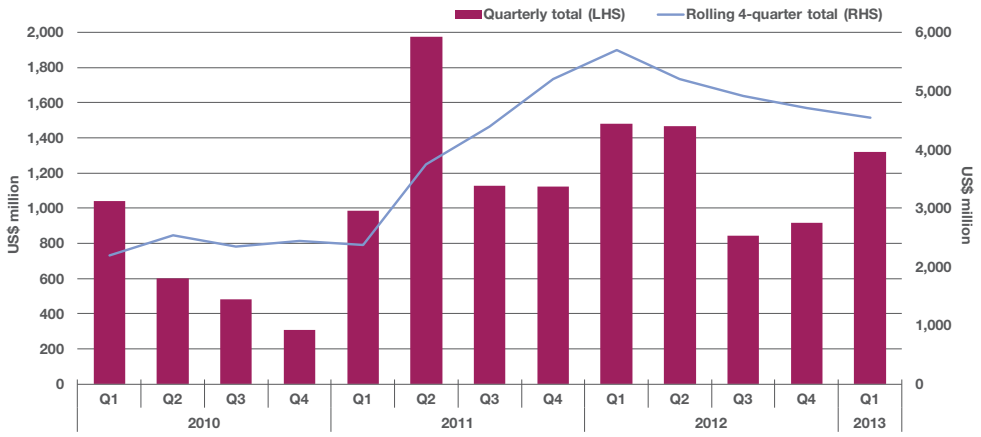
Despite the limited availability of core assets in prime districts of Shanghai and Beijing, investors continue to actively seek investment opportunities. China witnessed US$348 million worth of investment transactions in Q1/2013, representing a 57.2% increase over the US$222 million seen in Q1/2012. Oversupply is a major concern in first-tier, second-tier and even third-tier cities; however, there are still many lower tier cities offering development opportunities, mostly in the economy and mid-range market, despite the wishes of local administrations. The largest transaction this quarter was recorded in Guangzhou with the sale of the 504-room Hilton Guangzhou Tianghe to Jin Yin Feng Equity Investment Fund for about US$271.3 million.

Following the Buyer's Stamp Duty and the Special Stamp Duty on residential properties, Hong Kong doubled stamp duty on 22 February 2013 (taking effect immediately), to 8.5% from the existing 4.25%, in order to curb prices. This is now applicable to all properties including

2 China, Macau, Hong Kong and Taiwan.

GRAPH 1

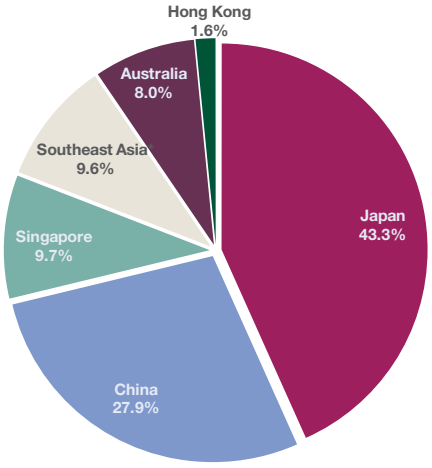
Investment sales transaction values, 2009–2012



Source: RCA, Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by location, Q1/2013



Source: RCA, Savills Research & Consultancy

hotels. Instead of taking short-term investors and overseas buyers out of the property market completely, the latest government measures only caused a reshuffle in demand from residential to commercial properties, and this shift was evidenced by a surge in prices and volumes in the retail and commercial sectors. With the limited short-term supply situation rubberstamped by the government and with no further restrictive measures, we are likely to see rising property prices in the short run, at least over the next three to six months.

Southeast Asia[3]

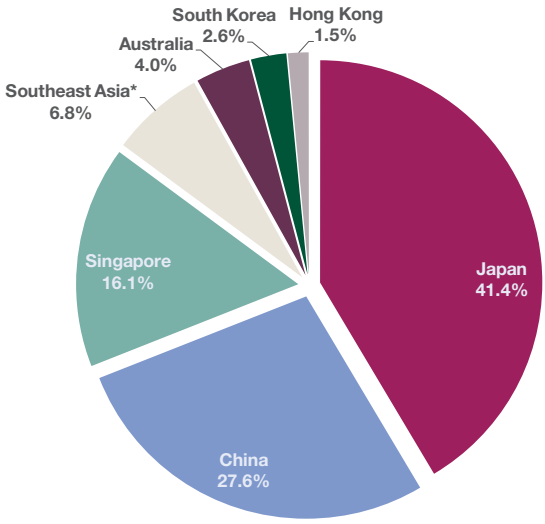
The Southeast Asia region, excluding Singapore, recorded a 50.7% YoY decrease in transaction volumes in Q1 to US$120 million, largely from Malaysia, Viet Nam and the Philippines. Investments will continue to be dominated by REITs, as well as Asian family companies and owner operators in this particular region. The listing of two new hotel REITs in Singapore in 2012 and the new REIT law effective from January 2013 in Thailand will provide much more flexibility and transparency in the property market, resulting in more confidence among both local and overseas funds and investors. In December 2012, the 12-month average revenue per available room in Bangkok was up to THB2,000, a performance not recorded since December 2008. This situation encourages investors to consider redevelopment projects on large sites connected to existing mass-transit infrastructure, as transit-oriented development has evolved organically in Bangkok, with businesses, retailers and residents being drawn to urban rail stations.

The Singapore Tourism Board expects the demand for travel to Singapore to remain strong in 2013 with a growth target of 14.8 million to 15.5 million visitors, although a stronger supply pipeline is unlikely to significantly affect occupancy rates or yields in the near term. While residential markets absorb the aggressive property tax taking effect in January 2013 in Singapore, the hotel investment market is likely to remain active on the strength of a new upcoming hotel REIT – Overseas Union Enterprise. The latest transaction recorded this quarter was the sale of the 241-room Ibis Novena to Alpha Investment Partners for about US$120.6 million at an initial yield above 5%.

3 Thailand, Viet Nam, Malaysia, Singapore, Indonesia and the Philippines.

GRAPH 3

Sales transaction volumes by source of investment, Q1/2013



Source: RCA, Savills Research & Consultancy

TABLE 1

Selected investment transactions, Q1/2013

Hotel	Location	Approximate sale price (US$ million)	Buyer
Hilton Guangzhou Tianghe	China	271.3	Jin Yin Feng Equity Investment Fund
Urayasu Brighton Hotel	Japan	148.1	Oriental Land Company
Ibis Novena	Singapore	120.6	Alpha Investment Partners
Angsana Velavaru	Maldives	71.0	CDL HREIT
Holiday Inn on Flinders	Australia	45.8	Carter Group

Source: RCA, Savills Research & Consultancy

Australia and New Zealand

Appetite from the institutional sector and overseas investors signifies a sound confidence in the market fundamentals. However, the focus remains on prime hotel property, of which there is little currently being brought to the market. In terms of financing, Australian banks remain amenable to lending under strict conditions that include loan-to-value ratios of not more than 60%, with demanding interest cover ratios and heavy interest in the financial strength and track record of the sponsor. It remains to be seen whether overseas banks, which have lower costs of capital, are prepared to lend directly on Australian assets or at least through a local bank acting as a security trustee/agent. If this occurs, then Savills expects that there will be a significant rise in the number of transactions as Chinese buyers will be able to secure debt from their local entities, and essentially tie up the debt and equity piece across government-owned entities and state-owned enterprises. This will automatically compress cap rates, which will in turn increase the appetite for development, given the relative expected returns versus the

availability of quality investment-grade assets.

Investor sentiment

The world economy is not yet out of the woods, and this should consequently affect investment sentiment. However, ample liquidity and rock-bottom interest rates in the region may offset the overly negative factors. Private investors have been concentrating on initial yields as the driving force for investment rather than focusing on total returns or market yields. This is primarily due to the cost of debt and the scarcity of finance for purchases in excess of US$100 million. While interest rates remain relatively low, emphasis is expected to be placed on the initial yield of investments in the short term. Regional cap rates continue to soften, with yield expectations for prime assets ranging between 3.5% in Hong Kong and 8.5% in Ho Chi Minh City. These include Singapore (4.0%), Tokyo (5.5%), Seoul (6.5%), Bangkok, Kuala Lumpur and Shanghai (all 7.0%).

OUTLOOK

The prospects for the market

2013 is the year of the snake. According to Chinese mythology the snake is the symbol of wisdom and those born in the year of the snake are meant to be intelligent and wise. The conjunction of the current massive availability of debt and improvements in market transparency in the region lead us to expect that the attention of domestic and international investors will increase towards 2013, as good quality, tightly held assets will become available.

Please contact us for further information

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