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Savills World Research
Asia Pacific

Briefing
Hotel sales & investment

July 2013

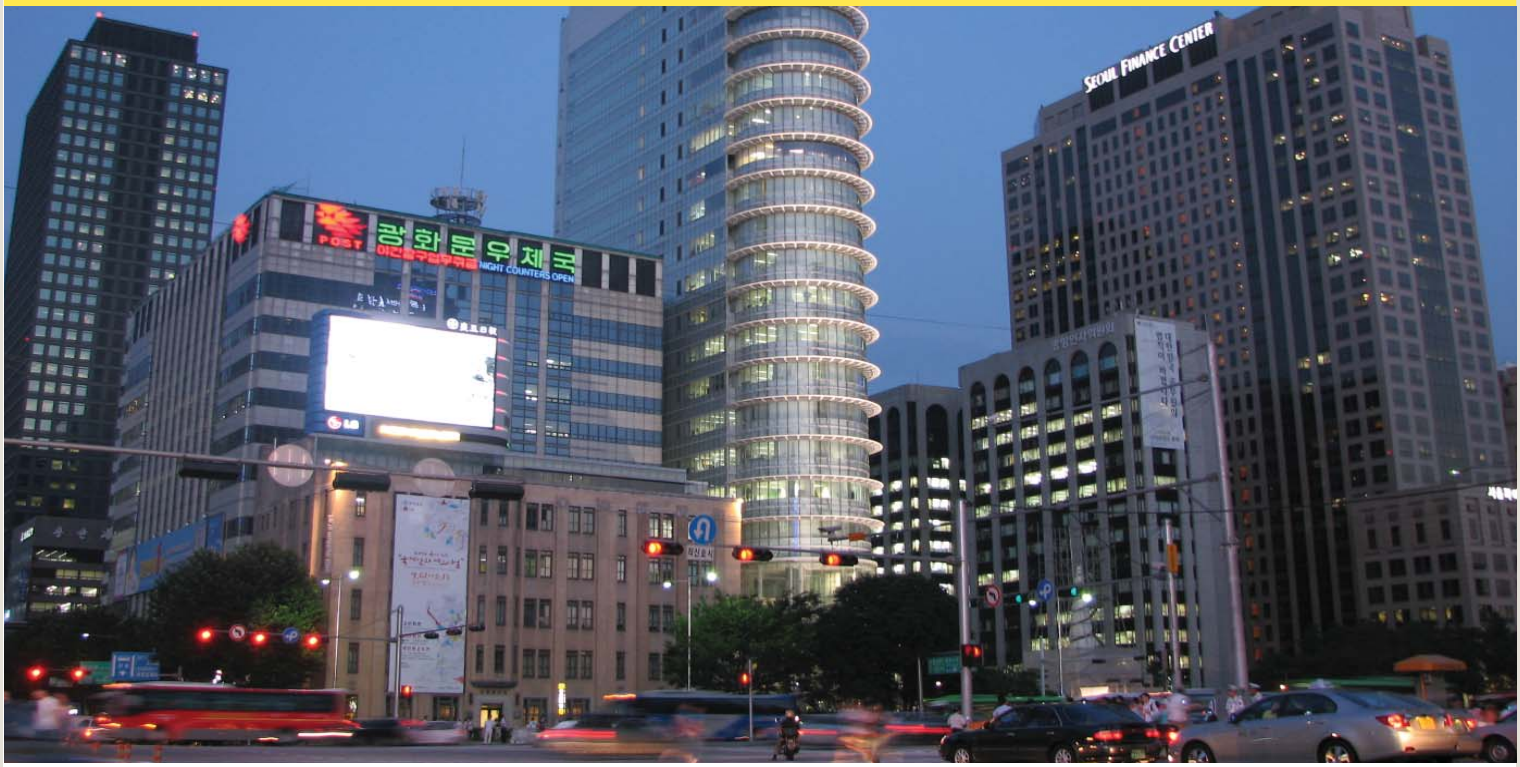


Image: Sejongno, Seoul, Korea

SUMMARY

The growing demand for core assets has helped to push capital values to new highs and yields to new lows.

- The total value of investment sales fell by 1.0%, from US$2.88 billion in Q2/2012 to US$2.85 billion in Q2/2013.
- The South Korea market contributed US$1,072 million or 39.7% of all investment sales in the reviewed quarter.
- Singaporean investors invested about US$375 million or 26.6% of all investment sales in the region in Q2/2013.
- Investment sales in Singapore rebounded, with transaction volumes surging 570.3%, while sales in Japan only declined by 6.9% year-on-year (YoY).
- Excluding South Korea, the Japan market remains the principal investment market in Asia Pacific, contributing 22.3% of 2013's total year-to-date (YTD) transaction value.
- The new supply in coming years in Hong Kong and Singapore will test investors' mettle. However, occupancy and room rates are expected to start falling (especially in decentralised areas) as demand fails to keep pace.

"The focus of international and regional investors remains on Japan and Australia where generous cap rate spreads are supported by deep and liquid markets. Elsewhere, opportunities are limited, but domestic investors have been able to conclude more transactions at a quicker pace compared with cross-border investors." Savills Research

Market overview

The second quarter recorded approximately US$2.85 billion worth of investment transactions, representing a 1.0% decrease over Q2/2012 (US$2.88 billion) but an increase of 101.9%, from US$1.41 billion in Q1/2013.

Investor appetite for Asia Pacific's hospitality sector picked up markedly through the end of 2012, with high levels of activity sustained into 2013. In Asia Pacific, the biggest deal would be the Renaissance Seoul Hotel, reported by the Korean Economic Daily to be sold for KRW1.1 trillion (circa US$950 million). The hotel's owner Sambu Construction and the principal underwriter Samil PwC have selected IGIS Asset Management as the preferred negotiating partner. The selected group will most likely tear down the current hotel and redevelop a new mixed-use office and hotel building.

Northern Asia[1]

Japan witnessed US$319 million worth of investment transactions in Q2/2013, representing a 6.9% decrease over the US$343 million seen in Q2/2012. International and domestic hotel investors have agreed that economy exhibited signs of bottoming out in 2012, and Tokyo and Japan's average daily rate and occupancy rate will increase further from 2013 onwards. According to domestic and international investors, 2013 is probably the best time to invest in Japan as cap rates will most likely shrink further this year. The largest transaction in Q2/2013 was the acquisition of Hilton Tokyo Bay Hotel by the Japan Hotel REIT, a listed investment trust of Singapore-based SC Capital Partners. The seller, MGS Diamond GK, is believed to be a special purpose company of Mitsui Fudosan Investment Advisors. The acquisition price was JPY26.05 billion (US$270 million) and 90% of the joint ownership will be acquired.

1 South Korea and Japan.

The Monetary Policy Committee of the Bank of Korea decided on 13 June to leave the base rate unchanged at 2.5% as the committee expects inflation to remain low. As such, it is likely that the cap rate will further decline. In 2013, with the continuation of the trend from 2012 for stabilised investment-grade hotels, it is forecast that demand will outpace supply. As such, there are good prospects for active transactions of properties other than non-core hotels, with investors taking a greater interest in secondary locations and hotel developments. The cap rate of prime hotel buildings is projected to fall to the sub-5.0% range in 2013.

Eastern Asia[2]

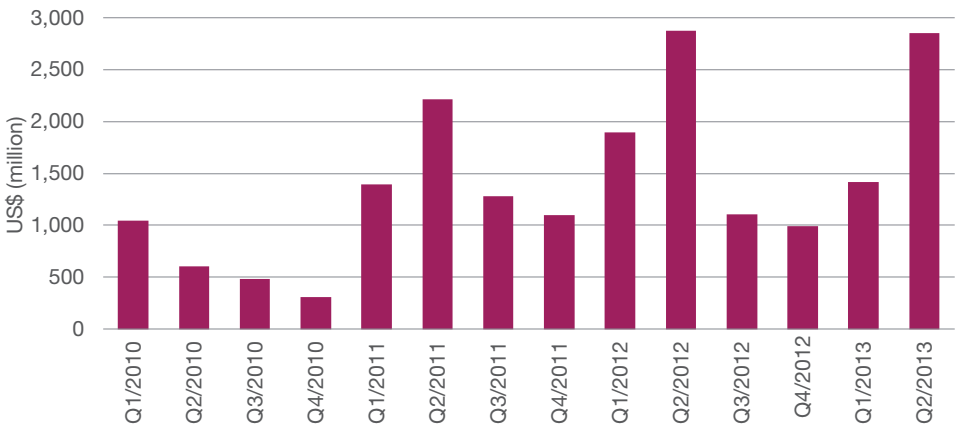
China witnessed US$305 million worth of investment transactions in Q2/2013, representing a 48.2% decrease over the US$589 million recorded in Q2/2013. This quarter, the largest transaction was recorded in Shanghai with the state-owned Greenland Group buying a 60% stake in financially strapped property developer SPG Land Holdings Ltd for US$387 million. However, Greenland's stake will not include SPG Land's crown jewel, The Peninsula Shanghai hotel. SPG Land, which owns a 50% stake in the luxury hotel, will sell its stake to SPG Chairman David Wang for RMB1.08 billion (US$176 million). Hong Kong & Shanghai Hotels, which holds the remaining 50% stake in The Peninsula Shanghai, has the pre-emptive right to acquire the hotel.

In Taiwan, while local insurance companies are prohibited from purchasing properties, other investors took this chance to enter the market. This supported price levels in core areas and compressed yields to sub-2.5%. The investment

2 China, Macau, Hong Kong and Taiwan.

GRAPH 1

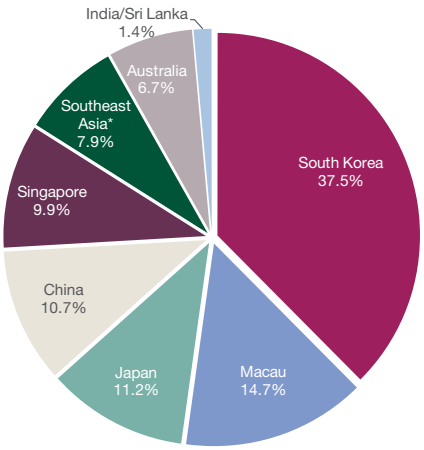
Investment sales transaction values, Q1/2010–Q2/2013



Source: RCA, Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by location, Q2/2013



Source: RCA, Savills Research & Consultancy

restrictions may be loosened in the middle of Q2/2013 due to aggressive negotiations with the authorities, while the newly released minimum investment yields will focus investors on non-core areas.

Hong Kong, which was the top global destination for IPOs from 2009 to 2011, lost its crown last year and was home to just US$1.0 billion of IPOs in the first quarter, far below New York's US$6.5 billion in the same period. Rising market volatility claimed another victim, as Hopewell Hong Kong Properties, a spin-off of the property and hospitality arm of Hopewell Holdings, pulled its Hong Kong IPO of up to HK$6.05 billion (US$780 million). The poor performance of recent new listings is another reason for caution as China Galaxy Securities and Langham Hospitality Investments, the two major Hong Kong IPOs listed so far this year, were all trading below the listing prices by the end of June. However, NW Hotel Investments Group, a spin-off of the hospitality assets of Hong Kong-listed New World Development, is pre-marketing its business trust of US$600 million to US$800 million. China's New Century Hotel Group is also currently pre-marketing its real estate investment trust of US$250 million.

Southeast Asia[3]

The Southeast Asia region, excluding Singapore, recorded a 69.7% YoY increase in transaction volumes in Q2 to US$224 million, largely from Viet Nam, Thailand and Malaysia. In Viet Nam, after a long 'wait-and-see' period, investors are now ready to move forward and are willing to close deals. Investor confidence has further improved with the government's attempts to 'rescue' the real estate market, the most recent being the introduction of the VND30 trillion support package, which will soon be implemented. The largest transaction in the region was the sale of Vincom Center A in Ho Chi Minh City, including a 293-room five-star hotel, to local company Vietnam Infrastructure and Property Development Group Corporation for US$470 million or over VND9.8 trillion.

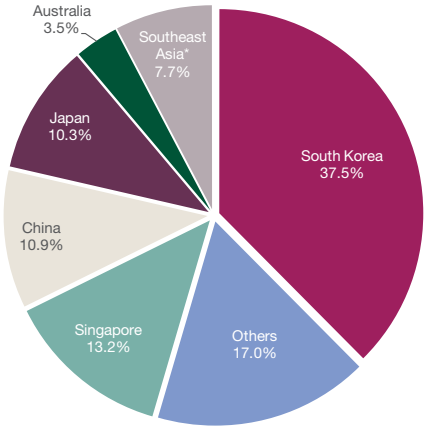
During the last six months, there has been a lot of investment activity from local investors in the region who have seen that the timing is right and are determined to put cash to work. With their local knowledge and approach to risk they have been able to conclude more transactions at a quicker pace, while overseas investors have been very cautious and slow to take advantage of competitive pricing levels.

Singapore witnessed US$282 million worth of investment transactions in Q2/2013, which brings the total YTD investment volume to US$402 million. On the back of healthy economic growth in Asia Pacific, the Singapore investment market is still attractive to overseas investors. Few offerings are on the market and the gap is narrowing between the asking prices and final sales prices as values continue to climb. The latest transaction recorded this quarter was the 49-room Berjaya Hotel sold to Elevation Developments for about US$40.6 million, reaching S$1 million per key.

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

GRAPH 3

Sales transaction volumes by source of investment, Q2/2013



Source: RCA, Savills Research & Consultancy

TABLE 1

Selected investment transactions, Q2/2013

Hotel	Location	Approximate sale price (US$ million)	Buyer
Renaissance Seoul Hotel	South Korea	950.00	IGIS Asset Management
Hilton Tokyo Bay	Japan	293.00	Japan Hotel REIT
Park Hotel Clarke Quay	Singapore	241.00	Ascendas Hospitality Trust
Vinpearl Luxury Ho Chi Minh	Viet Nam	155.40	VIPD Group
The Esplanade River Suites Hotel Perth	Australia	31.60	Narada Hotel Group

Source: RCA, Savills Research & Consultancy

Australia and New Zealand

Australia recorded US$192 million worth of investment transactions in Q2/2013, representing a 66.9% increase over the US$115 million seen in Q1/2013. At its June meeting, the Reserve Bank of Australia decided to leave the cash rate on hold at 2.75%, citing concerns about a higher Australian dollar exchange rate. This also reflects ongoing low levels of inflation, a steady labour market and more room for the non-mining side of the economy to grow. The increased cost of debt finance, coupled with more stringent lending criteria, has reduced the number of potential purchasers of property assets, therefore reducing competition in the market place. Nevertheless, overseas and domestic institutional and private investors remain active buyers in the market.

For the last six months, domestic investors represented half the total volume of transactions, including Sydney's Ibis King Street Wharf and Diamant Hotel, Sydney. However, the major hotel assets yet to be sold are expected to be acquired by Southeast Asian investors, especially Singaporeans, who continue to have a strong appetite for Australian assets. Chinese and Korean investors are also becoming more involved in the regional investment market, capitalising on the strong growth of North and East Asia inbound demand. The sale of the 101-room Esplanade River Suites in Perth to the Narada Hotel Group for A$31 million and South Korea's Mirae Asset Financial Group entering exclusive due diligence to buy the Four Seasons Hotel in Sydney for a price reportedly close to A$300 million, are such examples.

Investor sentiment

While steady economic growth is contributing to an overall sense of optimism, the investors in the region are concerned that prime assets in key cities such as Singapore, Hong Kong, Tokyo and Sydney are becoming overpriced. As a result, secondary markets or non-core assets are increasingly attractive for investment and development, and a higher transparency in region such as China and Southeast Asia will further help developers to explore opportunities. Markets such as Okinawa in Japan, Foshan in China Koh Samui in Thailand or Nha Trang in Viet Nam are some examples. Asian investors remain positive on the outlook for the end of 2013, as finance from Asian banks is expected to be accessible due to the large supply of credit available.

OUTLOOK

The prospects for the market

- Total investment volume in excess of US$5.1 billion is achievable in 2013, representing a similar level to 2012 (US$4.8 billion).
- Prime assets will continue to be the most sought-after products on the market with a particular focus on prime properties located in Tokyo, Hong Kong, Sydney and Singapore and dominant resorts in Phuket, Bali and Okinawa.
- We expect more interest in secondary markets or non-core assets from both domestic and cross-border investors looking for alternatives.
- Investors will also look for opportunistic acquisitions of properties offering extension/ redevelopment potential or significant performance growth potential.
- We do not expect any significant movements in prime yields in 2013.

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