

Briefing Hotel sales & investment

November 2018



Image: Melbourne, Australia

SUMMARY

After a lacklustre start in the first half of the year, the Asia-Pacific region saw an uptick in transactions in Q3/2018 with encouraging activity seen across several markets.

- Total Asia-Pacific hotel investment volume in Q3/2018 was US\$2.4 billion across 51 tracked transactions. Although there was a significant uptick in transaction activity this quarter compared to previous quarters, total investment volume in the first nine months of the year was down 30.0% compared to the same period in 2017.

- The South Korean market was active again this quarter, with US\$469.5 million of transaction activity across 12 transactions,

accounting for 19.3% of total transactions in Asia Pacific during the quarter.

- There were 13 tracked transactions in Japan, worth a total of US\$417.0 million during the quarter and accounting for 17.2% of total transactions.

- Australia saw robust transaction activity in the quarter, registering US\$379.8 million of transaction volume across ten transactions.

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 “Although overall investment volume is down so far this year compared to 2017, it is interesting to note that activity is fairly dispersed among both the established as well as emerging markets including Indonesia, Malaysia, Sri Lanka as well as Myanmar.” Savills Research

➔ Northern Asia¹

The South Korean market was active again this quarter, with US\$469.5 million of transaction activity across 12 transactions, accounting for 19.3% of total transactions in Asia-Pacific during the quarter. For the first three quarters of the year, transaction volume was up 189.8% in South Korea compared to the same period last year.

Singapore's Centurion Corporation Limited acquired the Benikea Hotel KP in South Korea at a purchase price of KRW13.5 billion. This will mark the company's first venture into North Asia. The acquisition will forge a joint venture between Centurion Overseas Investment, Centurion Properties and KTM Distributions. Centurion, which manages worker and student accommodation facilities, has plans to refurbish the hotel into a 208-bed accommodation to serve students enrolled in nearby institutes.

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Heeton Holdings Limited and KSH Holdings Limited, both with corporate headquarters located in Singapore, jointly acquired the Smile Hotel in Asakusa Tokyo. Heeton will hold 70% ownership, while KSH will take the remaining 30%. The 96-bedroom hotel is located close to the Asakusa metro station and will continue to operate under the Smile Hotel brand. This deal marks the duo's second hotel property in Japan.

Greater China

Transaction volumes in China are down significantly compared to last year as a result of both the clampdown on capital flows, and as yet, the lack of any major portfolios trading hands, unlike last year when the Wanda portfolio transacted. Total reported transaction volume in the third quarter was US\$271.1 million, comprising only three deals and representing only 11.2% of transactions in the region this quarter.

1 Japan, South Korea

There were two reported transactions in Hong Kong, worth a combined US\$412.2 million and accounting for 17.0% of transaction activity in the region. Hong Kong billionaire Tang Shing-bor traded the Minimal Urban Hotel, an 80-room hotel in Wan Chai, for a potential housing site in Sai Kung. Hong Kong's CNT Group sold the 143,252 sq ft property to Tang for HK\$900 million, a sum to be paid as a combination of cash and the Wan Chai hotel. The deal will allow the Stan Group, an investment and hotel operator controlled by Tang's son, to realise some profits while continuing to lease the hotel from the CNT

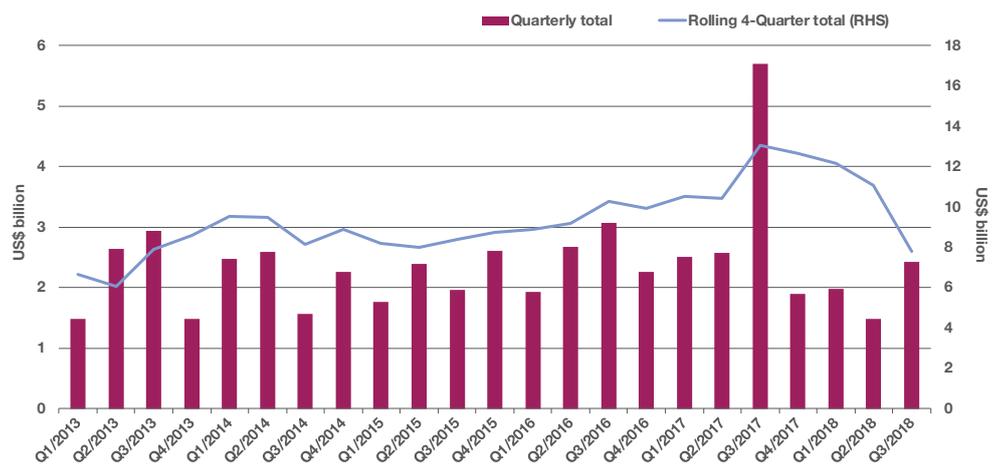
Group for the next three years as the Stan Group expands.

Southeast Asia and South Asia

The Southeast Asia and South Asia regions were active this quarter, with transaction activity reported in the major markets as well as in those that seldom see transaction activity.

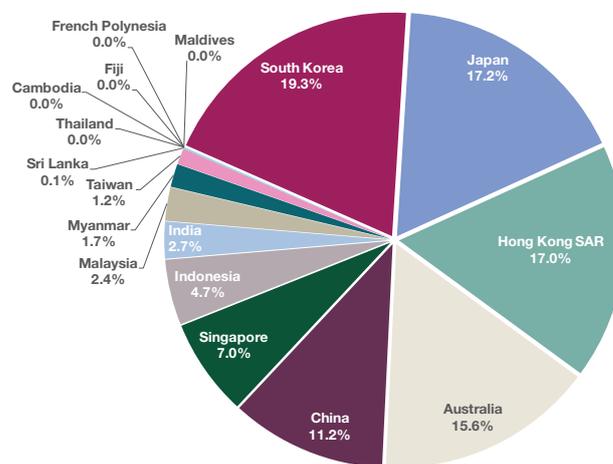
There were three transactions in Singapore worth a total of US\$170.5 million. The Wangz Hotel sold for S\$46 million or S\$1.12 million per key. The sale was made by Glastech Pte Ltd. and was sold to TCRE

GRAPH 1 Investment sales transaction values, Q1/2013–Q3/2018



Source: Savills Research & Consultancy, RCA

GRAPH 2 Investment sales transaction volumes by location, Q3/2018



Source: Savills Research & Consultancy, RCA

→ Partners Pte Ltd. The 41-room hotel is known for its unique barrel shape and is a prominent landmark on the corner of Outram and Tiong Bahru roads.

The Wanderlust Hotel was purchased by 8M Real Estate for S\$37 million (S\$1.3 million per key). The 29-room hotel was originally one of Singapore's oldest schools but was converted into a boutique hotel in 2008.

The Strategic Hospitality Extendable Freehold and Leasehold REIT purchased two properties, one each in Indonesia and Malaysia, from The Royal Group, and will subsequently become the largest hotel REIT in Thailand. The hotels sold for a combined 5.8 billion Thai baht. The Sofitel Bali Nusa Bua Beach Resort in Indonesia features 398 rooms and 17 villas. The other hotel is the Hilton Garden Inn Kuala Lumpur in Malaysia, which features 532 rooms in total.

In India, GIC has acquired a 49% stake in Provenance Land, which owns the 202-room Four Seasons Hotel Mumbai. The property opened its doors in 2008 and also comprises development land for a proposed 64-story, 41-unit Four Seasons Private Residence and Grade A office tower.

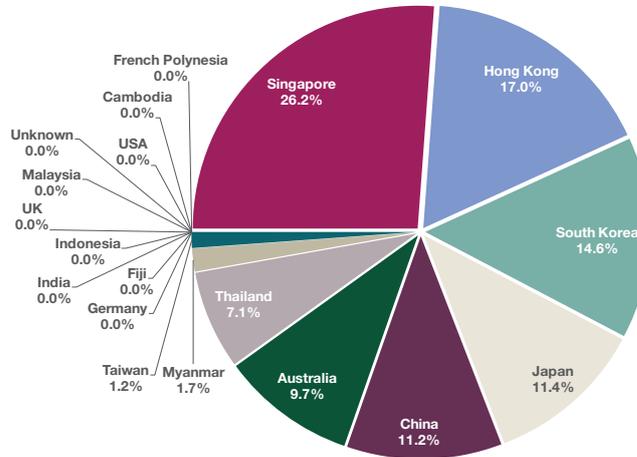
In Myanmar, the Memories Group, a spin-off of Yoma Strategic Holdings, acquired three assets for US\$40.7 million. These include Awei Pila Resort, a 24-villa property located on Kyun Pila Island, and the 72-room Hotel Suggati, which is located in Mawlamyaing, Mon State. Both are currently under construction and expected to commence operations in December this year.

Hotel Properties Limited acquired a 94.7% stake in Tangalla Bay Hotels Ltd, which owns the 34-room Tangalle Bay Hotel, in Sri Lanka for 385 million Sri Lankan rupees.

Australia and New Zealand

Australia saw robust transaction activity in the quarter, registering US\$379.8 million of transaction volume across ten transactions.

GRAPH 3 Investment sales transaction volumes by buyer origin, Q3/2018



Source: Savills Research & Consultancy, RCA

TABLE 1 Selected investment transactions, Q3/2018

Hotel	Location	Approximate sale price (US\$ mil)	Approximate price per room (US\$)	Buyer
Wangz Hotel	Singapore	33.4	812,000	TCRE Partners
Wanderlust Hotel	Singapore	26.8	943,000	8M Real Estate
Novotel Twin Waters Resort	Queensland, Australia	71.0	197,000	iProsperity

Source: Savills Research & Consultancy, RCA
Note: AUD/USD = 1.4075; SGD/USD = 1.3792

In one of the biggest deals of the year in Australia, iProsperity bought the five star Pullman Park Hotel in Melbourne from Australia's Brookfield Asset Management. Although the price of the sale was undisclosed, previous reports stated that Brookfield was hoping to get at least AU\$200 million for the sale. The Pullman is a 419-room hotel with large conference facilities.

The BPM Flinders Lane Melbourne hotel development has sold to India's InterGlobe Enterprises for AU\$91.3 million. Moving forward, the 241-room hotel will be developed by BPM for InterGlobe and managed by Toga Far East under the Quincy hotel brand.

The Novotel Twin Waters Resort in Queensland was sold to Australia's

Shakespeare Property Group for AU\$100 million by Abacus Property Group, also of Australia. The hotel features 361 hotel rooms with Shakespeare planning to make improvements to reposition the resort as a destination for both business events and leisure activities. ■

OUTLOOK

The prospects for the market

■ As we approach the end of the year, it seems likely that overall investment volumes for 2018 will be down compared to 2017, unless some large asset or portfolio deals conclude before the end of the year.

■ It is evident that the Chinese government has largely succeeded in taking the steam

out of transaction activity there, however we still would not be surprised if further large portfolios or management companies trade hands in the coming quarters.

■ A global economic slowdown brought about by continued trade war worries has rattled global capital flows over the past few months. Should these worries materialise,

they will temper appetite for emerging markets. Having said that, we still expect to see continued interest from opportunistic investors searching for yields that are only available in the key Southeast Asian hospitality markets.

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