# Briefing
# Hotel sales & investment

February 2018


Image: Hilton Kuala Lumpur, Malaysia

## SUMMARY

The volume of hotel transactions is expected to pick up pace in 2018, after a subdued performance in 2017.

- Total Asia Pacific hotel investment volume in 2017 reached US$11.9 billion, up 24.4% compared to 2016. Transaction activity was mainly driven by China, and in particular Dalian Wanda Group's sale of its 77 property portfolio for RMB19.9 billion, or US$2.94 billion in the third quarter.

- 2017 finished with a subdued last quarter with total transaction volume reaching US$1.90 billion. This represents a fall of 16% compared to Q4/2016.

- Macau, which is usually a more less active market, represented 43.2% of all investment sales in APAC with US$818.4 million worth of transactions in the fourth quarter.

- China came in second, representing 21.4% of the transaction volume with US$404.1 million. While this is a significant drop from the previous quarter, the transaction volume is still 106% up on Q4/2016.

"Although total investment volume increased in 2017, transaction activity has been subdued in key mature markets. The fundamentals of the hotel sector in the Asia Pacific region have remained strong and transaction activity in the region in 2018 is expected to increase." Savills Research

## Market overview

US$1.90 billion worth of investment transactions was registered in the fourth quarter of 2017, with a total of 32 tracked deals. Collectively, transaction volume in the fourth quarter of 2017 recorded a quarter-on-quarter (QoQ) decrease of 16% compared to Q3/2016, closing the year on a mild note.

Taking the full view of the year, total Asia Pacific hotel investment volume in 2017 reached US$11.9 billion, which represents an increase of 24.4% compared to 2016. Transaction activity was mainly driven by China, and in particular Dalian Wanda Group's sale of its 77 property portfolio for RMB19.9 billion, or US$2.94 billion. Transaction activity in Japan and Australia, both among the most transparent and liquid markets in the region, declined substantially. Hotel transaction volume in 2017 in Japan reached US$1.4 billion, down 59.0% compared to 2016 and in Australia reached US$1.0 billion, down 39.3%.

In Q4/2017, Macau SAR emerged with one of the top deals when the Landmark Macau was sold for HKD4.6 billion, or US$589.5 million to a joint venture led by Dong Lap Hong Property Investment Co Ltd with three other associated companies. This, combined with another property transaction, propelled a typically less active market to the top position in Q4/2017. Another noteworthy transaction was the sale of the W Hotel Beijing Chang'an by Joy City Property to domestic buyer Tianfu Fund Management Co. for RMB2.0 billion or US$299.9 million. The sale was said to be as a result of a poor operational performance.

After a significant third quarter transaction volume the fourth quarter rounded off the year with a few deals in lower frequency hotel sale markets such as Macau and Malaysia. While these may not be the markets where major investors are actively looking for acquisitions, some assets may bring strategic added-value. Key mature markets such as Australia and Japan continued to churn deals throughout the quarter, despite showing signs of slowing down.

## Northern Asia[1]

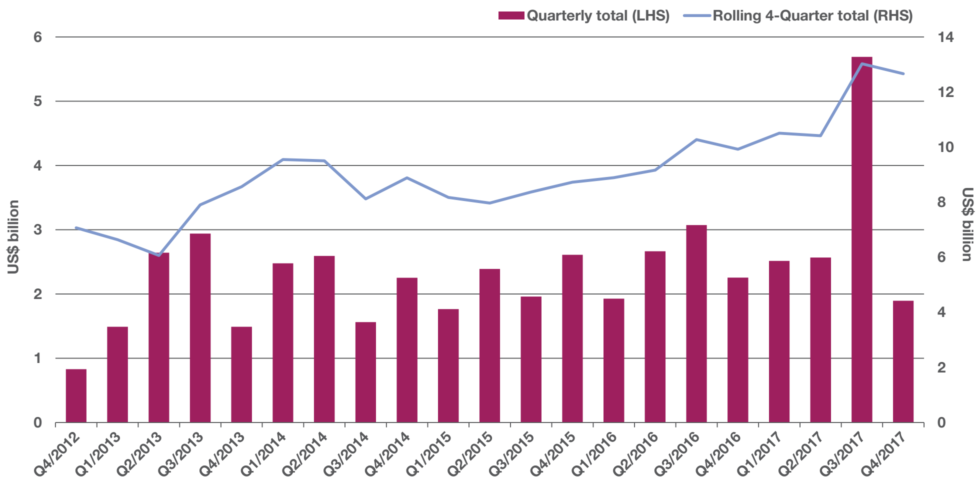
Japanese assets had been highly sought after by investors in 2017, despite the dwindling supply of hotels available for sale. Most established hotel owners, such as J-REITs and funds are expected to hold onto their assets in the mid to long term in anticipation of further growth in the tourism industry. With integrated resorts edging towards approval from the government and tourism arrivals hitting new record levels, there are strong drivers for Japan's hospitality industry to look forward to.

Total tracked investment volume in Japan in 2017 reached US$1.4 billion which represents a decrease of 59% from the previous year. The quarter on quarter investment volume dropped by 75.5 % to JPY15.2 billion in Q4/2017. The performance is consistent with the limited deal flow in 2017, which should not be compared to the investment boom of 2015-16. While investor interests continue to run high, the lack of available assets in key cities has affected overall volumes.

In Q4/2017, the largest transaction was the sale of the 132-room Quintessa Hotel Osaka Shinsaibashi which was sold to Hoshino Resorts REIT by Sanei Architecture Planning Co., Ltd. for approximately JPY3.3 billion or US$29.5 million. Most deals are located in secondary cities and purchased by domestic buyers, as yield expectations in these locations are generally higher compared to key Japanese cities such as Tokyo and Osaka. Nonetheless, the overall market

GRAPH 1

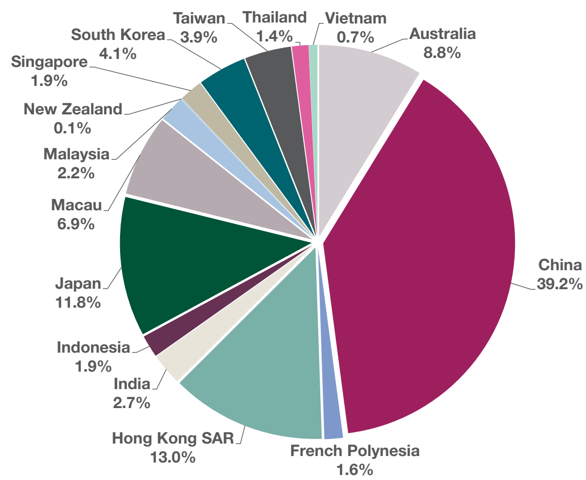
### Investment sales transaction values, Q4/2012–Q4/2017




Source: Savills Research & Consultancy, RCA

GRAPH 2

### Investment sales transaction volumes by location, 2017




Source: Savills Research & Consultancy, RCA

1 Japan, South Korea

fundamentals remain solid for a healthy hospitality sector in Japan and it is expected that investment opportunities will still present themselves in 2018, albeit less frequently. Investors may need to readjust yield expectations, however.

In South Korea, smaller properties were transacted in the fourth quarter with two 135-room hotels, namely Nine Motel and Hotel Waltz, sold for KRW9.5 billion and KRW9.0 billion respectively to separate independent buyers. In 2017, the country's tourism was hard hit by the political backlash from China, its biggest inbound source market, and other regional political threats. The recovery process has been slow despite a focus on other Asian countries to visit. South Korea faces potential headwinds in the short term that may affect overall investment confidence but opportunistic deals may emerge.

## Greater China

China topped the Asia Pacific region in terms of its transaction volume in 2017. This is mainly attributed to the largest single portfolio transaction in 2017, the sale of Dalian Wanda Group's hotel portfolio of 77 properties, across various cities in China, to Guangzhou R&F Properties for RMB19.9 billion, or US$2.94 billion. In total, the transaction amount reached US$4.6 billion in 2017 which is nearly quadruple the 2016 figure. In the fourth quarter alone, RMB2.7 billion or US$405.1 million worth of properties exchanged hands. The most prominent deal was the sale of W Hotel Beijing Chang'an which was sold for approximately RMB2.0 billion or US$ 299.9 million to Tianfu Fund Management Co by Hong Kong based Joy City Property.

Considering the combined effect of continued pressure on Chinese conglomerates to liquidate non-core assets, as well as overseas holdings, with tight cross border transaction controls, we expect to see continued growth in transaction activity in China in 2018.

Hong Kong, as one of the most mature and transparent markets in Asia Pacific, continued to see significant transaction volumes in 2017, recording a total transaction volume of US$1.6 billion. Although the last two quarters were slow and the number of deals was relatively limited, the average price for concluded deals was around HKD805 million. The premium on Hong Kong properties has been seen as a deterrent to some investors, as yield expectations are low even amongst other mature markets. However, Hong Kong remains a stable mature market, especially for domestic hotel investment fuelled by high hotel occupancy rates and generally well maintained room rates.

In Q4/2017, Macau emerged with two significant transactions despite being a generally subdued market. Macau Legend Development sold the Landmark Macau hotel and gambling complex for HK$4.6 billion or US$589.5 million to a joint venture led by Dong Lap Hong Property Investment Co Ltd.

## Southeast Asia and South Asia

The southeast Asian region had a relatively active quarter to end 2017, with mainly transactions between domestic players. Overall investment sentiment in the region is positive, but investors remain cautious.

TABLE 1

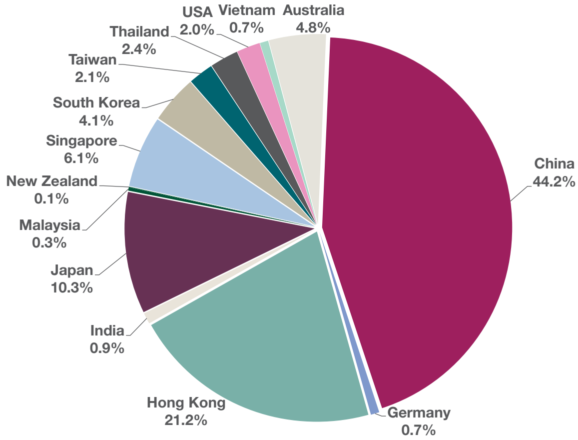
### Selected investment transactions, Q4/2017

| Hotel | Location | Approximate sale price (US$) | Approximate price per room (US$) | Buyer |
|---|---|---|---|---|
| The Landmark Macau | Macau | 589.5 million | 1,342,781 | Dong Lap Hong Property Investment Co Ltd (JV) |
| W Hotel Beijing Chang'an | Beijing | 299.9 million | 859,328 | Tianfu Fund Management Co |
| Hilton Kuala Lumpur | Kuala Lumpur | 122.6 million | 245,183 | Daito Trust Construction Co Ltd |

Source: Savills Research & Consultancy, RCA
Note: HKD/USD = 7.804; RMB/USD = 6.614; MYR/USD = 4.054

GRAPH 3

### Investment sales transaction volumes by buyer origin, 2017




Source: Savills Research & Consultancy, RCA

In Q4/2017, one limited-service hotel in Singapore, Cape Inn, was sold for SG$67.0 million or US$49.3 million, to Nadathur Group by Sunway Realty in a domestic transaction. Hotel assets in Singapore continue to be very tightly held, despite strong interest from foreign investors. Given current trends, the pricing gap between buyers and sellers should be narrowing and the market will finally start to see some significant deal flow.

In Thailand, Food Capitals sold their partial interest in a portfolio of Red Planet Hotels, across different Thai cities, for approximately THB1.1 billion or US$32.5 million, to BVC&T Company Limited. Given that the Thai tourism industry has proved resilient through domestic and regional unrest, investments in Thai hotels remain attractive for opportunistic investors.

Malaysia saw the sale of Hilton Kuala Lumpur by Daisho Group to Daito Trust for MYR497 million or US$122.6 million. The latter buyer is also the owner of Le Meridien Kuala Lumpur which is located in the separate tower of the same development.

## Australia and New Zealand

While Australia maintained a healthy level of transaction volume throughout 2017, reaching US$1.0 billion, it is still a decrease of 39.3% compared to 2016. Investors continue to look to Australia as a market with a solid trading performance and growth in demand drivers, but the supply of hotels available for sale in prime locations is falling and prices are inching upwards. The nature of the market allows for greater cross-border transactions to take place and the trend is that these overseas buyers tend to look into brand managed hotels for their operational stability. As one of the most mature hotel transaction markets in the region, Australia is expected to see a stable pace of transaction volume in 2018.

In the fourth quarter of 2017, a total of AUD210.0 million or US$159.4 million worth of properties exchanged hands, in a mix of cross-border and domestic deals. In particular, Mercure Sydney International Airport was sold to Folkestone Funds Management for AUD76.4 million or US$58.0 million and Folkestone plans to undertake extensive refurbishment of the hotel. ■

# OUTLOOK

## The prospects for the market

■ After a mild performance in 2017, transaction pace in 2018 is expected to pick up as the fundamentals of the hotel sector in the Asia Pacific region remain strong. Tourism traffic in the region is projected to grow at an average annual rate of 6.2% over the period 2014-2018, based on PATA's five year forecast. In addition, connectivity in the region is expected to further improve which will give greater accessibility to secondary markets.

■ Overall prime location yield levels may see potential downward adjustments, while investor confidence improves in secondary markets.

■ Cross-border investors remain cautious in developing markets but are actively looking for assets in mature markets such as Australia and Japan. Regional players may consider taking on more opportunistic deals in their respective markets to meet higher yield expectations.

| Markets | Yield range expectations 2018 |
|---|---|
| Beijing | 4.5%-5.5% |
| Hong Kong | 2.5%-3.5% |
| Melbourne | 5.0%-6.0% |
| Seoul | 4.5%-5.5% |
| Shanghai | 4.5%-5.5% |
| Singapore | 3.5%-4.5% |
| Sydney | 4.5%-5.5% |
| Tokyo | 3.5%-4.5% |

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