Savills World Research
Asia Pacific

Briefing
Hotel sales & investment

January 2016

Image: Raffles Hotel, Singapore

SUMMARY

Hotel real estate transactions remained robust in 2015, in both value and volume terms.

- The total value of investment sales increased by 1.2% year-on-year (YoY) to US$9.04 billion for the full year.

- 83% of the transaction volume came from 4 countries: Japan, Hong Kong, Australia and China, in descending order.

- Properties in Japan represented 27.2% of all investment sales in APAC with US$2.46 billion worth of transactions. However, transaction volumes in Japan decreased by 2.6% YoY.

- Hong Kong recorded the second highest transaction volumes with US$2.24 billion, 24.8% of the region's total volume. Transaction volumes surged by 677% YoY.

- Australia reported the third highest transaction volumes with US$2.17 billion representing 24.0% of the region's total volume. This was an increase of 24.7% YoY.

"The downward pressure on yields will continue into 2016. However, with values at or close to their pre-recession peak, further downward shifts will be more constrained." Savills Research

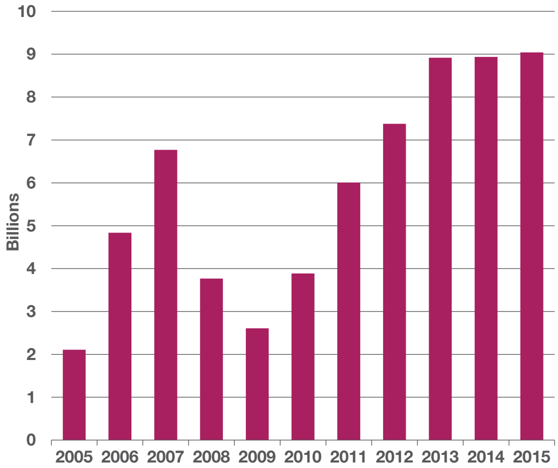
Market overview

The fourth quarter of 2015 registered US$1.58 billion worth of investment transactions, representing a 29.9% decrease from Q4/2014 (US$2.52 billion). Approximately 45 hotels across nine countries were sold in Asia Pacific.

Sales of big ticket properties in Japan this quarter, including the Hoshino Resorts Tomamu for US$150.75 million and Active Inter City Hiroshima for US$142.22 million, as well as the numerous smaller properties, show the continued strength of the Japanese hotel sector. Since 2006, Japan has been a top-three hotel transaction location every year. From 2006 to 2009, and for the last three years to 2015, it has been the most active Asia Pacific hotel market.

GRAPH 1

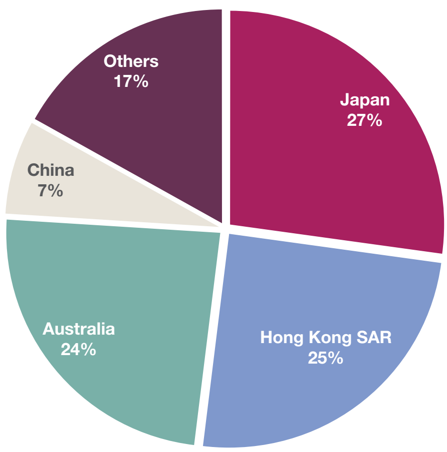
Investment sales transaction values, 2005–2015



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by location, 2015



Source: Savills Research & Consultancy
Others including South Korea, Singapore, India, New Zealand, Malaysia, Thailand, Taiwan, Vietnam and Indonesia

The appeal of Australia continued this quarter. While Sydney and Melbourne were popular (the Aurora Melbourne Central sold for US$87.4 million), transactions also occurred in more rural tourist destinations. Had it not been for the New World Development and ADIA portfolio in Hong Kong, Australia would have been the second most active hotel transaction market in Asia Pacific for three consecutive years. Although Australia represented 24.0% of APAC hotel transactions, less than Hong Kong's 24.8%, Australia saw 58 transactions while Hong Kong reported only seven.

Northern and Eastern Asia[1]

Japan

In 2015, J-REITs continued to be the most active investors and new REIT investors entered the market, including the Ichigo Hotel REIT which started operations in October. Chinese investors are playing an increasingly important role and their investment targets are more diversified compared to other foreign investors who focus on stable returns. Near the end of the year, the Fosun Group announced the purchase of the Hoshino Tomamu Resort for JPY18.4 billion (US$150.7 million), the largest deal in Japan this quarter. At the end of December, Japan`s real estate giant, Mori Trust, signed a Sales and Purchase Agreement for Sesoko Resort in Okinawa, a well-known distressed development project which has been abandoned for more than seven years. The transaction shows the positivity of the current hotel market in Japan.

For year-to-date (YTD) November 2015, there were nearly 18 million overseas visitors to Japan, a staggering 47.5% increase from the same period last year. There was stellar growth in Asian arrivals: China (109.4%); Hong Kong (66.7%); Korea (44.4%); Singapore (34.2%); and Taiwan (30.3%). These increases are due to the continued currency devaluation, changes in visa facilitation from key Asian countries such as China, a successful open-skies policy which is driving low cost carrier visitation as well as promotional activity by the Japanese government. Very few countries achieved this level of tourism growth in 2015; Myanmar, which emerged from economic isolation in 2012, is forecast to achieve a similar or slightly lower level of visitor arrivals growth in 2015.

Hotel performance in most major cities such as Osaka, Sapporo and Okinawa, and especially destinations well marketed in Asian inbound source markets, have shown dramatic improvements. According to Smith Travel Research (STR), Osaka saw increases across all indicators for YTD November 2015: Occupancy (3.5%); Average Daily Rate (27.1%); and Revenue Per Available Room (31.4%). Supported by this strong performance and active capital markets, Japan was the busiest hotel trading market in Asia Pacific.

China

In 2015, properties in China represented 7.1% of APAC hotel transactions, fourth on the list of countries with the most transactions. There were 13 single-asset hotel transactions this year in China. Given the sheer number of hotels, this number of transactions is very low.

Many hotels in China are owned by State Owned Enterprises (SOEs). Under Chinese regulations, there are restrictions for SOE properties to be listed in a public sale, therefore most are disposed of internally. Furthermore, the land leasing period for commercial use is only 50 years; freehold overseas investment may therefore be more attractive to some investors. Due to the rapid economic growth in the past few years, many newly-affluent Chinese companies invested in luxury hotel projects. Unfortunately, some projects were inadvisably constructed and over-budgeted, with maladjusted terms in management contracts. These factors led to hotels which

1 Japan, Korea, Hong Kong, China

are unprofitable and unattractive to investors.

Despite the issues mentioned above, China's importance as a hotel market is likely to strengthen rapidly due to the fast growing demand for hotel accommodation.

Hong Kong hotel prices remained high in 2015, due to its relative safe-haven status within China. In Q4/2015, the Residence G was sold by Gaw Capital Partners for HK$340 million, HK$11.7 million per room (US$43.9 million, US$1.5 million). The Mood@LKF was bought by AEW Capital for HK$250 million, HK$22.7 million per room (US$32.3 million, US$2.9 million per room).

In Taiwan, the Color Fun Inn was bought by Yuanta Financial Holdings for TWD392.5 million, TWD15.1 million per room (US$12.0 million, US$460,775).

South Asia and Southeast Asia

There was a rare Singapore hotel transaction this quarter. The Big Hotel was sold for S$203 million, S$659,091 (US$144.8 million, US$470,232) to Gaw Capital by ERC Holdings. Due to the bid-ask gap in Singapore, 2015 was an extremely quiet year for transactions.

In Thailand, Rocky's Boutique Resort in Koh Samui sold for approximately THB440 million, THB8.8 million per room (US$12.4 million, US$247,324).

In India, the Aura Grande Hotel in Mumbai sold for INR1 billion, INR10.6 million per room (US$15.3 million, US$163,230) by MRG Hospitality to Anakoot Properties.

Australia and New Zealand

In Q4/2015, the Aurora Melbourne Central development project was purchased by Ascendas Hospitality from UEM Sunrise for A$120 million, A$476,190 per room (US$87.4 million, US$346,946.) The Olsen Hotel in South Yarra was purchased by UK firm M&G Investments from Asian Pacific Group for A$97.8 million, A$426,900 per room (US$71.2 million, US$311,034 per room).

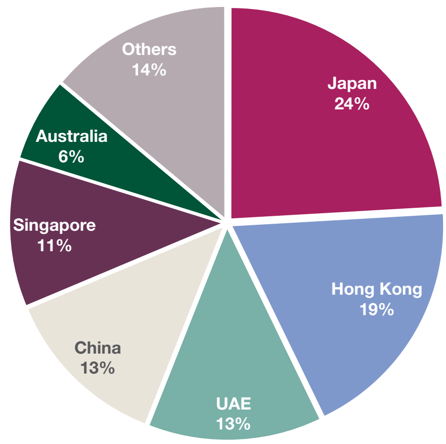
In 2015, Australian and international investors sought hotel properties mainly in Sydney and Melbourne, and Australia represented 24.0% of total APAC hotel transactions. Australia's proximity to high economic growth Asian markets has increased demand for hotel rooms and hotel assets. Chinese and Singaporean companies have been the top foreign buyers. In fact, the three most expensive single-asset deals involved Asian buyers. The Westin and the Hilton Sydney were purchased by Singaporean and Chinese buyers respectively, and each sold for over A$440 million.

According to Tourism Australia, in the year ending October 2015 (last 12 months to October 2015) there were 7.3 million international visitor arrivals, a 6.7% increase on the year before. There were increases in visitor arrivals from all Asian countries except Japan. After New Zealand, China is the market with the second most visitors to Australia. Chinese visitors increased by 22.1% to nearly 0.98 million visitors in the year ending October 2015.

In New Zealand, the Novotel Queenstown Lakeside was sold this quarter by Host Hotels & Resorts for NZ$91.3 million, NZ$334,432 (US$61.7 million, US$225,995). There were four other transactions this quarter: the Swiss-Belresort Coronet Peak; the Esplanade Hotel; the Kingsgate Hotel Whangarei; and the Kingsgate Hotel in Hamilton.

GRAPH 3

Investment sales transaction volumes by buyer origin, 2015



Source: Savills Research & Consultancy
Others including South Korea, India, USA, New Zealand, UK, Thailand, Malaysia, Taiwan and Indonesia

TABLE 1

Selected investment transactions, Q4/2015

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
Sheraton Hiroshima	Hiroshima, Japan	142.2	597,583	Japan Hotel REIT
Big Hotel	Singapore	144.8	470,232	Gaw Capital Partners
Holiday Inn Central Plaza Beijing	Beijing, China	96.9	301,228	Beijing Chuangyuan hui Capital Management Co., Ltd
Pullman Sydney Airport	Sydney, Australia	61.2	267,255	Nanshan Group

Source: Savills Research & Consultancy
Note: JPY/US$ = 121.77; S$/US$ = 1.40; RMB/US$ = 6.43; A$/US$ = 1.37

OUTLOOK

The prospects for the market

■ Institutional investors are increasingly focused on income-producing hotels, and we expect to see a rise in demand for longer-income, asset management and alternative asset classes in 2016. However, there are still opportunities out there for opportunistic and short-cycle investors, particularly in Southeast Asia.

■ Cities and regions outside Tokyo and Sydney such as Osaka or Melbourne generally look like a strong story for 2016, with improving local economies and low levels of development likely to combine to deliver better than normal hotel performance growth over the next two to three years.

■ Investors in hotel property are undoubtedly going to have to be more selective in their stock-picking from 2016, and a deep understanding of local supply and demand fundamentals will be the key to outperformance.

TABLE 2

Savills view of initial hotel investment yields required to gain entry to these markets today

Hong Kong	3.0%
Singapore	3.5%
Tokyo	4.0%
Shanghai	5.0%
Seoul	5.5%
Beijing	5.5%
Sydney	6.0%
Melbourne	6.5%

Source: Savills Research & Consultancy

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