Briefing
Hotel sales & investment

October 2015

Image: Fukuoka ANA Crowne Plaza, Fukuoka

SUMMARY

The growing volume of capital available for investment relative to the limited purchasing opportunities available placed further downward pressure on cap rates in the third quarter.

- The total value of investment sales increased by 12.4% year-on-year (YoY) to US$1.78 billion this quarter.

- Properties in Japan represented US$561.7 million or 29.0% of all investment sales in the region. Japan was the country with the most transactions with 17 hotels disposed.

- Investment sales in Australia doubled for year to date (YTD) September 2015 in local currency terms.

- The limited supply of assets available for sale in core areas is exerting a downward pressure on yields; Singapore (3.5%), Hong Kong (3.0%), Shanghai (5.0%), Beijing (5.5%), Tokyo (4.2%), Sydney 6.0%, and Melbourne 6.5%.

"Should concerns over the macro-economy begin to rise in Asia and particularly China, and the 'bid-ask' gap widens in Japan, Singapore and Hong Kong, we will expect to see a slow down in hotel transaction activity." Savills Research

Market overview

The third quarter of 2015 registered approximately US$1.78 billion worth of investment transactions, representing a 12.4% increase over Q3/2014 (US$1.56 billion). Thirty seven hotels across six countries were sold.

Two major transactions from this quarter provide good examples of investment market trends. The sale of a portfolio of four ANA Crowne Plaza hotels in Japan is emblematic of the current robust hospitality property market in Japan. It was one of the largest Asian hotel transactions this year, especially in terms of room numbers, asset size and complexity.

Secondly, the sale of the Intercontinental Hong Kong was a notable single asset sale and one of IHG's last major assets to be disposed under the implementation of their 'asset light' strategy.

Northern and Eastern Asia[1]

Northern Asia represented 84.6% of all Q3 transactions. Japan stills leads in the number of transacted hotels with 17 hotels changing hands this quarter for a total of JPY64.0 billion (US$516.7 million). Increasing ADR and occupancy rates, given the current strength of Japan's hotel and tourism industry, with international visitor arrivals growth 49.1% higher for YTD August 2015 than the same period last year, are all factors attracting international investors. The stable and transparent investment environment, its continued safe haven status as well as Japan's rising popularity among Asian tourists as a result of the government's currency policies and visa facilitation, are factors increasing hospitality demand. However, foreign investors were not able to match the bidding power of JREITs and local corporations this quarter.

1 Japan, Korea, Hong Kong, China

The largest portfolio deal was Morgan Stanley's four hotel ANA Crowne Plaza portfolio, sold to Hoshino Resort Co. Ltd for nearly JPY40 billion (US$331. million). This deal saw 1,229 guestrooms and more than 20 bars and restaurants exchange hands. Savills acted as the exclusive advisor for these assets.

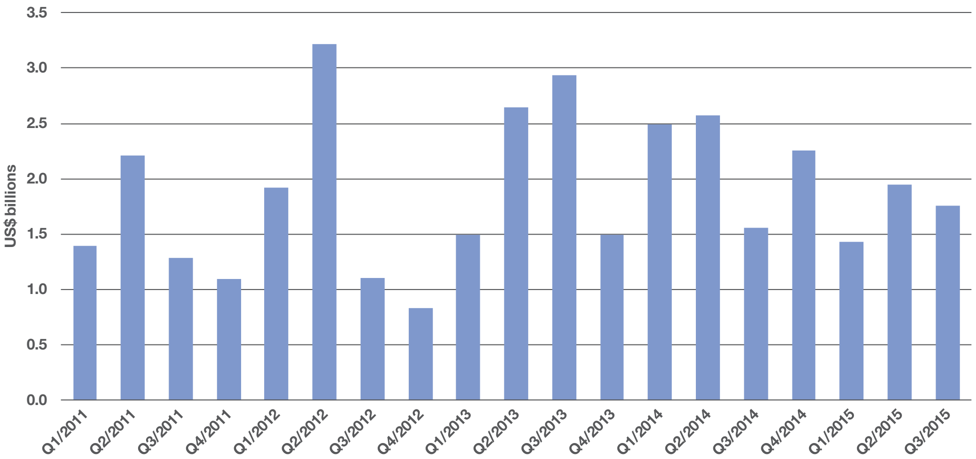
In South Korea, the 125 room Ladena resort in Chuncheon was sold for KRW29.6 billion (US$26.3 million). South Korean ADRs and occupancy rates have suffered due to an influx of hotel supply. This quarter, the Korean Won slid to its lowest level since 2011, adding to the problems of lack lustre hotel performance.

The sale of the InterContinental Hong Kong represented a significant 53% of transaction volume this quarter. The 503 room asset was sold for nearly HK$7.27 billion (US$938.3 million) by IHG to a consortium of investors advised and managed by Gaw Capital Partners, based in Hong Kong. The asset is still operated under the InterContinental brand, as it has been since 2001 when IHG bought it from New World Development.

There were no transactions of completed hotel assets in China this quarter. There were several big ticket transactions in preceding quarters such as the Four Seasons Hotel Pudong but the China market has been largely quiet since then due to devaluation of the yuan and a weak economic backdropIn August, the People's Bank of China let the exchange rate fall to its lowest level since 2012 resulting in the largest two day drop of the yuan in 21 years. Chinese investors are being forced to seek opportunities abroad and there are several pending transactions which may complete next quarter.

GRAPH 1

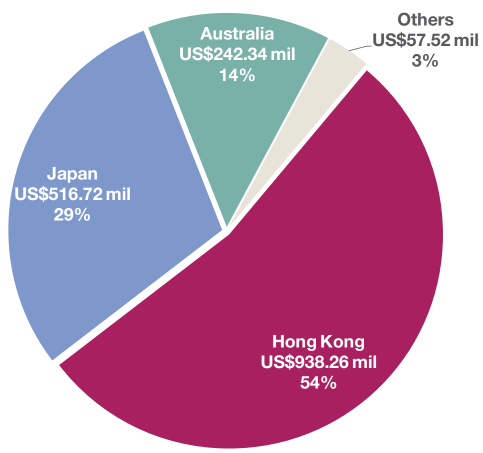
Investment sales transaction values, Q1/2011–Q3/2015



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by location, Q3/2015



Source: Savills Research & Consultancy
Others including South Korea, Thailand, China, New Zealand and India.

South Asia and Southeast Asia

Hotel investment activity in South Asia remained quiet in Q3/2015, with only one hotel, the 124 room Four Points by Sheraton Visakhapatnam, acquired by Samhi from Vishnu Priya Hotels for INR900 million (US$14.2 million).

Currency depreciation has decreased Southeast Asian buying power. In Malaysia, falling oil prices, political instability, and currency depreciation has resulted in poor investor confidence in the market. The Malaysian ringgit sank to MYR4.0275 against the dollar this quarter, the lowest level since 1998.

In Singapore, unlike Europe and the US where the profile of owners are more often institutional corporations who have debt pressure and shareholder dividend demands, Singaporean owners of hospitality assets are less inclined to release properties onto the market. As a result, there are very few hotels for sale in Singapore and there were no transactions this quarter. Singapore's dollar slid to a five year low of S$1.4155 against the dollar.

There were also no transactions in Thailand; the market may be entering a 'wait and see' period as investors monitor the political situation. The bombing of the Erawan Shrine in August made headlines and affected Bangkok hotel performance but Thailand is an extremely resilient market, especially compared to other Southeast Asian hospitality markets. After past headline events such as floods, political unrest or terrorist attacks, it has taken less than six months for the market to rebound. One terrorist attack alone will not dampen investor appetite. The more likely reason for the lack of transactions is the wide gap between purchaser and vendor price expectations. Many overseas buyers are seeking opportunistic deals but land costs in Thailand remain high despite investor concerns. Over the past year, Thai and Singaporean buyers were the most common hotel asset buyers. This is due to their astute and realistic understanding of hospitality asset prices in Thailand.

Australia and New Zealand

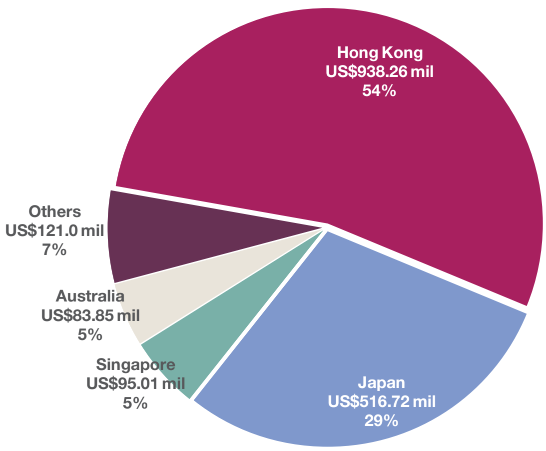
During Q3/2015, Savills recorded 14 hotel transactions totalling approximately A$325.6 million (US$242.3 million), which represents a decrease of 51.8% from Q3/2014 in local currency terms. Conversely for YTD September 2015, there was an increase of 100.7% in local currency terms compared to YTD September 2014.

Bonvests Holdings acquired the Four Points Sheraton in Perth from GIC and Host hotels, the 277 room hotel was sold for A$91.5 million (US$67.1 million), both parties were Singaporean. The Oaks Elan in Darwin was bought for A$57.1 million (US$41.6 million) by Thailand's Minor International from Australian group, Gwelo. The Rendezvous Sydney was acquired for A$38 million (US$27.9 million) by Hind Group from Bruce Mathieson.

Last year saw many high profile transactions leading to a lack of currently available stock, and investors seeking to enter the Australian market may have to wait for opportunities in the next cycle. With occupancy and ADR still extremely high, Australia is still a top wish list destination for hospitality investors. In Q3/2014, the sale of the Sofitel Darling Harbour for more than A$362.7 million (US$336.9 million) pushed up the quarter's transaction volume which partly explains the YoY decrease this quarter as the number of single assets transacted is roughly equal. This was then the largest single asset hotel transaction in Australia history. This year, both domestic and international investors have shown great confidence in the Australian market, investing in main cities such as Sydney and Melbourne but also regional markets such as Darwin, Cairns, and Perth. The government are promoting the Northern Territories, improving infrastructure to better leverage the North's strategic geographic proximity to lucrative Asian inbound source

GRAPH 3

Investment sales transaction volumes by buyer origin, Q3/2015



Source: Savills Research & Consultancy
Others including South Korea, Thailand, China and New Zealand.

TABLE 1

Selected investment transactions, Q3/2015

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
ANA Crowne Plaza Portfolio	Various, Japan	333.1	269,406	Hoshino Resort Co. Ltd
InterContinental Hong Kong	Hong Kong	938.3	1,865,333	Gaw Capital Consortium
Four Points Sheraton	Perth, Australia	67.1	242,342	Bonvests Holdings
Oaks Elan	Darwin, Australia	41.6	189,698	Minor International

Source: Savills Research & Consultancy
Note: JPY/US$ = 123.24; HKD/US$ = 7.75; A$/US$ (Jul) = 1.3464; A$/US$ (Sep) = 1.4161

markets. As Minor International's acquisition of hotels in Darwin shows, foreign investment is already increasing. Investors will continue to enter up and coming tourism areas to benefit from the Tourism Australia's increased destination promotion and the associated increased visitor arrivals.

As the Australian hotel market is heavily reliant on China, as Chinese tourists are a key demand generator for Australian tourism, any slow down in China will concern hospitality stakeholders. However, the lack of prime hotel assets available for acquisition, strong hotel performance and Australia's safe haven status will continue to support strong investor interest, especially from Asian investors who are geographically closer to the country than European or US investors.

In New Zealand, there were three transactions totalling NZ$26.4 million (US$17.0 million) in the third quarter, representing 1.0% of all Asia Pacific hotel transactions.

OUTLOOK

The prospects for the market

- Investors continue to favour the core markets of Japan and Australia, however the share of secondary markets is rising (such as Indonesia, the Maldives and India). As a result total APAC transaction volumes to date for 2015 are 13.0% down on the same period last year totalling approximately US$5.8 billion.

- In Japan, the hotel investment market is set to remain active as a result of the favourable macro conditions. In particular, J-REITs and their sponsors have been strong buyers so far this year. There have been nearly 80 hotel transactions in Japan YTD (to October).

- In Australia, as the dollar continues to fall, Australian hotel assets are increasingly attractive to overseas investors. In Sydney and Melbourne there are a few remaining upscale and luxury hotels which are due to transact over the coming 12 months, increasing competitive tension for those assets.

- We have revised downwards our prediction for 2015 and we forecast hotel investment activity by the end of this year within a range of US$8.0 to US$8.5 billion worth of asset transactions. We expect prime yields to continue to harden in most of the gateway cities and to remain stable in the rest.

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