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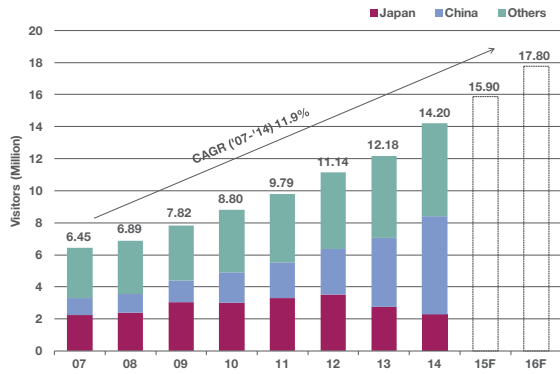
# Asian Cities Report **Seoul Hospitality**

1H 2015



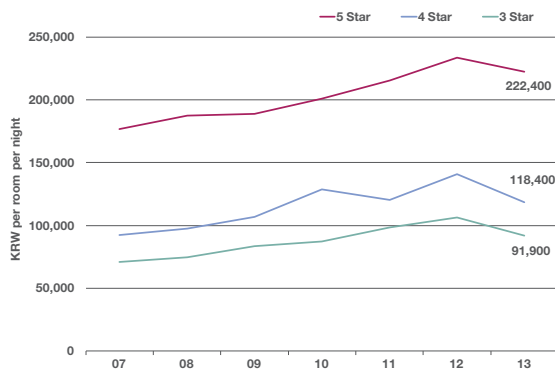


**GRAPH 1**  
**Overseas tourists and countries of origin, 2007–2016F**



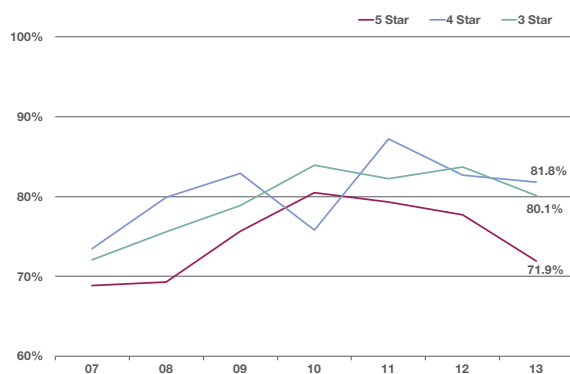
Source: Korea Culture & Tourism Institute (KCTI)

**GRAPH 2**  
**Average room rate of Seoul hotels, 2007–2013**



Source: KCTI

**GRAPH 3**  
**Occupancy rate of Seoul hotel, 2007–2013**



Source: KCTI

## Tourism in Korea

Since 2007, the average annual increase in the number of foreign visitors to Korea stands at 11.9%, showing a continued upward trajectory. In 2014, the figure climbed by 16.6% from the previous year to 14.2 million visitors. The Korean tourism industry still shows a high level of dependency (approximately 60%) on tourists from China and Japan. Tourists from Asian countries accounted for 82.4% of the total tourists to Korea. By country, China represents 43% (6.13 million) of all visitors to Korea, followed by Japan 16% (2.28 million), Taiwan 4.5% (0.64 million) and Hong Kong 3.9% (0.56 million). In 2014, the number of tourists from China and Hong Kong rose by approximately 40% year-on-year (YoY), continuing the upward trend from the previous year, while the number of Japanese tourists declined by 17%.

Of the foreign visitors to Korea in 2014, 14.2% (2 million) entered through Jeju Airport. In 2012, only 700,000 tourists arrived in Korea through Jeju Airport, meaning this figure has almost tripled, recording a 65% average annual increase. Major domestic tour agencies are promoting group tour programmes for foreigners, offering shopping and sightseeing tours in Seoul and Jeju.

## Government policies on hotel development

The government has adopted measures to encourage private investment and secure tourism infrastructure through financial support, the easing of development regulations, and support for hotel REITs. The government support, which has been provided for the past few years, will continue in the years ahead.

## Korea hotel market overview

As of December 2013, based on data from the Korea Hotel Association, total hotel room stock in Korea is 79,393 rooms across 734 hotels. By area, Seoul has 36% of the total stock, followed by Gyeonggi/Incheon metropolitan area with 15%, Busan with 9% and Jeju with 9%. When comparing the five-star average daily rate (ADR) and occupancy rate (OCC) in cities across Korea in 2013, Seoul posted the highest ADR of KRW222,400 (OCC 71.9%), followed by Busan at KRW204,700 (OCC

65.5%), Ulsan at KRW191,900 (OCC 70.6%), and Jeju at KRW181,500 (OCC 84.2%). While Seoul posted the highest ADR, Jeju showed the highest OCC compared to other cities.

## Seoul hotel market overview

As of December 2014, based on Seoul Metropolitan Government statistics and recent hotel supply, the estimated Seoul hotel room stock is 33,792 across 220 hotels. By grade, five- and four-star hotels account for 33.4% and 20.3% respectively, and combined they represent 53.7% of total stock. The proportion of existing Seoul hotel inventory is highly weighted toward upscale hotels.

## Seoul hotel performance

Total sales of Seoul hotels declined by 10.9% (room sales by 15.5%; auxiliary facilities sales by 6%) in 2013. In particular, hotel room sales showed a substantial fall due to the decrease in the number of Japanese customers. Due to the weakness of the Japanese Yen and the strained relationship between Korea and Japan, the number of Japanese visitors plunged by 22%. Such a plunge had a negative influence on the operation of Seoul hotels as Japanese tourists, a great proportion of whom visit Korea individually, have a high level of hotel use.

The average guest room rates, which had enjoyed a continued increase, dropped in 2013. By grade, the room rate of five-star hotels was KRW222,400, four-star hotels KRW118,400 and three-star hotels KRW91,900. The average room occupancy rate of Seoul hotels was above 70%. By grade, four-star hotels showed the highest room occupancy rate at 82%, followed by three-star hotels at 80% and five-star hotels at 71%. The official statistics for hotel operation for 2014 have yet to be published. However, according to sources from the hotel industry, Seoul hotels posted improved performance in 2014 compared to that of 2013, but not greater than the performance level posted in 2012.

By area, 50% of Seoul hotels are concentrated in Jung-gu and Gangnam-gu, which are the central business and tourist areas. Jung-gu, encompassing historic

tourist areas, Seoul's top shopping area Myeongdong, and the CBD area clustered with headquarters of domestic and multinational companies, not only has the largest number of hotel rooms, but also shows the highest average daily rate and occupancy rate in Seoul.

### Hotel new supply

In 2014, most of the newly-supplied hotels were limited service type hotels. Of the brands operating hotels in Seoul, Shilla Stay, Lotte City Hotel, Skypark Hotel, Ramada Encore and Ramada Hotel opened new hotels. Other new hotels that opened in Seoul included: GLAD Hotel launched by Daelim; Starwood's affiliate Aloft; and Mayplace launched by Mayfield Hotel.

Hotel supply has been increasing in earnest since 2012. The number of hotel rooms rose by 11% in 2012 and 2013 and by 19% in 2014. As of December 2014, the number of hotel rooms in hotels approved for operation by 2018 is 19,000. Of these hotel rooms, 11,000 are actually being delivered within original development plans, while other projects are being delayed due to setbacks in construction schedules or financial issues.

### Hotel market outlook

With the number of foreign tourists on average growing by 12% annually, the demand for accommodation is projected to increase. The government plans to continue its institutional and financial support to expand accommodation infrastructure in order to boost the tourism and MICE industries. Most of the hotels which have been approved for operation are limited service type hotels. In 1H/2015, Shinsegae Chosun Hotel is launching its first limited service hotel with Four Points by Sheraton brand, at Twin City Building in the Seoul station area.

In addition to limited services hotels, six-star hotels with services and facilities exceeding those of existing five-star hotels, such as Four Seasons in CBD and Lotte World Tower Hotel in Jamsil, are slated to be supplied in 2015-2016. Among five-star grade hotels in Seoul, Park Hyatt Hotel in Samsung-dong currently posts the highest ADR, but that rank is expected to change once six-star Four Seasons (317 guest rooms) located in prime

CBD opens in 2015. The increase in hotel stock means that operators need to differentiate their brand identity, concepts, guest services and facilities from their competitors.

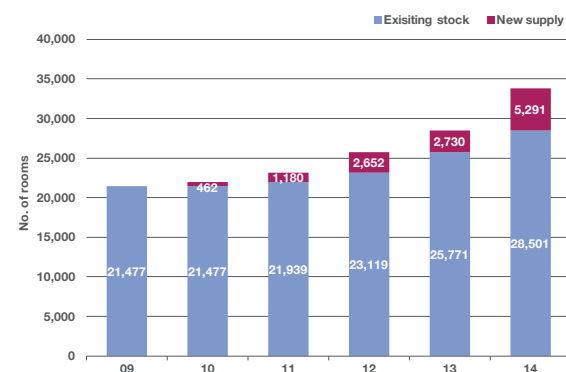
### Hotel investment market

Institutional investors have started to consider engaging in hotel investment through assets with master leases in place by hotel operators. For institutional investors, who have raised the proportion of alternative investment properties amidst prolonged low interest rates and have sought to diversify their portfolios, hotel investment through master lease has been an attractive business model. Institutional investors can expect lower hotel operating risk while hotel operators are able to expand their business portfolio with low initial investment. About 5,000 hotel rooms will be delivered in the near future through master lease contracts by Shilla Stay and Lotte City Hotel. Although management contracts are more common and master leases are rare for global hotel brands, newly launched Korean hotel brands expanded their business through master leases. As major limited service operators have no more plans to expand such businesses, due to their substantial recent activity in the sector, hotel investment through master lease will be limited for some time to come. Furthermore, as Chinese tourists continue to surge into Korea, Chinese investors' interest in hotel assets remains high.

The major transacted hotels in 2014 were master leased by Shilla Stay. Korea Investment Corporation (KIC) participated as equity investor with KRW25 billion for Shilla Stay Seodaemun.

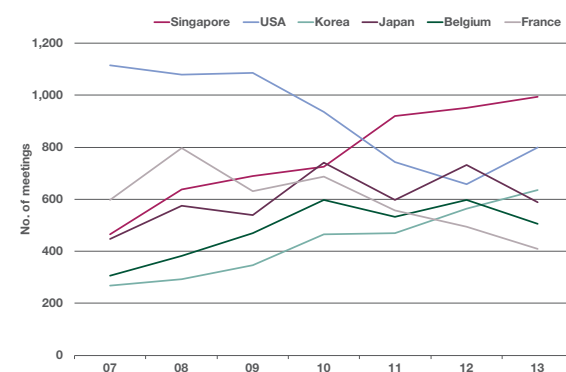
67% of the GS E&C-owned Parnas hotel portfolio has been on the market since last year, for which GS Retail was recently selected as the preferred bidder. For the Renaissance Hotel, which has been in sale processes since last year, transactions are likely to be concluded this year. ■

GRAPH 4  
Hotel stock in Seoul, 2009–2014



Source: KCTI

GRAPH 5  
Number of international meetings hosted, 2007–2013



Source: UIA (Union of International Association)

TABLE 1  
Major hotel transactions

Hotel operator	Area	Year of completion	No. of rooms	Sale price (KRW bil)	Price per room (KRW 100 mil)	Investor
Shilla Stay Jeju	Yeon-dong, Jeju-si	2014	304	70	2.3	IGIS AMC
Shilla Stay Seodaemun	Seodaemun-gu, Seoul	2015	345	110	3.2	IGIS AMC

Source: publicly available announcement

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