



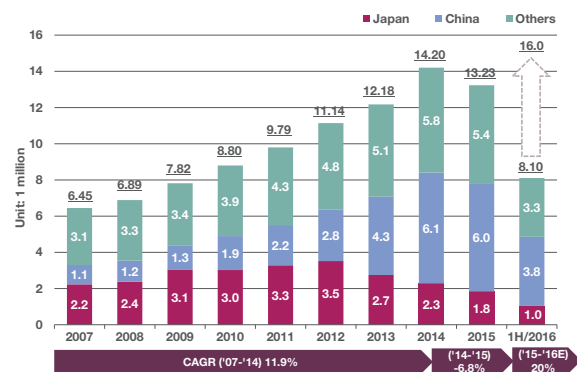
Savills World Research  
Korea

# Asian Cities Report **Seoul Hospitality**

2H 2016



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



Source: Korea Culture Tourism Institute

**TABLE 1**  
**Purpose of visit of foreign visitors, 2013–2015**

	2013	2014	2015
Leisure/personal vacation	48.2%	58.1%	56.6%
Business	23.4%	19.9%	18.7%
Shopping	10.6%	10.0%	10.0%
Friends/relatives visit	9.7%	6.5%	9.1%
Education	5.9%	3.6%	3.6%
Others	2.1%	2.0%	1.8%

Source: International Visitors Survey Result, Korea Culture Tourism Institute

**TABLE 2**  
**Hotel stock and ADR & OCC by major cities, 2014**

	Hotel room stock	% of stocks distribution	% of five-star hotels	Five-star hotels ADR (KRW)	Five-star hotels OCC
Korea	98,400	100%	33%	185,600	69.9%
Seoul*	39,000	40%	32%	213,300	74.1%
Gyeonggi	8,520	9%	16%	130,300	62.8%
Incheon	7,730	8%	31%	187,900	80.2%
Busan	7,570	8%	39%	204,100	63.2%
Jeju	9,700	10%	44%	187,100	84.1%

Source: Korea hotel data referred by Korea Hotel Association Year Book 2015  
\* Seoul stock data referred Seoul Metropolitan Government Office Dec 2015

## Tourism in Korea

From 2007 to 2014, the average annual increase in the number of foreign visitors to Korea was 12%. However, after the MERS outbreak in May 2015, the number of overseas tourists fell by 1 million compared to the previous year, totalling 13.2 million in 2015. In 2015, visitors from Asian countries accounted for 80% of all foreign visitors to Korea. By country, Chinese visitors represent 45% (6 million) of all visitors to Korea, followed by Japanese at 14% (1.85 million). The Korean tourism industry shows a high level of dependency (about 60%) on tourists from China and Japan. In 1H/2016, total visitors reached 8.1 million, 61% of the total visitors in 2015, and this figure could reach 16 million by the end of the year.

## Characteristics of visitors

According to the survey conducted on foreign visitors, among total visitors to Korea, the business traveller segment accounts for about 20% while the remainder including personal vacation, shopping and friends/relatives visits accounts for about 75%. The increased popularity of K-pop culture, and K-beauty and shopping culture, coupled with supportive government policies for the MICE (Meeting, Incentive, Convention, and Exhibition) industry and international meetings/events will be a strong driving force for tourism industry growth in the future.

By traveller type, Free-Independent-Tourism (FIT) accounted for 68% of total visitors. Group tourism arranged by travel agencies represented 26%, with flight-hotel packages at 6%. The most visited cities/provinces in Korea are Seoul (79%), Jeju Island (18%) and Gyeonggi (13%). The number of visitors to Jeju Island has steadily increased, and 2 million of the total visitors to Korea (13.2 million), entered through Jeju airport; 82% of them were Chinese. In order to support tourism in Jeju Island, the Korean government allows Chinese tourists to enter Jeju province with no visa requirement and stay for 31 days, if they are staying only in Jeju Province.

## Hotel stock and performance in major cities

Based on the hotel association yearbook published in 2015, the total number of hotels in Korea is about 98,400, of which 40% are in Seoul, 17% in Gyeonggi/Incheon, 10% in Jeju,

and 8% in Busan. Thus, 57% of the total stock is located in Seoul, Incheon and Gyeonggi provinces. 33% of the total Korea hotel stock is five-star hotels, with a higher proportion in Busan and Jeju. By stock size, Seoul has the largest five-star hotel room market, while Jeju shows the highest proportion of luxury hotels. For five-star luxury hotels, Jeju has the highest occupancy rate (OCC), followed by Incheon, Seoul and Busan. For Average Daily Room Rate (ADR), Seoul posted the highest, followed by Busan, Incheon, and Jeju.

Comparing the hotel demand by district, Seoul enjoys diverse visitor segments, fueled by its tourist attractions, shopping activities, cultural destinations, and business trips. Therefore, several classified hotels, including luxury and limited service hotels, are highly concentrated in Jung-gu (30%) and Gangnam-gu (20%). Hotel room demand from domestic guests usually accounts for 20% in Korea, but recently, luxury hotels have been developing special weekend hotel packages for locals.

Busan is a desirable leisure/tourism destination for Koreans as well as one of the major gateway cities. Korea's highest volume of cargo comes through the port of Busan. In addition, several international art/culture events, such as the Busan International Film Festival, Busan International Performing Arts Festival, and Busan International Comedy Festival, have led to an increase in hotel demand. Hotels are located mainly in tourist and business districts such as Haeundae-gu, Busan Jin-gu and Jung-gu. Limited service hotels, which were rare in Busan, are developing and allow guests to have more diverse accommodation options to choose from.

Jeju Island is the most popular destination for both domestic and overseas tourists all year round. In recent years, Chinese visitors have notably increased due to the visa-free entry system and foreign direct investment promotion activities.

## Seoul hotel performance

As the number of overseas tourists has increased annually, the demand for accommodation has increased and hotel room supply as well. Besides an increase in hotel stock, increased alternative accommodation such as Airbnb and home-stay has had

an impact on the ADR and OCC performance, resulting in stagnation.

According to data published by the Korean hotel association in 2015, ADR for 2014 was marginally down from the peak in 2012. By grade, the average room rate for five-star hotels was KRW213,000; four-star hotels KRW117,000; and three-star hotels KRW88,000. Four-star hotels showed the highest room occupancy rate at 82%, followed by three-star hotels at 80% and five-star hotels at 74%. While OCC for five-star hotels declined, four-star hotels OCC remained at a similar level to 2012. Newly-delivered limited hotels are available at reasonable room rates and this will increase occupancy levels.

### New supply of Seoul hotels

At the end of 2015, total Seoul hotel room stock stood at 39,000 according to the Seoul metropolitan office data. According to development approval data, planned new hotels are mostly limited service hotels and the largest number of hotels is located in Jung-gu, followed by Gangnam-gu, Mapo-gu, and Yongsan-gu. In Yongsan, four Accore brand hotels with 1,700 rooms in total will be completed in 2017. Mapo-gu is positioning itself as a trendy retail and entertainment area popular amongst young people and Chinese tourists. In the Hongik University/Hapjeong area, hotels developed by major Korean corporations like Lotte, AK, E-land, Daelim, and Aju are scheduled to deliver their own brand hotels. KT Corporation, a Korean telecom company, has several non-core assets used as branch offices which are no longer essential for their business; KT Corporation is preparing to redevelop those assets into hotels.

### Korea hotel market outlook

From a demand perspective, the number of overseas visitors for 1H/2016 was 8 million, an increase of 21% from the same period in 2015. This is expected to increase to 16 million at the end of the year. In 2015, more than 6 million Chinese tourists visited Korea. However, this is still only 5% of the total outbound tourists from China, so there is definitely room for this to increase. The Korean tourism industry's driving forces (K-Pop, K-beauty, healthcare, MICE) and international sports events, will have a positive influence on hotel guestroom demand in future. As there is a high correlation between exchange rates and the inflow of overseas

tourists, the recent Japanese yen appreciation could lead to a return of Japanese tourists.

From a supply perspective, hotel stock is increasing at a faster pace than demand. New supply is concentrated in certain area in Jung-gu, Gangnam-gu, and Mapo-gu. Planned new supply of three- and four-star hotels in Hongik University Station and the surrounding area, and the CBD, could result in high levels of competition.

### Hotel investments

In Korea, major hotels are owned and operated by large conglomerates and there are only a couple of hard asset hotel transaction cases per year. In the past 2-3 years, limited service hotels have expanded in the market due to new tourism infrastructure and newly-launched limited service hotel brands opening with management contracts based on the master-lease structure. This unique master-lease structure, which mitigates the investment risk by guaranteeing minimum levels of operating income, has led to institutional investors starting to participate in hotel investments. Several limited serviced hotels are currently owned by institutional investors with real estate fund structures. Among those assets, some hotels are on the market for sale as their funds have matured. Limited service hotels, Shilla Stay Cheonan, Skypark Myeong-dong, Tmark Grand Hotel Namdaemun, and Aventure Insa-dong are currently on the market for sale and some of these will be sold to individual investors via a public offering. Under low interest market conditions, individual investors could increase their investment appetite for the hotels managed by a professional hotel brand and asset management company. In addition, a five-star hotel, Conrad hotel in Yeoido, is being sold as part of the IFC complex deal.

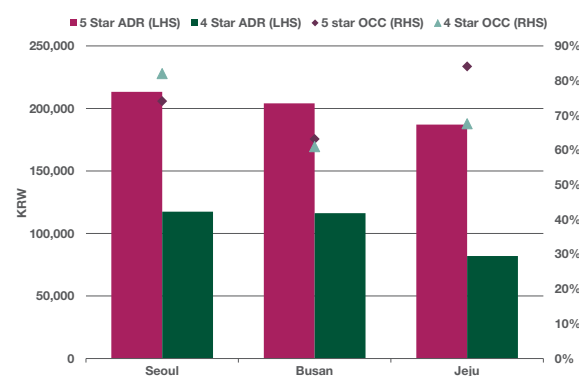
In early 2016, the Solaria Nishitetsu Hotel (312 rooms) including M plaza in Myeong-dong, a prime retail area in Seoul, sold for KRW450 billion. Solaria Nishitetsu Hotel is master-leased for 20 years by the hotel operator. Shilla Stay Guro (310 rooms), which is master-leased by Shilla Stay for 15 years, was sold for KRW72.4 billion to Eugene asset management. In addition, Igis AMC acquired Shilla stay Haeundae in Busan with a forward purchase for KRW150 billion. ■

TABLE 3 Purpose of visit and geographical distribution of major cities, 2014

City	Purpose of visit	Geographical distribution in major cities
Seoul	Tourism, business and international events	Jung-gu (30%), Gangnam-gu (20%)
Busan	Tourism, business and international events	Haeundae-gu (32%), Busan Jin-gu (22%), Busan Jung-gu (17%)
Jeju	Tourism	Jeju-si (66%), Seogwipo-si (34%)

Source: Korea Hotel Association 2015, Savills Korea Research & Consultancy

GRAPH 2 Hotel performance by city, 2014



Source: Korea Hotel Association, 2015

TABLE 4 Major hotel transactions, 2015–2016

Building name	Location	No. of rooms	Amount (KRW bil)	Seller	Buyer
Solaria Hotel (inc. M Plaza Retail)	Jung-gu Myeong-dong, Seoul	312	450	Invesco	UHNWI
Tmark Grand Hotel Myeongdong	Jung-gu Hoehyeon-Dong, Seoul	576	198	Koramco REIT & Trust	Hana Asset Management
Shilla Stay Guro	Dongjak-gu-Shindaebang, Seoul	310	72.4	Richmond Asset Management	Eugene Asset Management

Source: Publicly available announcement

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