

Hotel Sales & Investment




APAC hotel investment volume subdued in Q3

Opportunities remain as Q3/2019 got off to a promising start after a strong 1H/2019 that witnessed a number of high-profile transactions.

- Total Asia-Pacific hotel investment volume in Q3/2019 was US\$2.4 billion across 79 transactions, down 8.9% quarter-on-quarter (QoQ). While North Asia markets maintained momentum, China and Hong Kong experienced significant downturns in investment volume, affecting the overall figures for the region. Although there was a decline in transaction activity this quarter, total investment volume in the first nine months of the year was up 24.4% compared to the same period in 2018.
- South Korea dominated as the most active market this quarter with a total volume of US\$607.5 million across 24 transactions, accounting for 25.2% of Q3/2019 transaction activity in Asia Pacific.
- Japan maintained its solid pace with a number of high-quality transactions, recording US\$545.3 million across 10 transactions.
- Following closely behind Japan, Australia recorded another busy quarter with transaction activity amounting to US\$537.7 million across 27 transactions, accounting for 21% of total investment volume in the region during this quarter.

“With a significant weight of capital targeting real estate in the region, investment activity is expected to remain healthy as deleveraging, fund expiries and the interest rate environment create new opportunities for investors in select markets.”

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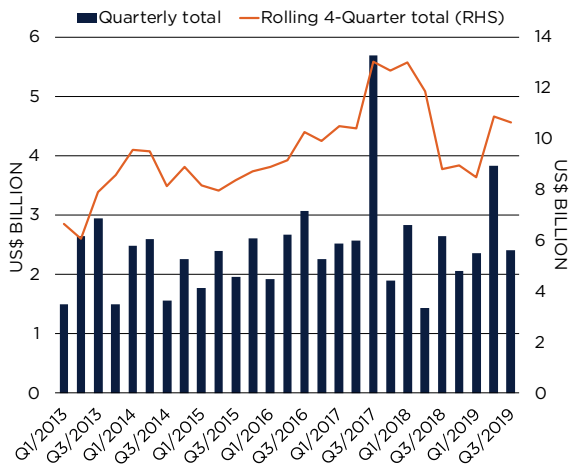
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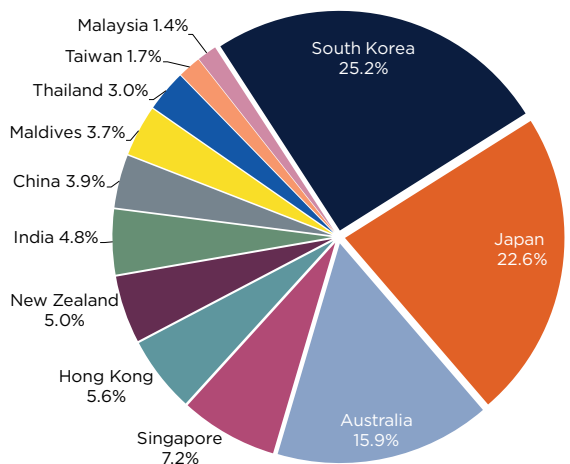
Savills plc
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GRAPH 1: Investment Sales Transaction Volumes, Q1/2013 to Q3/2019



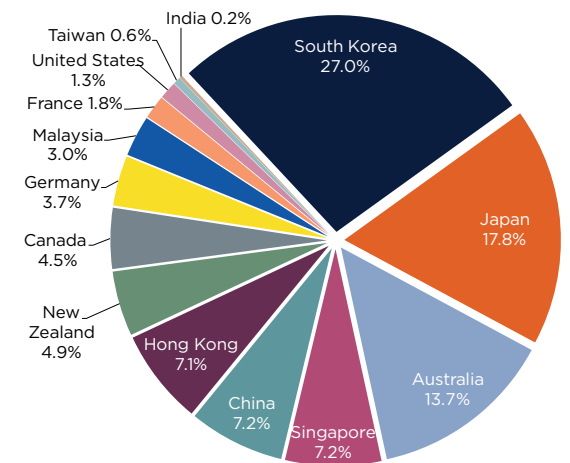
Source Savills Research & Consultancy, RCA

GRAPH 2: Investment Sales Transaction Volumes By Location, Q3/2019



Source Savills Research & Consultancy, RCA

GRAPH 3: Investment Sales Transaction Volumes By Buyer Origin, Q3/2019



Source Savills Research & Consultancy, RCA

NORTHERN ASIA

South Korea continued to draw investment appetite in Q3/2019, proving itself as a key regional investment destination for hotel investors. The South Korean hotel investment market remained the leader in this quarter recording US\$607.5 million across 24 transactions, up 28.4% QoQ. However, the transaction volume of the first nine months of 2019 only increased by 0.4% compared to the same period last year. In this quarter, all investment activity was concluded by domestic investors.

Some high-profile acquisitions in South Korea were the Ibis Ambassador Myeongdong and Hankang Hotel. IGIS Asset Management acquired Base Myeongdong Hotel and Office Portfolio for KRW408.5 million (approximately US\$337.4 million). The portfolio sale includes the 280-room Ibis Ambassador Myeongdong hotel, valued at KRW159.1 million (approximately US\$131.4 million or US\$469,000 per key). Hankang Hotel was acquired for KRW182.5 billion (approximately US\$152.9 million or US\$1.4 million per key) by MDM Real Estate Group, marking its first hotel purchase ever. The Seoul-based real estate group will redevelop the 111-unit hotel into an apartment building as part of its residential expansion plan.

Maintaining its solid pace, Japan was the second most active market in Q3/2019. There were 10 reported transactions, adding up to US\$545.3 million and accounting for 22.6% of total hotel transactions in Asia Pacific Q3 2019. Domestic investors comprised 60% of the total reported purchasing activity.

Although Japan was out competed by South Korea in this quarter, its year-to-date (YTD) transaction volume topped the regional rank, reaching US\$2.5 billion and accounting for 29.5% of the total Asia Pacific hotel transactions in the first nine months of 2019.

The most notable transaction in Japan was the sale of Hilton Odawara Resort and Spa, marking Hilton's last owned asset. Hilton Odawara sold for JPY13 billion (approximately US\$121.2 million or US\$744,000 per key) to a joint venture between Mori Trust and Mori Trust Hotel REIT. The property will continue to be operated under the Hilton Hotels and Resorts brand. This acquisition represents strong long-term investment appetite for Japanese tourism infrastructure ahead of the 2019 Rugby World Cup, as well as in the lead up to Tokyo 2020 Olympics.

GREATER CHINA

Q3/2019 saw a significant decline in hotel investment activity taking place in China and Hong Kong, registering a combined volume of US\$227.9 million, down 70.9% from the same period in 2018.

The hotel investment market in China quietened this quarter, reporting US\$93.7

million across five transactions, down 72.1% QoQ with no transactions reported in major cities. The five tracked transactions took place in Hangzhou, Jiangmen, Nanping, Wuxi and Suzhou.

Heavily affected by social unrest, Hong Kong hotel investment volume dropped 70% QoQ to US\$134.2 million across three small-scale transactions this quarter. The highest value property transacted was the 26-unit One Eleven Serviced Apartment, located in the western district of Hong Kong island. Hanison Construction Holdings sold the property at HK\$420 million (approximately US\$53.6 million or US\$2.1 million per unit) to Crane Capital, a Hong Kong-based company backed by the Washington State Investment Board. Crane Capital is partnering with the US pension fund to increase its asset portfolio, targeting real estate opportunities in Asia.

SOUTHEAST ASIA AND SOUTH ASIA

Despite the decreasing transaction activity in Southeast and South Asia this quarter, the average transaction value of Q3/2019 almost doubled that of the same quarter in 2018. This demonstrates a boost in quality of hotel transactions driven by steady tourism growth across this emerging region. The total investment volume in Southeast Asia and South Asia reached US\$699.7 million, with 83.3% led by cross-border investors.

In Singapore, the market subdued in Q3 with only one transaction recorded after a strong first half of the year. Although transaction volume decreased by 17.3% QoQ, Singapore's YTD total stood at 129.3% increase from the same period last year. The market kicked off 2H/2019 with the 319-key Bay Hotel Singapore being acquired by a consortium company formed by Datapulse Investment and PAM Holdings, at a purchase price of S\$235 million (approximately US\$172.6 million or US\$541,000 per key). Datapulse Investment holds 5% stake in the consortium while PAM Holdings holds the remaining 95%.

While Singapore observed lukewarm investment activity this quarter, the last quarter of 2019 is expected to be buoyant with many high-profile properties currently on sale such as the Andaz hotel, the Mercure and Novotel on Stevens.

In Thailand, one reported deal in Q3/2019 was the sale of Four Points by Sheraton Bangkok Sukhumvit. The full-service 268-room hotel was purchased by TA Global for a total cash consideration of THB2.3 billion (approximately US\$73.3 million or US\$273,000 per key). The purchase was funded by 40% internally generated funds and 60% external borrowings. This acquisition is expected to bring synergistic benefits to the Malaysia-based group and complement its strategy to enhance its presence in Thailand.

TABLE 1: Selected Investment Transactions, Q3/2019

HOTEL	LOCATION	APPROXIMATE SALE PRICE (US\$ MIL)	APPROXIMATE PRICE PER ROOM (US\$)	BUYER
Bay Hotel Singapore	Singapore	172.6	541,077	PAM Holdings, Datapulse Technology
Four Points by Sheraton Bangkok Sukhumvit	Bangkok	73.3	273,581	TA Global
Ibis Ambassador Myeongdong	Seoul	131.4	469,313	IGIS
Hilton Odawara Resort & Spa	Odawara	121.2	743,770	Mori Trust, Mori Trust Hotel REIT

Source Savills Research & Consultancy, RCA
 Note SGD/USD = 1.36; THB/USD = 30.7; KRW/USD = 1,210; JPY/USD = 107.2

AUSTRALIA AND NEW ZEALAND

Australia and New Zealand markets achieved an overall increase of 62.5%, contributed by a spike in transaction activity registered in New Zealand this quarter. The region reported a combined hotel investment volume of US\$657 million across 32 transactions, accounting for 25.6% of total Asia Pacific transaction activity in Q3/2019.

With a 33% rise in transaction activity QoQ, Australia witnessed another strong quarter, placing it the third most active market with a total investment volume of US\$ 537.7 million across 27 transactions. In Q3/2019, Australia's robust investment activity was bolstered by the sale of AccorInvest Hotel Portfolio, including 17 properties and six lease interests across Australia. One of the biggest hotel portfolio offerings was closed by an Australia-based fund and investment management company, iProsperity Group for AU\$300 million (approximately US\$204.3 million). The Chinese-backed investment house, iProsperity Group, is a big player in the market that has amassed a strong portfolio of commercial assets since entering the real estate scene several years ago. The group has been actively growing its hotel business, acquiring Pullman on the Park, the biggest hotel deal of last year.

OUTLOOK

- Total hotel investment volume of 2019 is expected to exceed that of 2018, driven by the robust performance of 1H/2019 in both matured and emerging markets.
- Savills recorded strong interest from Japanese and overseas investors on recent marketing campaigns conducted by Savills Hotels, collecting more than 10 offers on each recent sale instructions. The demand for Japan hotels remains strong and will continue in 2020.
- Singapore anticipates an enthusiastic end of the year with many high-profile/quality assets currently for sale, however, investor's and seller's expectations are still not meeting regarding yield and price per room.
- With the ongoing events in Hong Kong and China, the investment market is expected to pick up the pace following a resolution of the situation.
- While the market for core assets remains highly competitive, investors will continue to seek value through attractive pricing in Southeast Asia or South Asia regions as well as solid secondary cities and core-plus or value-adding opportunities.