A record year for APAC hotel investment market

Despite a subdued final quarter in the region, Japan led the way and greatly contributed to a buoyant yearly figure, setting yet another post-2017 record.

- Total Asia-Pacific hotel investment volume in 2019 reached US$14.3 billion across 361 tracked transactions, showing an increase in volume terms of 60% compared to 2018. Major investment markets such as Japan, Singapore, Australia, China and South Korea maintained momentum, and all contributed to the robust overall figure for the region. Total investment volume in Q4/2019 stood at US$3.1 billion across 72 transactions, up 49.7% compared to the same quarter in 2018.

- The South Korean market maintained a solid pace of investment activity throughout the year with the final quarter reporting 14 tracked transactions worth a total of US$675.3 million, up 117.5% year-on-year (y-o-y) and accounting for 22% of the regional investment volume.

- Singapore reported a strong Q4 with only three transactions totalling US$580.7 million, accounting for 18.9% of the Q4/2019 transaction activity in the region.

- Total investment volume in the final quarter of 2019 in India amounted to US$501.8 million across six transactions, showing a significant growth in volume of transactions y-o-y.

- After a quiet third quarter, China got back on track and concluded the final quarter with 16 transactions totalling US$443.2 million, up 70.4% compared to the same quarter in 2018.

“Our outlook for 2020 is upbeat given positive sentiment and sustainable interest from foreign investors into both emerging and mature markets. A strong bidding environment is expected as both overseas and domestic investors look to enter these tightly-held markets, seeking higher yielding opportunities across Asia Pacific.”

SAVILLS RESEARCH
Hotel Sales & Investment

NORTHERN ASIA

The South Korea hotel investment market maintained momentum throughout 2019 and recorded a total volume of US$1.9 billion across 84 transactions. Investment activity in the final quarter remained steady with 14 transactions totalling US$675.3 million, thanks to the sale of Grand Hyatt Seoul, the country’s biggest deal accounting for 70.6% of the quarter’s total. PAG formed a consortium with a local asset management company, Inmark, to acquire the 615-key luxury hotel and its nearby development site for KRW560 billion (US$477.4 million). The hotel component, reportedly valued at KRW228.9 billion (US$195.2 million) and KRW372.2 million per key (US$377,000), was sold subject to a long-term management agreement with the US-based Hyatt Hotels Corporation and will continue to operate under the Grand Hyatt brand. Aside from this cross-border transaction, a majority of the buyers in this quarter were local investors. However, the total cross-border transaction volume in 2019 rose significantly compared to 2018, standing at 137.8%.

Strongly supported by a series of world class sporting events including the Rugby World Cup and the Olympics, Japan had a buoyant year and was crowned the most active hotel investment market in the region in 2019, reaching a total investment volume of US$8.8 billion across 93 transactions. Investment activity in Q4/2019 totalled US$393.4 million with ten transactions, up 34.3% y-o-y. Aside from the sale of the DoubleTree by Hilton Naha Shuri Castle, brokered by Savills Hotels for JPY9.5 billion (US$87.3 million), another notable transaction this quarter was the sale of the Leopalace Hotel Portfolio. Consisting of three hotels located in New Delhi, Bengaluru, Chennai and Sendai, and totalling 429 bedrooms, the portfolio was sold for JPY16 billion (US$148 million) to an undisclosed buyer.

Although there were no large portfolio transactions, investment activity in both China and Hong Kong reported a notable increase in 2019 compared to 2018. After a sluggish third quarter, the China hotel investment market registered a strong final quarter with a volume of US$443.2 million across 16 transactions and a yearly total of US$1.8 billion across 84 transactions. Despite the ongoing pressure from escalating social unrest, a select number of opportunistic buyers have been bargain hunting in Asia’s financial hub. Concurrently, Hong Kong investors were seen to become more active across the region especially in Singapore, Japan and South Korea.

Despite no reported activity in Q4, Taiwan’s 2019 hotel investment volume totalled NT$12.5 billion (US$41.9 million) across eight transactions. Compared to 2018, with a yearly total of only NT$2.2 billion (US$274.7 million), Taiwan has experienced a tremendous y-o-y growth of 438%.

SOUTHEAST ASIA AND SOUTH ASIA

Amidst a flourishing tourism scene, the Southeast Asian hotel investment market continued to show opportunity in 2019 with Singapore taking the lead recording a total transactional volume of US$637.4 million, up 78.8% y-o-y.

Being the third most active market in Asia Pacific in 2019, Singapore enjoyed a strong year with nine high-profile transactions, totalling nearly US$1.9 billion, up 136.5% compared to 2018. In the final quarter, not accounting for pending sales, three transactions were completed, namely the Amari by Santika, Andaz Singapore and Oakwood Premier OUE, totalling US$580.7 million, up 108.1% y-o-y. Dorsett, wholly owned by Hong Kong listed property giant Far East Consortium International formed a joint venture firm with AMTD Group to acquire Oakwood Premier OUE Singapore for $828 million (US$524.4 million). The 268-room hotel and residence property, located in the central business district, was sold subject to a 99-year land lease expiring in July 2066.

Transactional activity in India in Q4/2019 was bolstered by the sale of Leela Venture Portfolio (four out of five properties). In October, the largest-ever hotel deal by value in India took place as Canada’s Brookfield Asset Management acquired four hotels and a land parcel from India’s Hotel Leelaventure Ltd. The four luxury hotels located in New Delhi, Bengaluru, Chennai and Udaipur, comprising 1,017 rooms, were sold for INR35.6 billion (US$501.8 million), reflecting INR35 million per key (US$493,000).

AUSTRALIA AND NEW ZEALAND

Although trading activity in 2019 in Australia and New Zealand increased 16% compared to 2018, the final quarter of 2019 was tepid as both markets’ investment volumes totalled US$372.2 million across 14 transactions, down 71.6% y-o-y.
In the final quarter, Australia hotel transactions amounted to US$144.5 million across ten transactions, down 73.1% compared to the same period in 2018. There were no reported large portfolios transacted. Notable transactions in the final quarter included the sale of the Rydges Esplanade Cairns and Ovolo Nishi priced at AU$65 million (US$44.4 million) and AU$44.9 million (US$30.9 million) respectively. Centuria Metropolitan Real Estate Investment Trust (CMA) acquired Ovolo Nishi Hotel (part of the Nishi building) with a cap rate of 5.1% for AU$44.9 million (US$30.9 million), reflecting AU$528,000 per key (US$364,000). Located in central Canberra, the property includes a 10-storey office block, an 85-room hotel and a cinema. Three out of ten transactions in Q4 were completed by foreign investors from China and Singapore, accounting for almost 38% of the total value.

### OUTLOOK
- After a strong performance in 2019, transaction pace in 2020 is expected to increase further as the fundamentals of the hotel sector in the Asia Pacific region remain strong. Tourist traffic in the region is projected to grow at an average annual rate of 5.4% over 2020, based on PATA's forecast. In addition, connectivity in the region is expected to further improve which will give greater accessibility to secondary markets.
- Investors in hotel property are undoubtedly going to have to be more selective in their stock picking from 2020, and a deep understanding of local supply and demand fundamentals will be the key to outperformance.
- With strengthened yields and a cautious economic climate, Japan, Australia, South Korea and Singapore continue to be the most sought-after hotel real estate markets in the region. Available hotels on the market are expected to trade quickly in the current environment.