Perhaps it is now time to take a fresh perspective and reassess if the glass is half empty or half full. After all, as any investment banker will tell you, ‘past performance is not indicative of future results’.

It is no surprise why most Singapore hotel owners are not in the highest of spirits these days. Since hitting a peak of S$224.85 in August 2012, Singapore’s market average RevPAR initially moved sideways for 2 years before entering a 3 year decline and currently stands at S$199.73 on a rolling 12 month basis - off by 11.2% since the peak. Occupancy lost 1.7 percentage points during the same period.

Although this does not constitute a crash by any stretch of the imagination, the consistent and drawn out decline year after year has caused commensurate pain for owners, especially institutional investors who have shareholders to answer to each quarter.

This edition of Hotel Market Perspectives takes a deep dive into Singapore’s hotel demand - supply fundamentals past and present. By taking a more forward looking approach and contemplating how the market dynamics will play out going forward, we find that some optimism may be warranted.
To put some perspective on the most recent arrivals data, consider that international visitor arrivals to Singapore increased from 9.7 million in 2009 to an expected 16.7 million this year. Only in 2014 was there a pause in growth, when the key China market declined by 24.1% as a result of the Chinese authorities’ curbs on low-cost shopping tours.

While the growth rate has swung between a wide range of -10% to +20%, the 10 year Compounded Annual Growth Rate (CAGR) stands at 5.1%. And although the growth rate has moderated since mid-2016, it is still growing nonetheless. According to the latest statistics available until the end of September 2017, the rolling 12 month growth rate currently stands at 4.5% and is on track to double the Singapore Tourism Board’s (STB) forecast set at the beginning of the year of 0 – 2% growth. In the first 9 months of 2017, there were 13.1 million international visitor arrivals to Singapore, comparing to the same period of last year, arrivals are up by a respectable 5.1%.
India, already the third biggest source market is the fastest growing among the top 10, up by 16.3% or 133,280 additional arrivals. Vietnam also exhibited remarkable growth, up by 13.2% in the first 9 months of 2017, compared to the same period in 2016.

China and Indonesia are by far the largest source markets, accounting for more than a third of all arrivals. However, while China continues to grow strongly, up by 9.5% so far this year with 216,549 additional arrivals, Indonesia’s growth has stagnated and has recently been relegated to second place by China.

China 9.5
India 16.3
Vietnam 13.2
Indonesia 1.9
USA 9.8
Saudi Arabia -26.6
Japan -0.8
Taiwan -3.1
Thailand -4.3
Hong Kong -17.3

Source: STB Visitor Arrivals
Despite a lack of positive tourism arrival shocks on the horizon, there are a range of factors that together should underwrite continued growth momentum.

These include:

- **Supportive macro-economic backdrop, both on a local and global basis.**
  - Singapore’s economy is expected to expand by more than 3% in 2017. The Singapore Government’s initial forecast for the year was 1.5% growth which was duly revised to 2 - 3%. With increasingly bullish sentiment, GDP growth is expected to surpass even the revised forecasts, with some market commentators predicting up to 3.7% growth. Approximately a quarter of all international arrivals are for business purposes which is why the health of the economy has a significant impact on hotel performance, especially for those properties that are located in close proximity to the commercial centres.
  - Even more important is the health of the global economy, which impacts both the leisure and business segments. After a long period of sub-par growth, the global economy has recovered. Global GDP growth has averaged 3.9% growth for the past 3 quarters while trade has expanded 4.7% year-on-year in August 2017 (versus 1.7% over 2015 – 2016). What is remarkable is that this is the first year that both emerging and developing markets are recovering simultaneously since 2011.
  - **Asia Pacific is the fastest growing region in terms of international arrivals.** In 2016 international arrivals grew at a rate of 9% to 308 million arrivals, accounting for 25% of global arrivals. The pace of growth is expected to continue fuelled by increased air connectivity, more affordable travel and relaxation of visa requirements. Singapore is well placed to benefit.
  - China is not just the biggest inbound market for Singapore. According to the UN World Tourism Organisation (UNWTO), China has remained the world’s largest source market since overtaking the US in 2012. In 2016 the number of outbound Chinese travellers rose by 6% to 135 million and is expected to reach 200 million in the near future. The fact that only 6% of Chinese citizens own passports suggests that there still remains enormous potential for future outbound growth. Moreover, China is no longer posing a drag on global growth. Policy efforts have alleviated the debt burden and eased inflationary pressures, while exports are showing signs of recovery.
  - The newly opened T4 terminal at Changi Airport has boosted handling capacity by 16 million passengers per year. The total annual handling capacity is now 82 million movements. The new terminal together with Changi Jewel (on track to complete in 2019) will cement Changi’s status as a regional air hub and is expected to induce additional demand as airlines are likely to increase or add new services. The planning of T5 is already in progress.
  - The Mandai zoo precinct revamp, expected to complete by 2020, will add 2 more parks as well as a 400 key eco resort to open in 2023. It was recently announced that the resort will be operated by Banyan Tree.

The Singapore Tourism Board (STB) is among the best funded and most proactive in the region. Some of its recent major initiatives include:

- **S$34 million three-year tripartite partnership between Changi Airport Group, Singapore Airlines and STB to jointly promote Singapore as an attractive stopover destination (April 2017)**
- **The second edition of the Singapore MICE Advantage Programme (May 2017)**
- **Launch of the latest Singapore brand campaign: Passion Made Possible (August 2017)**

Singapore is regularly validated as a top international destination. Most recently:

- **Mastercard Destination Cities Index (September, 2017) ranked Singapore fifth globally for international overnight visitors and fourth worldwide for visitor spend.**
- **Euromonitor International’s annual Top City Destinations Ranking (November 2017) placed Singapore in 4th place and expects Singapore to overtake London as the third most visited city in the world by 2025.**
A key selling point for investing into hospitality real estate is that it gives exposure to the broad economic and global trends mentioned above. However, it is also exposed to global risks which are unpredictable but pose real and significant threats.

These include:

- **Geo-political risks** – government foreign policies can change suddenly and have immediate and significant consequences on tourism sectors. We have seen this several times in our region recently, such as unexpected changes in Chinese foreign policy leaving a (mostly temporary) dent in the tourism industries of Thailand, Vietnam, Korea, as well as Singapore. Other geo-political risks include North Korea as well as the unpredictable foreign policies of the Trump Administration.

- **Terrorism** – SG Secure has a very apt slogan – It is not a matter of ‘if’ but ‘when’. All countries need to learn to live with this ever-present and unavoidable threat, however preparedness can ensure impacts are minimised and temporary.

- **Macroeconomic risks** – international travel is highly sensitive to economic growth and consumer confidence, both of which ebb and flow with each country’s business cycle.

- **Currency risk** – international travel is also highly sensitive to the purchasing power of the inbound market’s currency relative to the destination currency.

Although the above risks are both real and likely to impact the Singapore tourism market at any time, they are unlikely to disrupt the underlying global trend of international travel growth, nor derail Singapore’s robust tourism industry.
Similar to our approach with international arrivals, before we interpret the latest supply numbers, taking first a wider perspective will provide some context. From 2009 to 2017, total hotels room supply increased by 67.9% (26,734 rooms) or at a CAGR of 5.9% per annum. This is equivalent to adding on average an additional 2,970 rooms each year for 9 consecutive years. Considering the amount of supply that has been taken up, recent hotel market performance has held up well, losing 1.7 percentage points of occupancy and 11.2% in RevPAR over the past 5 year period.

Source: STB Annual Tourism Statistics, URA Commercial Pipeline, Savills Hotels Research
This extended period of supply growth is now in its final quarter, with only the 528 room Mercure Singapore on Stevens, which is expected to open in December 2017.

A different picture emerges in the next few years as supply growth will taper off significantly.

The majority of rooms that will come online over the next 3 years will be Mid-Tier properties (46.6%) and the rest comprising Upscale or Luxury (39.1%) and Economy (10.8%).

The development pipeline has contracted due to several converging factors:

- Lacklustre hotel performance due to significant supply growth.
- Recent expansion in key count by the major developers/owners has dampened appetite for additional inventory.
- Moderation of international visitor arrivals growth.
- Global political and macroeconomic environment has not been conducive for hotel development.
- Singapore Government has restricted new land releases slated for hotel development.
- Higher development viability of other sectors such as residential and commercial development.

### Pipeline of Rooms by Positioning 2018 – 2020

<table>
<thead>
<tr>
<th>Position</th>
<th>Key Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-Tier</td>
<td>46.6%</td>
</tr>
<tr>
<td>Upscale / Luxury</td>
<td>39.1%</td>
</tr>
<tr>
<td>Economy</td>
<td>10.8%</td>
</tr>
<tr>
<td>Unknown</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

Source: URA Commercial Pipeline, Savills Hotels Research

Some of the larger new properties that have come on the market in 2017

<table>
<thead>
<tr>
<th>Property</th>
<th>Keys</th>
<th>New build / Re-brand</th>
<th>Location</th>
<th>Operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hilton Garden Inn Serangoon</td>
<td>328</td>
<td>Rebrand - formerly The Grand Imperial Hotel</td>
<td>Little India</td>
<td>Hilton</td>
</tr>
<tr>
<td>Destination Singapore Beach Road</td>
<td>300</td>
<td>Rebrand - formerly Premier Inn</td>
<td>South Beach</td>
<td>Park Hotel Group</td>
</tr>
<tr>
<td>Park Hotel Farrer Park</td>
<td>300</td>
<td>New build</td>
<td>Farrer Park</td>
<td>Park Hotel Group</td>
</tr>
<tr>
<td>InterContinental Singapore Robertson Quay</td>
<td>225</td>
<td>Rebrand - formerly Gallery Hotel</td>
<td>Robertson Quay</td>
<td>IHG</td>
</tr>
<tr>
<td>Sofitel Singapore City Centre</td>
<td>223</td>
<td>New build</td>
<td>Tanjong Pagar</td>
<td>Accor</td>
</tr>
<tr>
<td>Courtyard by Marriott Singapore Novena</td>
<td>250</td>
<td>New build</td>
<td>Novena</td>
<td>Marriott</td>
</tr>
<tr>
<td>Andaz Singapore Hotel</td>
<td>342</td>
<td>New build</td>
<td>South Beach</td>
<td>Hyatt</td>
</tr>
<tr>
<td>YOTEL Orchard Road</td>
<td>610</td>
<td>New build</td>
<td>Orchard</td>
<td>Yotel</td>
</tr>
<tr>
<td>Novotel Singapore on Stevens</td>
<td>254</td>
<td>New build</td>
<td>Stevens</td>
<td>Accor</td>
</tr>
<tr>
<td>Mercure Singapore on Stevens</td>
<td>528</td>
<td>New build</td>
<td>Stevens</td>
<td>Accor</td>
</tr>
</tbody>
</table>

Source: Hotels Licencing Board, Savills Hotels Research
Only 737 rooms are expected to come online in 2018 including the Dusit Thani (206 rooms) at the Laguna National Golf and Country Club, the re-opening of the Raffles Hotel (115 rooms) mid-year after an extensive 6 month restoration and potentially the Patina Capitol Singapore (157 rooms) which although it obtained a TOP (Temporary Occupation Permit) in October of 2015, remains embroiled in a legal dispute.

Looking further ahead to 2019, another 1,425 rooms are expected to complete. More than half of the total will be from 2 Far East Hospitality projects in Sentosa – The Outpost (193 rooms) and the Village Hotel Sentosa (606 rooms). Other hotels scheduled to open in 2019 are the EDITION by Marriott (190 keys by a JV between Hong Leong Holdings, City Developments Limited and Lea Investments), Singapore’s second YOTEL at Changi Jewel (130 keys) and the Capri by Fraser (306 rooms) on China Street.

It should be noted that all references above that involve forecasting future supply are estimates only. Due to the inherent complexities of real estate development, it is likely that some of the projects may be delayed beyond their anticipated opening date, they may have concepts and scale revised or in some cases may even be postponed indefinitely. It is also likely that there may be other projects currently in planning or development that are not accounted for above. Readers are advised to use this information for reference purposes only, to independently verify the information and to conduct their own investigations.

The shrinking development pipeline is a result of the Urban Redevelopment Authority’s (URA) deliberate strategy to slow the pace of hotel development. Perhaps the last site that the URA launched for tender that was specifically zoned for hotel use was in November 2013, for a site on East Coast Road, that is currently occupied by the dual hotel development Hotel Indigo and Holiday Inn Express Singapore Katong (both opened in mid-2016).

Currently there are no hotel sites on URA’s Government Land Sales Program tender lists. However, a site on Beach Road that was awarded to GuocoLand in October 2017, may have hotel use for a maximum of 30% of the permitted GFA while at least 70% must be utilised for office development.

The latest hotel site that was sold through a public tender was in May 2016, for a private bungalow on Cuscaden Road. It was the first hotel redevelopment site for sale in the Orchard area for more than 10 years. Hong Kong listed Shun Tak Holdings was the winner with a bid of S$2,145 per square foot per plot ratio including development charges. It is unclear if the new owner will develop a hotel or opt to convert usage into a residential development.

Most recently, in November 2017, Singtel put up for public tender its Hill Street property. Comprising of 2 adjacent sites, it has provisional permission for redevelopment of the property into a hotel project with maximum allowable GFA of 139,084 sq ft. The tender will close in mid-December, 2017.
Sofitel Singapore City Centre - opened Q4 2017
The 10 year chart of hotel performance illustrates where the market currently stands relative to the previous cycle peak and trough. The peak of the previous cycle was set in October 2008 with RevPAR (overall market RevPAR on a trailing 12MMA basis) at S$201.23 before Sub-Prime took hold, bottoming out at S$143.74 in December 2009. The hotel market recovered to hit a new record 3 years later of S$224.85 RevPAR in August 2012. However, performance then plateaued until April 2014 at S$224.25, which is when the mild but protracted downturn began and which persisted until May of this year.

The most recent performance trends seem to indicate that we may be near to the bottom of the current cycle. In January 2017, standard average occupancy (12MMA basis) bottomed at 84.2%, while the latest reading at September 2017 registered 85.2%, up 1.0 percentage points from the low. After declining for most of the last 3 years, both ADR and RevPAR have moved mostly sideways this year.
Singapore hotel market performance 12 months to September 2017 compared to the same period in 2016

<table>
<thead>
<tr>
<th>Property</th>
<th>Average Daily Rate (ADR)</th>
<th>Average Occupancy Rate (AOR)</th>
<th>Revenue per Available Room (RevPAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>S$</td>
<td>% change yoy</td>
<td>%</td>
</tr>
<tr>
<td>Standard Average</td>
<td>234.35</td>
<td>-2.2</td>
<td>85.2</td>
</tr>
<tr>
<td>Luxury</td>
<td>450.12</td>
<td>0.4</td>
<td>84.5</td>
</tr>
<tr>
<td>Upscale</td>
<td>257.07</td>
<td>-2.5</td>
<td>86.6</td>
</tr>
<tr>
<td>Mid-Tier</td>
<td>167.77</td>
<td>-2.4</td>
<td>86.2</td>
</tr>
<tr>
<td>Economy</td>
<td>100.14</td>
<td>-1.5</td>
<td>81.5</td>
</tr>
</tbody>
</table>

Source: STB Hotel Statistics

According to the latest data available, the market average daily rate for the 12 months to September 2017 currently stands at S$234.35, down 2.2% from the same period in 2016. The average room rate for the luxury segment increased by 0.4% to S$450.12 while the remaining categories registered declines of up to 2.5%.

Market average occupancy remained stable during the period at 85.2% (up 0.2 percentage points). The luxury segment lost 1.8 percentage points of occupancy while the economy segment gained 2.1 percentage points.

Market average RevPAR declined by 2.0% to S$199.73. The declines were driven by the mid-tier (down 2.4%), luxury (down 1.8%) and upscale (down 1.2%) segments which were also the segments that received the majority of new supply in 2016 and 2017. RevPAR in the economy segment increased by 1.4% during the period.

Since the latest data release by the STB, a significant amount of new properties have opened that are not yet reflected in the data (InterContinental Singapore Robertson Quay, Courtyard by Marriott Singapore Novena, Novotel Singapore on Stevens, Andaz Singapore Hotel and Yotel Orchard Road to name a few). That is well over 1,500 new rooms that are yet to make their impact on the data. Therefore it is likely that overall market performance, especially in terms of occupancy, is likely to resume its downtrend for the next 2 quarters, before the anticipated upswing commences in the second half of 2018.
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- Feasibility Study
- Development Recommendations
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- Project Management
- Sales & Marketing
- Project Management
- Sales & Marketing
- Valuation

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- Represent owner interests in key contract negotiations
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