

Briefing Hotel sales & investment

April 2015



Image: Jakarta, Indonesia

SUMMARY

Acquisitions by Asia Pacific investors focusing on 'prime' assets continued to be prevalent in 2015. While Japan and Australia remained major focus markets, Malaysia and China reported some headline deals.

- The quarterly total of investment sales fell by 43.9%, from US\$2.49 billion in Q1/2014 to US\$1.4 billion in Q1/2015.
- Japan was the location with the highest number of transactions with 44.2% of Q1 sales, or JPY 73.6 billion (US\$618.5 million) worth of sales.
- Australia was the location with the second highest number of transactions with 24.5% of Q1 sales, or A\$ 429.7 million (US\$343.2 million) worth of sales.
- Of the 18 countries tracked in Asia Pacific, only 8 saw transactions.
- Of the countries where transactions occurred, only Japan, Singapore, Australia, and New Zealand, recorded positive quarter on quarter increases in transaction volumes.
- By purchaser origin, Japanese buyers were top of the league with 39.6% of all purchases; predominantly transactions were located in Japan, not cross border capital movements.
- Australian buyers came second with 18.7% of all purchases, followed by Singapore buyers with 18%, and Chinese buyers with 10.7%. Similar to Japanese investors, these investors also predominantly bought properties domestically.

.....
 “Greater confidence and stock availability constraints may increasingly entice investors to look beyond the gateway cities for opportunities. However, this is likely to be confined to those stronger growth cities outside the capital cities which possess similar levels of liquidity.” Savills Research

➔ **Market overview**

The first quarter of this year registered just under US\$1.40 billion worth of investment transactions, representing a 43.9% decrease over Q1/2014 (US\$2.49 billion).

Two major transactions which concluded in the first quarter provide good examples of investment market trends. Firstly, the sale of a hotel portfolio comprising five “b” hotels, from SPCs asset managed by Ishin Hotels Group to Japan Hotel REIT for a price of approximately JPY20 billion (US\$168.9 million) in total. Secondly, the acquisition of Righa Royal Hotel Kyoto by Fortress Investment Group

was recorded as the largest single asset transaction in Kyoto for the last two years.

Northern Asia¹

Japan saw the most transactions in Asia Pacific with JPY73.6 billion (US\$618.5 million) worth of transactions. This is a year on year increase of 26.3% from Q1/2014. Investor sentiment is high and Average Daily Rate (ADR) has steadily increased since 2011. Owners who have held onto assets since the recession are releasing their assets onto the market due to this improved market sentiment, the yearly number of transactions reached pre recession levels in 2014.

¹ Japan

The highest price achieved for a single asset in Q1 was for Sotetsu Ginza Inn Ginza 7- chome which was acquired by Hulic from Uniho at JPY10 billion, (US\$83.5 million), and JPY34 million (US\$292,125) per room.

Secondary cities are attracting investors as they have the advantage of providing higher yield. Of 16 transactions in Q1, 6 were located in Tokyo, 3 were located in Kyoto, whilst Osaka, Yokohama, Hokkaido and the other locations had 1 transaction each.

Eastern Asia²

Hotel investment activities in China slowed down in the first quarter with the exception of Shanghai. China has completed four major transactions for a total transaction volume of RMB201 million (US\$35.7 million), a 94.3% decrease compared to the same period of last year.

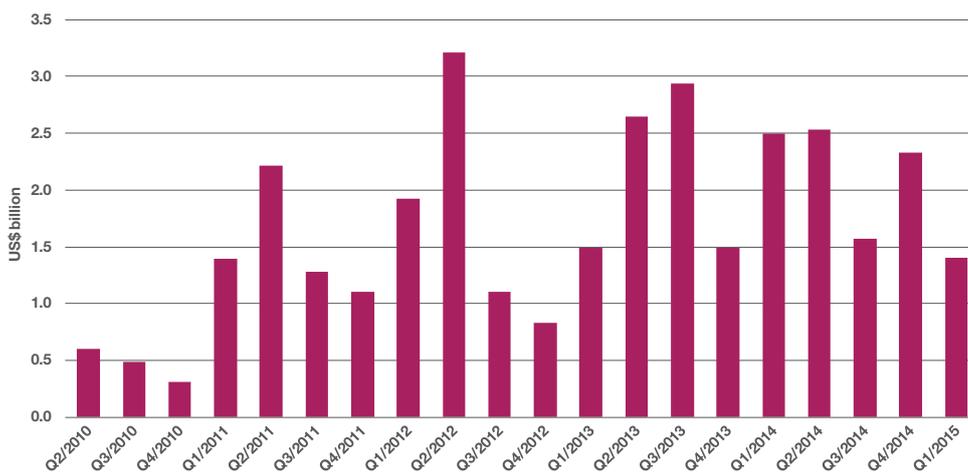
One notable hotel transaction is the sale of Liyang Tianmu Lake International Hotel in Changzhou, Jiangsu province, which is registered for a total of RMB137.2 million (US\$21.9 million), RMB 1.72 million (US\$273,796) per room.

The major challenge faced by the China hotel market is the oversupply in many second tier and some first tier cities, which resulted in lower hotel ADR, especially for five star hotel markets. Few hotel developers in the market are willing to dispose their assets due to weak hotel performance and shortage of finance to complete the construction of the hotel. On the other hand, many Chinese buyers are looking into overseas markets for acquisition, major players including China Anbang Insurance Group, Dalian Wanda Group, Shanghai based Greenland Group have made notable transactions in world gateway cities such as New York, Chicago, Los Angeles, Washington DC, Sydney and London.

As mentioned earlier, Shanghai has witnessed a growth in RevPAR of 9.6% in 2014, which attracted both international investors and operators to target this market. By the end of the reviewed quarter, Hong Kong based Shun Tak Holdings announced that Host Wise, an indirect wholly-owned subsidiary of the company,

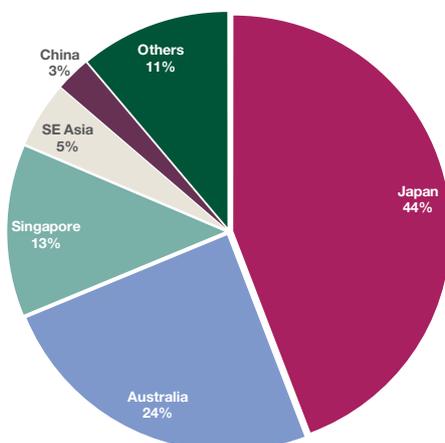
² China, Hong Kong and Taiwan.

GRAPH 1 **Investment sales transaction values, Q1/2010–Q1/2015**



Source: Savills Research & Consultancy

GRAPH 2 **Investment sales transaction volumes by location, Q1/2015**



Source: Savills Research & Consultancy

*SE Asia including Viet Nam, Thailand, Malaysia, Cambodia and Laos. Others including Maldives, India, Sri Lanka, Bhutan, Fiji and Taiwan.

TABLE 1 Selected investment transactions, Q1/2015

Hotel	Location	Approximate sale price (US\$ million)	Approximate price per room (US\$)	Buyer
Mantra Resort Samui	Koh Samui, Thailand	Confidential	Confidential	Louis T Collection
B Portfolio	Various, Japan	168.9	225,805*	Japan Hotel REIT
Hotel Grand Chancellor	Singapore	178.1	570,460	Confidential
Sofitel Gold Coast Broadbeach	Gold Coast, Australia	48.3	163,598	Shanxi Huayu Group
Righa Kyoto	Kyoto, Japan	86.6	180,370	Fortress Investment Group

Source: Savills Research & Consultancy
 * Portfolio average price per room
 Note: THB/US\$ = 32.5; JPY/US\$ = 118.4; S\$/US\$ = 1.34; A\$/US\$ = 1.28

→ entered an agreement with China Resource Land and Shengtong Metro Assets to acquire a property with 478 rooms located at Shanghai MixC integrated commercial development, Hongqiao district at a consideration price of RMB700 million (US\$113 million), RMB1.5 million per room (US\$236,393).

There was one transaction in Taiwan, the Lefoofo Resort Kenting was bought by Yoho Beach Resort from Thailand's Lefoofo Group for NT\$900 million (US\$28.3 million), NT\$4.59 million (US\$144,193) per room.

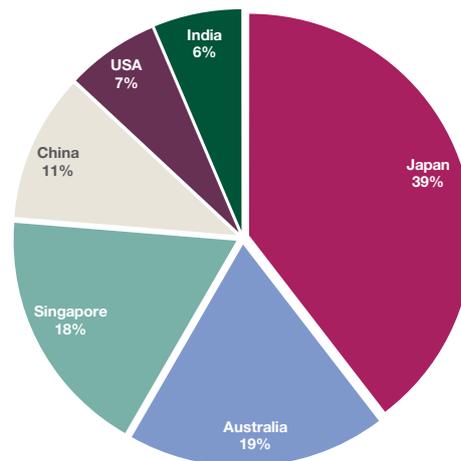
Southeast Asia

There was one major transaction recorded for Singapore on the open market, the sale of Hotel Grand Chancellor for S\$238 million (US\$178 million), this represents a 12.9% increase for this quarter compared to Q1/2014. There were two other direct transactions, the Capri by Fraser Changi City, and the Crowne Plaza Hotel Changi Airport.

Crown Plaza Hotel Changi Airport Hotel was the largest transaction for the reviewed quarter, OUE Hospitality Trust made the acquisition from OUE for S\$495 million (US\$373.5 million), representing S\$1.5 million (US\$1.17 million) per room, with a cap rate of 4.5%. A renovation has been planned which will add 243 rooms.

Another notable transaction is the acquisition by Frasers Centrepoint of the 313-room serviced apartment-

GRAPH 3 Investment sales transaction volumes by buyer origin, Q1/2015



Source: Savills Research & Consultancy

hotel hybrid from Ascendas Frasers Group, for S\$203.4 million (US\$149.3 million), or S\$650,000 per room (US\$476,944).

Although visitor arrivals for the first two months of the year fell by about 5% to 2.4 million, compared to the same period last year, according to STB, business activities in Business Parks such as Changi Business Parks remain high for MICE, business group and individual travellers.

In Thailand there was only one transaction, the Mantra Samui Boutique Resort was sold for an undisclosed sum. This transaction was brokered by Savills.

There were three transactions in Malaysia, totaling MYR203.2 million (US\$55.7 million). The largest transaction was the purchase of Gurney Resort Hotel & Residence by Plentitude from Employees Provident Fund for MYR160.1 million (US\$43.8 million), MYR618,147 (US\$169,124) per room. The Baba House and Hotel Citiview transacted for MYR26.1 million (US\$7.3 million) and MYR17.0 million (US\$4.7 million) respectively. Despite weakened market sentiment, the number of transactions in Malaysia was higher than neighbouring countries; this is possibly due to the opportunity for investors to buy at accretive yield. Interest rates have so far remained at

→ 3.25% in 2015 but are expected to rise in Q2.

Australia and New Zealand

Australia was second highest for transaction volume this quarter, accounting for 24.5% of transactions across Asia Pacific. There were 12 transactions with a total value of over A\$429.7 million (US\$343 million). This is a 136.2% year on year increase compared to Q1/2014.

Many international and local companies are investing in alternative locations. Shanxi Huayu acquired Sofitel Gold Coast Broadbeach Hotel from Brookfield Asset Management for A\$62 million (US\$48.3 million), at A\$209,459 (US\$163,091) per room. Of the 12 transactions in Q1 only one transaction, the Diamant Hotel (A\$145 million) was in central Sydney. The other 11 assets are in diverse locations including Melbourne, Brisbane,

Surfer's Paradise, Daydream Island and Hobart, the location of two of Mantra Group's new hotels.

There were two transactions totaling NZ\$58.3 million (US\$44.6 million) in New Zealand. This is a 128.9% year on year increase compared to Q1/2014. The assets were the Chateau on the Park, NZ\$35.0 million (US\$27.1 million), and the Hotel Grand Chancellor NZ\$23.3 million (US\$17.4 million).

Australia and New Zealand should continue to benefit from their proximity to Asian investors who value the stable financial and legal environments that the region provides. Hotel occupancy and ADR have grown modestly but steadily since 2012. In Australia, occupancy increased from 74.3% in 2012 to 75.7% in 2014 whilst ADR increased from AU\$174.40 to AU\$181.44 in the same period. ■

OUTLOOK

The prospects for the market

Last year saw Asia Pacific hotel transaction volumes reach US\$8.47 billion and investor confidence has remained firm throughout the first quarter of 2015. Demand is expected to remain strong over the remainder of the year ahead. In Tokyo, Singapore, Hong Kong and Sydney, the demand and supply imbalance will put downward pressure on yields, while regional activity is likely to be fuelled by second-tier cities in China and gateway cities in SE Asia.

Please contact us for further information

Savills Hotels



Raymond Clement
Managing Director
Asia Pacific
+65 6415 7570
rclement@savills.com.sg



Nathalia J. Wilson
Senior Director
Asia Pacific
+65 6415 7589
nwilson@savills.com.sg



Julien Naouri
Associate Director
Asia Pacific
+65 6415 7583
jnaouri@savills.com.sg



Michael Simpson
Managing Director
Australia & New Zealand
+61 2 8215 8831
msimpson@savills.com.au



Annie Wang
Director
China
+86 10 5925 2029
annie.wang@savills.com.cn



Jie Zhang
Senior Manager
Japan
+81 3 5562 1765
jie.zhang@savills.co.jp

Savills Research



Simon Smith
Senior Director
Research, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.