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Savills World Research
Asia Pacific

Briefing
Hotel sales & investment

April 2017

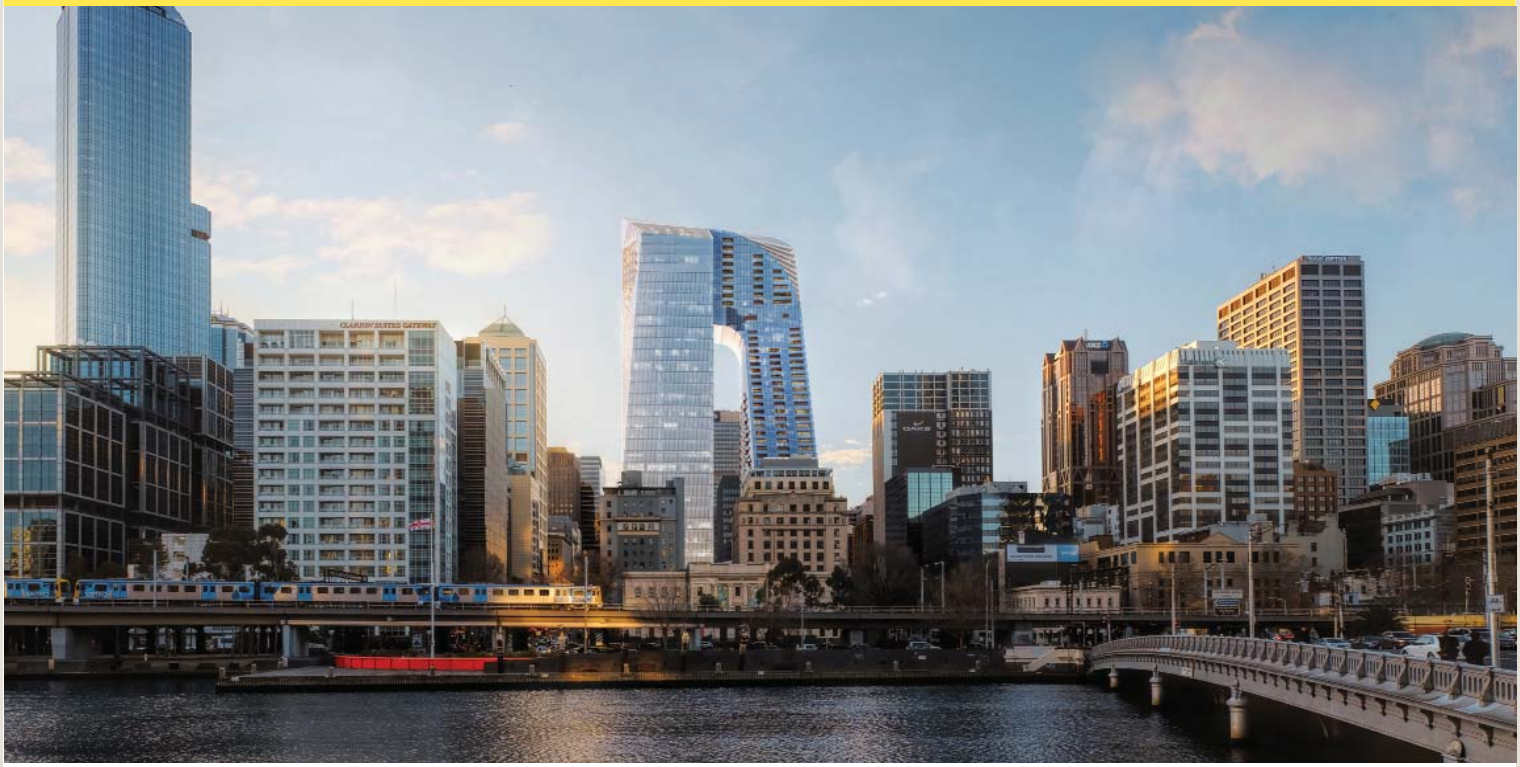


Image: W Hotel, Melbourne

SUMMARY

Hotel investment is off to a positive start in 2017, as key markets remain active and attractive for investment.

- The total value of investment sales increased by 12.5% quarter-on-quarter (QoQ) to US$2.17 billion for the first quarter of 2017.
- 75.4% of the transaction volume came from three areas: Hong Kong, Japan, and Australia & New Zealand, in descending order.
- Properties in Hong Kong represented 34.9% of all investment sales in APAC, with US$756.6 million worth of transactions in the first quarter.
- Japan had the second highest transaction volumes with US$475.3 million. This represents a drop of 42.2% compared to the total transaction volume in Q1/2016.
- By purchaser origin, Hong Kong buyers were the most active in Q1/2017, with 34.9% of the purchases, followed by Japanese buyers at 30.2%. These were predominantly domestic transactions with few cross-border capital movements.

"The market has shown positive momentum to start off 2017, even though investors are showing caution and seeking more stable investments. Mature markets remain attractive, while prices are generally on the high side. There are still opportunities in developing markets but investors need to be selective." Savills Research

Market overview

The first quarter of 2017 registered US$2.17 billion worth of investment transactions, representing a 12.5% increase from Q1/2016 (US$1.93 billion). Approximately 33 hotels across ten countries were sold in Asia Pacific.

The biggest transaction this quarter was the sale of the Newton Place Hotel in Hong Kong, acquired by Tang Shing-bor from Henderson Land for approximately HK$2.3 billion (US$296.5 million). There were two noteworthy transactions in Melbourne, namely W Hotel Melbourne and Hilton Melbourne South Wharf. The former was sold for approximately AU$233.0 million (US$178.6 million) to the Daisho Group by Cbus Property; the latter was brought by UOL Group Limited from Host Hotels & Resorts and Plenary Group for approximately AU$230.0 million (US$176.5 million). These deals indicate that mature markets like Australia remain attractive for investors who are looking for strategic, stable-performing assets.

Although the investment volume recorded a QoQ improvement, investors in the Asia Pacific region have softened their expectations for the market. Investors are generally looking for more stable investments to mitigate growth outlook. As many Asia Pacific markets remain opportunistic, but with a potentially higher return than the global average, investors are taking a more cautious and calculative approach to choosing the right assets.

Northern Asia[1]

Japan's hotel market remains on investors' radar, despite signs of slowing as available supply of hotel assets for sale reduces. Quarterly investment volume dropped by 42.2% to JPY53.1 billion, which is weaker than previous years when investment volume soared. In Q1/2017 the largest transaction was the sale of Sunroute Plaza Tokyo, which was sold to ORIX JREIT by ORIX Corp for JPY26.8 billion (US$239.3 million). There is a lack of investment opportunities in key cities such as Tokyo and Osaka, and the majority of the deals closed were located in other regional cities. Hotel investment is still dominated by Japanese domestic buyers, with J-REITs being the most active in the first quarter. However, as these REITs tend to hold onto investments for longer periods, this also contributes to the shortage of hotels for sale in the short term.

Since inbound tourism growth is still expected to remain at high levels through the Olympics in 2020, hotel supply has experienced rapid growth and some developers are willing to sell newly-constructed or newly-stabilised hotels to willing buyers. Cap rates for quality hotel deals are expected to remain low further into 2017.

In South Korea, there was one recorded transaction in the first quarter, where Toscana Hotel Jeju Island was sold for KRW24 billion (US$20.9 million) to YJ D&C Co., Ltd. by Kim Jun-Su. The South Korean hotel investment market has been catching investor attention, given the strong inbound tourism levels. However, due to the recent internal political instability and conflict with China, its biggest inbound source market, the South Korean tourism market faces headwinds in the short term, which will impact overall investment confidence in the country.

Eastern Asia[2]

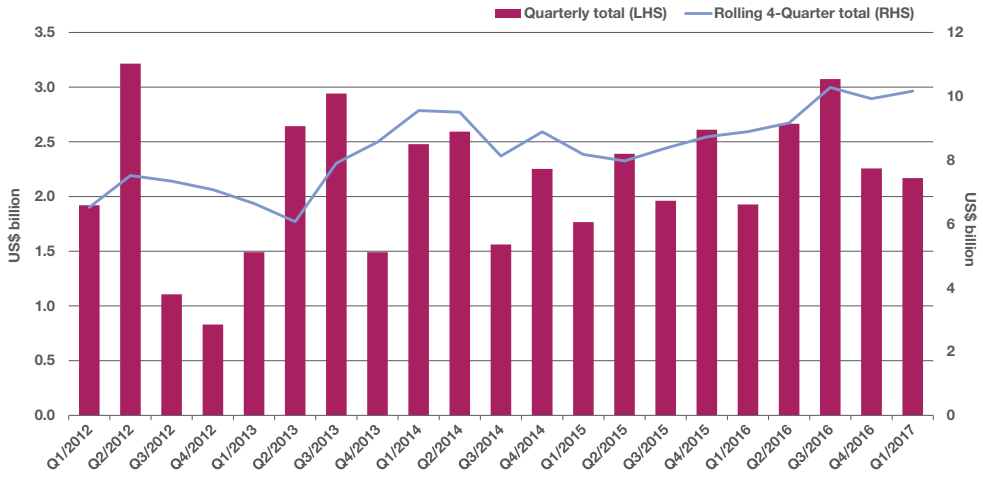
There were five hotel transactions in China this quarter, totalling RMB1.14 billion (US$165.8 million),

1 Japan and South Korea

2 Greater China

GRAPH 1

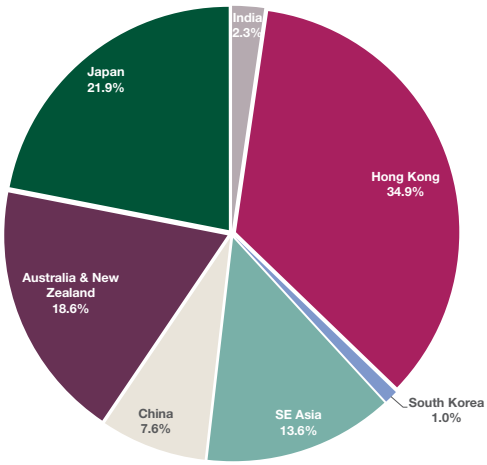
Investment sales transaction values, Q1/2012–Q1/2017



Source: Savills Research & Consultancy, RCA

GRAPH 2

Investment sales transaction volumes by location, Q1/2017



Source: Savills Research & Consultancy, RCA

representing 48.6% decline compared to Q1/2016. The 138-room GraceLand International Hotel was acquired by Nova Property Investment from InfraRed Capital Partners and Nan Fung Group, both domestic investment companies, for RMB610 million (US$88.6 million). The project is set to be repackaged into a mixed-use office and serviced apartment redevelopment project.

In addition, Banyan Tree Holdings formed a joint venture, Banyan Tree China, with real estate developer China Vanke to consolidate the ownership of Banyan-Tree branded hotels and assets in China. This strategic partnership leads to the injection of Banyan Tree Lijiang and Ringha into the new joint venture company. The partnership is expected to push the development of Banyan Tree brands across China by leveraging on China Vanke's presence in the market. Owners of other Banyan Tree-branded hotels in China are invited to join Banyan Tree China under mutual agreement.

In Hong Kong, activity in the first quarter was boosted by domestic transactions. The total volume in Hong Kong reached HK$5.87 billion (US$756.6 million) in the first quarter of 2017, compared to no deals in Q1/2016. Hong Kong remains a stable, mature market for hotel investment, fuelled by relatively limited new supply and high occupancy rates. However, it is likely that the deal flow of mainland Chinese investors will be limited in 2017, due to the restriction on capital outflow by the Chinese central government.

Southeast Asia and South Asia

Despite investor interest in the region's developing markets, hotel transactions can be sporadic, which indicates their cautious approach in looking at strategic investments only. Thailand saw one major investment deal involving Apollo Global Management and Goldman Sachs, in which the parties will invest THB8.4 billion in Thailand's tallest tower. The development will see the opening of Bangkok Edition Boutique Hotel.

In Vietnam, the main deal in the first quarter was the 118-key Long Beach Resort Phu Quoc, where by Berjaya Land, a Malaysia-based company, sold its 70% stake in the hotel to Sulyna Hospitality Hotel Restaurant Travel Service Co. Ltd. for VND333.25 billion (US$14.7 million).

In India, Sarovar Hotels & Resorts sold a majority stake of their 22-property portfolio to Europe-based Louvre Hotels Group for INR3.40 billion (US$50.0 million).

Hotel transaction volumes in Southeast Asia and South Asia got off to a slow start as emerging markets remain highly opportunistic; mature markets like Singapore are not taking off due to the wide gap between buyer and seller expectation. Despite this slow pace, in markets such as Malaysia and Indonesia, there are potential deals in the pipeline which may be completed by the end of the year.

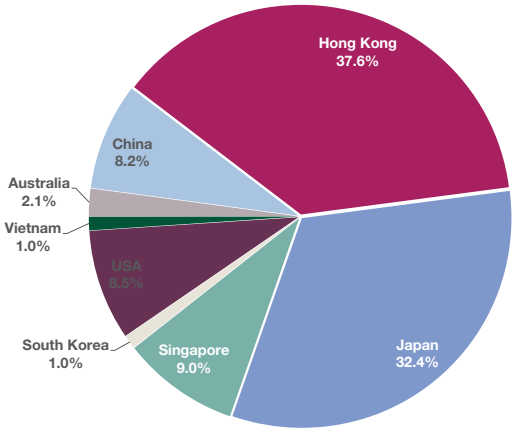
Australia and New Zealand

Australia had the third highest transaction volumes of AU$522.5 (US$386.5 million). This represents a slight improvement of 2.3% compared to the country's total transaction volume in Q1/2016. Although the number of deals is much smaller compared to Q1/2016, the high price tags on the sale of W Hotel Melbourne (AU$233.0 million; US$178.6 million) and Hilton Melbourne South Wharf, which will be rebranded into a Pan Pacific hotel (AU$230.0 million; US$176.5 million) accounted for 88.6% of the total transacted volume in Q1/2017.

Positive hotel demand and supply conditions in Australia have led to the hotel market being a consistently high performer; both domestic and international investors see Australia as a low risk, predictable market for hotel investment. Development pace in key markets has remained subdued, while

GRAPH 3

Investment sales transaction volumes by buyer origin, Q1/2017



Source: Savills Research & Consultancy, RCA

TABLE 1

Selected investment transactions, Q1/2017

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
Newton Place Hotel	Hong Kong	296.5	496,632	Tang Shing-bor
Hotel Sunroute Plaza Tokyo	Tokyo	239.5	344,173	Orix REIT
W Hotel Melbourne	Melbourne	178.6	607,381	Daisho Group
Hilton Melbourne South Wharf	Melbourne	176.5	445,637	UOL Grp Ltd

Source: Savills Research & Consultancy, RCA
Note: AU$/US$ = 1.30; HK$/US$ = 7.77; JPY/US$ = 112.0

demand has been boosted by Asian inbound arrivals and strong domestic demand.

In Q1/2017, the two major deals were both international cross-border transactions, with investors coming from Japan and Singapore. Domestic investors have been investing in smaller hotels at less prominent locations across Australia, such as Geelong, Mornington and Tweed Heads.

New Zealand has garnered much investor interest recently due to the robust growth in tourism and international interest in its real estate assets. However, the transaction volume has slowed down due to lack of hotel supply. The limit on hotel capacity has pushed up hotel occupancy across the country, but developments have not been able to keep pace.

OUTLOOK

The prospects for the market

- Chinese outbound investment in hotels increased in 2015-16, however, this trend is expected to dwindle as the new capital outflow restriction rules now require disclosure of the intended use of the capital. In addition, investors must pledge the money won't be used for the purchase of property. This will severely restrict property transactions overseas. Alternatively, companies with funds outside of China will continue to invest via external cash flow.
- This appetite from international investors, coupled with the continued interest from domestic institutions amongst other buyer groups, has largely maintained prime yields at their lowest levels, despite the decline in the number of transactions. Prime yields in Tokyo and Hong Kong did come in marginally higher, with a typical range of 4.25% to 4.75% and 3.25% to 4.00% respectively.

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