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Savills World Research
Asia Pacific

Briefing
Hotel sales & investment

July 2017

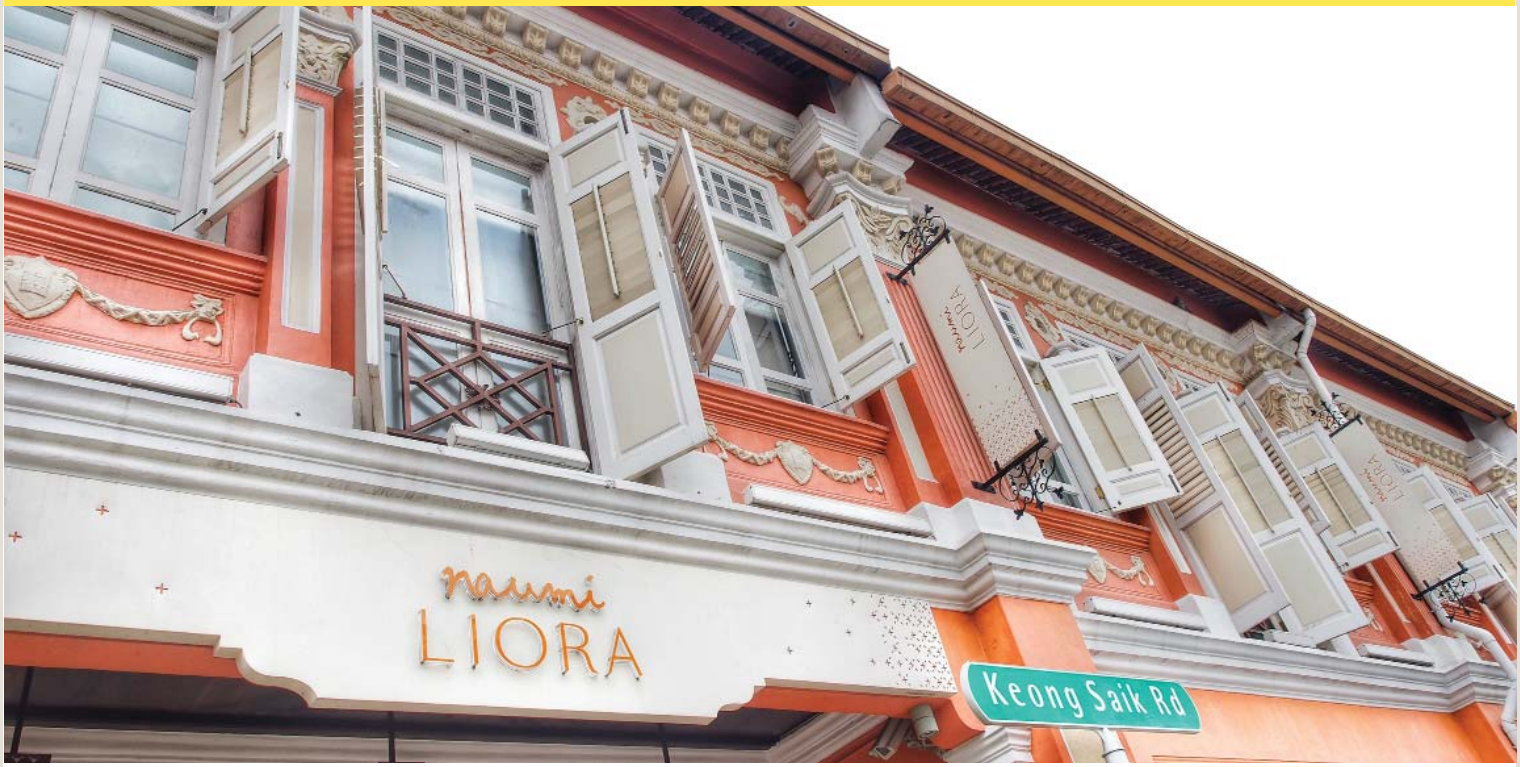


Image: Naumi Liora, Singapore

SUMMARY

Total hotel investment sales dipped in the second quarter of 2017; while key markets remained hot, investors adopted a cautious attitude to developing markets.

- The total value of investment sales in Q2/2017 reached US$ 1.52 billion.
- The total transaction amount in the first half of 2017 recorded a year-on-year (YoY) decrease of 5.5% compared to 1H/2016.
- 66.3% of the transaction volume came from three areas: Hong Kong, Australia and Japan, in descending order.
- Hong Kong represented 31.2% of all investment sales in APAC with US$476.2 million worth of transactions in the second quarter, again taking pole position as the most active transaction market in Asia-Pacific.
- Australia recorded the second-highest transaction volumes with US$348.7 million. However, this represents a decrease of 16.9% compared with the previous quarter.
- By purchaser origin, Hong Kong buyers maintained their position as the most active in Q2/2017 with 44.3% of purchases, followed by Japanese buyers at 13.6%. It is noted that these investors mainly invest in their local domestic markets.

"After an encouraging start in 2017, the market slowed in the second quarter as investors focused more on home-ground investment opportunities. Nonetheless, given the performance of the regional markets, it may serve investors well to consider secondary markets for assets with high value-add potential." Savills Research

Market overview

The second quarter of 2017 registered US$1.58 billion worth of investment transactions and a total of 29 hotel transactions across eight countries were tracked in Asia-Pacific. Collectively the transaction amount in the first half of 2017 recorded a YoY decrease of 5.5% compared to 1H/2016.

One of the largest transactions this quarter was the sale of Four Seasons Bora Bora, acquired by a consortium led by Gaw Capital, from French developer Thierry Barbion and Lancaster Group. The sale was publicised in February this year and was finalised in the second quarter. Another noteworthy transaction was the InterContinental Sydney Double Bay, which was sold for approximately AU$140 million or US$105.3 million. Chinese company Shanghai United RE purchased the property from Singapore-based Royal Group. It is noted that despite the major offshore purchase of the French Polynesia asset, a majority of the transacted hotels were still located in the mature markets of Australia, Hong Kong and Japan, wooing domestic buyers with stable performing assets.

Although the first half investment volume recorded a YoY decrease due to the softened expectations for the regional market, investors are still actively looking for stable investments to mitigate the growth outlook, especially in established markets. However, deals in these areas tend to have high prices and often limited yields. Other Asia-Pacific markets remain opportunistic, but with potentially higher returns than the global average; here investors are taking a more strategic approach, choosing assets with higher value-added potential.

Northern Asia[1]

Keeping pace with the overall trend of the Japanese hotel market, investors are vying for Japanese assets, whilst the available supply of assets for sale is reducing. Quarter on quarter (QoQ) investment volume dropped by 85.5% to JPY16.1 billion. This is not indicative of a lack of interest, but rather as a result of the boom in hotel sales in previous years, which has resulted in a lack of available assets which has affected overall deal flow.

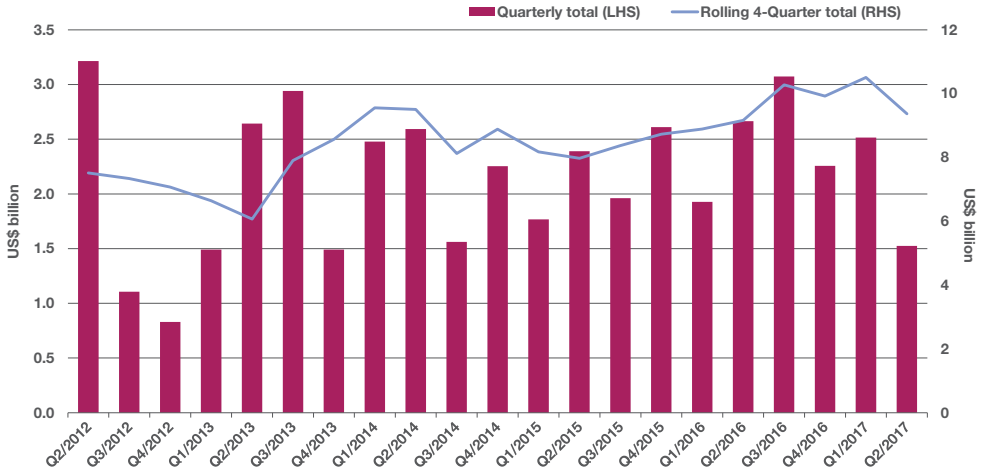
In Q2/2017 the largest transaction was the sale of the New Otani Inn Yokohama Premium, which was sold to Fuyo General Lease by TOC for approximately JPY5.1 billion or US$45.1 million. The deal value of Japanese assets in this quarter is relatively low compared to previous quarter highs. As mentioned, 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. J-REITS, as a major domestic buyer of hotels, tend to absorb hotel assets into their portfolios for long-term hold, and this has also contributed to the shortage of hotels for sale in the short term.

Despite a relatively quiet second quarter, some significant deals are expected to be completed in the next quarter. Due to optimism surrounding the Olympics in 2020, high inbound-tourism growth is expected to be maintained, which has led some developers to sell newly constructed or newly stabilised hotels to willing buyers. In addition, the recent news on the potential Integrated Resorts in various Japanese cities may further boost tourism, if the government gives the green light.

In South Korea, there was one recorded transaction in the first quarter where Hotel Ellui was sold for

GRAPH 1

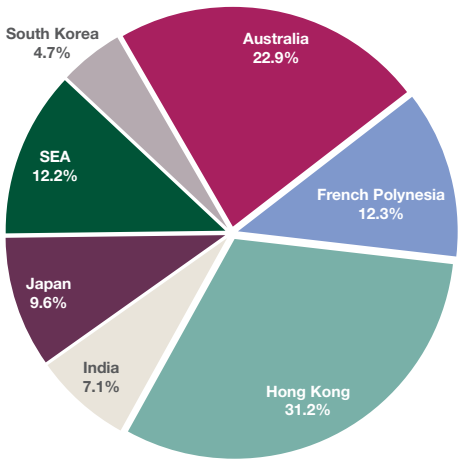
Investment sales transaction values, Q2/2012–Q2/2017



Source: Savills Research & Consultancy, RCA

GRAPH 2

Investment sales transaction volumes by location, Q2/2017



Source: Savills Research & Consultancy, RCA

1 Japan, South Korea

KRW80.9 billion or US$71.4 million to Cheongdam Penthouse PFV by Younggyu Moon. Despite general market interest in the South Korean tourism and hotel sector, propelled by its cultural and entertainment exports, recent internal political instability and worry over potential conflict with China, its biggest inbound source market, means South Korea faces headwinds in the short term which will affect overall investment confidence.

Eastern Asia[2]

In Hong Kong, activity in the first quarter slowed compared to last quarter and most investments were led by domestic purchasers. The total volume in Hong Kong reached HK$3.7 billion or US$476.2 million in the second quarter of 2017 compared to no deals in Q2/2016. Hong Kong remains a mature and stable market especially for domestic hotel investment fuelled by high occupancy rates. However, it is likely that the deal flow of mainland Chinese investors for hotels is limited, due to the investors' focus on other asset classes.

No significant transaction was recorded for China this quarter but investors are constantly on the lookout for strategic assets in first-tier cities such as Beijing and Shanghai. In addition, due to restrictions on capital outflow, more Chinese investors are looking at domestic opportunities for investment. While properties in city-centre locations are hard to source and often come with a hefty price tag and a short lease, investors are now looking at peripheral areas of major cities or up-and-coming second-tier cities for opportunistic assets with more potential upside.

2 Greater China

Southeast Asia and South Asia

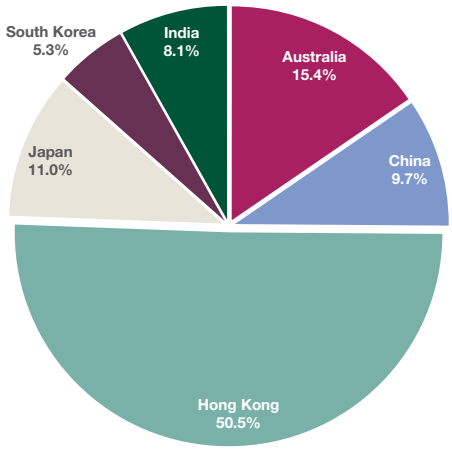
While Singapore is always a key entry market for investors looking at the Southeast Asia region, deals are few and far between. In Q2/2017, two boutique hotels, The Naumi Liora and The Club Hotel, were sold for a total of SG$127.5 million or US$92.1 million by the Hind Group and an independent owner respectively to 8M Real Estate. Though Singapore hotels often come with a higher price tag, stable market conditions and high occupancy rates provide investors with steady cash flow suitable for investors who are looking at more stable long-term holdings.

Malaysia also saw two transactions outside the key investment cities of Kuala Lumpur and Johor Bahru. The Lone Pine hotel and The Summit Hotel Bukit Mertajam, both located in Penang, were sold for a total of MYR120 million or US$23.1 million to domestic buyers. Due to the weakness of the Malaysian Ringgit, real estate prices have fallen for oversea investors. However, investors are taking a very cautious approach when selecting the right assets for acquisition.

The Malaysian hotel market may face some headwinds due to the implementation of a tourism tax from July 2017. All types of premises used as accommodation for tourists, such as registered hotels, will be taxed at rates starting from MYR2.50 per room per night at a non-rated accommodation to MYR20 per room per night for five-star accommodation.

GRAPH 3

Investment sales transaction volumes by buyer origin, Q2/2017



Source: Savills Research & Consultancy, RCA

Australia and New Zealand

Australia recorded the second-highest transaction volumes totalling AU$462.2 or US$348.7 million. This represents an increase of 72.1% compared to the country's total transaction volume in Q2/2016. Whilst the number of deals made was fewer in Q2/2017, the average transacted price per deal was higher than the previous quarter. One of the prominent deals was the sale of InterContinental Sydney Double Bay by Royal Group to a Chinese firm for approximately AU$140 million or US$105.3 million.

TABLE 1

Selected investment transactions, Q2/2017

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
Four Points by Sheraton Central Park	Sydney	134.9	454,152	IIG
Rosedale Hotel Hong Kong	Hong Kong	290.1	772,872	Confidential
InterContinental Sydney Double Bay	Sydney	105.3	751,897	Shanghai United RE

Source: Savills Research & Consultancy, RCA
Note: AUD/USD = 1.33; HKD/USD = 7.80

In recent times, the Australia market has captured the interest of investors, especially Asian investors, with positive hotel demand and supply conditions and a consistently high performance. The new hotel development pace in key markets has remained subdued while demand has been boosted by Asian inbound arrivals and strong domestic demand. As such, both domestic and international investors perceive Australia to be a low-risk investment market, which in turn has boosted demand for hotels, pushing up values. In Q2/2017, there were three international cross-border transactions in Australia, compared to the mainly domestic buyer driven regional markets.

OUTLOOK

The prospects for the market

- Chinese outbound investment has dropped following tighter regulation of capital outflows and these restrictions look likely to remain in place for the time being.

- In Japan, the Government has approved rules on limiting home-sharing by private citizens to 180 days a year, which has legitimised the operation of short-term rental platforms such as Airbnb. Previously, these platforms have been operating in a legally grey area. Once legitimised, home-sharing rentals will absorb some of hotel-stay demand and may place price pressure on hotels.

- In the main Asia-Pacific markets of Hong Kong, Australia, Japan and Singapore, some big-ticket deals are under negotiation, which will have a major impact on total annual transaction volume this year.

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