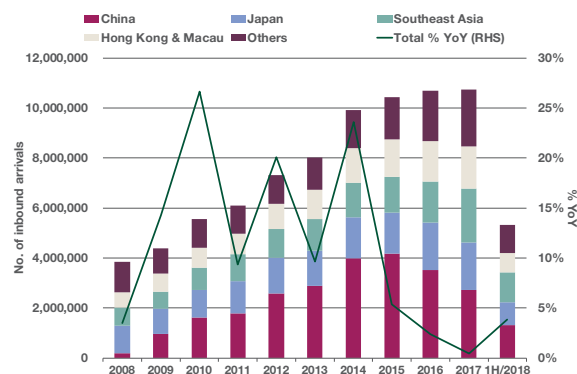


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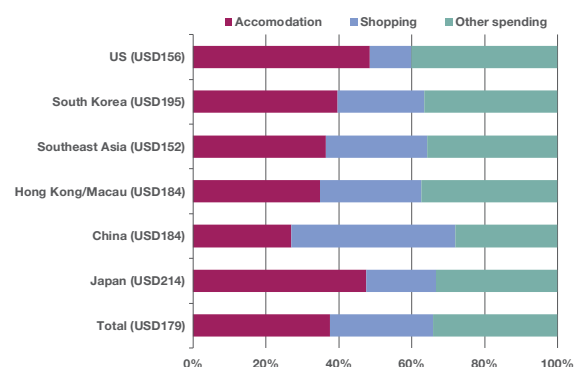


GRAPH 1
Number of inbound arrivals, 2008 – 1H/2018



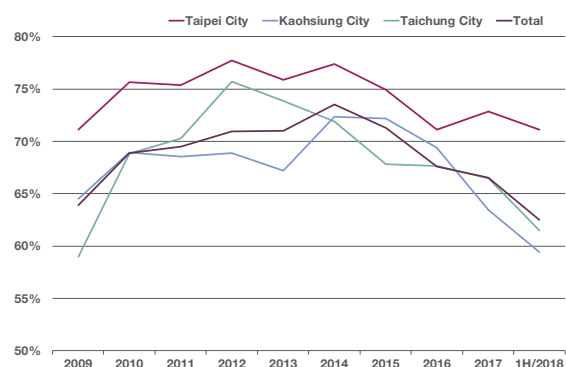
Source: Taiwan Tourism Bureau, Savills Research & Consultancy

GRAPH 2
Inbound tourist consumption by country and expenditure type, 2017



Source: Taiwan Tourism Bureau, Savills Research & Consultancy

GRAPH 3
International tourist hotel occupancy rates, 2009 – 1H/2018



Source: Taiwan Tourism Bureau, Savills Research & Consultancy

Tourism in Taiwan

As the tension between Taiwan and Mainland China continued unchanged, the number of inbound arrivals remained stable in 2017. However, the tourism market witnessed its lowest growth rate in overseas tourist numbers since 2003, up a marginal 0.46% to 10.74 million. The significant decrease in mainland visitors caused a huge impact. Arrivals dropped by 22.19% year-on-year (YoY), and the mainland market share decreased from 33% to 25% as well.

Fortunately, the shrinkage in numbers of Chinese tourists has been offset by Southeast Asian and South Korean visitors. Owing to several successful tourism promotions by the Taiwan Tourism Bureau, such as a visa-free program and an encouraging Muslim-friendly environment, travellers from Southeast Asia increased by 29.2% YoY in 2017 and, with a market share of 20%, surpassed Japan to become the second largest source of inbound arrivals. The fast growth came predominantly from Vietnam (94% YoY), the Philippines (69% YoY) and Thailand (49% YoY). In addition to Southeast Asia, South Korea contributed one million visitors in 2017, recording a 19% growth rate compared with 2016. As for Japanese travellers, Taiwan's third largest source of inbound tourists, stagnant growth meant the country didn't meet the two million visitors' target set by the Taiwan Tourism Bureau. Outbound Japanese travellers increased by 5.4% in 2017, however, Japanese travellers to Taiwan grew by only 0.17% in the same period.

In 1H/2018, Taiwan's overall inbound traveller numbers grew by 3.82%. The number of Chinese tourists might hit the bottom and up 3.8% in 1H/2018 after decline for a certain period. However, the Hualien earthquake in February had a negative impact on the tourism industry, adversely affecting South Korean arrivals, which dropped by 4.1% in 1H/2018. Despite that, the total number of inbound travellers in 2018 is expected to stay at the same level as last year.

Inbound tourist consumption

While inbound arrivals have remained stable, the total annual amount in visitor expenditures has witnessed a decline for three consecutive years. Visitor expenditures dropped by 8%

YoY to USD13.3 billion in 2017. The structural change in inbound tourism resulted in the decreases in average trip length and daily expenditure. Travellers from Southeast Asia, the second largest arrivals source, come with lower budgets for shopping and accommodation, with their average daily expenditure at US\$152, 15% less than the overall average. Japanese travellers, who used to arrive with higher budgets, have turned conservative and their spending has declined by 11% YoY to US\$214 per day, largely owing to the depreciation of the Japanese yen.

In terms of expenditure categories, accommodation accounted for 38% of total travel budgets and shopping was 28%. Both categories experienced significant declines, with shopping decreasing by 13% YoY, followed by accommodation (-5% YoY). As the proportion of Chinese visitors travelling independently exceeded 50%, their shopping budgets dropped by 14%. As for the decline in accommodation spending, the rise in popularity of hostels and B&B's coupled with the structural changes of inbound tourism and the increase in young travellers made inexpensive accommodation more popular.

New supply and stock

New supply has recorded a slowdown for two consecutive years; in the past 12 months 91 hotels, totalling 8,192 rooms, opened. However, this total still ranks as the fourth-largest amount of annual new supply, which means a certain portion of hoteliers remain confident about the tourism market. Total market stock has increased by 4% to 3,429 hotels with 188,936 rooms. About 90% of new supply fell into the hotel category with 28% of that located in Taipei City (2,080 rooms), following by Taichung City (1,313 rooms), and Yilan County (1,192 rooms). Three international tourist hotels opened during the same period: Caesar Park Hotel Banqiao in New Taipei City (400 rooms), Hotel Orchard Park in Taoyuan County (187 rooms), and Crowne Plaza Tainan in Tainan County (230 rooms).

Caesar Park Hotel Banqiao, operated by local group Caesar Park Hotels and Resorts, is the first five-star hotel in New Taipei City and targets business and MICE travellers. Optimistic about the long-term outlook, Caesar Park

Hotels and Resorts is going to launch another four hotels in Taipei and New Taipei City by 2019 and expand to over 3,000 rooms in total. After investing NT\$300 million in renovations and joining the Hilton brand, Hotel Orchard Park reopened to focus on international tourists.

The fast-changing tourism market caused several hotel development projects to postpone or fall behind their launch dates. According to Taiwan Tourism Bureau, 33 tourist hotel projects totaling 11,810 rooms are in the pipeline, however, only 40% of projects are on schedule. Once a development project breaks ground, it is difficult to pull back or cancel construction. Therefore, hotel investors maintain a cautious attitude and wait for a clear sign from the market.

As for existing hotels and hotels under construction, in the face of intense competition, they remain eager to cooperate with global hotel chains in order to expand their customer base. By 2022, Marriott International and IHG will open 20 and 11 new hotels in Taiwan, respectively. New brands continue to enter the market, with IHG planning to launch Kimpton and InterContinental Hotels & Resorts, and Marriott International introducing both Fairfield by Marriott and Renaissance Hotels. Hyatt Hotels Corporation has teamed up with Riant Capital, an investment company in a mixed-use development project that will bring two of its luxury brands - Park Hyatt and ANDAZ - to Taiwan and provide another 500 rooms in Xinyi district by 2022. This will be the first time in 27 years that Hyatt has launched new hotels in Taiwan, after the opening of the Grand Hyatt Taipei in 1990. The new project is likely to challenge all contenders for the most expensive hotel room in Taipei City.

In light of approximately two million Japanese visitors to Taiwan every year, Japanese hoteliers are aggressively searching for opportunities. Mitsui Garden Hotels and Hotel Gracery will open their first hotels in Taipei in 2020 by cooperating with local developers. In a change from IHG and Marriott International, which usually sign management contracts, Mitsui Garden Hotels and Hotel Gracery have both signed 20-year leases with landlords and will operate their hotels directly. Following the launch of two outlets in

Taiwan, Mitsui Fudosan continues to explore hotel prospects in Taipei City. With its planned launch of three hotels in Taipei CBD by 2024, Mitsui Garden remains the most active Japanese investor in Taiwan so far.

Occupancy rate and vacancy rate

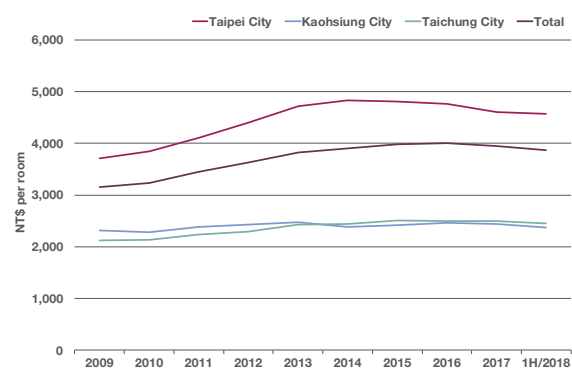
In 2017, the average occupancy rate for Taiwan's international tourist hotels decreased by 1.08 percentage point (ppts) to 66.5%, marking two consecutive years of decline, according to the Taiwan Tourism Bureau. Apart from Taipei City, two other major cities - Taichung City and Kaohsiung City - witnessed a decrease in occupancy rates, with Kaohsiung City recording the steepest decline, six ppts to 63.5%. In the first half of 2018, however, the hotel industry remained competitive and the fall in the occupancy rate remained. Across the island, the average occupancy rate is 62.5%, 2.3% lower than that recorded in 1H/2017. Five of seven international tourist hotels in Taichung City experienced declines in occupancy rates.

Average room rates for international tourist hotels performed better in 1H/2018, increasing by 2% YoY to NT\$3,866. Three major metropolitan areas all recorded slight growth, ranging between 2% to 4%. Chain hotels have a strong advantage in developing customer loyalty. Two leading five-star hotels, W Hotel and Le Meridien, maintained strong room and occupancy rates even in the difficult market, and Silks Club, a recently-launched luxury brand from the Silks Hotel Group recorded the highest room rate - NT\$7,840 - in Kaohsiung, making it 239% higher than Kaohsiung's average room rate.

Hotel market outlook

A steady influx of new hotels coming online plus ongoing pressure from home-sharing services will make the hotel market more competitive in the future, especially considering the growing proportion of free independent travelers and younger inbound travellers. The market has witnessed the closing of certain local hotels due to weak performances or share transfer deals. As new hotel projects seek to leverage the experience and scale of global hotel chains, existing local hotels will face many challenges to maintain a competitive advantage. ■

GRAPH 4
International tourist hotel room rates, 2009 – 1H/2018



Source: Taiwan Tourism Bureau, Savills Research & Consultancy

TABLE 1
Selected new hotel supply, 2018 – 2022

Hotel	Location	Room	Hotel chain	Scheduled opening
Kimpton	Taipei City	129	IHG	2018
Renaissance Taipei Shihlin Hotels	Taipei City	104	Marriott International	2018
County Hotel	Taipei City	227	Marriott International	2018
Park Hyatt	Taipei City	200	Hyatt Hotels Corporation	2020
Andaz	Taipei City	300	Hyatt Hotels Corporation	2020
Holiday Inn Express	Chiayi City	150	IHG	2020
Mitsui Garden Hotel Taipei	Taipei City	300	Mitsui Fudosan	2020
Hotel Gracery	Taipei City	248	Fujita Kanko Inc.	2020
Mitsui Garden Hotel Taipei Train Station	Taipei City	350	Mitsui Fudosan	2022

Source: Savills Research & Consultancy

TABLE 2
Selected international tourist hotels in Taipei 1H/2018

Hotel	No. of rooms	Room rate (NT\$)	Occupancy rate (%)
W Taipei	405	8,441	80.5
Le Meridien	160	8,732	81.2
The Regent Taipei	538	5,567	77.2
Far Eastern Plaza	420	6,519	61.3
The Westin Taipei	288	5,970	71.3
Taipei average		4,568	71.1

Source: Taiwan Tourism Bureau, Savills Research & Consultancy

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