

Taiwan Hospitality



Domestic tourism recovers in 2H/2020

THE PANDEMIC HITS THE TRAVEL INDUSTRY

Since COVID-19 started to spread globally, 14-day quarantine and the closure of borders and airports has had a huge impact on Taiwan's tourism industry. Annual inbound tourist numbers in 2020 dropped by 88% YoY to 1.37 million and a wide range of businesses have been hit including airlines, travel agencies, duty free shops and tourist bus companies. Even though the government has announced support schemes, the closure of companies and widespread layoffs have been unavoidable in the hotel and travel agency industries.

As the pandemic was contained in the second half of 2020, the government rolled out several stimulus plans to boost domestic tourism, including a NT\$8 billion subsidy to hotel and travel firms and 'stimulus vouchers' with a total value of NT\$51.1 billion. Tourist attractions and hotels in non-urban areas are benefitting most from the surge in domestic travel. However, the shrinkage of inbound tourist numbers as well as the frozen domestic tourism market over 1H/2020 caused Taiwan's 2020 tourism revenue to fall by 50% compared with 2019, equivalent to US\$13 billion.

HOTELS IN URBAN AREAS FACE HUGE CHALLENGES

The average occupancy nationwide stood at 30% in 1H/2020, a fall of 37 percentage points (ppts) compared with 1H/2019 and Taipei City was hit hardest with occupancy dropping by 50 ppts to 24%. The recovery of the domestic tourism market in the second half of 2020 caused average occupancy nationwide to rebound to 39% in 2020, however, hotels in Taipei City continued to suffer, posting an average rate of only 28%. Average daily room rates (ADR) have remained stable in Taiwan declining modestly by 4% YoY to NT\$3,608 in 2020 while the ADR of hotels in Taipei City stood at NT\$3,480, a fall of 21% YoY.

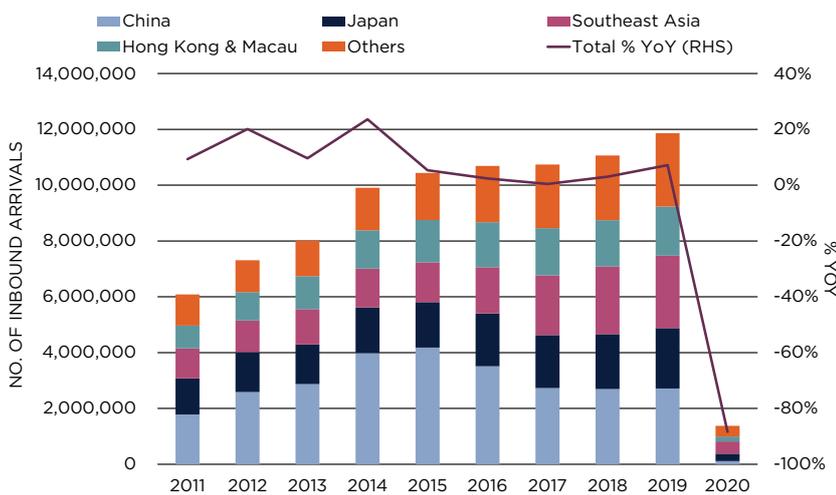
Virtually nonexistent inbound arrivals, including international business travellers, free independent travellers as well as accommodation demand from the MICE industry caused hotels in urban areas to face more severe challenges, even though a national lockdown was not implemented, and business operations continued. W Hotel and Le Meridien, 5-star hotels located in Xinyi area in Taipei City have seen a 30% occupancy rate which used to stand above 80% prior to the pandemic and a 20% decrease in ADR. F&B has become the main revenue driver contributing 70% of total revenues as accommodation revenues from the tourist segment shank by 70% to NT\$4 billion (2019: NT\$14.6 billion), according to data from the Taiwan Tourism Bureau.

Hoteliers have adopted new strategies in order to survive, including becoming quarantine hotels and providing food delivery services. Some hoteliers in Taipei City, especially en-bloc buildings in prime locations, even took this opportunity to refurbish if they are suitable for the government's incentive program which allows an extra bonus floor area ratio. On the other hand, hotels in non-urban areas close to natural attractions, such as hot springs in Yilan, Taroko in Hualien and Alishan National Scenic Area, are popular among local tourists. Their occupancy rates and ADRs even surpassed the previous year's performance.

INVESTORS HESITATE TO DEVELOP 5-STAR HOTELS IN URBAN AREAS

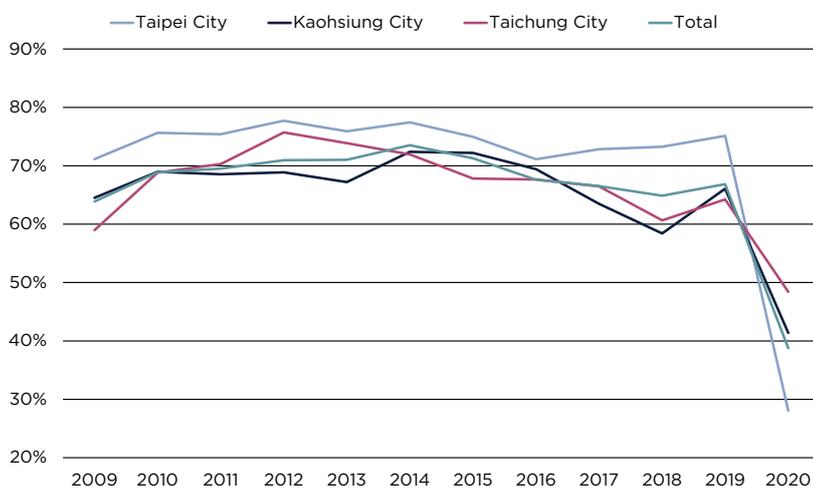
Despite the difficult situation, only a few hotels faced closure in 2020. The total number of tourist hotels and ordinary hotel

GRAPH 1: Number Of Inbound Arrivals, 2011 to 2020



Source Taiwan Tourism Bureau, Savills Research & Consultancy

GRAPH 2: International Tourist Hotel Occupancy Rates, 2009 to 2020

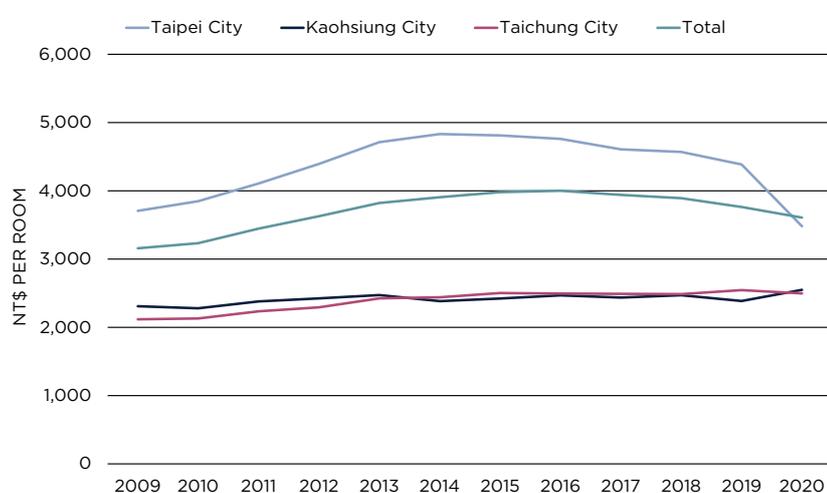


Source Taiwan Tourism Bureau, Savills Research & Consultancy

segments fell by 4 (351 rooms) and 20 (2,614 rooms), respectively, with the total stock of rooms shrinking slightly by 1.5%. Some well-known hotels announced permanent closure, including Tayih Landis Hotel Tainan (315 rooms), The Landis Taichung (202 rooms) and 85 Sky Tower Hotel (592 rooms). In addition, market uncertainty and volatility shook investor confidence which led to several hotel development projects being postponed or cancelled. Huang

People eager for more outdoor space helped hotels in suburban areas to post a performance surpassing last year, while hotels in urban areas are facing severe challenges.

GRAPH 3: International Tourist Hotel Room Rates, 2009 to 2020



Source Taiwan Tourism Bureau, Savills Research & Consultancy

Hsiang Construction applied to change the construction permit of a hotel development project in the Taipei Station area, which was to be a 5-star hotel with 300 rooms with Marriott International, to be a Grade A office building. Fubon Land Development also cancelled their D1 land lot hotel project, which is located close to Taipei 101 and was originally planned to be the first Rosewood Hotel in Taiwan with over 200 rooms.

The emerging trend of camping has also challenged the hospitality industry, as customers are looking for more outdoor spaces due to concerns over indoor transmission. There are over 2,000 camping sites in Taiwan, especially in the mountainous areas of Hsinchu, Miaoli and Nantou, however, over 90% are illegal and do not comply with land use regulations. Luxury camping is also becoming popular with room rates no less than for 5-star hotels in some cases.

TABLE 1: Selected International Tourist Hotels In Taipei, 2020

HOTEL	NO. OF ROOMS	ROOM RATE (NT\$ PER NIGHT)	OCCUPANCY RATE (%)
W Taipei	405	6,890	28.7
Le Meridien	160	6,616	29.6
The Regent Taipei	538	4,203	44.2
Far Eastern Plaza	420	5,086	23.0
Taipei Marriott Hotel	318	4,684	32.8
Taipei Average		3,480	28.1

Source Taiwan Tourism Bureau, Savills Research & Consultancy

HOTEL TRANSACTION VOLUMES REACH RECORD HIGH

In 2020, total hotel transaction volumes hit NT\$32.2 billion, a new high in recent years. One notable deal was Fubon Life's acquisition of Sunworld Dynasty Hotel (730 rooms) for NT\$26.8 billion, the largest hotel transaction ever in the Taiwan property market and equivalent to NT\$36.7 million per room. It is reported that Fubon Life will look to land consolidation with an adjoining shopping mall in the future. In terms of buyers during the period from 2017 to 2020, insurance companies were significant, accounting for 40%, followed by hoteliers and local professional investment institutions, which accounted for

14% and 11% respectively. Meanwhile, developers are looking for motels in the city area in order to obtain development land.

At present, several hotels are listed for sale, and en-bloc hotel buildings or motels are more popular than strata-title hotels. For potential hotel investors there are still areas of concern including the falling number of Mainland Chinese tourists due to escalating tensions between Taiwan and China, the change of the inbound tourist structure which has seen the share of FIT travellers growing, and the outbreak of COVID-19, which have challenged the operational ability and stability of tenants. Investors in the hotel sector are expected to focus more on redevelopment potential in the longer term, not just short term rental income.

OUTLOOK

The tourism market is finding it difficult to shake off the influence of COVID-19 and over the next year cannot rely solely on domestic tourism to offset the loss of inbound tourists. The recovery will depend on the resumption of cross-border travel and business after an increase in the vaccination rate brings the world back to normal. In the short term, the hotel industry will continue to face challenges. However, the recent boom in the residential market could mean that the prices of hotels in good locations will rise as opportunities for redevelopment grow.

TABLE 2: Selected Hotel Transactions, 2020

HOTEL	LOCATION	SALES PRICE (NT\$ MIL)	PRICE PER ROOM (NT\$ MIL)	BUYER
Sunworld Dynasty Hotel	Taipei City	26,800	36.7	Fubon Life
Kingdom Hotel	Kaohsiung	1,500	5.0	Highwealth Construction
Royal Seasons Hotel Taipei	Taipei City	1,100	10.0	Local investment institution
La Villa Motel	Tainan City	876	33.7	San Far Property

Source Savills Research & Consultancy



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