

# Taipei Hospitality



# Inbound tourist numbers are expected to recover to 50% of pre-pandemic levels in 2023

## THE BORDER WAS REOPENED IN Q4/2022

Since the Taiwanese government lifted COVID-19 restrictions in mid-October last year, the tourism market has gradually reopened. As of Q1/2023, the number of visitors to Taiwan reached approximately 1.1 million, approximately 40% of total tourist numbers during the first quarter of 2019. However, inbound tourists from Japan and China witnessed a sluggish recovery due to the depreciation of the Japanese yen and political factors as the cross-straits tourism market remains closed. According to Taiwan Tourism Bureau's forecast,

the inbound tourist target for 2023 is six million, which is approximately half of the number seen before the pandemic. However, the declining number of flights, which were at only 40% of pre-pandemic levels this April and rising oil prices coupled with labor shortages have pushed up flight prices and pose significant challenges to the recovery in international tourism. In order to support the tourism industry, the Taiwan government rolled out a NT\$5.3 billion program to attract inbound travellers recently. However, it will still take time for international tourist arrivals to fully recover to pre-pandemic levels.

## HOTEL TRANSACTIONS INCREASED DURING THE PANDEMIC

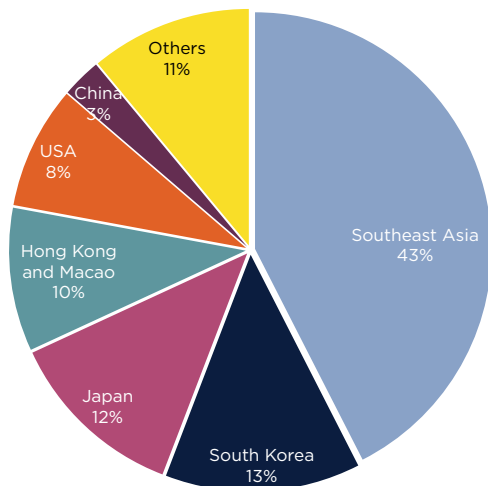
The pandemic has posed significant challenges to the tourism industry. According to data released by Taiwan Tourism Bureau, the average occupancy rate of Taiwan's tourist hotels in 2020 and 2021 was 40% and 34%, respectively, representing a nearly 50% decline compared to 2019. Despite the successful containment of COVID-19 and several government initiatives to stimulate domestic tourism, hotels in metropolitan areas have faced serious challenges due to the absence of international tourists and business travelers. Many hotels were forced to close or become quarantine hotels as a result.

Meanwhile, the domestic residential market has experienced rapid growth driven by low-interest rates, resulting in significant increases in housing and land prices. This has attracted many developers to shift their focus toward purchasing hotels and redeveloping them into residential projects. Additionally, some medium and large-scale hotel operators have disposed of hotels as income properties to local insurance companies or professional investment institutions, driving momentum in hotel transactions during the pandemic period.

According to data from Savills, the hotel transaction volume in 2020 and 2021 reached the highest level in recent years, with 13 and 15 hotels sold, equaling NT\$36 billion and NT\$25.9 billion in total, respectively. In 2022, the volume declined significantly as interest rate hikes impacted the overall property market. The previous wave of hotel transactions has also led to a scarcity of available hotel properties for sale. Notable hotel transactions including the Ambassador Hotel Group, which focused on asset revitalization during the pandemic, involved selling the Ambassador Hotel in Hsinchu to Global Life Insurance for NT\$4.93 billion through a 20-year sale-and-leaseback agreement, with a yield of approximately 3.3%. Furthermore, both the Ambassador Hotel in Taipei and the Ambassador Hotel in Kaohsiung have closed permanently and will be redeveloped into mixed-use projects combining hotels and residential components.

In 2021, Shin Kong Life Insurance purchased a mixed-use commercial real estate development project in Hsinchu, which includes the Indigo Hotel with 140 guest rooms, and the hotel value was estimated to be NT\$1.98 billion. The unit price for each room was approximately NT\$14 million providing a yield of over 3.5%. In addition, motel transactions were active in Taichung and Kaohsiung cities. Construction

GRAPH 1: Inbound Tourist Arrivals by Country, Q1/2023



Source: Taiwan Tourism Bureau, Savills Research & Consultancy

TABLE 1: Selected Hotel Transactions, 2021 to 2022

DATE	HOTEL	CITY	SALE PRICE (NT\$ BIL)	PRICE PER ROOM (NT\$ MIL)	BUYER
Jan 21	Hotel Indigo Hsinchu Science Park	Hsinchu City	1.98	14.1	Shin Kong Life Insurance
Apr 21	Hua Pinju Motel	Taichung City	3.19	102.9	Chyi Yuh Construction
Apr 21	Moonshy Boutique Motel Taichung	Taichung City	2.88	60.0	Lien Jade Real Estate
Jul 21	Portman Motel	Taichung City	3.88	86.2	Farglory Land Development
Jul 21	Fushin Hotel No.2	New Taipei City	1.85	8.6	Tonglit Logistics
Nov 21	Fushin Hotel Taichung	Taichung City	0.63	5.7	Chunghwa Post
Jan 22	Chateau de Chine Hotel	Taoyuan City	1.18	6.9	Sharehope Medicine
Mar 22	Ambassador Hotels	Hsinchu City	4.93	19.2	TransGlobe Life Insurance
Jul 22	Airline Inn Kaohsiung Station	Kaohsiung	0.56	4.2	Taichung Bank Leasing

Source: Savills Research & Consultancy

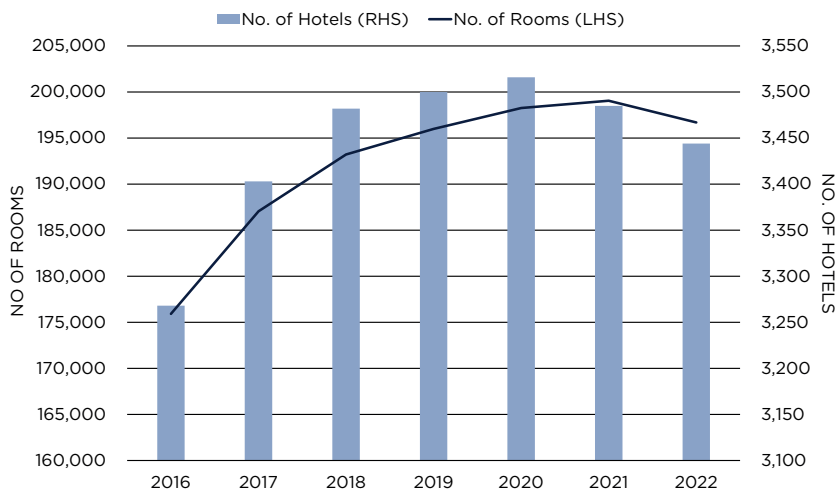
companies, such as Farglory Construction, Highwealth Construction, and Lien Jade Real Estate have acquired motels to expand their land banks. Since 2022, the headwinds in the residential market caused developers turn conservative in land acquisitions which also led to a decline in motel deals.

## The absence of inbound tourists and business travellers means that hotels in Taipei have witnessed a significant drop in ADRs and occupancy rates.

### DEVELOPERS HAVE ENTERED THE HOSPITALITY INDUSTRY

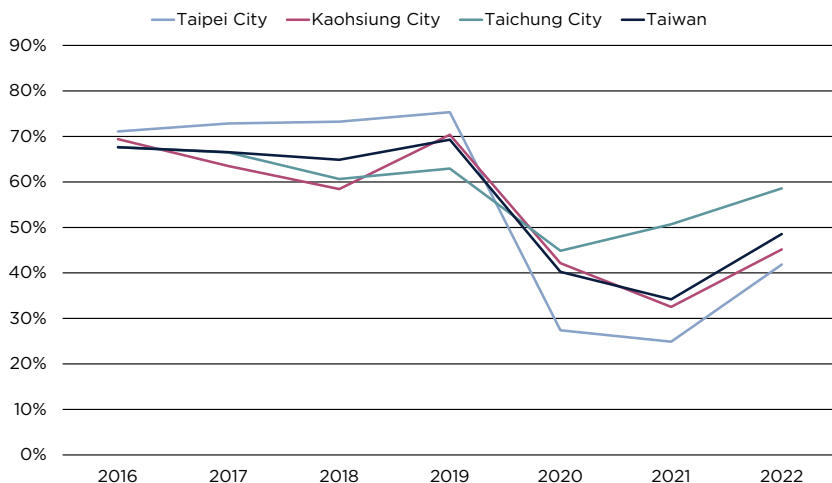
In the past few years, the hotel industry has faced significant challenges. According to Taiwan Tourism Bureau, Taiwan had a total of 3,444 hotels at the end of 2022, falling by 72 compared to 2020, posting a reduction of

**GRAPH 2: Number of Hotels and Hotel Rooms, 2016 to 2022**



Source Taiwan Tourism Bureau, Savills Research & Consultancy

**GRAPH 3: International Tourist Hotel Occupancy Rates, 2016 to 2022**



Source Taiwan Tourism Bureau, Savills Research & Consultancy

1,563 rooms. Particularly, the international tourist hotel category suffered the most and several 4-star or above hotels closed, including Taipei's Grand Hotel Taipei (422 rooms), Ambassador Hotel Taipei (322 rooms), Taipei Prince Hotel (202 rooms), and Ambassador Hotel Kaohsiung (269 rooms).

Several developers and domestic hotel operators remain confident in the post-pandemic tourism market. They are actively engaging in the hotel market and joining international chain brands. According to Savills' data, there are 28 new hotels expected across Taiwan in the next three years, adding a total of 5,600 rooms to the market, with half joining international chain brands.

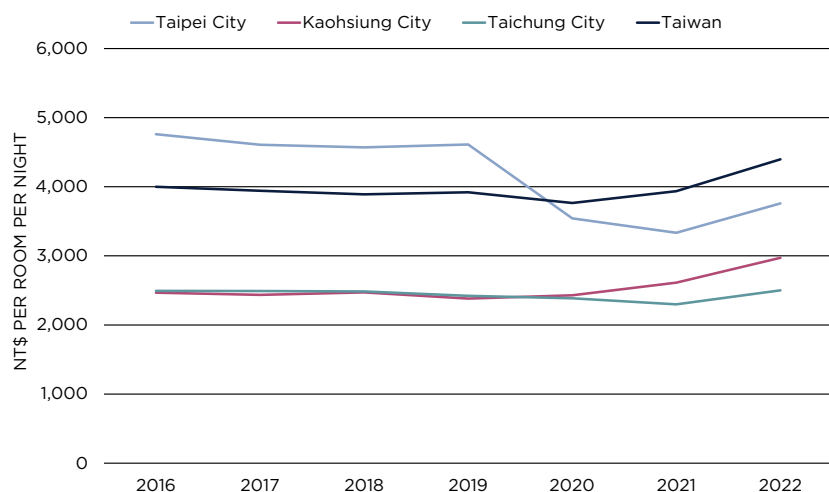
The hotel market in Taipei City is highly competitive. Between 2023 and 2025, it is expected that 10 hotels with a total of 2,512 rooms will be completed. International chain brands, including Hyatt, IHG, Four Seasons, Golden Tulip Hotels Group, and Japan's Seibu Group, are all planning to launch new hotels in Taipei. Taichung is also a key area of focus, with four new hotels set to be completed during the same period. Andaz Hotel and JW Marriott Hotel will be located in the 7th Redevelopment Zone, the most vibrant zone in Taichung City.

This wave of hotel expansions is primarily driven by the construction industry. Construction companies aim to enhance the quality and value of their residential projects by offering hotel services. Additionally, large developers seek to diversify their businesses by entering the hospitality industry. Once the business is on the right track, these hotels can be further monetized through REITs or disposed of as income properties.

### HOTELS NEAR TOURIST ATTRACTIONS SHOWS RESILIENCE

The occupancy rate of tourist hotels in Taiwan has been recovering since 2022, recording an average rate of 48.6%, representing a 14 percentage point (ppts) increase compared to the previous year.

**GRAPH 4: International Tourist Hotel Room Rates, 2016 to 2022**



Source Taiwan Tourism Bureau, Savills Research & Consultancy

**TABLE 2: Selected International Tourist Hotels in Taipei, 2022**

HOTEL	NO. OF ROOMS	ROOM RATE (NT\$)	OCCUPANCY RATE (%)
W Taipei	405	7,415	43.4%
Le Meridien	160	6,226	58.8%
The Regent Taipei	538	3,930	60.7%
Far Eastern Plaza	420	4,922	35.5%
Taipei Marriott Hotel	318	4,289	57.8%
Taipei average		3,759	41.9%

Source Taiwan Tourism Bureau, Savills Research & Consultancy

However, within metropolitan areas, Taipei experienced the largest decline in occupancy due to social distancing and the absence of international business travelers. The average daily rate (ADR) in Taipei dropped to NT\$3,759 in 2022, reflecting a 19% reduction compared to 2019. In contrast, Taichung and Kaohsiung benefited from the recovery of domestic tourism, abundant natural attractions, and a relatively lower hotel supply, resulting in a smaller decline in the occupancy rate.

During the pandemic, higher standards of cleanliness in hotels, coupled with labor shortages have led to a structural change in operation costs, which also counteract ADR decline pressure in Kaohsiung and Taichung, which have lower ADR levels. Popular tourist destinations, such as Alishan, Taroko, and Sun Moon Lake have witnessed a shortage of accommodation and occupancy rates have remained at pre-pandemic levels, with ADRs experiencing significant growth of over 10%. As a result, the average ADR in Taiwan reached NT\$4,396 in 2022, marking a 12% increase compared to 2019 and outperforming the three major metropolitan areas.

#### OUTLOOK

The return of international tourists has been slow, and it is expected to take more than two years to recover to pre-pandemic levels. Additionally, the escalating cross-strait tensions and China's slowing economic growth have made it difficult to predict the pace of Chinese tourists' return. The reduction in group tours and the increase in labor costs will place more pressure on hotel operators, especially budget hotels. Simultaneously, the demand for luxury hotels which offer unique experiences and heightened privacy has been boosted by local tourists and this is expected to drive a new wave of development in the high-end hotel market.



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