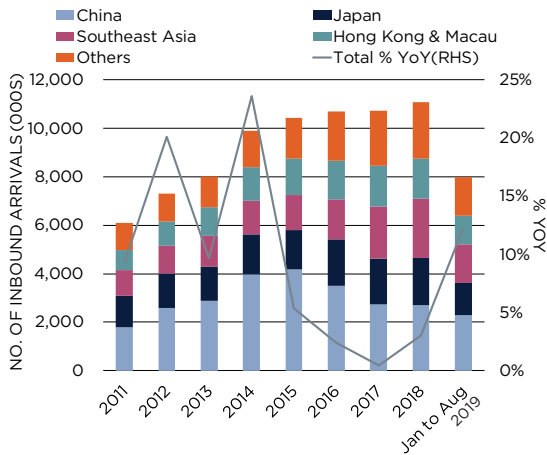


# Taipei Hospitality



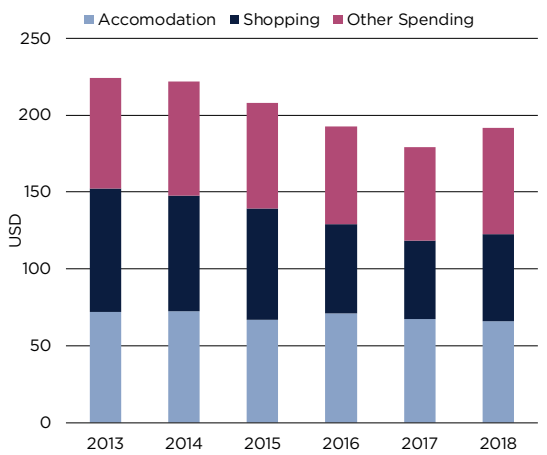
# Hoteliers suffer from stagnant inbound tourism

**GRAPH 1: Number of Inbound Arrivals, 2011 to August 2019**



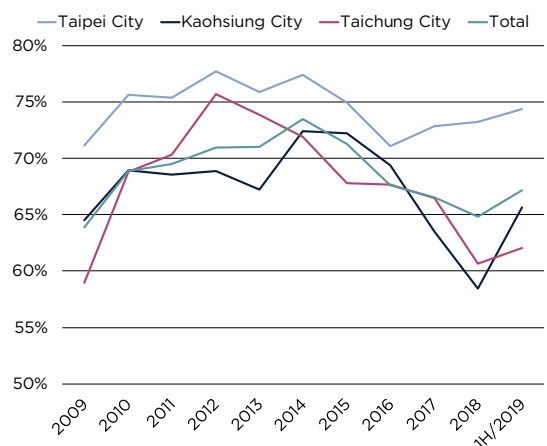
Source: Taiwan Tourism Bureau, Savills Research & Consultancy

**GRAPH 2: Inbound Tourist's Daily Consumption by Expenditure Type, 2013 to 2018**



Source: Taiwan Tourism Bureau, Savills Research & Consultancy

**GRAPH 3: International Tourist Hotel Occupancy Rates, 2009 to 1H/2019**



Source: Taiwan Tourism Bureau, Savills Research & Consultancy

## TOURISM IN TAIWAN

The tourism market in Taiwan is very subject to the cross-straits issue. In 2018, the total number of overseas travellers increased by 3% year-on-year (YoY) to 11 million. Surprisingly, the number recorded a double-digit growth (12% YoY) in the first eight months of 2019, owing to a 27% increase in mainland visitors, the highest growth since TPP took office. Visitors from Japan and Hong Kong both recorded rises of over 5%.

However, the recovery swing was not sustained. Due to the approaching presidential elections, the impact of geopolitical issues on the tourism market has been amplified. This August, the China government announced a ban on independent Chinese visitors to Taiwan and lowered the permit quota for group travellers. The result was that China tourist numbers declined by 47% YoY in September. The impact was greater because independent travellers have more purchasing power compared with group travellers. We expect the total number of overseas travellers might fall further by 5% in 2020, if China keeps this policy unchanged.

In order to stimulate the market, other than targeting Southeast Asian travellers, the Taiwan government allocated over NT\$5 billion to promote domestic tourism which is estimated to bring in over NT\$38 billion of business overall. As a result, hotels have witnessed a significant growth in occupancy rate (OCC). However, we believe that the effect is temporary and difficult to sustain.

## NEW SUPPLY AND STOCK

New hotel supply was muted as the tourism market remains fragile and hotel operators are wary of expansion. The total supply of hotels and rooms in 1H/2019 stood at 3,517 and 195,598, respectively. Hotel room stock increased modestly by 3% (around 6,662 rooms), 70% of which are concentrated in major cities such as Taipei, New Taipei and Taichung City.

In Taipei, 38 hotels have been launched in the past twelve months only five of which had over 100 rooms, including Courtyard by Marriott Taipei Downtown (227 rooms), Kimpton (129 rooms), DoubleTree by Hilton Taipei Zhongshan (106 rooms) and The Place Taipei (179 rooms). The remainder are focusing on the budget hotel and hostel sectors and are mostly located in the Taipei train station area.

In contrast to the conservative attitudes of hoteliers, local developers, adopting diversification strategies to ease the impact of the housing market downturn, are becoming more active in the hotel sector. Cathay Real Estate, Lih Pao and Shining Building Business entered this industry earlier, following by Yeashin, Highwealth Construction and Fabulous Construction. They prefer to build new hotels rather than to rent exist buildings. In addition to cooperating with global hotel chains, several developers have decided to develop their own brand hotels.

Besides local developers, Japanese hoteliers have been the most aggressive overseas investors over the past two years. Their strategy is to target Japanese tourists and business travellers. According to the Taiwan Tourism Bureau, approximately two million Japanese visitors visit Taiwan every year and numbers are growing, which made Taiwan the second popular foreign country for Japanese travelers in 2019. In addition, Japan has a very close business relationship with Taiwan which means stable demand from business trips. Strong brand loyalty and higher accommodation budgets give Japanese hoteliers a big competitive advantage.

Mitsui Garden Hotels, Hotel Gracery, Solaria Nishitetsu Hotel and Hotel Metropolitan have all decided to launch new hotels in Taipei. Solaria Nishitetsu Hotel is going to roll out their first hotel in Taiwan by cooperating with Cathay No.1 REIT. Solaria Nishitetsu Hotel Taipei, with 300 rooms, will become the only high-end hotel in Ximending, the most popular tourist attraction in Taipei. Hotel Metropolitan, belonging to JR-East Hotel group announced the opening of a new hotel with 288 rooms by 2021 on the site of the former Westin Taipei. The building has been vacant for 10 months after Westin Taipei closed this January. Hotel Metropolitan will spend NT\$600 million to remodel the 20-year-old property and expect to achieve an average room rate of NT\$5,500 per night (US\$183). The strategy of remodeling existing buildings led Hotel Metropolitan to open earlier than its competitors who prefer to embark on new development projects.

## OCCUPANCY RATE AND ROOM RATE

The growth momentum of OCC and average daily room rate (ADR) is weak as inbound arrival numbers were marked by slow growth. The average OCC for overall tourist hotels decreased by 1.67 percentage points (ppts) YoY to 64.9% in 2018. The

declining trend has continued for four years and OCC is now nine ppts below the previous peak in 2014. Relatively stable accommodation demand in Taipei City led the figure to grow marginally in 2018, while Taichung and Kaohsiung witnessed a 5 ppts drop.

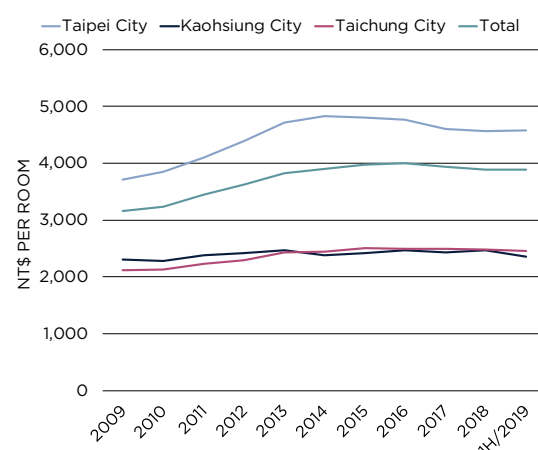
In the first half of 2019, the government’s measures to promote domestic tourism provided a good result with OCC in tourist and general hotels increasing by 4.7 ppts and 5.5 ppts, respectively. However, the measure has had a limited effect on ADR. Tourist hotels have remained at a relatively low level, recording NT\$3,891 in 2018 and NT\$3,886 in 1H/2019. High-end hotels have showed a strong operational performance, such as W hotel and Le Meridien which have maintained daily room rates of over NT\$8,000.

### HOTEL MARKET OUTLOOK

Taiwan’s hotel market is very sensitive to geopolitical risk. The current cross-straits relations between Taiwan and China have created a critical environment for operations, especially for non-chain hotels in non-urban areas.

The market correction has started to attract local investors to look at hotels, which are undervalued and several deals in major tourist areas have been concluded. Low reliance on Chinese group tourists and the redevelop potential of en-bloc sales were emphasized by buyers. These factors may mean that hotel transactions become more active in the near term.

**GRAPH 4: International Tourist Hotel Room Rates, 2009 to 1H/2019**



Source Taiwan Tourism Bureau, Savills Research & Consultancy

“An abundant number of Japanese travellers as well as strong brand loyalty provide Japanese hoteliers with an opportunity to expand their footprint in Taiwan.”

**TABLE 1: Selected international tourist hotels in Taipei, 1H/2019**

HOTEL	NO. OF ROOMS	ROOM RATE (NT\$)	OCCUPANCY RATE (%)
W Taipei	405	8,737	82.0
Le Meridien	160	9,158	81.2
The Regent Taipei	538	5,560	80.2
Far Eastern Plaza	420	6,125	71.9
Taipei Marriott Hotel	318	6,022	81.4
Taipei Average		4,584	74.4

Source Taiwan Tourism Bureau, Savills Research & Consultancy

**TABLE 2: Selected hotel transactions, 2019**

HOTEL	LOCATION	APPROXIMATE SALE PRICE (NT\$ MIL)	APPROXIMATE PRICE PER ROOM (NT\$ MIL)	BUYER
CitizenM Taipei North Gate	Taipei City	5,000	18.7	Local investment institute
Union House Lukang	Changhua County	424	6.8	MILLERFUL NO.1 REIT
Wonstar Hotel Zhonghua	Taipei City	850	13.5	Local investment institute

Source Savills Research & Consultancy



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