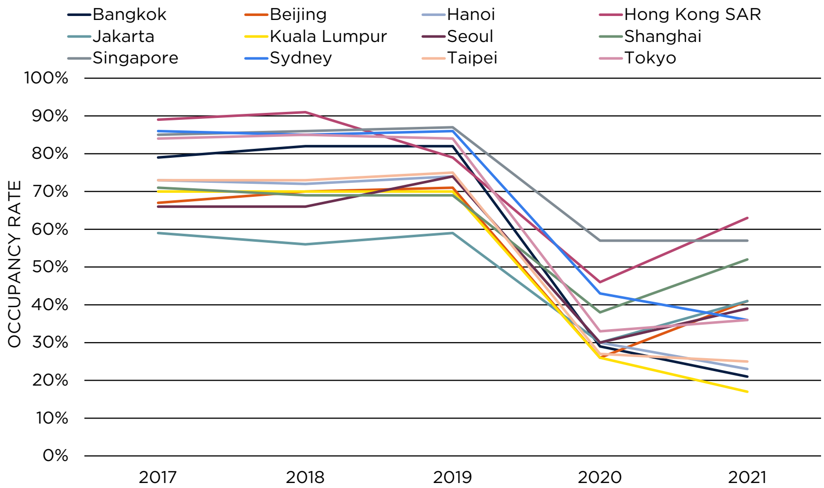
Asia Pacific - June 2022

SPOTLIGHT
Savills Research

Asia Pacific Hospitality

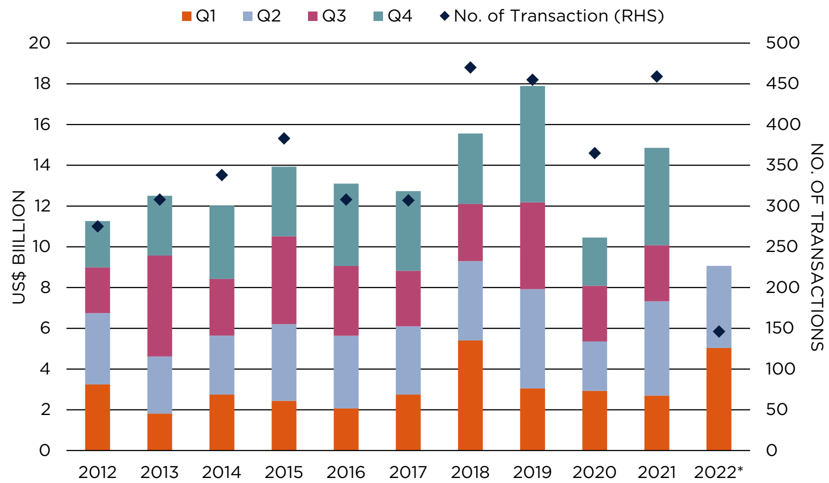
Growing interest in hospitality assets as the region waits for the return of international tourists

GRAPH 1: Hotel Occupancy Rate by Market, 2017 tp 2021



Source Market sources, Savills Research & Consultancy, STR

GRAPH 2: Asia Pacific Hotel Transactions, 2012 to 2022 YTD



Source Real Capital Analytics
Note 2022* Q2 only includes April to May Figure

MARKET CONDITIONS CONTINUE TO IMPROVE AS COVID CURBS EASE

The hospitality industry has been among the hardest hit sectors over the past two years as global mobility has all but ground to a halt. Sporadic lockdowns combined with extensive travel restrictions have forced many hotels to close temporarily or operate at a fraction of their pre-pandemic levels. As a result, Asia Pacific hotel occupancy hit a record low in 2020, ranging from 25% to 40% across most major regional destinations. Fortunately, amid rising vaccination levels and lower mortality rates, many countries have begun to cautiously reopen borders since the second half of 2021, and we have seen a pick-up in market sentiment and investment activity as a result.

Asia Pacific hotel investment volumes reached US$14.9 billion over 459 deals in 2021, surpassing the pre-pandemic five-year average of US$14.6 billion. The market saw an uptick in both investment volumes and the number of transactions in 2021, up 42.1% YoY and 25.8% YoY respectively. While the market has yet to see a flood of distressed deals, we have noticed a growing number of corporates shedding non-core assets for capital. Two Japanese groups, Kintetsu Group and Seibu Group, have reportedly offloaded their hotel portfolios to foreign funds for US$500 million and US$1.2 billion respectively over the past year.

Investor appetite remained robust over the first five months of 2022, and the gap between sellers and buyers appears to have narrowed. Investment volume climbed to US$5.0 billion in the Q1/2022, up 5.3% QoQ and 86.9% YoY, supporting our view that green shoots are finally appearing. We also expect more debt-burdened Chinese corporates to begin to offload assets and we have already seen defaulting real estate developer Shimao

TABLE 1: Notable Hotel Transactions, Q4/2021 to Q1/2022

YEAR/ QUARTER	PROPERTY	MARKET	LOCATION	PRICE	SELLER	BUYER	USAGE	REMARK
Q1/2022	Millennium Seoul Hilton	South Korea	Seoul	US$912.8M	CDL	IGIS	Hotel	To be redeveloped into a office-cum-hotel complex
Q1/2022	Hyatt on the Bund	China	Shanghai	US$707.3M	Shimao Group	Shanghai Land Group	Hotel	
Q1/2022	Seibu Hotel Portfolio	Japan	Various	US$1.2B	Seibu Holdings	GIC	Hotel/ Entertainment	Includes 15 Prince hotels and 16 leisure properties
Q1/2022	Hotel Crown Itaewon	South Korea	Seoul	US$214.5M	Crown Hotel Co	JV of Hyundai E&C, Hana Alternative AM, RBDK, Kitrust	Hotel	To be demolished
Q1/2022	Sofitel Wentworth Sydney	Australia	Sydney	US$228.7M	Frasers Hospitality Trust	JV of KKR, Futuro Capital, Marprop Development	Hotel	
Q4/2021	Hotel Sav	Hong Kong	Hung Hom	US$210.6M	Chuangs Consortium	JV of AEW, Crystal Investment Ltd	Hotel	To be converted into co-living space
Q4/2021	Kintetsu Hotel Portfolio	Japan	Various	US$506.8M	Kintetsu Group	Blackstone	Hotel	Includes 8 hotels

Source Market sources, Real Capital Analytics, Savills Research & Consultancy

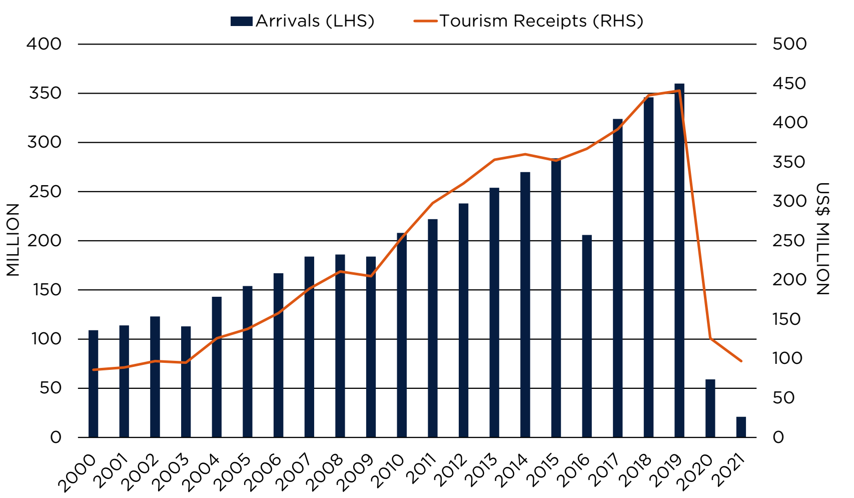
Group disposing of the Hyatt on the Bund in Shanghai to Shanghai Land Group for US$707.5 million in January this year.

MORE DOORS OPEN FOR RECOVERY, THOUGH CHINESE TOURISTS REMAIN ABSENT

While it is true that investment confidence is returning alongside pent-up travel demand, compared with the rest of the world, Asia Pacific is likely to see a slower recovery in 2022, with major destinations such as Hong Kong, Japan, Taiwan and mainland China continuing to impose tight border policies. The good news is that more countries are loosening controls and Australia, Indonesia, Malaysia, Singapore, and the Philippines have all selectively opened their borders to vaccinated travellers. South Korea and Thailand have granted quarantine-free entry to all tourists regardless of their vaccination status with Viet Nam the only major destination in the region to have lifted all COVID-related restrictions.

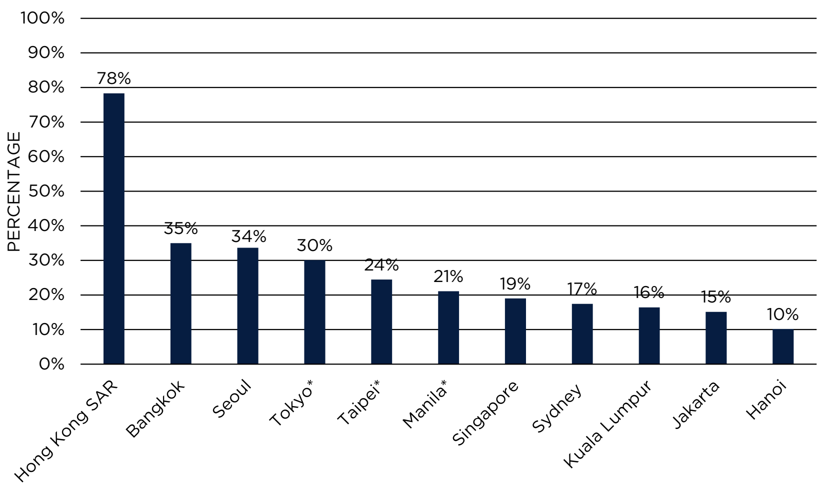
Despite the short-term uncertainties, the fundamentals driving demand for tourism and hospitality in Asia-Pacific are set to see a resurgence.

GRAPH 3: Asia Pacific International Tourism Performance, 2000 to 2021



Source World Tourism Organization

GRAPH 4: Share of Mainland Chinese Tourists by Market, 2019

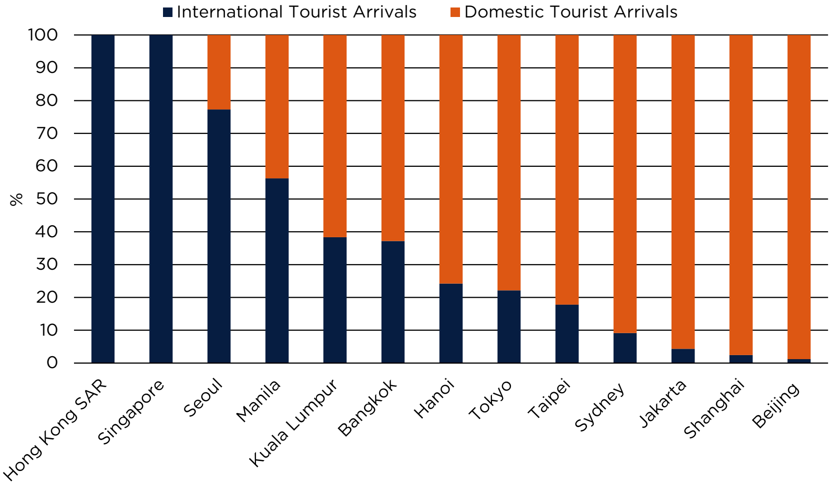


Source Market sources, Savills Research & Consultancy
Note *Estimated using the share of mainland Chinese arrivals out of total international arrivals for the country.

The tourism market was booming in Asia Pacific prior to the pandemic, with international arrivals growing from 186 million in 2008 to 346 million in 2018, reflecting a robust 6.5% CAGR. The market was dominated by intra-regional tourists who accounted for 79% of the total tourist flow in the region in 2018. Out of the 13 major destinations we track, ten relied on mainland Chinese as the top source of visitors and three as the second-largest source. However, a key difference we expect going forward will be a shift in source markets, with two groups, Russians and mainland Chinese, conspicuous by their absence. While Asia Pacific's air routes remain open to Russian airlines after the outbreak of the Russia-Ukraine conflict, many may not be willing to travel given the complicated political environment and the suspension of major credit payment services such as Visa, Mastercard and American Express. On top of this, the closure of Russian and Ukrainian airspace, as well as the sanctions on Russia's energy supplies, is pushing up the cost of air travel between Europe and Asia in terms of both flight times and fuel costs. For example, the flight time between Helsinki and Tokyo has increased by up to four hours. According to EIU estimates, flying longer routes to avoid airspace bans will add €8,000 to €15,000 (US$8,600 to US$16,000) to airline costs per hour, translating to about €100 (US$107) per seat at full capacity.

Meanwhile, China's 'zero-COVID' policy is likely to prolong PRC visitors' absence from global tourist markets, especially as it struggles to contain the current outbreak at home. The China Outbound Tourism Research Institute has forecast that outbound tourism may resume in 2023

GRAPH 5: International and Domestic Share of Tourist Arrivals, 2019



Source Euromonitor, Government statistics, Savills Research & Consultancy

and return to 2019 levels by 2024. This slow comeback will dampen the recovery among its popular outbound destinations. Looking across the region, Hong Kong undoubtedly relied most on mainland Chinese arrivals which accounted for 78% of the city's inbound travellers in 2019. Major destinations in the region such as Bangkok, Seoul and Tokyo all recorded a mainland Chinese visitor share of total international arrivals of 30% to 35%. Japan, the second-largest source market after mainland China, maintains a relatively tighter grip on its border by dividing travellers into groups based on their incoming countries/regions, with some subjected to additional vaccine and quarantine requirements. Luckily, strong domestic demand is helping to make up for some of the shortfalls in international

TABLE 2: Travel Conditions for International Tourists by Country, as of 8 June 2022

MARKET	DAILY NUMBER OF AIRPORT FLIGHT DEPARTURES	COVID-19 TESTING REQUIREMENT	VACCINATION REQUIREMENT	QUARANTINE RULES	REMARKS
Australia	147	Partial; some state require a rapid antigen or PCR test upon arrival	Fully vaccinated at least 7 days before departure	No quarantine	Reopened on 21 Feb 2022
China	139	Yes	No requirement	Varies by the city, typically 14 days in facility quarantine followed by 7 days of home quarantine	
Hong Kong	27	Yes	Fully vaccinated at least 14 days before departure unless travellers have only stayed in Mainland China, Macao or Taiwan	7 days for fully vaccinated travellers who opt for early discharge/ 14 days for the rest	
India	403	Yes, except for those who are fully vaccinated	No requirement	0 -21 days depending on states; most states require 14 days	
Indonesia	91	No, except for those who are not fully vaccinated	Fully vaccinated at least 14 days before departure or get vaccinated at entry points or quarantine facilities upon arrival	No quarantine / 5 days for those who are not fully vaccinated	Reopened on 12 Jan 2022
Japan	179	Depending on the grouping of the traveller's arriving region and vaccination status	No requirement	No quarantine / 3 days facility quarantine / 3 or 7 days home quarantine depending on the grouping of the traveller's arriving region and vaccination status	Allow small package tours coming from 98 countries starting from 10 Jun 2022
Malysia	126	Yes, except for those fully vaccinated	No requirement	5 days / no quarantine for those who are fully vaccinated	Reopened on 1 Apr 2022
New Zealand	42	Yes	Fully vaccinated	No quarantine	Will reopen on 31 Jul 2022
Philippines	86	Yes	Fully vaccinated at least 15 days before departure	No quarantine	Reopened on 10 Feb 2022
Singapore	263	No	Any travellers aged 13 and above must be fully vaccinated at least two weeks before arrival	No quarantine	Reopened on 1 Apr 2022
Sout Korea	163	Yes	No requirement	No quarantine	Reopened on 1 Apr 2022
Taiwan	91	Yes	No requirement	7 days	Will relax border restrictions in Jun 2022
Thailand	177	No, except for those who are not fully vaccinated	No requirement	No quarantine	Began to reopen in phases from Feb 2022; Non-Thai nationals are required to register on 'Thailand Pass' and have insurance to cover COVID-19 expenses (minimum coverage of USD10,000)
Viet Nam	98	No	No requirement	No quarantine	All entry regulations lifted on 15 May 2022

Source Government sources, Savills Research & Consultancy flows, especially in less inbound-dependent locales, as the softening Japanese yen is likely to boost domestic demand from those who find overseas trips too pricey. While Japan has been slow to reopen, it will begin to accept small tours of tourists from 98 countries beginning from early June, indicating a shift to more relaxed regimes and stronger government support to revive the tourism and hospitality industry.

As such, destinations with a high vaccination rollout, relatively relaxed entry regulations, and a diverse feeder base will likely see a speedier recovery in the short term. We therefore expect early movers such as Australia, Indonesia, Malaysia, Singapore, South Korea, Thailand, the Philippines, and Viet Nam to see a stronger rebound in 2022.

A MULTI-SPEED RECOVERY AHEAD

Looking ahead, while leisure tourism will recover some ground, business travel is likely to remain subdued in the short term. Not only has the pandemic sped up the process of working from home, it has also reduced non-essential trips to a bare minimum. Apart from the obvious health risks, many businesses are cutting down on travel to cut costs, reduce carbon footprints and meet ESG targets. Another driver for business travel is often major events and conventions, but the MICE industry continues to struggle as mass public gatherings still face stringent regulations across most of the region. As a result, business hotels in city centres may experience a prolonged recovery phase.

Nonetheless, investors are still keen on this type of property, and we have noted acquisitions aimed at redevelopment and conversion rather than ongoing operation. There is a growing trend to convert hotels into co-living or residential rental properties in key gateway cities such as Hong Kong, Singapore, and Seoul, where urban residential supply is limited. Hong Kong-based co-living operator, Weave Living, has bought three hotels in the region for conversion since March, with two located in Hong Kong and one in Singapore. It has purchased a 435-unit hotel for US$175.4 million and another 214-unit establishment for US$115 million in Hong Kong reportedly through partnering with global funds PGIM Real Estate and Angelo Gordon. It has also secured its first regional project in Singapore through a joint venture with listed builder SLB Development with its acquisition of Hotel Clover 33 Jalan Sultan (US$56 million) and is looking to enter the rental accommodation markets in Australia and Japan. Others like AEW and Hines are also deploying similar value-add strategies in the region.

Any recovery is of course subject to the uncertainty of local caseload developments, as the pandemic continues to exert profound pressures on the industry. but even post-COVID, there will be a lasting impact on operations. Guests now harbour more safety concerns and are now expecting a higher standard of hygiene and better management. This also creates a specific challenge for operators, especially when faced with a manpower shortage - many staff have left the industry, so operators may struggle to find and retain suitable employees just as demand revives. This hurdle may translate into additional costs and tighter margins for some operators. On the other hand, as markets recover, governments have scaled back fiscal support measures and bank patience is wearing thin after two-years of leniency, which may prompt more owners to make their properties available for sale.

SHORT-TERM TURBULENCE, BUT THE INDUSTRY WILL REDISCOVER OLD DRIVERS OF GROWTH

While there are significant disparities across markets, the common thread remains an overall upward trajectory. Granted the near term outlook is still clouded by downside risks including the future course of the pandemic, uncertainty surrounding border policies and lockdowns in China, the increasing cost of air travel and flight times, and rising inflation in most source markets. However, these deterrents have only acted to obscure positive longer term structural factors which should begin to reassert themselves including a growing middle-class population with rising disposable incomes, more leisure time and increasing demand for more experience-driven tourism to the benefit of hotel stays. As such, investors are still eager to bet on the prospects of Asia Pacific tourism and its hospitality industry. We believe that the hotel investment spotlight will remain on Japan, South Korea, and Australia in 2022. Developing markets with strong growth potential such as Viet Nam can also be expected to attract attention from regional investors, especially Hanoi and Ho Chi Minh City, though opportunities are capped by a limited availability of quality projects . More broadly, investment activity is expected to pick up across the region this year as we step into a new age of post-pandemic travel.

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