Asia Pacific – July 2020

MARKET IN MINUTES
Savills Research

Hotel Sales & Investment

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Hotel investment activity remains weak

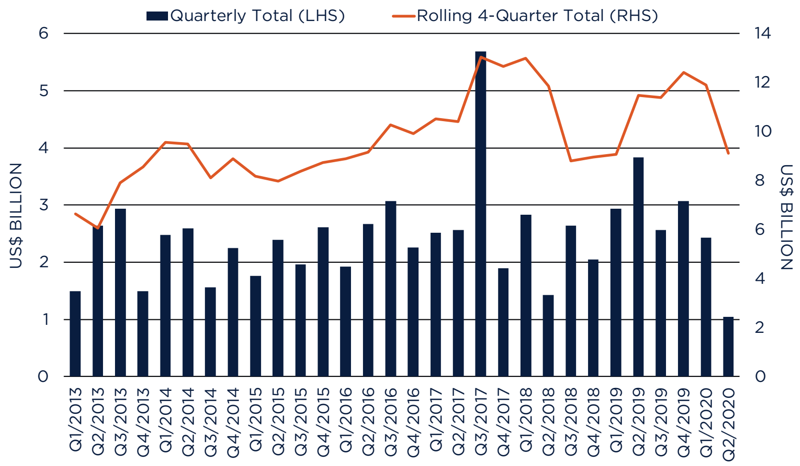
Domestic tourism has fueled the improvement in hotel performance across the APAC markets in Q2 2020. However, transactional activity has remained subdued.

- In Q2 2020, the Asia-Pacific hotel investment volume totaled US$1.05 billion across 30 transactions, plunging to an all-time quarterly low since Q4 2012 and reflecting a 77% YoY decline in terms of volume.
- This quarter, investment activity was entirely carried by the big five markets: Japan, South Korea, China, Australia and Hong Kong, with zero transactions recorded in Southeast Asia.
- Even with a significant YoY drop of 64% in hotel investment volume, Japan still lead the market with US$564.8 million across eight transactions.
- South Korea reported a total transactional volume of US$241.1 million across 13 transactions, up 26% YoY due to the lack of high-profile deals in the same quarter last year.
- Despite being one of the first countries to come out of lockdown and having started to see some improvement in hotel occupancy, China hotel investment market remained lukewarm, reporting only two transactions with a total value of US$108.1 million, down 70% YoY.

"Hotel investment across APAC is likely to remain tepid in 2020 as buyers continue to navigate very carefully through the changing investment environment. Whilst markets underpinned by strong fundamentals will continue to be sought-after, the alternative route to success will involve careful asset selection, diversification and the ability to assess and price in long-term risk."

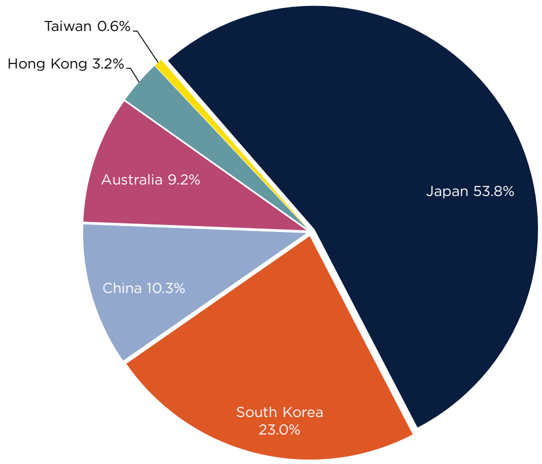
SAVILLS RESEARCH

GRAPH 1: APAC Investment Sales Transaction Volumes, Q1/2013 to Q2/2020



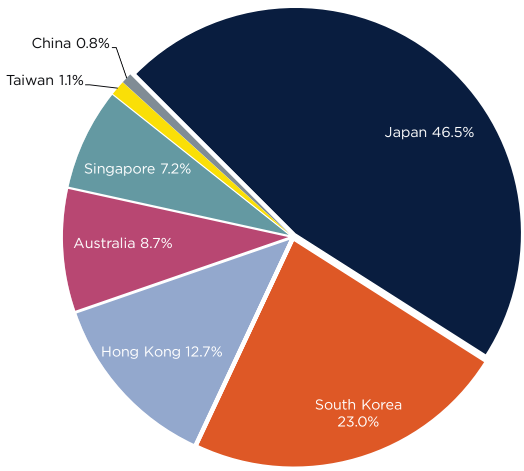
Source RCA, Savills Hotels

GRAPH 2: Investment Sales Transaction Volumes By Location, Q2/2020



Source RCA, Savills Hotels

GRAPH 3: Investment Sales Transaction Volumes By Buyer Origin, Q2/2020



Source RCA, Savills Hotels

NORTHERN ASIA

Despite a 64% YoY decline in hotel transaction volume, as a market with long-term growth prospects and strong economic fundamentals, Japan leads the region's hotel investment activity, reporting a total volume of US$564.8 million in Q2/2020.

The only cross-border transaction in Japan this quarter was completed by Far East Organization. The Singapore-based company acquired the Village Hotel Ariake Tokyo for JPY8.2 billion (approximately US$76.1 million, reflecting US$248,700 per key), the first Village brand property purchased by the company outside of Singapore. In June, Unizo Holdings successfully sold Hotel Unizo Tokyo Shimbashi and Hotel Unizo Shibuya, totaling 419 keys to undisclosed buyers at a confidential price. The Japanese hotel operator put its property portfolio on the market in December 2019, receiving many competitive offers from both domestic and international funds.

In spite of the Japanese government putting in efforts to boost the historically stable domestic tourism, whether or not this demand will be able to revive its hotel investment activity for the second half of 2020, still remains unclear.

In Q2/2020, South Korea reported 13 transactions with a total volume of US$241.1 million, a 26% increase compared to the same period last year when no high-profile hotel transactions were reported. The regional highest valued transaction this quarter was the sale of GLAD Gangnam COEX Center Hotel located in Gangnam, one of the busiest business districts in Seoul. The 282-key hotel was sold to an undisclosed buyer for KRW162.3 billion (approximately US$132 million reflecting US$468,300 per key). All the transactions in this quarter were completed by local sellers and buyers, with 85% of the transactions completed by non-corporate/individual sellers.

GREATER CHINA

As the first and only market to have come out of lockdown in late March, China has started to see a glimpse of recovery in hotel performance, having improved from showing an 83% YoY decline in RevPAR in February, to 79% YoY decline in March, 71% YoY decline in April and 57% YoY decline in May. However, signs of a second wave of the virus need to be monitored closely. Hotel investment activity remains subdued with light optimism generated by the six current pending sales in the pipeline. The Zhonghai Shengfeng Gongti No 3 Portfolio finally closed in April, and included the sale of the 85-key Serviced Apartment property which was valued at RMB708.3 million

TABLE 1: Selected Investment Transactions, Q2/2020

HOTEL	LOCATION	APPROXIMATE SALE PRICE (US$ MIL)	APPROXIMATE PRICE PER ROOM (US$)	BUYER
Village Hotel Ariake Tokyo	Tokyo	76.1	248,700	Far East Organization/FEH
GLAD	Seoul	132	468,300	Confidential
Gongti No 3	Beijing	100.1	1,200,000	Shimao Group
Voco Sydney Central	Sydney	57.6	188,200	Platinum Hotels Group
W Melbourne	Melbourne	Confidential	Confidential	Daisho

Source RCA, Savills Hotels
Note JPY/USD = 107.74; KRW/USD = 1,229; RMB/USD = 7.07; AUD/USD = 1.58

(approximately US$100.1 million reflecting US$1.2 million per key). The portfolio was purchased by the Hong Kong-based Shimao Group. The pending deals include the sale of GuocoLand's Shanghai Guoman Hotel reportedly valued at RMB1.4 billion (approximately US$204.8 million reflecting US$463,300 per key) and the acquisition of Sincere Group Portfolio consisting of five hospitality assets (out of 19 assets), of which, four are existing hotels, comprising a total of 1,121 keys.

Likewise, Hong Kong has not seen any significant uptake in hotel investment activity this quarter, reporting only one sale of the 50-key H1 Hotel, purchased by an undisclosed buyer for HK$260 million (US$33.5 million reflecting US$670,600 per key). The Kowloon leasehold hotel was previously considered by Hong Kong's "Shop King" Tang Shing-bor in July last year, albeit eventually withdrawing his interest.

AUSTRALIA

Aside from the country's largest hotel deal, the W Melbourne, Australia hotel investment in Q2/2020 reported a total of US$96.5 million across five transaction, down 86% YoY. Brokered by Savills Australia, W Melbourne was sold to Daisho for a price that will remain confidential. Located in Melbourne CBD and forming part of a mixed-use development, worth a total of AU$1.25 billion, the 294-key hotel is slated to open by the end of 2020.

In April, the Linzhu Australia completed the sale of voco Sydney Central to Platinum Hotels Group for AU$91.3 million (US$57.6 million reflecting US$188,200 per key). The hotel development sale was agreed late last year prior to the COVID-19 outbreak. The 306-key hotel was expected to open under IHG's new upscale voco brand in 2021, but has reportedly been delayed to 2022 due to the impact of COVID-19.

OUTLOOK

- Until the COVID-19 outbreak is contained and travel restrictions are relaxed, enabling active buyers to carry out the necessary on-site due diligence, the regional hotel investment activity is likely to remain very subdued for the rest of 2020. However, we expect domestic capital flows to improve in the short term.
- Compared to the GFC, the market is a lot more liquid, with assets not overly leveraged and governments and banks putting in continuous efforts toward keeping the economy afloat.
- The long-term demand fundamentals remain strong however there is a lack of supply. Whilst there will be some near-term challenges in deploying capital, we anticipate investment activity to pick up, reflecting the high level of dry powder currently in the market, patiently waiting for attractive assets with high growth potential.
- There are currently 13 public pending sales worth a total of US$952 million.

Deals are coming together and are being slowly processed as investors have to reassess their investment underwriting while taking into account new factors and risks.

- Whilst this is a challenging time for the industry, it may also be a great opportunity for some assets to consider repositioning, redevelopment and active asset management in order to achieve higher returns post-COVID.