Asia Pacific – April 2020

MARKET IN MINUTES
Savills Research

Hotel Sales & Investment

savills

APAC hotel investment volumes slide in Q1

After a record year in 2019, Q1/2020 saw a sharp fall in investment volumes as a result of the COVID-19 outbreak, hitting a post-2013 low. Despite this, some markets saw an increase in investment activity.

- The total Asia-Pacific hotel investment volume in Q1/2020 stood at US$1.7 billion across 37 transactions, down 43.2% YoY. More than many other industries, the hotel market has been negatively affected by the COVID-19 outbreak.
- Although the overall volume was down, what transaction activity there was continued to be led by the major markets in the region including Japan, South Korea and Australia.
- Despite registering a YoY decrease of 23.7%, Japan dominated Q1/2020 with a deal volume of US$854.5 million across nine transactions.
- South Korea was the second most active market with a total volume of US$391.9 million across eight transactions, up 15.4% YoY.
- Experiencing the highest YoY increase of 114.9%, Australia registered US$125.1 million across ten transactions in Q1/2020.
- Compared to zero transactions recorded over the same period last year, Hong Kong reported two transactions with a total value of US$102.9 million during the first quarter.

"COVID-19 outbreak has become a significant disruptor to the world's economy including the tourism and real estate industries. Both owners and investors are being more cautious despite continuing low-interest-rate environment. However, markets with long-term growth prospects such as Japan, South Korea and Australia are still highly sought-after."

SAVILLS RESEARCH

Savills team

Please contact us for further information

HOTELS

Raymond Clement
Managing Director
Asia Pacific
+65 6415 7570
rclement@savills.com.sg

Julien Naouri
Director, Asia Pacific
+65 6415 7583
jnaouri@savills.com.sg

Michael Simpson
Managing Director
Australia & New Zealand
+61 2 8215 8831
msimpson@savills.com.au

Tomotsugu Ichikawa
Director, Japan
+81 3 6777 5184
toichikawa@savills.com.jp

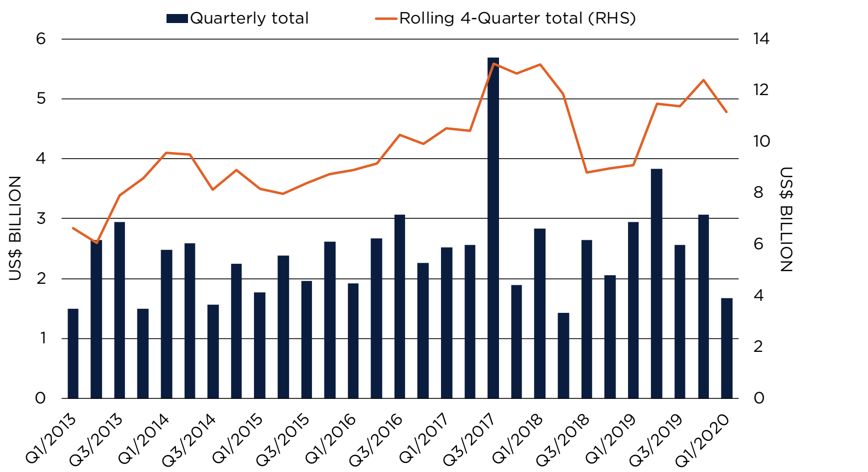
VALUATION

Greg Condon
Director, Valuation & Advisory
Head of Hotel Valuation, South East Asia
+66 2636 0300
gregc@savills.co.th

RESEARCH

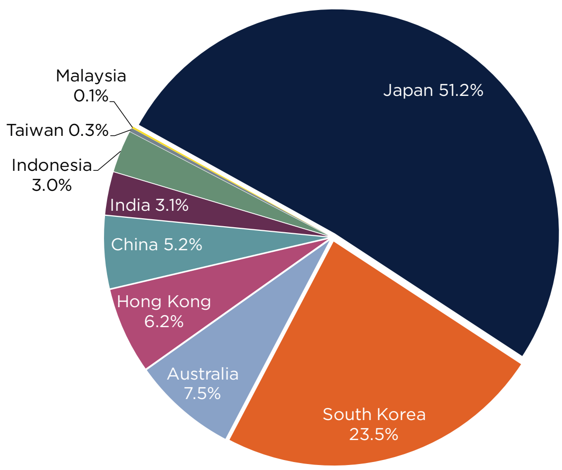
Simon Smith
Senior Director
Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

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



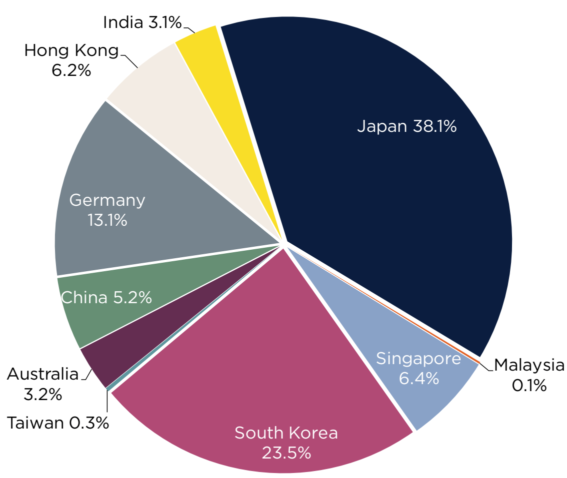
Source Savills Hotels, RCA

GRAPH 2: Investment Sales Transaction Volumes By Location, Q1/2020



Source Savills Hotels, RCA

GRAPH 3: Investment Sales Transaction Volumes By Buyer Origin, Q1/2020



Source Savills Hotels, RCA

NORTHERN ASIA

Despite registering a 23.7% YoY decrease, Japan again lead the regional hotel investment market recording a total volume of US$854.5 million in Q1/2020. Kyoto stole the spotlight with two high-profile transactions; the Four Seasons Hotel Kyoto and Onyado Nono Kyoto Shichijo, sold by two international owners. In March, Berjaya Corp Bhd sold the Four Seasons Hotel Kyoto for JPY49 billion (approximately US$458.1 million or US$3.7 million per key) realising an estimated gain on disposal of JYP16 billion (approximately US$149 million). German fund hausInvest acquired Onyado Nono Kyoto Shichijo, a 472-key hot spring ryokan for US$218.7 million or US$463,300 per key from the US-based PGIM Real Estate. The remaining seven transactions were concluded by domestic investors.

In Q1/2020, South Korea registered eight hotel transactions with a total volume of US$391.9 million, up 15.4% compared to the same quarter in 2019 which recorded 17 transactions. While hotel transaction activity fell, the sales volume increased reflecting the quality of this quarter's transactions. Six out of eight transactions took place in January before the pandemic became a widespread issue. Seoul, the country's most active investment market recorded no hotel transaction activity in February or March. The most notable transaction of the quarter took place in Busan city. Due to a prolonged business slump, Haeundae Grand Hotel Busan ceased operations at the end of 2019. MDM Real Estate Group purchased the 321-key hotel in March for US$195.9 million or US$610,200 per key. All transactions in Q1/2020 in South Korea were completed by domestic players.

GREATER CHINA

Heavily affected by the COVID-19 outbreak, China registered only one transaction in Q1/2020, suffering a drop of 91.1% compared to the same quarter last year. In March, Hunan Xingxiang M&A acquired the 247-key Hubei Triumphal Arch Hotel in Wuhan for CNY608 million (approximately US$86.8 million or US$351,400 per key). As the outbreak appears to be successfully contained in China, a rapid recovery in sentiment is conceivable in Q2.

Having suffered from widespread social unrest prior to the COVID-19 outbreak, Hong Kong registered only two leasehold hotel transactions in Q1/2020 completed by local buyers with a total value of US$102.9 million. The 151-key O' Hotel located in Kowloon traded for US$57.9 million or US$383,400 per key. Tang Shing Bor bought the 54-key Minimal Hotel Midtown for US$45.0 million or US$834,200 per key.

TABLE 1: Selected Investment Transactions, Q1/2020

HOTEL	LOCATION	APPROXIMATE SALE PRICE (US$ MIL)	APPROXIMATE PRICE PER ROOM (US$)	BUYER
Four Seasons Hotel Kyoto	Kyoto	458.1	3,700,000	Godo Kaisha Tigre (Tigre GK)
Haeundae Grand Hotel	Busan	195.9	610,200	MDM Real Estate Group
Future Pan Pacific Jakarta	Jakarta	50.0	328,300	UOL Group
Quest Macquarie Park	Sydney	31.6	284,500	Ascott Residence Trust

Source Savills Hotels, RCA
Note JPY/USD = 106.97; KRW/USD = 1,215; IDR/USD = 13,743.83; AUD/USD = 1.46

SOUTHEAST ASIA

Unsurprisingly, hotel occupancy in Southeast Asia has been significantly affected by the travel ban and cancelled events and the hotel transaction volume totaled US$52.7 million in Q1, down 30.4% YoY. Although no local transactions were registered in the first three months, Singapore investors have been active across the region. After a record year in 2019 welcoming 39.8 million tourists with China its biggest source market, Thailand experienced a heavy YoY drop of 58.7% in international arrivals over the first quarter. Due to the current unfavorable market conditions, some potential sales in Thailand have been put on hold, resulting in zero local transactions this quarter.

In Indonesia, UOL Group acquired of a 154-key hotel in Tower 2 of the integrated development Thamrin Nine in Jakarta, Indonesia for US$50.0 million or US$328,300 per key. The development project is scheduled to be completed in 2022 and will operate under the Pan Pacific Jakarta brand. Strengthening its hospitality footprint across the region, the Singapore-based group now owns and manages four hotels and serviced suites in Jakarta with a total of approximately 700 rooms.

AUSTRALIA

Unlike other markets in the region, Australia experienced a 114.9% YoY spike in Q1/2020 registering a total hotel investment volume of US$125.1 million across ten transactions. The two biggest transactions were completed by Singaporean investors. Brokered by Savills, Quest Macquarie Park in Sydney was sold to Ascott Residence Trust at a yield of 5.5%. The 111-key hotel was priced at AUD46 million or AUD414,400 per key (approximately US$31.6 million or US$284,500 per key). In Tasmania, Singapore developer Fragrance Group has expanded its hotel portfolio by acquiring the Devonport Waterfront Hotel for AUD40 million or AUD213,900 per key (approximately US$25.0 million or US$133,700 per key). Scheduled to be completed next year, the development is part of Tasmania's Living City masterplan. These two transactions reflect a strong appetite among international investors for Australian hotels.

OUTLOOK

- In 2020, many investors will retreat from Asia Pacific secondary markets and wait for signs of recovery. The big six markets, including Japan, South Korea, Australia, China and Hong Kong will remain attractive on the back of their strong economic fundamentals.
- A significant amount of interest is anticipated in distressed assets in resort destinations across the region. However, distressed opportunities available in Asia Pacific key gateway cities will be rare.
- Although performance dropped significantly during Q1 with little improvement expected in Q2, a rapid turnaround is expected once the virus is contained. In a best-case scenario, occupancy and ADRs could be on the rise again from Q3, allowing owners to recover positive cash flows.