

Hotel Sales & Investment



Q3 hotel investment under continuing pressure

Hotel transaction activity remains muted as investors wait for the market to bottom out.

- In Q3/2020, the APAC hotel investment market volume stood at US\$1.7 billion across 28 transactions, showing a decline of 54% compared with Q3/2019.
- The top three markets in APAC, attributing to a majority of the transactions were Taiwan, Singapore and South Korea, with transactions in Taiwan and Singapore accounting for nearly 80% of the total in terms of value.
- Although Taiwan only recorded two transactions in the third quarter, the transactional volume stood at US\$916 million, with the biggest transaction the sale of the Sunworld Dynasty Hotel in Taipei, also representing the largest hotel transaction in APAC this year.
- Singapore saw a 35% quarter-on-quarter (QoQ) increase in transaction volume, totaling US\$388.5 million across two transactions, with City Developments Limited and CapitaLand the buyers.
- Despite seeing a fall of 83% QoQ in transactional volume, recording ten transactions, South Korea kept its position as the third most active market in the region.

“Investor sentiment is starting to recover, albeit there is still a noticeable gap in pricing expectations between buyers and sellers. However, as hotels continue to experience downward pressure on their gross operating profit margins, we expect investment activity in the region to increase to year end.”

SAVILLS RESEARCH

Savills team

Please contact us for further information

HOTELS

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

Michael Roberts
 Director, Asia Pacific
 +65 6415 7589
michael.roberts@savills.com.sg

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

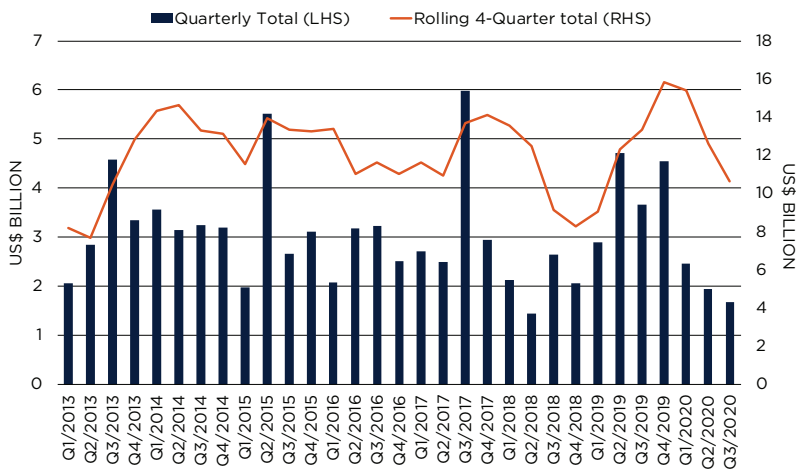
Mauro Gasparotti
 Director, Southeast Asia
 +84 908 556 492
mgasparotti@savills.asia

RESEARCH

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

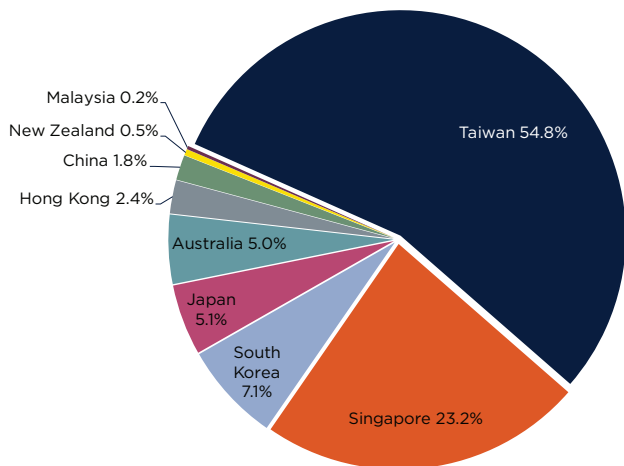
Savills plc
 Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

GRAPH 1: APAC Investment Sales Transaction Volumes, Q1/2013 to Q3/2020



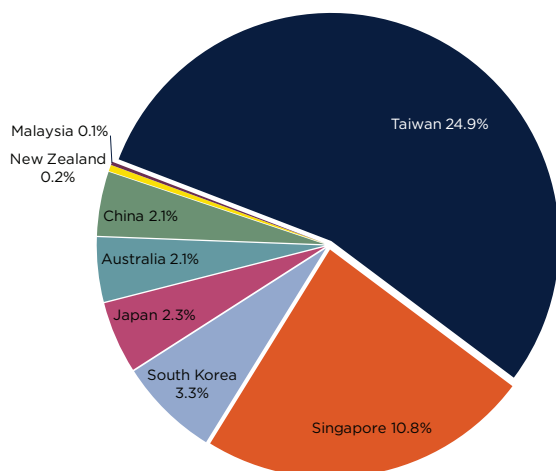
Source RCA, Savills Hotels

GRAPH 2: Investment Sales Transaction Volumes By Location, Q3/2020



Source RCA, Savills Hotels

GRAPH 3: Investment Sales Transaction Volumes By Buyer Origin, Q3/2020



Source RCA, Savills Hotels

NORTHERN ASIA

As the South Korean government still battles with triple digit novel coronavirus cases daily, they have had to introduce harsh restrictions which have weighed heavily on the local economy. More recently, talks of easing those restrictions are underway. South Korea reported ten hotel transactions in Q3/2020 valued at a total of US\$119 million, in stark contrast to US\$714 million recorded in the same period last year. The highest recorded hotel transaction was the sale of Belle Mare by Hanwha located in South Jeolla Province from SJ D&D to Hana Asset Trust Co Ltd for KRW48 billion (approximately US\$40.4 million, at US\$403,000 per key).

The hotel investment market in Japan did not fare well this quarter, recording only two public transactions. Brokered by Savills, the 113-key Hotel Leoplace Nagoya was sold at a confidential price in September. This property marked Leoplace 21 Corporation's fourth asset divestment since October 2019. Despite an 89% QoQ fall in hotel transaction volume, Japan remained the most active market in terms of volume year-to-date (YTD).

GREATER CHINA

As domestic travel recovers, China continues to show improvements in hotel performance, reporting a 12% year-on-year (YoY) decline in RevPAR in August, a significant change from the 83% YoY RevPAR decline recorded in February. Despite this, the hotel investment market remained weak with only one transaction recorded this quarter, resulting in an 83% decline QoQ.

Hong Kong's hotel investment market registered one transaction in Q3/2020, showing a 94% decrease QoQ. Beijing-based Vantone Holdings acquired Queens Hotel for HK\$310 million (approximately US\$40 million, at US\$1 million per key), reflecting a 30% discount from the initial asking price in May.

Also in Q3, the Taiwan hotel transaction volume spiked significantly by 1,783% QoQ, driven by the sale of one of the largest hotels in Taipei. In July, the 730-key Sunworld Dynasty Hotel Taipei was sold by the Tei-fu billionaire-family-controlled Sunrider International at a 2% cap rate for TWD26.8 billion (approximately US\$910 million, at US\$1.25 million per key) to Fubon Life Insurance on a sale and leaseback basis. Despite the Taiwanese government's success in containing the spread of COVID-19, hotel performance still suffered a 63% decline in RevPAR during the first eight months of 2020.

SOUTHEAST ASIA

Within the Southeast Asia region, Singapore stood out as the top hotel investment market. It saw a QoQ increase of 35%

TABLE 1: Selected Investment Transactions, Q3/2020

HOTEL	LOCATION	APPROXIMATE SALE PRICE (US\$ MIL)	APPROXIMATE PRICE PER ROOM (US\$)	BUYER
Sunworld Dynasty Hotel Taipei	Taipei	910.5	1,250,000	Fubon Financial
Somerset Liang Court	Singapore	117.7	N/A	City Developments Ltd
Novotel Clarke Quay	Singapore	270.9	670,000	CapitaLand Ltd
Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	Tokyo	74.9	341,000	Confidential

Source RCA, Savills Hotels
 Note JPY/USD = 106.76; TWD/USD = 29.43; SGD/USD = 1.38

in hotel transaction volume in Q3, totalling US\$388.5 million across two transactions. In July, Novotel Clarke Quay was sold by CDL Hospitality REIT to CapitaLand Ltd for SGD375.9 million (approximately US\$270.9 million, at US\$674,000 per key). Additionally, part of Somerset Liang Court (15,170 sq m of the site's gross floor area) was bought by City Development Ltd from Ascott Residence Trust (ART) in July for SGD163.3 million (approximately US\$117.6 million). This deal is part of a redevelopment plan between CapitaLand Ltd, City Developments Ltd and ART which will see the Liang Court site turned into a mixed-use development.

AUSTRALIA

The Australian hotel investment market saw eight transactions, totaling US\$83 million, a decrease of 81% compared with Q3/2019. Within the eight were three hotel transactions of substantial value, one of which was the Rydes on Swanston in Melbourne sold by Adelaide's prominent hotel investor David Horbelt on a vacant possession deal to Pelligra Group for AUD38 million (approximately US\$27.3

million, at US\$255,000 per key). This is followed by Sundown Motel Resort in Canberra which was sold for AUD20 million (approximately US\$14.1 million, at US\$140,500 per key) by Hometown Australia Communities. Lastly, The Bower Byron Bay was bought by the Gold Coast based Guok family for AUD18 million (approximately US\$13 million, at US\$461,000 per key).

OUTLOOK

- With further waves of COVID-19 likely, local governments across the region have put in place policies to slow down the reopening of their economies. Until a COVID-19 vaccine is found, governments are likely to remain cautious. Although they are allowing for some domestic travel, it will take time before international travel is allowed once more.
- Despite some markets starting to see an uptick in domestic tourism, hotels continue to experience poor performance. Hotel transactional activity is still slow-moving as investors wait for the market to bottom out, in search of good value deals.

- The situation in APAC is relatively stable when compared to Europe and America. Regional governments are in talks to selectively reopen travel within the region which could provide much needed demand for hotels. For example, Singapore is pursuing green lane arrangements with partner countries within the region, permitting travel for restricted groups of essential business and official travellers. Currently, Singapore has such arrangements with Brunei, China, Japan, Malaysia and South Korea.
- There are currently 16 pending public sales within the APAC region YTD, worth a total of US\$1.7 billion. It is anticipated that these will take a while to complete because of the difficulty of carrying out the necessary due diligence. Cross-border transactions will likely remain weak until international travel is permitted.
- Investors not requiring debt will be at advantage once discounted opportunities come to market, with mainstream financing likely to be limited in the near future.