Thailand - June 2021

SPOTLIGHT
Savills Research

Thailand Hospitality

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Outlook worsens in the face of a delayed recovery

SUMMARY

- The Tourism Authority of Thailand expects that it may take five years for tourism to fully recover from the pandemic.
- Occupancy rates remain low, with virtually 0% occupancy mid-week for the majority of hotels in Bangkok.
- The Government, along with hotel owners, has attempted to boost domestic tourism by providing numerous promotions but has been met with mixed results.
- Distressed assets are not yet surfacing and investors are showing little appetite for the sector but opportunities should emerge once recovery sets in.

THAILAND OVERVIEW

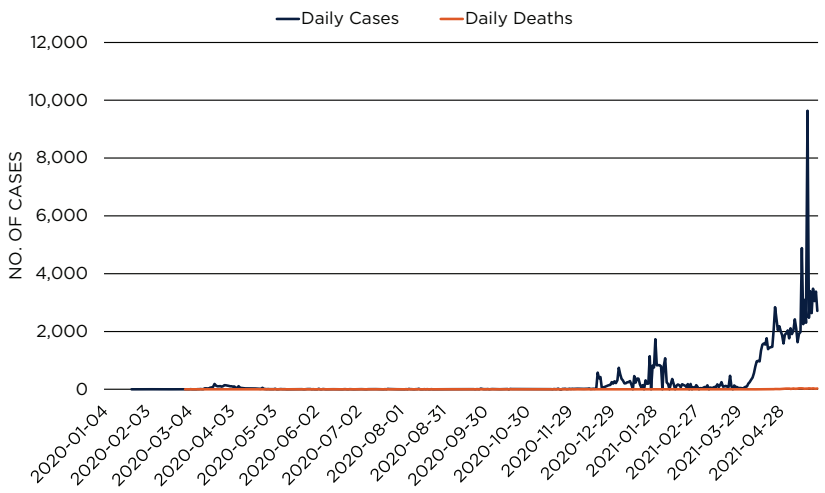
With the most recent waves of coronavirus in January and April 2021 Thailand's hospitality industry continues to struggle and the outlook is deteriorating as the reality of a prolonged recovery sets in. Mass vaccination is anticipated to begin in full in June with a target of three to seven million jabs per month, though for businesses and people struggling in the current wave the arrival of the jabs is overdue and for some may be too late to save livelihoods.

The Tourism Authority of Thailand (TAT) has shared their view that the tourism sector is unlikely to recover until 2026. The National Economic and Social Development Council has begun to adopt this timeframe for their economic modelling, adding weight to the opinion.

Pre-pandemic the tourism and hospitality industry accounted for about one-fifth of the national economy, and the Thai government has been trying to promote activity by providing a range of domestic tourist discounts and benefits. With the latest, and most severe, outbreak of COVID-19, however, domestic travel is again virtually non-existent due to restrictions to inter-provincial travel and societal fear.

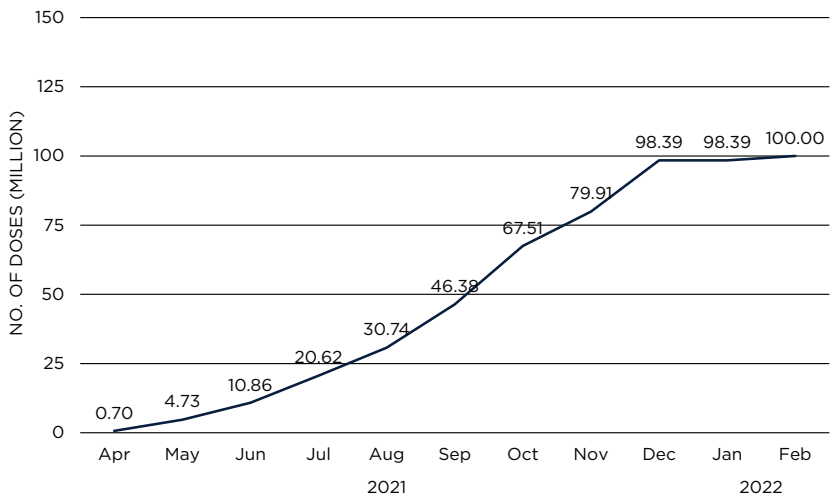
The Government is proceeding with their 'sandbox' scheme, whereby Phuket will be opened to vaccinated tourists in July this year once all local residents have received their vaccines. The government hopes that if the scheme proves to be a success it will be rolled out to numerous other key tourist destinations including Krabi, Koh Samui, Chiang Mai and Bangkok in the fourth quarter. However, the Government still only expects to see 500,000 tourist arrivals in 2021, a fraction of the 40 million in 2019 and the 6.7 million in 2020.

GRAPH 1: COVID-19 Daily Cases and Deaths Cases In Thailand, 24 May 2021



Source Thailand Government

GRAPH 2: Cumulative Total Vaccince Doses, April 2021 to February 2022



Source Thailand Government

BANGKOK HOTELS

Hotels in Bangkok continue their struggle in worsening circumstances; Savills has found that a large proportion of upscale-luxury hotels have virtually zero percent occupancy mid-week due to the lack of business travelers and tourists. Some hotels have managed to create activity through being an Alternative State Quarantine (ASQ) registered hotel for international arrivals, whilst others have focused on attracting 'staycation' guests. The luxury hotels targeting staycations are offering deals such as book two nights get one night free or providing hotel credit for F&B and facilities equal to the cost of the room.

In 2020, most hotels made substantial cuts to their workforce to try and reduce their losses, and typically the hotels which opened only operated a portion of their hotel rooms, in order to minimise costs. The result of these cuts has been that hotels are able to breakeven at around 30-40% occupancy, however, very few hotels have been able to

achieve this figure, particularly since the latest outbreak at the beginning of April.

Hotels have been looking to diversify their revenue streams by making their restaurants available for delivery. Dusit Suites Hotel Ratchadamri are using their kitchens to prepare THB80 lunchtime noodle dishes for local office workers, while Sofitel has begun to offer the 'Sofitel @ Home' service, whereby they provide a range of cleaning, flower delivery and private chefs so customers can enjoy hotel services at home. The revenue generated from these services is modest for the hotel overall though may provide service departments with revenue to help cover salaries and overhead expenses.

Room rates have been reduced for all hotels in Bangkok throughout the pandemic until present; for the periods of time without local infections Bangkok residents seemed to prefer to travel to nearby beach locations such as Hua Hin and Pattaya instead of staying in the city, forcing hotels to offer highly competitive rates and discounts to attract customers. With the opening of the Four Seasons and Capella hotels last year they saw an initial period of opening excitement where they were able to charge full rates of approximately THB8,000 to THB10,000 per night, though both hotels soon offered substantial discounts and promotions to try and maintain occupancy.

Latest projections by TAT paint a difficult half-a-decade ahead for hotels in Bangkok. Savills anticipates that room rates will remain highly discounted through this period as competition for occupancy intensifies.

BANGKOK HOTELS OUTLOOK

The latest projections by TAT paint a difficult half-a-decade ahead for hotels in Bangkok. Savills anticipates that room rates will remain highly discounted throughout this period as competition for occupancy intensifies. Lower segment hotels will feel the greatest pressure as the upscale and luxury hotels drop their rates, and international tourists choose to upgrade accommodation.

Savills expects that there will be increasing numbers of hotels choosing to cease operations or liquidate. The poor long-term outlook should result in lower sales prices though it remains to be seen how many owners will be willing to reduce their price expectations without being forced by insolvency. The Government has previously discussed launching an 'asset-warehousing' scheme to assist struggling businesses, though the poor outlook may require further measures such as debt moratoriums, debt relief packages and subsidies all of which are under consideration by government.

For firms with the available capital, there will be increasing opportunities to buy hotels in Bangkok, though the poor five-year outlook will likely dissuade cautious international and local investors. Perhaps once Thailand begins to see some progress in vaccinations and early signs of economic recover emerge there will be a greater appetite for investment, whilst those brave enough may find themselves a bargain now.

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For more information about this report, please contact us

Savills Thailand

Robert Collins
CEO
+66 2636 0300
robertc@savills.co.th

Savills Research

Jeremy O'Sullivan
Associate Director
Thailand Research
+66 2636 0300
jeremyo@savills.co.th

Palathip Chunhasomboon
Senior Analyst
Thailand Research
+66 2636 0300
palathipc@savills.co.th

Simon Smith
Regional Head of Research
& Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk