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Hotels & Leisure | Asia

Hospitality Insights

Q2 2023

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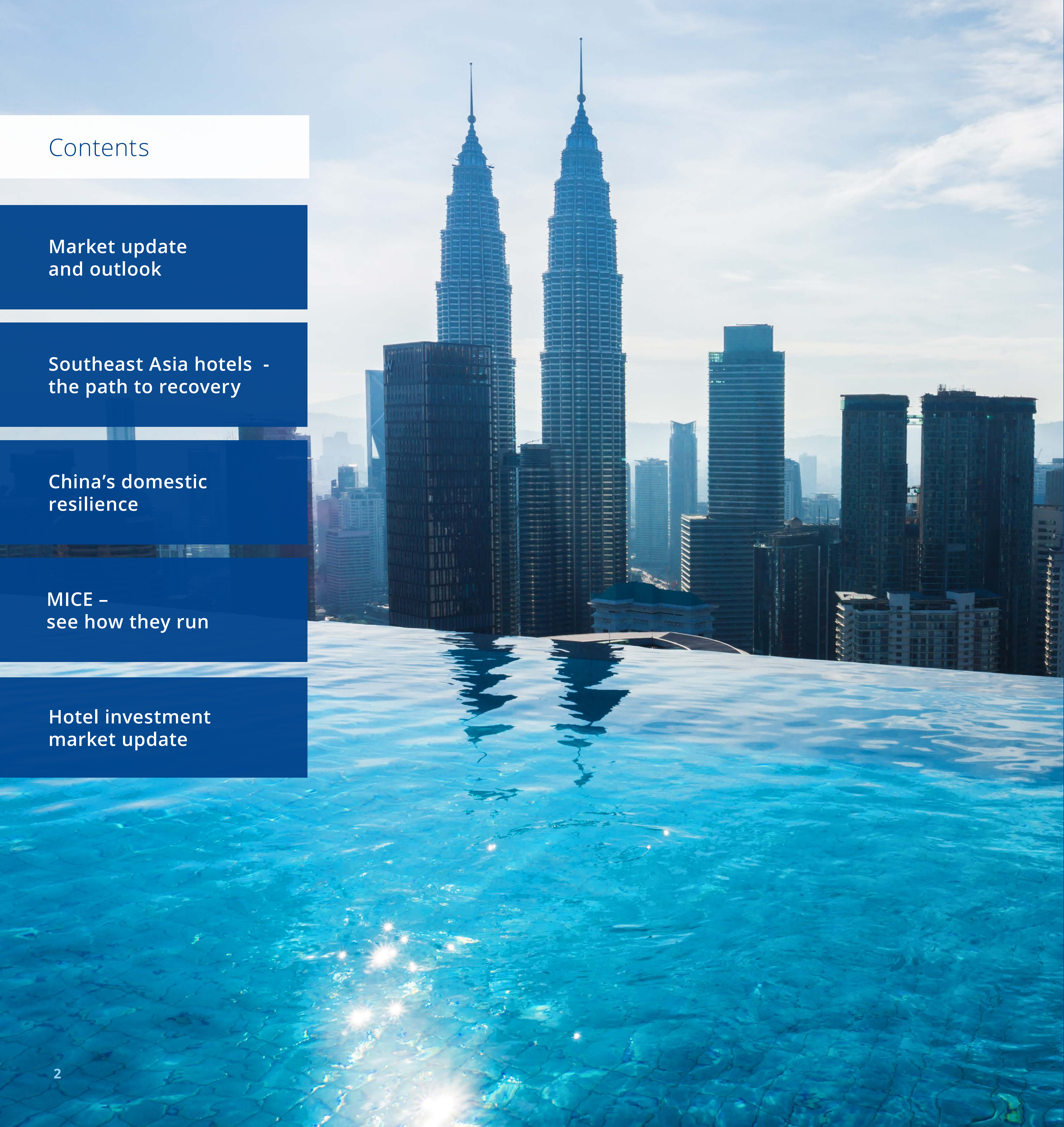

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Market update and outlook

Despite headwinds, hoteliers continued to enjoy robust levels of activity over the last quarter. However, with travel and accommodation pricing remaining strong, combined with a tapering off of pent-up demand and inflation eating into savings, growth has started to slow and, in some cases, even peaked as we enter Q3.

According to STR, hotels across Asia Pacific witnessed a revenue per available room (RevPAR) increase of whopping 53.6% at the end of June 2023, (in USD) compared to the same period in 2022, but this remained circa 9% behind that of 2019 levels. A lag in room occupancy levels, as China outbound remained relatively nascent, contributed to this drag. However this was to the benefit to the China domestic market which continued to thrive on the back of this.

Latest economic forecasts by the International Monetary Fund (IMF) suggests a slowdown in business activity and consumption across all markets as higher interest rates and costs take hold. This is likely to weigh on hotel performance as business and consumer confidence wanes as we enter H2 2023; question is, will this be large enough to wipe out recent gains or simply stunt the rate of growth.

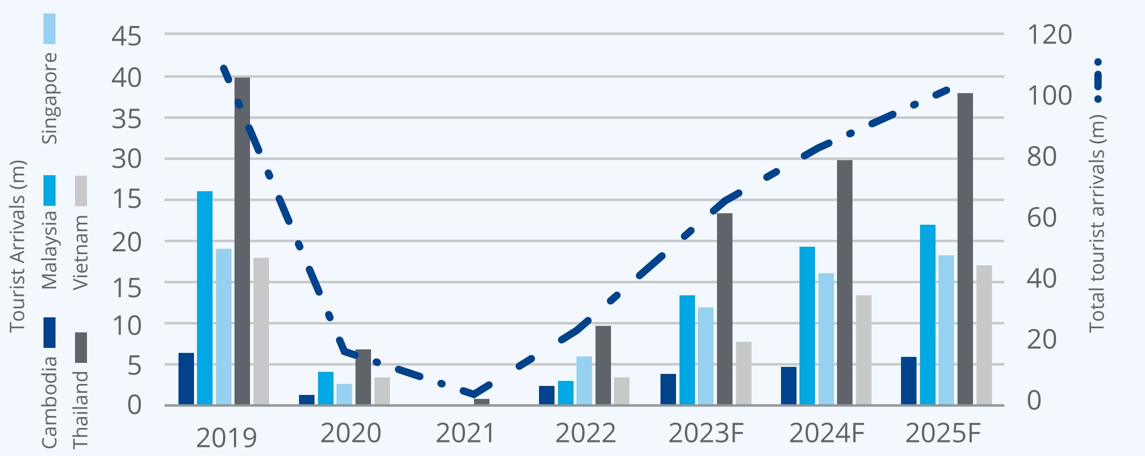
Govinda Singh

Executive Director | Asia
Hotels & Leisure

Southeast Asia hotels - the path to recovery

Almost one year on since re-opening, the pace of recovery for Southeast Asia destinations remains well behind that of Europe and the Middle East at the end of 2022. Staggered and in some cases, mixed messages on re-opening, China largely remaining closed, together with high airline prices due to reduced airlift capacity were all issues that faced the industry. At the end of 2022, tourism arrivals were circa 23% of pre-pandemic 2019 levels for selected countries, highlighting the challenges facing owners and operators in 2023; and this is without taking into consideration the frontier markets of Myanmar and Laos.

Southeast Asia tourist arrivals | 2019-2025F



Source: Tourism Statistics Board of selected countries and Colliers forecasts

It is evident that many destinations have benefited from the Russia/Ukraine fall out and easing of travel for Indian visitors. However, the lack of visitation from Northern Asia continues to weigh on the path to recovery and as we continue into 2023, new factors have come into play. Persistent high inflation, staffing challenges, and a nervous (at best) business environment are all new challenges the industry will face in 2023. As such, in our view, we anticipate, and given China's slow re-opening, that the path to recovery will be more subdued when compared to the pent-up led 2022 bounce back. Our forecasts for Southeast Asia destinations are therefore a push back to pre-pandemic 2019 levels not before Q2 2025 for mature destinations, and 2026 for emerging ones. This may well be accelerated should the China residential market recover in the near term, precipitating a return in confidence and thereby outbound travel.

However, on the bright side, increased costs of construction and financing should dampen the supply side in the near term, allowing existing properties to recover, and poor performing ones to be repositioned.

China's domestic resilience

In early May 2023, the World Health Organization (WHO) stated at its fifteenth meeting of International Heath Regulations that COVID-19 is now an established and ongoing health issue which no longer constitutes a public health emergency of international concern. At the same time, China welcomed its first public holiday – Labour Day – after China reopened its borders to foreigners in March 2023.

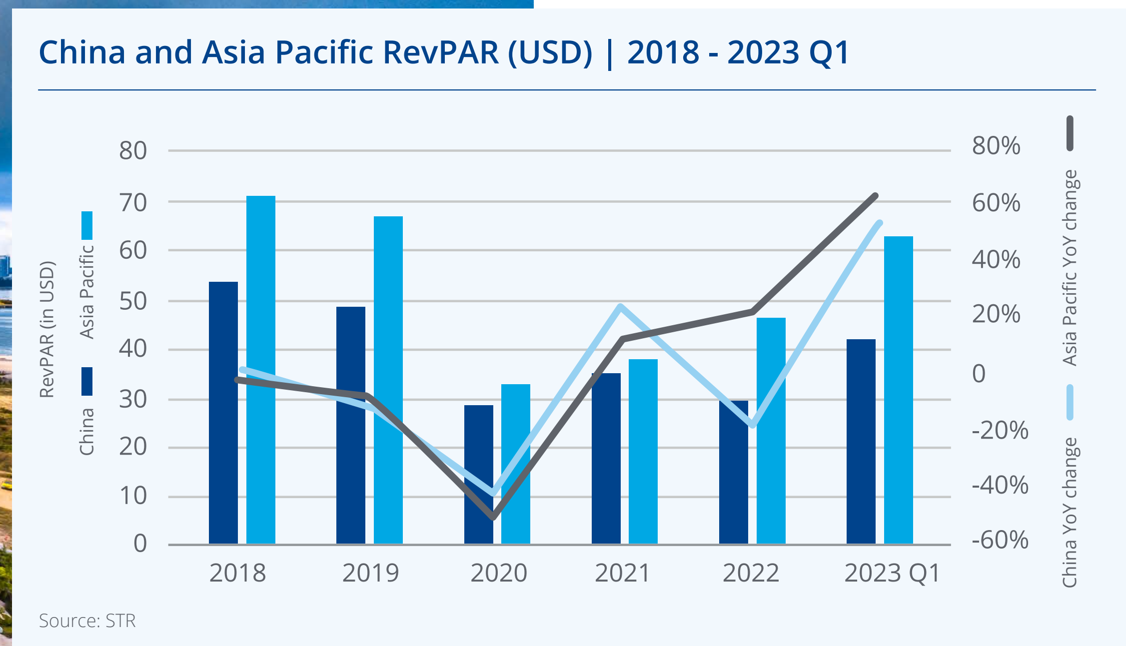
The latest statistics released by Ministry of Culture and Tourism of China shows that during the Labour Day Holiday:

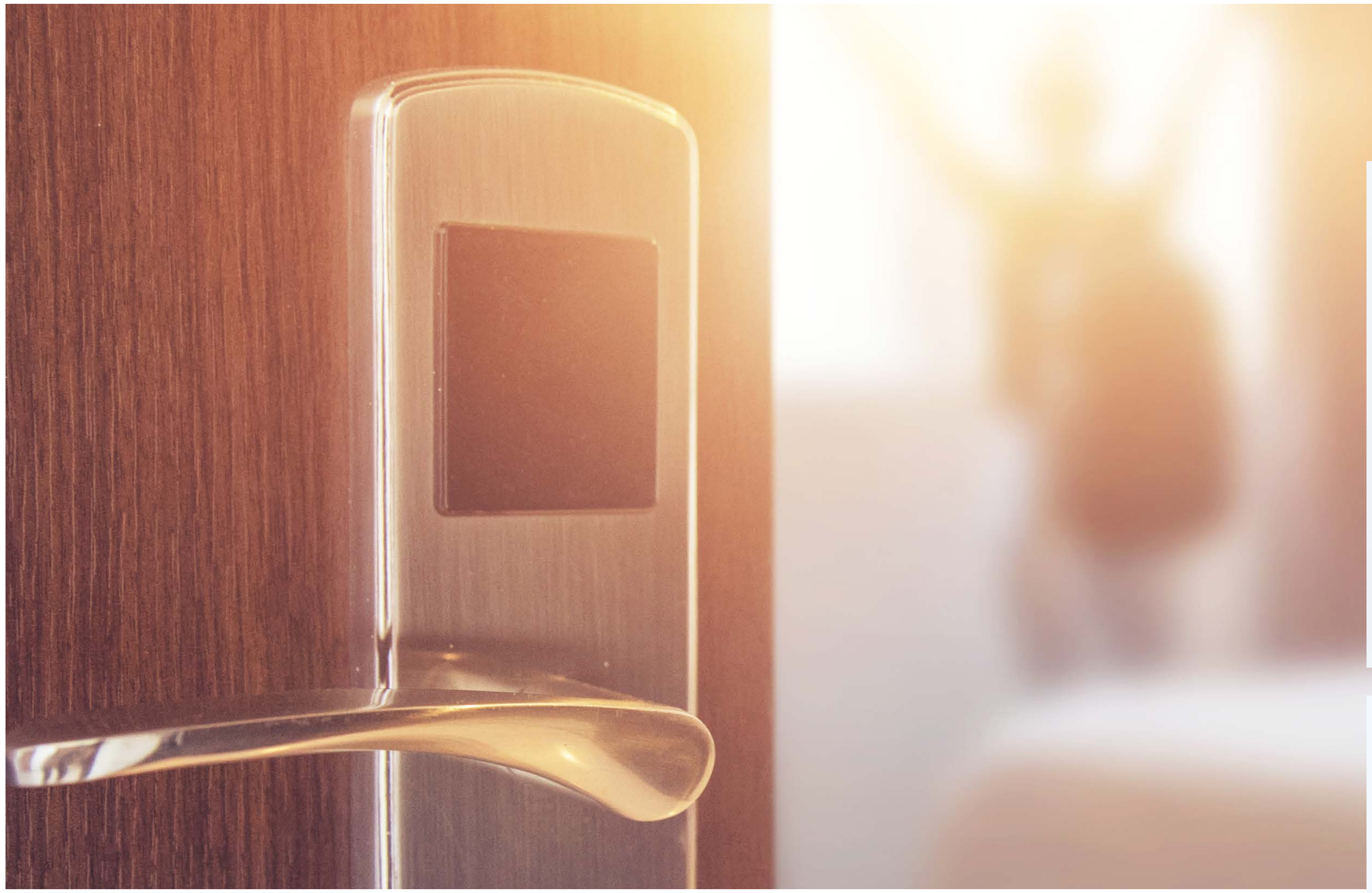
- a total of 274 million tour visits within China were recorded during the public holiday, representing a year-on-year (YoY) increase of 70.8% compared to the same period of the previous or a recovery of 119.1% and in 2019, respectively;
- domestic tourism revenue reached RMB 148.06 billion with an YoY increase of 128.9%; a rebound of 100.7% compared to the same period of 2019;
- Beijing, Shanghai, Nanjing, Chengdu, Chongqing, Xi'an, Changsha, Wuhan, Hangzhou, Guangzhou, Hong Kong SAR (Hong Kong), and Macau SAR (Macau) were the top tourism destinations in China; and
- Thailand, Malaysia, and Indonesia were the top overseas destinations for Chinese tourists.

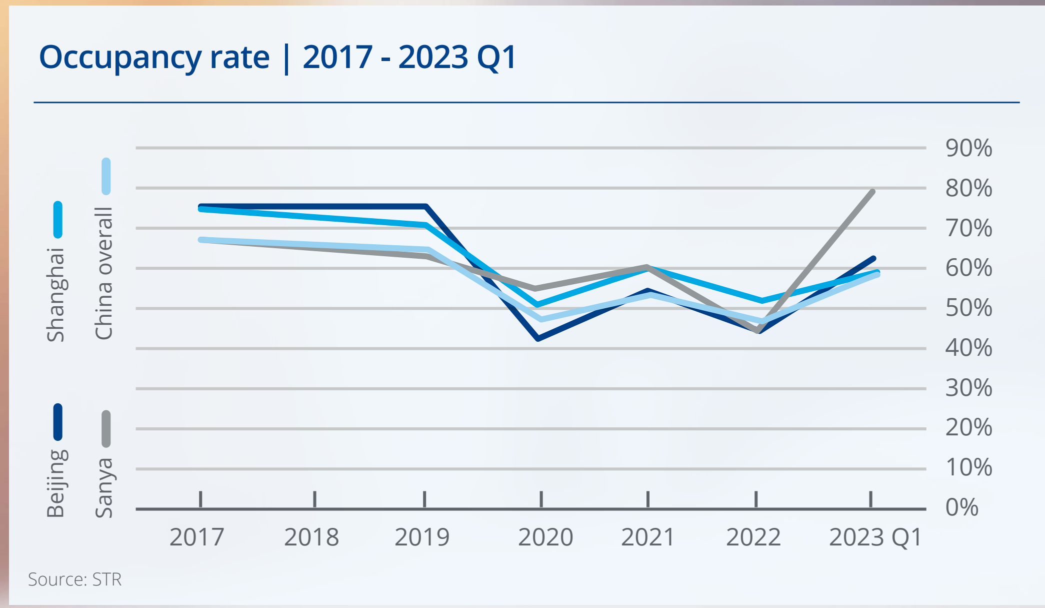
In the first quarter of 2023, China's civil aviation industry recorded a total of 129 million passenger trips, up 68.9% YoY, which is equivalent to 80.0% of the same period in 2019. For international flights, the passenger traffic volume of international travels recovered to 18.1% of the same period before the epidemic.

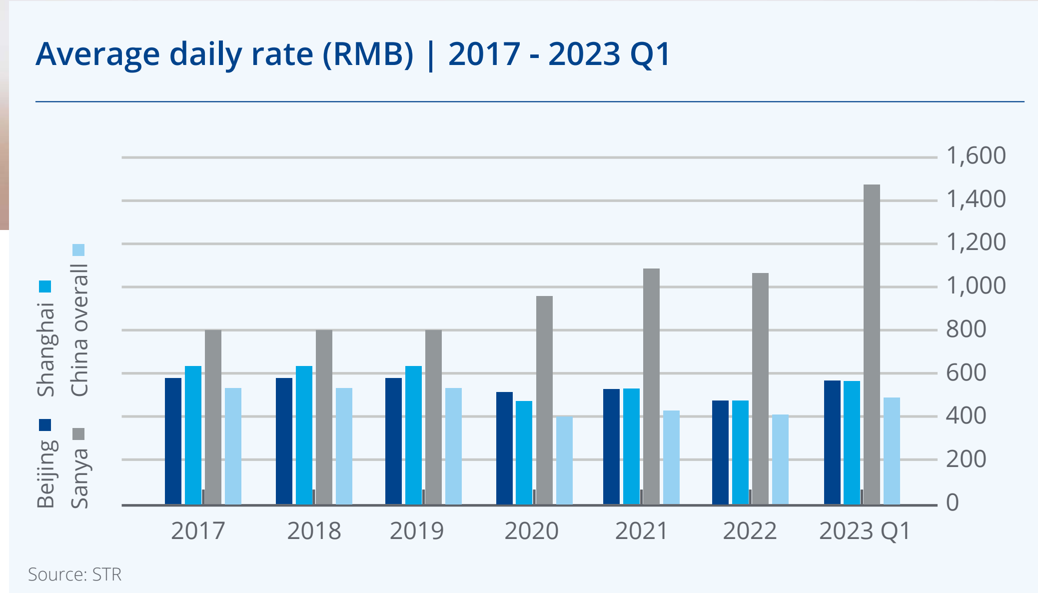
From the beginning of 2020, the hotel industry suffered significantly with the RevPAR of hotels in China and the Asia Pacific region dropping 40.9% and 50.6% respectively. In 2021, thanks to the China's strict epidemic prevention measures, the epidemic within the country was well controlled. Additionally, largely due to the ban on oversea travel, domestic tourism and hospitality sectors in China benefited. In 2022, with the new coronavirus variants, movement of people within the country was limited, and as such hotels in China suffered once again.

In comparison, since other regions lifted restrictions and reopened borders well ahead of China, by Q1 2023, RevPAR of overall Asia Pacific has rebounded to over 94% of pre-pandemic levels. On the other hand, China managed to recover to 88% of pre-pandemic level in Q1 2023, as inbound travel remained soft.









Beijing and Shanghai are the top two cities for business trips, while Sanya is one of most popular leisure destinations in China. The trends of occupancy rate and average daily rate (ADR) in Beijing and Shanghai over the year (2022) were quite in line with the overall trend of China during the COVID period. Prior to the outbreak of the pandemic, the occupancy rate of hotel in Sanya was below that of Beijing, Shanghai, and the nationwide average level. However, as Sanya reaches new levels of occupancy, it continues to maintain its long-held position as a destination with one of the highest ADRs among the top tier cities.

From 2020 to 2021, the occupancy rate of Sanya surpassed that of Beijing and Shanghai, reaching 55.2% and 60.5% respectively. Meanwhile, nationwide average occupancy rate between 2020 and 2021 was 48.9% and 54.1%, respectively.

Despite the pandemic, ADR of hotels in Sanya managed to maintain growth momentum over the years. Particularly, the ADR of Sanya market in 2021 reached RMB 1,081 with an increase of nearly 37% compared to the pre-COVID level of 2019, demonstrating the strong resilience of Sanya's tourism industry.

In Q1 2023, both occupancy rate and ADR of Sanya market surged to 78.6% and RMB 1,468 respectively, thanks to the rebound of tourism consumption, as well as the peak seasons driven by the Chinese New Year Holiday in the first quarter of the year.

For more on China's resilience

MICE – see how they run

Aside from the once buoyant leisure market, the meetings, incentives, conference and events (MICE) segment is making a strong come back. It would appear that the human need for social and in-person interaction far outweighs the impersonal technology medium.

According to a report published by Allied Research, the Asia Pacific MICE industry is expected to grow by a compound annual growth rate (CAGR) of 8.6% to 2025, reaching some USD 441.1 billion. This bodes well for a sector that was largely marginalised over the last two years but, as with the hotel industry, has forced the sector to re-invent itself. Improvements in infrastructure, the ability to host hybrid events, hence reaching larger audiences at a lower cost, and the increasing trend of 'bleisure' means that MICE facilities can look forward to becoming a more profitable venture.

Traditionally, especially for large purpose-built venues, the return on investment was limited to the perceived economic benefit through the multiplier effect. As such, most of the stand-alone facilities were government funded, however as funding has dried up, the question is how can this segment become attractive to the private sector across Asia Pacific?

We anticipate that the demand for MICE across Asia Pacific will continue to grow apace as connectivity and per capita income continues to grow across the region. China and Japan are expected to remain the largest markets, followed by Hong Kong, Macau, Thailand and Singapore as we head into 2024 and beyond. By 2030, we expect India to enter the ranks of one of the fastest growing MICE markets driven mainly by domestic demand. Pricing and ease of access remains a key challenge for organisers, so expect those destinations that can offer both to recover first. Thailand and Malaysia springs to mind.

Key trends shaping the MICE industry post-Covid:

- Hybrid events
- Provision of onsite entertainment and hospitality facilities
- Flexibility in booking
- Less frequent long haul and more local (regional) travel
- Increased automation and use of AI in pricing and service

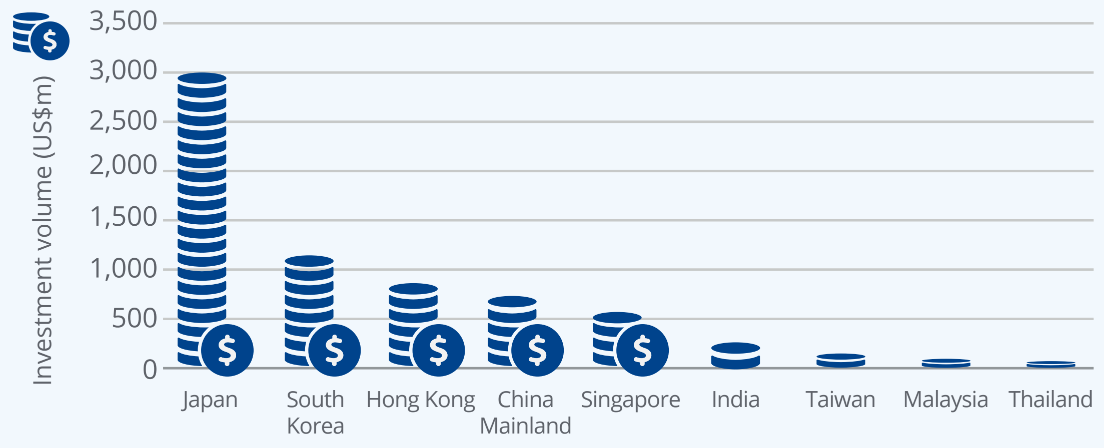
Hotel investment market update

With market uncertainty around the cost of financing and the persistent bid ask gap, transaction volumes in Q2 2023 fell some 22% compared to the same period last year.

We expect this trend to persist for the remainder of 2023 as both sides of the table engage in price discovery. Deals will happen but at a much slower pace, possibly led by alternative financing, with value add propositions being attractive.

Hotels' revenues, led by stronger than expected ADR, have bounced back strongly post-pandemic and coupled with sustained efficiencies has led to strong earnings even as occupancy recovers. This continues to exceed the push of a higher interest rate and inflation environment. Further, it is noticeable that those with strong relationships still have access to capital at competitive rates, thus contributing to the lingering bid ask spread. Should consumers pull back, this gap may well close as earnings growth slows. As such, those with strong cash reserves and access to favourable financing will be leading the way in securing deals, although this will remain a slow process as owners continue to seek pre-pandemic values. We can already see evidence of this in markets such as China, South Korea and Vietnam where there is evidence of asset repricing. The good news is conversions of hotels to alternative use as evidenced during the pandemic may well slow, especially to office, given the outlook for

Where is capital flowing -
Hotel Deal Volume by Destination | H1 2023



Source: Real Capital Analytics, Colliers

this sector. However, the spectre of buy to rent and co-living will continue to stalk opportunities, once again clouding the transaction market for hotel-in-use deals.

Transaction volume

Total transaction volume for the four quarters compared to Q2 2022 was down by 43.5% in Q2 2023 at USD 9.1 billion across Asia. However, it should be noted that the first Quarter of 2022 was before the onset of recent interest rate rises, which was reflected in transactional volumes falling for the remainder of that year and so far in Q1 2023. Interestingly, for the 2023 transactions completed to date, investment into Japan accounts for 50% of all capital committed into the sector across Asia in the calendar year to date, reflecting the attractive pricing and spread that remains for Japanese hotels.

Cross-border transactions accounted for the majority of deals with buyers from the US, Singapore Hong Kong, Canada and the UAE leading deal activity. Full services hotels being the preferred asset class.

Recent notable transactions include:

2023 to date (June) has witnessed significant investment across a number of cities in Japan, with an almost equal balance between domestic and cross-border investors. In Osaka, the 1,039 room Rihga Royal Hotel was acquired by BentallGreenOak for circa USD 400 million; circa USD 388,118 per room. In Tokyo, a joint venture of KKR & Gaw Capital purchased the Hyatt Regency Tokyo for circa USD 418 million - or circa USD 550,000 per room. Most recently, the Red Planet Sapporo Susukino South was sold to a Singaporean investor for USD 12.6 million; circa USD 102,000 per room for the limited-service hotel. In Korea, Grand Hyatt Seoul was transacted for circa USD 522.5 million, or just shy of USD 850,000 per room.

Elsewhere in the region, two substantial sales in Hong Kong marked a return to form for the market following years of inactivity for hotels retaining their use. The Kimberley Hotel in central Kowloon sold for USD 433 million; circa USD 793,287 per key for the full-service property, whilst the sale of the Pentahotel Hong Kong Kowloon achieved circa USD 254 million for 695 rooms which has subsequently been closed to facilitate a full renovation and rebranding by new owners Wang On Properties in their first foray into hospitality investment.

Name of property	Market	Total transacted price (US$m)	Total transacted price per key (US$)
The Kimberley Hotel	Hong Kong	433.00	793,287
Pentahotel	Hong Kong	257.00	369,784
Rihga Royal Hotel Osaka	Japan	400.00	388,188
Hyatt Regency	Japan	418.00	550,000
Red Planet Saprroro Suskuino South	Japan	12.60	102,000
Grand Hyatt Seoul	Korea	525.50	850,000

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