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Savills World Research
Asia Pacific

Briefing
Hotel sales & investment

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Image: Japan

SUMMARY

The acquisition of assets in secondary locations was evident in Q1/2016, and is likely to continue throughout the year as investors feel comfortable operating in secondary markets in pursuit of higher yields.

- The quarterly total of investment sales fell by 15.9% year on year (YoY) to US$1.49 billion in Q1/2016, from US$1.77 billion in Q1/2015.

- Japan was the location with the highest number of transactions, with 42.5% of Q1 sales, worth JPY73.5 billion (US$654.7 million).

- Australia was the location with the second largest volume of transactions, with 25.1% of Q1 sales, worth A$486.4 million (US$373.3 million).

- Of the countries where transactions occurred, Indonesia, Vietnam, the Maldives, Thailand, New Zealand and Australia had positive quarter-on-quarter (QoQ) increases in transaction volumes, in descending order of volume growth.

- By purchaser origin, Japanese buyers were the most active by far, with 41.6% of all purchases; transactions were predominantly located in Japan, and were not cross border capital movements. This is true for buyers of all nationalities, with the notable exception of Singaporean buyers.

- Australian buyers came second, with 17.3% of all purchases, followed by Singaporean buyers with 15.2% and Chinese buyers with 9.8%.

"Despite slower growth in China, hotel investors continue to invest in Asia Pacific, taking a longer-term view on markets such as Thailand and Indonesia, or investing in the traditional markets of Japan and Australia for capital protection." Savills Research

Market overview

The first quarter of this year registered US$1.49 billion worth of investment transactions, representing a 15.9% decrease over Q1/2015 (US$1.72 billion). The number of transactions was also lower – 37 hotels compared to 52 in Q1/2015. Despite this, the average transaction price was higher, at US$40.2 million compared to last year's US$34.0 million.

Thanks to the rapid infrastructure developments across Asia Pacific, investors feel more comfortable buying in secondary markets. In previous years, investors focused mostly on core assets in key gateway cities and as such many assets have already been sold and are unlikely to be back on the market soon. Last year, both the Westin and Hilton were sold in Sydney, whilst in Japan, the Peninsula Tokyo, the Sheraton Hiroshima, and the ANA Crowne Plaza portfolio all sold. As a result, it is likely that we will see more competition over medium- and smaller-sized hotels in these markets.

Northern Asia[1]

Japan saw the most transactions in Asia Pacific, with JPY73.5 billion (US$631.6 million) worth of sales. This is a YoY decrease of 9.4% from Q1/2015. The hotel market benefitted from the 47% increase in visitor arrivals from 2014 to 2015, led by the increase in short-haul Asian visitors travelling to Japan more often but for shorter periods.

Some investors believe that this may be the peak for hotel performance and asset prices in the run up to the Olympics, while others believe that this is just the beginning of increases in visitor arrivals from Asia. On 30 March 2016, the government increased their 2020 visitor arrivals goal for the second time, to 40 million arrivals, double the original forecast. The government is confident in meeting this goal, particularly as the increase in visitors was from a very low base for a developed country, and the percentage of passport-holding Chinese citizens who have visited Japan is still small. Japan is a favourite destination for hotel investment and Chinese investors are likely to play an increasingly larger role.

There were 13 transactions in Japan this quarter. The largest transactions were the Loisir Hotel & Spa Tower in Naha, Okinawa for JPY20.0 billion (US$169.4 million (JPY32.8million, US$278,130 per key)), acquired by United Urban Investment from Morgan Stanley, and the Urawa Royal Pines in Saitama which was acquired by United Urban Investment from Godo Kaisha URP for JPY17.5 billion (US$152.2 million (JPY89, 285,714, US$776,398 per key)).

Real estate investors are trying to leverage the tourism boom. Currently, cap rates stand at the pre-global financial crisis levels of 2007, and are expected to compress further due to the large amount of capital seeking investment opportunities in the country. Regional cities still offer a premium over pre-crisis levels and should continue to compress in 2016. Given the relatively sharp pricing in Tokyo, there remains significant appetite from domestic and international investors for deals in regional cities.

Eastern Asia[2]

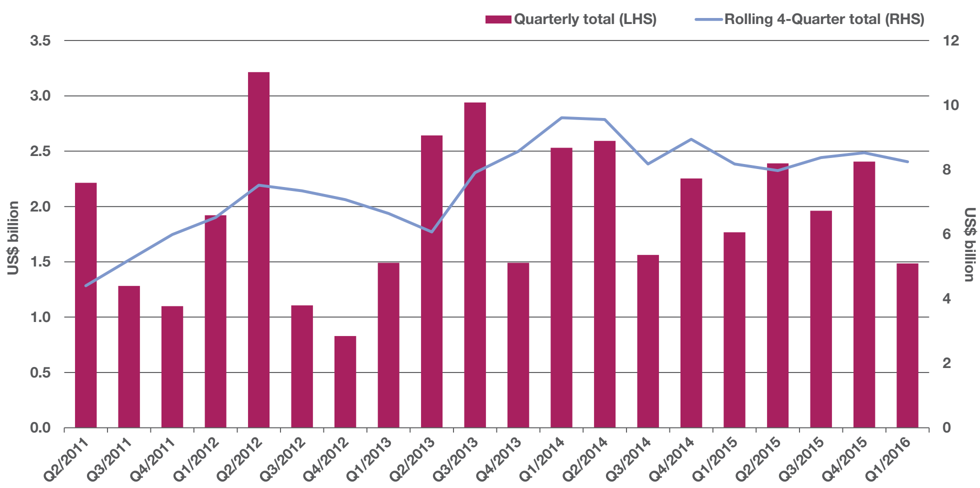
There were four hotel transactions in China this quarter, totalling CNY1.45 billion (US$223.8 million), representing a 17.7% decline on Q1/2015. The 120-room Grand Pujian Residence was acquired by Top Spring Int'l Holdings,

1 Japan

2 China

GRAPH 1

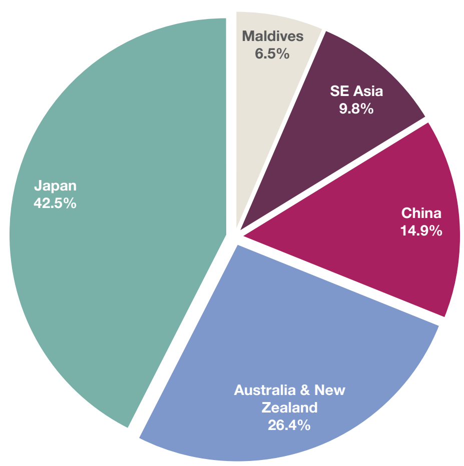
Investment sales transaction values, Q1/2011–Q1/2016



Source: Savills Research & Consultancy, RCA

GRAPH 2

Investment sales transaction volumes by location, Q1/2016



Source: Savills Research & Consultancy, RCA a Hong Kong-listed company, from Real Estate Capital Asia Partners in Singapore, for CNY576.3 million (US$88.1 million (CNY4,802,605, US$734,167 per key)).

The soft market conditions in China are due to the deterioration in hotel operational performance, the bid-ask gap, and the fact that investment underwriting criteria in China are different to international buyers' criteria (yield versus price per square metre). However, due to the economic conditions, hotel owners in China have started to explore more realistic exit strategies.

Anbang's surprise bid for Starwood dominated headlines last month. As we go to press, it appears that Anbang are out of the race, but this is further evidence of big Chinese conglomerates seeking only large hotel portfolios.

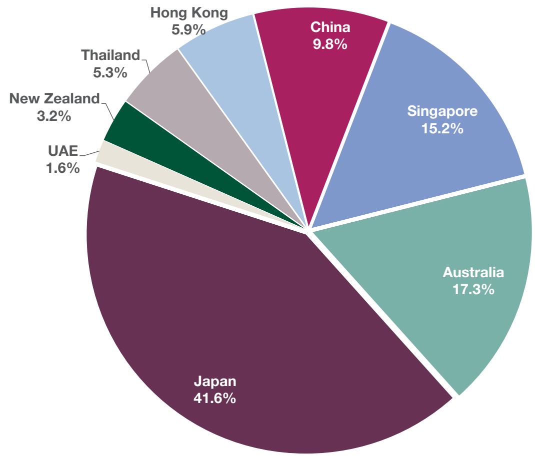
Southeast Asia

Indonesia, Vietnam and Thailand all experienced increases in transaction volumes compared to Q1/2015. Although transaction volumes are still low compared to East Asia or Australasia, they are extremely high growth hotel development countries with high international investor interest.

In Indonesia, Thailand's Minor Hotel Group has formed a 50/50 joint venture with Indonesia-based PT Wijaya Karya Realty to develop the 100-key Anantara Ubud for IDR562 billion (US$41.7 million (IDR5.45 billion, US$414,000 per key)) with Savills as the exclusive agent.

GRAPH 3

Investment sales transaction volumes by buyer origin, Q1/2016



Source: Savills Research & Consultancy , RCA

Indonesia is aiming for 20 million international visitors by 2020. Asian source markets make up 39% of international arrivals and there was an increase of 25% in Chinese visitation from 2014 to 2015. In 2015, Bali welcomed more than 4 million international tourists, an increase of 10.6% per annum (Compound Annual Growth Rate) between 2008 and 2015.

In Vietnam, the 153-key Nam Hoi Hoi An was acquired by Hotel Properties Limited from American Indochina Resorts Limited, for VND1.48 trillion (US$65.0 million (VND 9.69 billion, US$650,000 per key)).

Australia and New Zealand

Australia had the second highest transaction volume this quarter, accounting for 25.1% of transactions across Asia Pacific. There were 16 transactions with a total value of over A$486.4 million (US$344.6 million). This is a 7.7% YoY increase compared to Q1/2015, although a significant decrease in relative growth compared to the 136.2% YoY increase recorded from Q1/2014 to Q1/2015.

The fact that the relative significance of Australia (and Japan) as hotel investment destinations has not diminished in the last year shows that investors still prefer to invest

TABLE 1

Selected investment transactions, Q1/2016

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
Urawa Royal Pines Hotel	Saitama, Japan	152.2	776,398	United Urban Investment
Anantara Ubud	Bali, Indonesia	41.4	414,000	JV- Minor Hotel Group / PT Wijaya Karya Realty
Grand Pujian Residence	Shanghai, China	88.1	734,167	Top Spring Int'l Holdings
Mercure Sydney Parramatta	Sydney, Australia	39.0	169,697	Iris Capital
Novotel Wellington	Wellington, New Zealand	22.3	160,647	Pandey Hotel Corp

Source: Savills Research & Consultancy
Note: JPY/US$ = 115.0; RMB/US$ = 6.54; A$/US$ = 1.40; NZ$/US$ = 1.51

in low risk, predictable economies. These countries are also Asian tourist favourites, being safe and developed countries to visit.

In Q1/2015, both international and local companies were investing in various Australian locations. This trend is continuing across Australia. Of the 16 transactions in Q1, only two – the Vibe Hotel (A$90 million, US$63.1 million) and the Strattons Hotel (A$25 million, US$17.7 million) – were in central Sydney. The former was the largest transaction of the quarter in Australia. In the northwest of Sydney, the Baulkham Hills Adina at Norwest Business Park (A$60 million, US$42.5 million) and the Mercure Sydney Parramatta (A$39 million, US$27.8 million) were notable transactions in suburban areas. The other 12 assets are in diverse locations including Melbourne, Cairns, Port Macquarie, Wagga Wagga, Mudgee, Queensland, and the Central Coast.

In New Zealand there were three transactions, totaling NZ$71.9 million (US$47.4 million). This is a 23.4% YoY increase compared to Q1/2015. The Novotel Wellington (NZ$33.9 million, US$22.3 million) was the most notable deal. The Travelodge Wellington and Heartland Hotel Auckland Airport were also exchanged for undisclosed sums.

Australia and New Zealand are both well regarded among Asian, and especially Chinese, travellers. New Zealand hotel key performance indicators are robust, with a 4% increase in occupancy, 10.5% increase in Average Daily Rate (ADR) and 15% increase in Revenue per Available Room (RevPAR) from 2014 to 2015, according to Smith Travel Research. This outshines Australia's robust growth for 2015, with a 0.1% increase in occupancy, 10.4% increase in ADR and 10.6% increase in RevPAR.

OUTLOOK

The prospects for the market

The investment sales market is expected to remain dominated by Japan and Australia, and quiet in the near term in Southeast Asia and China. In addition, although there is ample liquidity and demand in the market, there remains a mismatch between the expectations of buyers and sellers. The next quarter is likely to be dominated by sales in secondary cities in Japan and Australia. Should concerns over the macro-economy begin to fade and the 'bid-ask' gap narrows, the second half of 2016 could see a resurgence of transactions.

Please contact us for further information

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