COLLIERS INSIGHTS

HOTELS | ASIA | Q3 2020

Govinda Singh
Executive Director & Head
Hotels & Leisure
+65 6531 8566
Govinda.Singh@colliers.com

HOTEL INSIGHTS

A quarterly digest of key trends in the hospitality sector

In this publication we offer insights and recommendations to investors and hoteliers regarding the expected state of travel – both now and as markets start to recover – considering the gradual easing of travel restrictions. In summary:

Hotel recovery will be U-shaped and varied across countries and regions, with a return to 2019 levels unlikely before 2023 given current market conditions.

Domestic travel will return first while international travel will take a longer time to recover.

Short weekend trips for **leisure** will recover first, followed by essential business travel, extended leisure trips, and MICE/group travel.

We recommend **hotels to remain agile** and adopt a 'zero-base' approach for the hotels' soft-opening.

We expect **casino gaming** to witness a significant dip in GGR in 2020, with a return to 2019 levels unlikely before 2022.

INTRODUCTION

Welcome to the Q3 2020 edition of Colliers Hotel Insights, our quarterly report for leisure, hotel and other accommodation stakeholders across Asia.

Over the recent months, governments across the world have generally started to lift travel restrictions and re-open borders as part of the effort to resume travel, promote tourism and revive economies while also treading cautiously considering the risks of new waves of COVID-19.

This edition looks at:

- What to expect for the hotel industry as markets start to recover;
- Which destinations and market segments will recover first and why;
- The potential risk factors;
- Travel trends going forward; and
- What to do to prepare for hotels re-opening.

As COVID-19 containment measures remained largely in place globally in Q2 2020, hotels across Asia Pacific continued to experience poor performance, with overall room occupancy and average daily rate (ADR) showing decreases to 33.9% and US$60.32, respectively. Consequently, Revenue Per Available Room (RevPAR) for the region declined by some 69.9% year-on-year. However, we note this figure may have been further negatively impacted by forex currency movements together with economic fundamentals.

In terms of room occupancy, most markets (except for China, Myanmar, The Philippines, Singapore and South Korea) witnessed year-on-year declines in excess of 40.0%, according to STR. Japan, Thailand, Hong Kong and Vietnam led the field in being the top five lowest performers. In local currency terms, Thailand and New Zealand are the only markets that witnessed year-on-year increases in ADR in excess of 2.0% in Q2 2020.

Looking ahead, the global economic outlook is expected to remain subdued in the near term given the ongoing uncertainty and risks of new waves of COVID-19. Therefore, the outlook for the hospitality industry in the region is expected to be dimmed in the near term. Nonetheless, we believe the hospitality industry will rebound when travel returns given its legacy of resilience and agility.

HOTELS OPINION

The state of travel – what to expect as markets start to recover

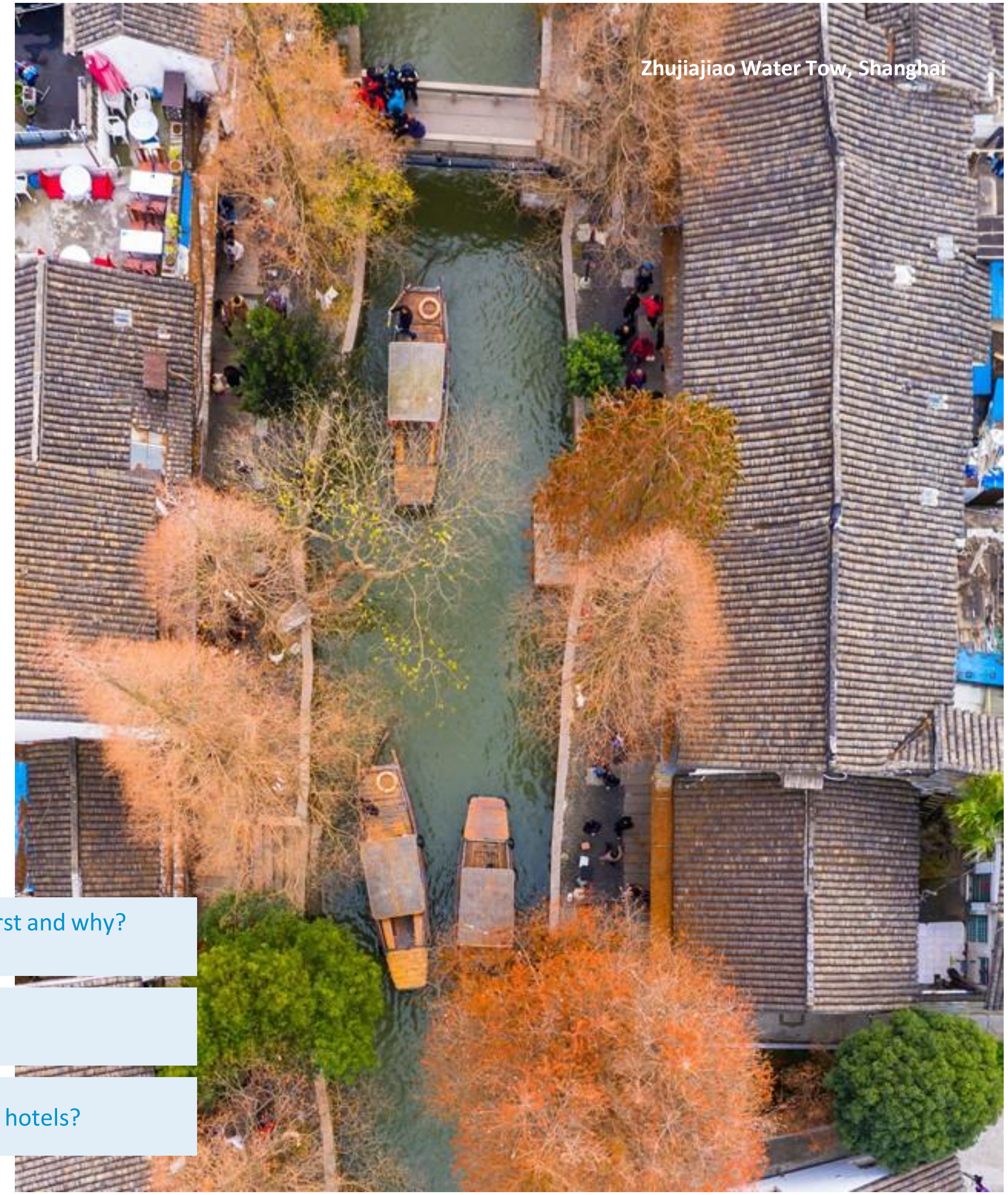
The hotel industry has been hit exceptionally hard by COVID-19; both global and domestic travel have come to a standstill while major business and sporting events have been deferred or cancelled. However, some promising signs of recovery in the hotel industry are being witnessed in China and South Korea – countries that were among the first to be affected by COVID-19 and have been successful in managing the effects – in recent months, which in turn might help shed light on the potential path of recovery for other markets.

As the world slowly recovers from the effects of COVID-19, coupled with the gradual lifting of travel restrictions in several countries, hoteliers are now preparing their properties to re-open. However, hoteliers will need to note that the recovery will vary across properties as it is dependent on various factors including location, economic conditions, demand profile, chain scale, extent of the opening of the travel market, and the effectiveness of containment measures amongst others. Nonetheless, there will be a few elementary areas to be considered by hoteliers as they plan for the re-opening of their properties. These include:

Part I: Which destinations and market segments will recover first and why? What are the potential risk factors?

Part II: What will travel trends look like going forward?

Part III: What can hoteliers do to prepare for the re-opening of hotels?



Zhujiajiao Water Tow, Shanghai

Part I – Which destinations and market segments will recover first and why? What are the potential risk factors?

Domestic travel will return first while international travel, particularly if it involves air travel, will take a longer time to recover. As such, destinations with a considerable domestic travel market that are less reliant on international travel demand and air travel are expected to see a faster recovery than others. Destinations which are advanced in establishing a wide travel bubble network should see a comparatively faster recovery.

Speed of Recovery

Speed of Recovery	Attributes	Destination
Faster Q4 2020	> Have a considerable domestic travel market > Less reliance on international travel demand and air travel > Containment of COVID-19 > Established travel bubble network	> China > Taiwan > South Korea > Japan > Thailand > Vietnam > Australia > New Zealand
Slower Q2/Q3 2021	> Have a small/negligible domestic travel market > High reliance on international travel demand and air travel > Containment of COVID-19 still in progress > Establishment of travel bubble network in progress	> Singapore > Hong Kong > Cambodia > Myanmar > Malaysia > The Philippines > Indonesia

Key risk factors

1. High cost of travel
2. Unemployment
3. Consumer confidence
4. Corporate profitability and outlook
5. Political and economic stability
6. Foreign exchange stability
7. New waves of COVID-19
8. Quarantine measures

Part I – Which destinations and market segments will recover first and why? What are the potential risk factors? (cont'd)

The weekend leisure segment is expected to lead the recovery, driven by the pent-up demand for travel as international travel restrictions and quarantine measures remain largely in place globally. Underpinned primarily by essential business travel, the corporate travel segment is expected to be the next to return, followed by the extended leisure segment as consumers' confidence increases over time alongside the lifting of international travel restrictions. Meetings, incentives, conferences and exhibitions (MICE) and group segments are expected to return comparably slower with the gradual lifting of travel restrictions, high adoption of technology as an effective platform for MICE activities and as consumers' and businesses' confidence slowly recover amongst others.

	Weekend leisure	Corporate travel	Extended leisure	MICE/Group Travel
Timeline	Q2/Q3 2020	Q4 2020/Q1 2021	Q4 2020/Q1 2021	Q2/Q3 2021
Drivers	> Pent-up demand for travel > Consumers' confidence and economic capacity > International travel restrictions and quarantine measures > State of health and safety at the destination	> Political and economic outlook > Business performance and outlook > Essential business travel > State of health and safety at the destination	> Pent-up demand for travel > Consumers' confidence and economic capacity > Foreign exchange rates > State of health and safety at the destination	> Political and economic outlook > Business performance and outlook > Consumers' confidence and economic capacity > State of health and safety at the destination

Key risk factors

1. Availability of a vaccination
2. US containment
3. Pick-up in business confidence
4. US economic growth
5. Green lanes/travel bubbles without quarantine measures
6. Decline in COVID-19 infections
7. Continuation of government stimulus packages

Part II – What will travel trends look like going forward?

Five key trends going forward

Emphasis on health & safety

As markets start to recover, consumers will prioritise health, safety and hygiene when it comes to travel planning and decision making.

Staying closer to home

Travel will be more domestic and short-haul focused given the restrictions on international travel and the sense of insecurity associated with flights and airports. Further catalysing this is the tightening of travel budgets as a result of the effects of COVID-19 on the economy and employment.

Less is more

Personal space has become important. Instead of large tour groups, independent travel with maximum freedom will take precedence.

Seamless and touchless guest services will potentially be the preferred mode of interaction for travelers.

Travel with a purpose

The inability to travel and the prolonged isolation measures may have prompted people to become more introspect. Instead of mass tourism and cookie-cutter travel experiences, people will likely prefer bespoke holidays and seek out travel experiences with a purpose (such as health and wellness, eco-travel, etc.).

Digitizing is vital

Technology will take on a more critical role in the traveler ecosystem and be a key tool in the revival of travel.

Robots, chatbots, automation, recognition technology, artificial intelligence (AI), internet of things (IoT) and virtual reality (VR) technology will become increasingly commonplace.

Part III – What can hoteliers do to prepare for the re-opening of hotels?

Hotel re-opening

Consumer confidence is key to an economic recovery and revival in travel. Therefore, a cross-disciplinary approach towards hotel re-openings is vital so that hotels are well-positioned to build public trust and offer compelling product and service offerings, enabling hotels to thrive in the new operating environment with an evolving customer mix and preferences.

DESTINATION OF THE QUARTER

China

Performance in tourism – Sustained strong growth over the years, but…

With a plethora of tourist attractions related to its history, culture and natural landscapes, China has enjoyed strong performance in tourism over the last 10 years. Between 2010 and 2019, total tourist arrivals in China grew at a compound annual growth rate (CAGR) of circa 11.9% while total tourism receipts grew at a CAGR of circa 17.2%.

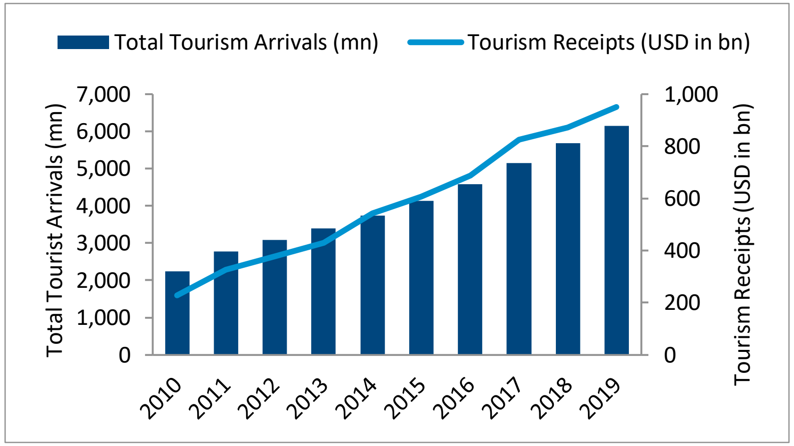
Domestic tourists

Underpinning the robust growth is the buoyant domestic tourism sector which saw visitations by domestic tourism grow at a CAGR of circa 12.4% during the period and reached slightly over US$6 billion in 2019 (from approximately US$2.1 billion in 2010). Key drivers for the growth in visitation by domestic tourists include a growing population in the middle-class segment; rising disposable income of the population (alongside China's growing economy); the initiatives and support from the government to promote the tourism sector; China's economic transformation (promoting local consumption to rebalance China's economy through putting it on a more consumption-driven growth path); and improved transportation infrastructure amongst others. In line with the growth in domestic tourism, tourism receipts from the domestic tourism sector grew at a CAGR of circa 18.2% during the period.

International tourists

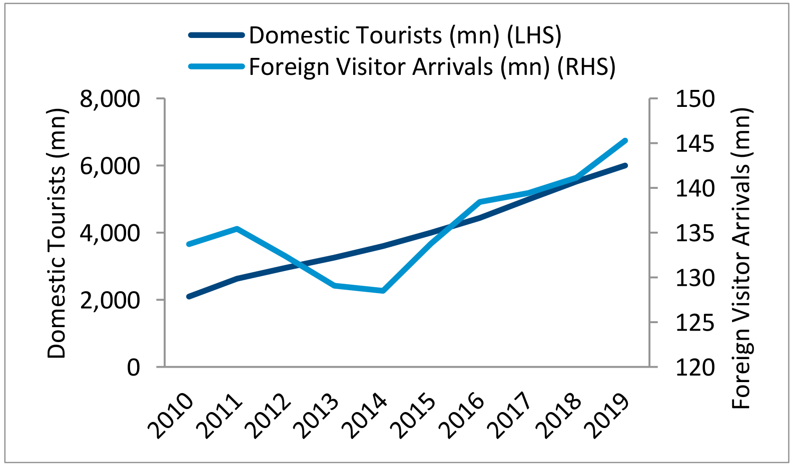
While it constitutes a minor proportion of the total tourism arrivals in China, the volume of foreign visitor arrivals has been on a growth trajectory over the last five years (albeit comparatively more modestly), having picked up significantly from the declining volume of foreign visitor arrivals during the period of 2012 to 2014 due mainly to a synchronised economic slowdown globally and a rising exchange rate of the renminbi amongst others. Key drivers for the sustained growth in the recent years include the gradual relaxation of visa requirements; enhanced connectivity underpinned by the expansion of the low-cost-carrier network; improved transportation infrastructure; and economic initiatives by the government (such as the Belt and Road Initiative and Greater Bay Area Plan) amongst others. On the back of increasing foreign visitor arrivals, tourism receipts grew at a CAGR of circa 12.4% over the last 10 years.

China – Tourism performance (2010 to 2019)



Source: National Bureau of Statistics of China; Colliers International

China – Tourism arrivals (2010 to 2019)



Source: National Bureau of Statistics of China; Colliers International

COVID-19 - Effects on tourism performance

In addressing COVID-19 (with the first reported case in December 2019), the Chinese government acted swiftly and decisively by imposing a lockdown and other forms of travel restriction measures across the country beginning 23 January 2020. This, together with the disinclination to travel, affected the tourism sector adversely. Inevitably, the hotel industry was also hit hard and witnessed a low hotel room occupancy of 7% in early February 2020.

As China started to recover from the effects of COVID-19, it started to gradually lift the restrictions put in place at the end of March 2020, which culminated in the lifting of the over 70-day long lockdown in Wuhan on 8 April 2020; however, the government closed its borders to almost all foreigners at the end of March 2020 as the number of imported COVID-19 cases grew.

Post lockdown

Resumption of domestic travel has been well underway, underpinned by the gradual lifting of measures and the implementation of the government's stimulus plans alongside the promotional initiatives to spur growth and consumption.

This was reflected in the number of domestic tourists during the five-day Labour Day holiday in May 2020, which stood at 115 million, versus that of 43.3 million domestic tourists during the three-day Tomb Sweeping Day holiday in April 2020.

In tandem, tourism receipts generated from domestic tourism during the Labour Day holiday was RMB 47.6 million (approx. US$6.8 million), as compared to that of RMB 8.3 million (approx. US$1.2 million) during the Tomb Sweeping Day holiday.

In line with the improving trend of domestic tourism, the hotel industry in China saw an uptick in occupancy levels month-on-month after bottoming out in February 2020. For hotel ADR, a significant improvement month-on-month was seen in May 2020, boosted mainly by the Labour Day holiday. The momentum continued in June 2020. Accordingly, the hotel RevPAR in China registered a month-on-month growth following the low in February 2020. Such momentum was witnessed in Shanghai and Sanya, while Beijing experienced a softening in the RevPAR in June 2020 due to another lockdown imposed following a new outbreak in the second week of June 2020.

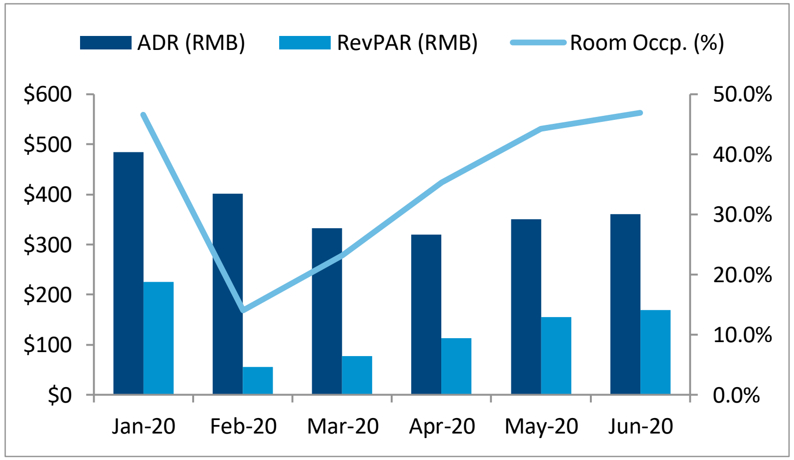
Fresh impetus

As part of its efforts to effectively reopen the economy, in conjunction with promoting domestic tourism, China has been in discussions with several countries on the easing of borders for essential business travel since April 2020.

On 1 May 2020, China and South Korea became the first countries globally to open a "fast channel" for business travel (subject to meeting certain requirements) to facilitate the resumption of business activities. Following which, the "Singapore-China Fast Lane for Essential Travel" was established on 8 June 2020.

While the lifting of international borders will help (to some extent) in promoting tourist arrivals to China, domestic tourism remains, as before, the dominant driver for the recovery of China's tourism performance, which should continue to gain momentum moving forward, alongside the various major holiday periods, including the summer holiday season, National Day holiday, etc. Correspondingly, the hotel industry should continue to see a recovery in its RevPAR performance, albeit cautiously.

China – Hotel Performance (January 2020 to June 2020)



Source: STR

Shimao Intercontinental Hotel, Shanghai

What's next for tourism industry?

Regarding the recovery of travel demand, a few key trends are expected. Vacations in nearby destinations, theme-based vacations (such as outdoor and nature-related destinations, family-theme destinations, wellness retreats, etc.), non-flight vacations and self-guided vacations amongst others are expected to return first.

The profile of potential early travellers is expected to be younger and single travelers; higher income-earners are expected to account for a larger proportion.

Given the economic uncertainties and the effects of COVID-19, travelers' travel budgets might also be more restrained compared to pre COVID-19, although this does not imply a lowering of expectations on the travel experience for travellers. Therefore, aside from ensuring high standards of safety and hygiene, we would encourage hoteliers to maintain agility while proactively reviewing, planning and implementing its marketing and revenue management strategies, alongside the curation of its product and service offerings, to ensure relevance and differentiation to capitalise on these trends in the recovery.

Notwithstanding the above, the tread of recovery remains delicate and can be disrupted or undermined by new waves of COVID-19; however, like any other country, China remains vigilant over the resurgence of COVID-19 until a vaccine is available.

Looking ahead

While noting the near-term challenges as COVID-19 continues to evolve, the medium to longer-term outlook for the China hotel industry remains positive, owing to political and social stability, sustained economic growth, as well as growing consumerism underpinned by the expanding population in the middle-income segment and the rising disposable income of its people.

Concomitantly, the more restrained hotel supply, continuous upgrading of tourism and transportation infrastructures and support from the government to help promote the tourism sector should bode well for the hotel industry in the medium to longer-term. As such, hotel assets in China might remain sought after for investors with a view for the medium to longer-term.

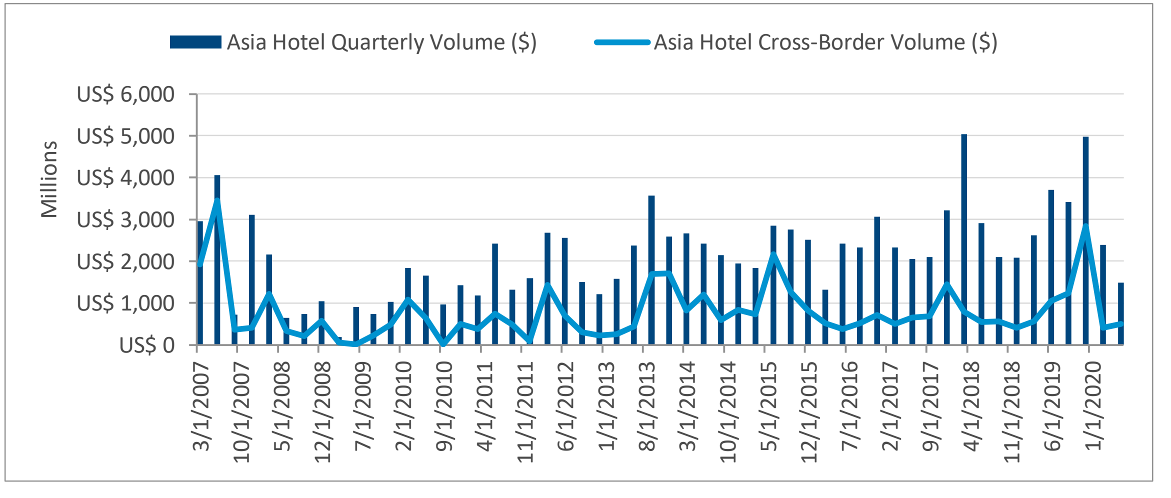
HOTEL INVESTMENT AND VALUATION

Capital markets insights

Following the significant retreat in investment sales in Q1 2020, the hospitality industry continues to witness a further drop in transactions in Q2 2020 to approximately US$1.0 billion, a decline of circa 56.8% and 71.7% quarterly and annually, respectively. This is unsurprising given the COVID-19 situation with investors waiting for improved economic activity or significant pricing adjustments before committing to transactions. The most liquid markets were Japan and South Korea while markets such as Hong Kong SAR, China and Taiwan saw little investment sales during the quarter. With international travel restrictions in place, domestic investors remain the dominant group in investment transactions.

While noting the comparatively lower investment sales during Q2 2020, investor interest has remained fairly firm against the backdrop of economic volatility and uncertainty. In the coming months, we expect investment activity to gain pace as investors move to take advantage of any opportunities that will emerge - although cautious sentiment and stricter underwriting remain key given the evolving situation. For value-add investors and those looking to create a presence in the region's key city and resort markets, this may be the right time to explore. With access to mainstream financing likely to be limited in the near term, cashed-up investors who can transact quickly will be in prime position.

Asia hotel investment



Source: Real Capital Analytics

Recent notable transactions

In this quarter, a considerable number of the transactions across Asia were in gateway cities, where investors remained very active.

Hotel	Location	Value per room (US$)
Queens Hotel	Hong Kong	1,000,000
GLAD Gangnam COEX Center (Hotel)	South Korea	472,000
Village Hotel Ariake Tokyo	Japan	250,000
Hanting Hotel Shanghai South Railway Station	Shanghai	193,000
Hotel Gracery Tamachi	Japan	186,000

Source: Colliers Research
Note: US$ conversions are at time of transaction and represent approx. values.

GAMING & RESORTS

A note on gaming in the current climate

According to figures released by the Gaming Inspection and Coordination Bureau, Macau's Gross Gaming Revenue (GGR) was down 97% year-on-year in June 2020. This reflects a wider trend across Asia, with Singapore expecting between a 65%-75% drop in GGR for the year, Manila 35-45%, and Phnom Penh 25%-35%, according to our estimates. Strict travel restrictions and the dependence on international visitors has shone a harsh light on business models, leading us to ask whether this will result in fundamental changes to how properties target source markets to balance their geographic reach.

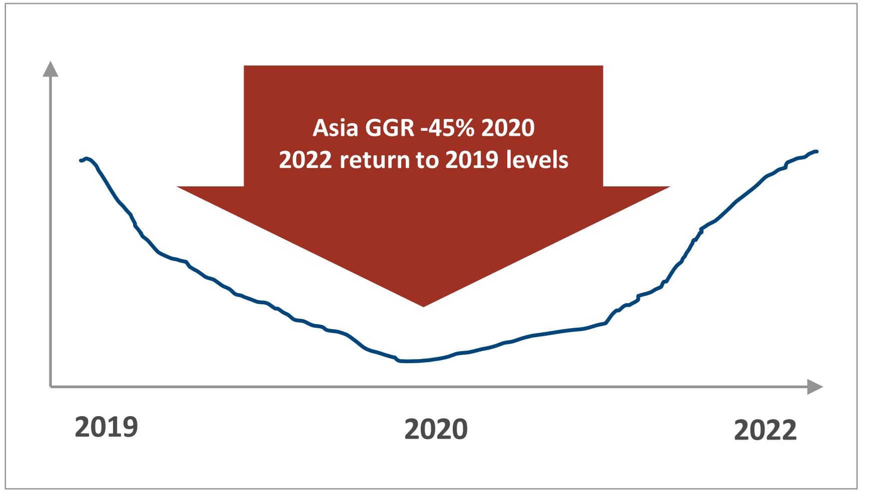
Galaxy Hotel, Macau

The situation has also shone a light on jurisdictions looking to increase or create new integrated resort (IR) developments. Japan's IR hopes will no doubt be dented in the short term, but it won't be surprising if, in an effort to boost government revenues, at least one major IR is fast-forwarded. Expect fringe destinations such as Tinian and Saipan to continue to remain less favored, especially as US-China relations remain fragile.

Recovery

We anticipate any recovery will be directly linked to the removal of quarantine restrictions in both source and destination markets, with a deep decline in 2020, followed by a U-shaped recovery by 2022.

Recovery of gaming business



Online gaming – the big winner?

But for the ban of online gaming, we would expect this segment to be a major winner from the fall-out at land-based casinos. As a segment that was already rapidly growing given the higher increase in smartphone penetration, it is likely to be accelerated in many jurisdictions that do allow it. Perhaps the effects of COVID-19 might also shape governments' mindsets on the online sector, especially those that are more reliant than others on the economic benefit that gaming provides, even it is mostly through taxes.

ABOUT COLLIERS HOTELS

Colliers International launched its specialised hotels division in 1985. Our dedicated hotel specialists are based in Australia, Hong Kong, Singapore, Tokyo, London, Nairobi, Dubai, Boston and Los Angeles.

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- Operator search and selection
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- Tourism strategy and master planning
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- Destination consulting

NEXT QUARTER

OPINION

Hotel Valuations in the Current Market

DESTINATIONS OF THE QUARTER

- Vietnam
- Maldives

Cruise Update

Primary Authors:

Govinda Singh
Executive Director & Head | Hotels & Leisure
+65 6531 8566
Govinda.Singh@colliers.com

Hotel & China Specialist:

Pei Yee Lee
Associate Director | Valuation & Advisory | Asia
+65 6531 8549
PeiYee.Lee@colliers.com

Investment:

Shaman Chellaram
Senior Director | Capital Markets
+852 9815 6459
Shaman.Chellaram@colliers.com