Briefing
Hotel sales & investment

July 2014

Image: Avenue of the Stars, Hong Kong

SUMMARY

Prime yields are hardening in core markets and stabilising elsewhere.

- The total value of investment sales fell by 13.9% year-on-year (YoY), from US$1.97 billion in Q2/2013 to US$1.67 billion in Q2/2014.

- Japan contributed US$1.07 billion or 64% of all investment sales in the reviewed quarter.

- Singapore invested nearly US$330 million or 20% of all investment sales in Q2/2014.

- Investment sales in China and South Korea increased, with transaction volumes surging 431.2% and 198.9% respectively YoY.

- Investment sales in Australia and New Zealand declined 29.1% YoY.

- Southeast and Eastern Asia, including Singapore and Hong Kong, remained quiet in the second quarter.

- The hardening of average prime hospitality asset yields across the survey area is due to the downward pressure on yields, particularly in the core markets. Prime yields in Tokyo, Hong Kong, Singapore and Sydney have reached a level last achieved pre-crisis in 2007, at an average of between 3% and 5%.

"The limited supply of prime assets in core areas is benefiting both core market secondary locations and prime properties in non-core markets." Savills Research

Market overview

The second quarter of the year registered approximately US$1.67 billion worth of investment transactions, representing a 13.9% decrease over Q2/2013 (US$1.97 billion).

Two major transactions concluded in the second quarter provide good examples of investment market trends. Firstly, the sale of the b roppongi Tokyo, Japan for JPY3.50 billion (US$34.5 million) at a cap rate of 4.9% to United Urban Corporation showed that the prime yield gap has been narrowing due to further compression in core markets such as Tokyo. Secondly, the acquisition of Sofitel Wentworth Sydney by Singaporean group, Frasers Centrepoint Limited, indicated that Sydney continues to be a priority destination in the country for Asian hotel investors.

Northern Asia[1]

The robust hotel investment market in Japan contributed the largest transaction volume in Asia Pacific in Q2, with a total of 51 hotels transacted for US$883.0 million, an increase of 70.3% compared with the same period of last year. Eighty-six percent of the acquisitions this quarter were made by Japanese REITs, including Invincible Investment Corporation, United Urban Investment Corporation and Hoshino Resorts.

The most notable transaction was the acquisition of a portfolio of 22 roadside Chisun Inn hotels in various cities of Japan, operated by Solare Hotels and Resorts, which is based in Chiyoda-ku and is under the umbrella of Lone Star Funds by Hoshino Resorts REIT. The price was approximately JPY14.6 billion (US$143.0 million) in total, with a cap rate ranging from 7.3% to 7.8%. Another example of a benchmark REIT transaction in the reviewed quarter was J-REIT Invincible Investment Corporation's acquisition of 20 hotels – mostly limited service facilities – from Fortress for a total transaction volume of JPY45.4 billion (US$443.3 million), and cap rates ranging from 4.6% to 7.9%. Japan's gradual shift towards asset price appreciation, positive hotel performance outlook and low financing costs will continue to stoke investor demand for hard assets.

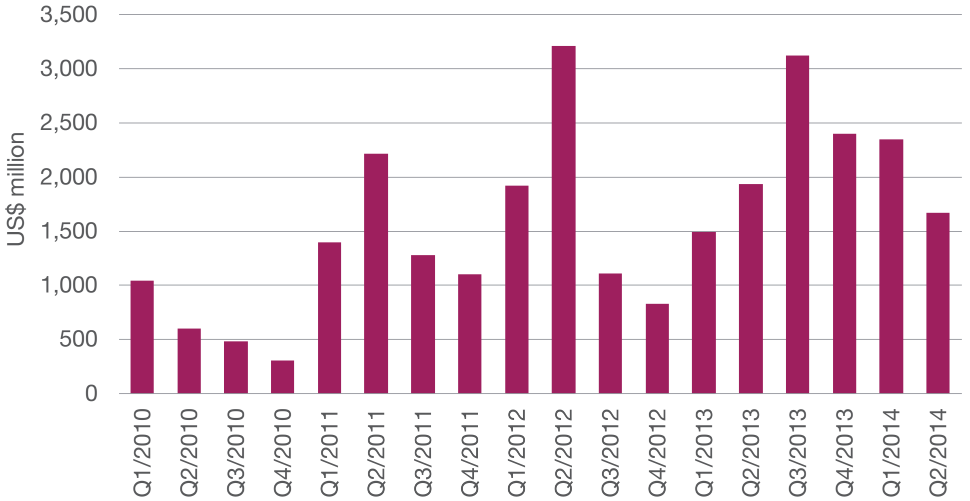
In South Korea, the sale of the 321-room Pullman Ambassador Changwon City was the first transaction in 1H/2014, with a total price of KRW71.1 billion (US$70.0 million) or KRW221.5 million (US$217,949) per room. The buyer was Korea-based Hanlim Engineering & Construction.

The outlook for the Korean hotel investment market remains strong. With strengthening fundamentals, increased confidence throughout the hotel sector, availability of debt and equity capital, and a growing appetite for Korean assets from non-domestic buyers, there is the capacity for new products to garner the competitive and focused attention of the investment community.

1 South Korea and Japan.

GRAPH 1

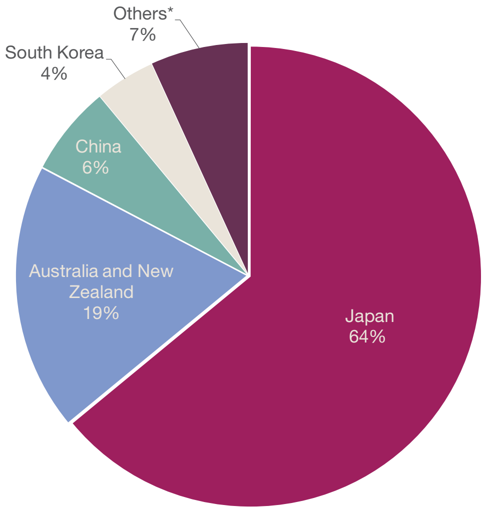
Asia Pacific hotel investment sales transaction values, Q1/2010–Q2/2014



Source: Savills Research & Consultancy

GRAPH 2

Asia Pacific hotel investment sales transaction volumes by location, Q2/2014



Source: Savills Research & Consultancy
*Others including Sri Lanka and Maldives.

Eastern Asia[2]

Hotel sentiment in China was robust, with an approximate 4.3-fold rise over the same of period last year, to stand at RMB655.1 million (US$104.8 million) from three transactions over the second quarter. A notable transaction during the reviewed quarter was the acquisition of the 299-room five-star La Palazzo Hotel in Maoming, Guangdong province by UK-based Ceneric (Holdings) Ltd for a total of RMB584.4 million (US$93.4 million), equating to RMB1.95 million (US$312,500) per room.

Serviced apartments saw growing interest from a number of domestic and international developers/ investors. Ascott Residence Trust purchased the 195-room Shama Luxe Grand Central Serviced Apartment in Dalian, Liaoning province for RMB571 million (US$91.6 million), or RMB2.9 million (US$469,807) per room, with a cap rate of 5.5%. Meanwhile, Guoson Centre (Guofeng hotel) in Shanghai was sold for a total of RMB588.2 million (US$94.8 million) or RMB1.8 million (US$287,209) per room.

2 China, Macau, Hong Kong and Taiwan.

More vendors in Hong Kong are coming to terms with the softening sales market and some are willing to accept lower offers to facilitate a deal, although these are still rare cases and volumes continued to record low levels over the quarter. In the first half of 2014, only two serviced apartments were transacted for a total of HK$505 million (US$65.1 million).

With an increasing weight of capital chasing limited existing hotel stock and minimal new-build stock entering the market, investors and developers are now searching for new ways to bring hotel products to the market. Outdated office towers are being transformed into stylish boutique hotels as investors take advantage of a well-performing hotel sector.

Southeast Asia[3]

Hotel investment activity in Southeast Asia, excluding Singapore, slowed in Q2 in terms of total transaction volumes, with a few deals still in the closing stages.

In the Philippines, supported by robust economic growth, the hotel investment market remained favourable in the first half of 2014. Hotel room supply is relatively low compared with competitor countries, offering attractive opportunities at the moment. The most recent investment action came from Philippines-based Shang Properties, which acquired a 20% partial interest in the 674-room Shangri-la at the Fort for a total value of PHP8.5 billion (US$189.8 million). The current positive sentiment has also attracted some institutional money on the move, with serious negotiations instead of the wait-and-see attitude seen a few years ago.

3 Thailand, Viet Nam, Malaysia, Singapore, Indonesia and Philippines.

With a further interest rate cut by the state bank in March, the hotel sector continued to see improving liquidity in Viet Nam. Currently, the Indochine Park Tower in Ho Chi Minh City is under contract for a total transaction price of approximately VND300.8 billion (US$14.3 million).

Demand from local and international investors declined dramatically amid political instability in the Thai capital. However, demand for holiday destinations in Thailand remains resilient, with more deals expected

TABLE 1

Selected Asia Pacific hotel investment transactions, Q2/2014

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
Fortress Hotel portfolio	Various cities, Japan	443.3	65,464	Invincible Investment Corporation
Sofitel Wentworth Sydney	Sydney, Australia	187.6	430,351	Frasers Centrepoint
The b Roppongi	Tokyo, Japan	35.4	465,790	United Urban Corporation
La Palazzo Hotel, Maoming	Guangdong, China	93.4	312,499	Ceneric (Holdings) Ltd
Pullman Ambassador Changwon City	Changwon, South Korea	70.0	217,949	Hanlim Engineering & Construction

Source: Savills Research & Consultancy
JPY/US$ = 102.4; A$/US$ = 1.07; RMB/US$ = 6.23; KRW/US$=1,016.27

to be concluded in the second half of 2014, such as the acquisition of Movenpick White Sand Beach Pattaya and The Hilton Hua Hin.

Q2 was another quiet quarter for the hotel investment market in Singapore. By the end of the quarter, the owner of Grand Chancellor Hotel, a 328-room three-star in Singapore, Little India, had entered into a sale and purchase agreement with an unnamed party for S$248 million (US$198.9 million). The transaction is expected to be completed on or before January next year.

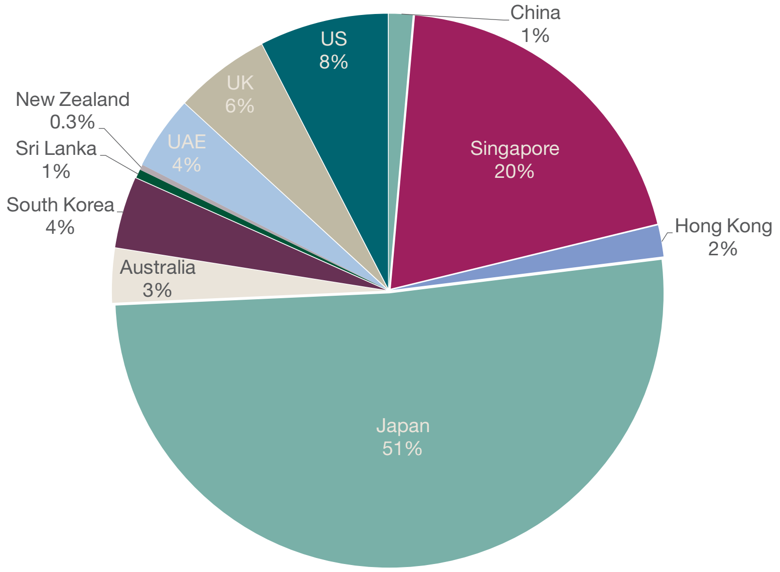
Frasers Hospitality Trust registered an initial public offering of S$367.9 million in June, and has reported strong demand from institutional investors. Frasers Hospitality, which is sponsored by Singapore property giant Frasers Centrepoint Ltd, will have an initial portfolio of six hotels and six serviced residences valued at around S$1.7 billion. The six hotels, from Frasers Centrepoint's Thai parent TCC Group, are the InterContinental Singapore, Novotel Rockford Darling Harbour, Park International London, Best Western Cromwell London, ANA Crowne Plaza Kobe and Westin Kuala Lumpur. The six serviced residences are Fraser Suites Singapore, Fraser Suites Sydney, Fraser Place Canary Wharf, Fraser Suites Queens Gate, Fraser Suites Glasgow and Fraser Suites Edinburgh.

Australia and New Zealand

Savills recorded 11 hotel transactions totalling approximately A$330.2 million (US$306.1 million) in Australia for the reviewed quarter. This was a 30.2% drop from the same period of the previous year, primarily due to the sale of three Rendezvous hotels for a combined A$153.0 million in May 2013.

GRAPH 3

Asia Pacific hotel sales transaction volumes by source of investment, Q2/2014



Source: Savills Research & Consultancy

Overseas investors maintain their strong appetite for Australian hotels, contributing A$1.9 billion (US$1.7 million) of transactions over the last 12 months. The Sofitel Wentworth Sydney was the largest transaction in both the second quarter and the first half of the year. The property was acquired by Singapore's Frasers Centrepoint for A$202.7 million (US$187.6 million), or a price per room of A$464,908 (US$$432,644). Additionally, the Sheraton on the Park, which is currently on the market, is expected to sell to an international investor and fetch in excess of A$450 million.

According to the latest data available from IPD Australia, weighted average cap rates for Australian hotels in March 2014 sit at 8.01%, a decline of 36 basis points over the three months to March 2014. Driven by the current levels of demand from overseas investors, Savills Hotels believes that from Q2/2014, cap rates will continue to tighten over the next 12 to 18 months.

Business conditions are improving around the country, which should lead to increased demand for hotel accommodation as a result of a pick-up in business travel. Savills is currently expecting total sales of hotels in Australia to reach A$1.5 billion for the 2014 calendar year. Although lower than the preceding years, this will be considerably higher than the ten-year average (A$1.1 billion) and will round off a strong period of investment in hotels in the country.

In New Zealand, there was only one hotel transaction for a 17-unit limited service hotel in Auckland, which sold for NZ$6.2 million (US$5.3 million).

OUTLOOK

The prospects for the market

■ Given the ongoing pressure on prime core market yields, a search for higher returns has been observed for some quarters now. Although demand for core assets in Tokyo, Hong Kong, Singapore and Sydney is still high, the limited availability of stock and high prices are fuelling interest in either non-core areas or those completely outside the main investment markets.

■ Regional cross-border investors have increased their share to 20% of total investment. They are particularly active in Australia and Southeast Asia, where they are playing an important role in the recovery of the investment markets.

■ We believe that while the market for core assets will remain highly competitive, investors will continue to seek value through attractive pricing in recovering regions, solid secondary cities and core-plus or value-add opportunities.

Please contact us for further information

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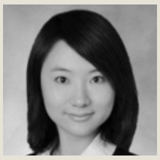

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