Hotels

Global Research | July 2017

The Changing Global Landscape of Hospitality

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The Global Hotels Landscape

The global hotel industry is being reshaped. Not only is the sector facing changes due to the geopolitical and economic landscape, but it is also seeing structural shifts due to technological disruption, changing leisure patterns and new market players. These factors stand to impact the global geography of the hospitality industry, with new and dynamic markets gaining clout vis-à-vis the established destinations.

This new and evolving landscape of hospitality requires innovative ways of assessing market opportunity and risk. Based on a detailed analysis of 106 cities worldwide covering scale, demand growth, construction, investment and performance (see page 5), JLL has identified five dynamic groupings of cities, each of which offers different opportunities and risks for hotel investors and operators:

Global Giants – led by New York and London, these elite cities attract half of global hotel real estate investment into cities and have the deepest concentrations of business and leisure activities to support a large and diverse hospitality industry.

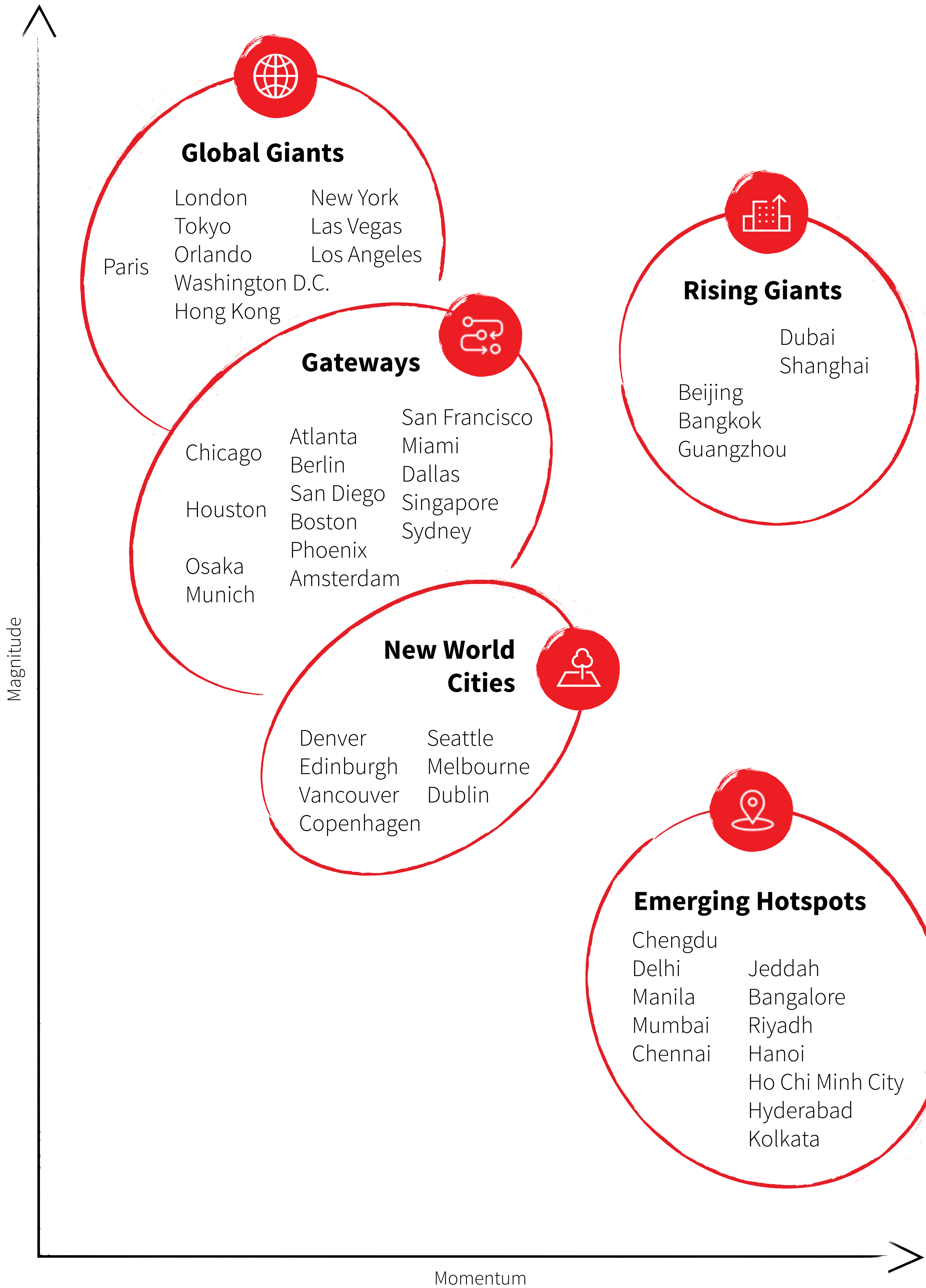
Rising Giants – a group of cities that includes Dubai and Shanghai which are maturing quickly and rivalling the world's leading markets in terms of size and prestige. However, they are yet to attract the same level of real estate investor interest as the Global Giants.

Gateways – this second tier of mature markets in terms of scale comprises cities like San Francisco, Singapore and Sydney. This cluster accounts for another 25% of global hotel investment.

New World Cities – these high liveability, mid-sized cities – as represented by cities such as Vancouver, Dublin and Melbourne – have outperformed in recent years, in terms of hotel occupancy, demand and revenue per available room (RevPAR), as their global status has grown.

Emerging Hotspots – this group of predominantly emerging Asian and Middle Eastern rising stars, such as Chengdu, Bangalore, Ho Chi Minh City and Riyadh, are experiencing rapid expansion as they globalise quickly. Proportionally they have among the largest supply pipelines in the world.

Mapping the World of Hospitality



Source: JLL, July 2017

Measuring Magnitude and Momentum

Hotel sector, travel and tourism related variables have been collected for 106 cities and divided into two categories:

1. Magnitude – measuring the scale and importance of a city's hotel market based largely on number of rooms and hotel real estate investment.

This includes:

- Number of Hotel Rooms
- Hotel Investment Volumes and Intensity
- Number of Rooms under Construction
- Hotel Meeting Space
- Air Passengers
- Home Sharing Site Listings
- Occupancy Rate and RevPAR (US$).

2. Momentum – measuring the speed of change in a city's hotel sector, in terms of socio-economic growth, new hotel room supply and hotel sector performance over the past two years.

- Socio-Economic Growth (including GDP growth, population growth, FDI intensity, air passenger growth)
- Hotel Room Future Supply (as a proportion of existing rooms)
- Hotel Performance (covering changes in demand, occupancy and RevPAR).

* Data correct as of January 2017

Dissecting the City Clusters

Hong Kong
Las Vegas
London
Los Angeles
New York
Orlando
Paris
Tokyo
Washington D.C.

Global Giants

These 9 cities have the world's most established hotel markets, which dominate the hospitality industry and, in particular, real estate investment. They account for nearly 50% of total investment in the hotels sector and represent 7 of the 10 largest markets by room numbers (23% of rooms across the 106 cities surveyed). They are firmly on the radar of investors, notably Chinese, Asian and Middle Eastern capital targeting trophy assets.

Leading this group, London and New York are without doubt the biggest global players. Between them they attract almost 30% of hotel real estate investment (of the 106 cities included) – amounting to more than US$23 billion over the last three years.

This group also includes Tokyo, Hong Kong and Paris, as well as the primary U.S. cities of Los Angeles and Washington D.C. – that between them account for more than 15% of global investment. Currently, Los Angeles shows the highest levels of overall momentum within this elite group.

Despite their huge scale, the Global Giants can still be vulnerable to geopolitical tensions, economic weaknesses and excess supply. For example, Paris has seen demand and performance decline in the aftermath of terrorist attacks; Hong Kong has been impacted by falling visitor numbers from mainland China and currency appreciation; while the uncertainty of Brexit overhangs the London market. Yet the depth of assets, the diversity of demand and their inherent attraction for business, investors and tourists enable these Global Giants to bounce back quickly from shocks.

Las Vegas and Orlando round off the Global Giants group, but stand alone as tourism-dominated cities which have built scale to match the likes of New York and London in terms of room numbers. Indeed, Las Vegas has more hotel rooms than any other city in the world. They are archetypal specialists in the tourism industry and while their economies are diversifying, they are not as integrated as other Global Giants into the global system of cities (ranking 87th and 88th in JLL's Index of Commercial Attraction[1]).

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[1] JLL Global300, March 2017 http://www.jll.com/cities-research/cities/global300

Bangkok
Beijing
Dubai
Guangzhou
Shanghai

Rising Giants

Shanghai, Beijing, Guangzhou, Dubai and Bangkok represent a distinct group of highly dynamic hotel markets that are quickly gaining global scale. These are the successful growth cities which are now establishing themselves as targets for investors and continuing to increase visibility on the global stage:

- Shanghai is on the path to becoming a true 'global city' and is already one of the largest hotel markets in the world, ranking in the top 10 in the 'magnitude' rank. Beyond its massive scale, Shanghai attracted US$1.3 billion of hotel transaction volumes between 2014 and 2016.

- Beijing is now among the top 20 hotel investment destinations in the world, drawing over US$1 billion of investment over the past three years. However, Beijing's momentum has slowed due to lower government demand and lower levels of new development.

- Dubai has established a position as a global hub for tourism and business. Its supply pipeline continues to be among the largest in the world, representing 50% of an already substantial market. Nevertheless, the pace of supply is having an impact on hotel performance, despite demand continuing to increase.

- Bangkok is the world's most popular overnight visitor destination according to MasterCard's latest Global Destination Cities Index. Since political unrest in 2014, Bangkok's hotel sector has staged a strong recovery – however, recent crackdowns mean that the outlook is less bright.

- Demand for hotel rooms in Guangzhou continues to grow, largely from domestic visitors and corporate demand. Although it is yet to garner the same interest as Shanghai and Beijing, the city is following a similar path.

The next Rising Giants?

Shenzhen's strong performance indicators and growing demand suggest it could be the next candidate to join the Rising Giants. Likewise, Moscow and Seoul are just outside this group. However, Istanbul and Sao Paulo have recently fallen out of this group, highlighting the vulnerability of these fast-moving markets to geopolitical tensions or economic headwinds.

Amsterdam	Dallas	Phoenix
Atlanta	Houston	San Diego
Berlin	Miami	San Francisco
Boston	Munich	Singapore
Chicago	Osaka	Sydney

Gateways

U.S. cities again dominate the Gateways group, demonstrating the depth of hotel room supply and demand across the United States. San Francisco, Chicago and Miami are rivalling the Global Giants, while the likes of Atlanta, Boston, Dallas, Houston, Phoenix and San Diego are also markets of significant scale.

In Europe this group includes the well-rounded markets of Amsterdam, Berlin and Munich, while Asia Pacific is represented by Sydney, Singapore and Osaka.

The Gateway cities are defined by strong investor interest – but with smaller scale markets than the Global Giants. They represent roughly 25% of real estate investment globally. Indeed, San Francisco, Miami and Boston are ranked within the top 10 hotel investment destinations, while Munich, Berlin, Amsterdam and Sydney are among the leaders for investment intensity.

Within the Gateways group, Dallas stands out as a market with vigorous momentum, having seen both robust performance in recent years and a significant pipeline of new rooms. Sydney is also a strong performer and is set for a wave of new supply from 2017 onwards, but this is likely to be matched by high levels of occupancy and demand. On the other end of the spectrum, Houston's performance has suffered due to the city's continued dependence on the energy sector during a period of low oil prices.

Copenhagen
Denver
Dublin
Edinburgh
Melbourne
Seattle
Vancouver

New World Cities

Several New World Cities are gaining the attention of the hotel sector. These are typically mid-sized cities that are highly liveable with robust infrastructure and economic specialisms that enable them to punch above their weight in the global economy. Dublin, Copenhagen, Edinburgh, Melbourne, Denver, Seattle and Vancouver are archetypal cities in this group.

- In Europe, Dublin and Copenhagen have seen double-digit RevPAR growth on the back of high levels of demand and low levels of supply. This has encouraged development in Dublin, with a strong supply pipeline planned.
- Denver, Seattle and Vancouver are among the top 30 investment destinations for hotels. Meanwhile, Edinburgh heads the ranking for investment intensity (investment volumes as a proportion of city GDP).
- In terms of construction, Seattle and Denver have come to the fore with regards to new hotel room supply.
- Melbourne is facing high levels of new supply, but with exceptional occupancy rates the city is well positioned to absorb the increased number of new rooms.

Bangalore
Chengdu
Chennai
Delhi
Hanoi
Ho Chi Minh City
Hyderabad
Jeddah
Kolkata
Manila
Mumbai
Riyadh

Emerging Hotspots

Some of the world's most dynamic hotel markets are found in the Middle East and in South and Southeast Asia.

The Middle Eastern markets of Riyadh and Jeddah are following in the footsteps of Dubai – and are each set to double their hotel room supply in coming years. This exceptional supply pipeline is impacting performance, however. In coming years, Jeddah is set to be the major beneficiary from the decision to relax the quota on religious tourists visiting Makkah. In Africa, Nairobi is a fast expanding market, backed up by strong economic growth.

In Southeast Asia, increasing global visibility has boosted the hotel sectors in Hanoi, Ho Chi Minh City and Manila. These cities are among the top performers in JLL's 2017 City Momentum Index.[2] They are starting to be more fully integrated into global networks, attracting high levels of foreign direct investment (FDI), gaining global visibility and building new connections.

In India, exceptional socio-economic growth is buoying the prospects of the hotel markets in its leading cities – just as it propelled them towards the top of JLL's City Momentum Index. The megacities of Delhi, Bangalore and Mumbai are showing strong momentum, as are the hubs of Hyderabad, Chennai and Kolkata. These cities are combining rapid growth with high levels of new supply and growing levels of demand. These cities, however, are yet to attract large scale real estate investment into the hotels sector, although Bangalore saw more than US$250 million invested between 2014 and 2016.

Chengdu is leading the charge among China's second-tier cities, possessing the country's largest supply pipeline. While Chengdu is one of the more balanced of China's cities in terms of demand drivers, it is nonetheless at risk of oversupply.

[2] JLL City Momentum Index, January 2017 http://www.jll.com/cities-research/City-Momentum

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