

Increase in Hotel Investment Reflects Growing Optimism

▼ US\$77.8

Rolling 12 Months
July 2021 ADR

▼ 53bps

Rolling 12 Months
July 2021 Occupancy

▼ US\$38.5

Rolling 12 Months
July 2021 RevPAR

▲ US\$4.7Billion

H1 2021
Investment Volume

Note: Arrows indicate y-o-y change.

HOT TOPICS

- Asia Pacific governments and industry players continue to implement policies and partnerships to revive the travel and tourism industries.
- While the rollout of COVID-19 vaccines is restoring some confidence in travelling and contributing to the gradual easing of travel restrictions in some markets, the situation remains highly uncertain.
- Following a hugely challenging 12 months after the onset of the pandemic, investor sentiment towards hotels has improved in recent months on the back of the vaccine rollout and expectations of economic recovery.
- Regional hotel transaction volume reached US\$2.3 billion in Q2 2021, representing a decline of 5.1% q-o-q. Japan, mainland China, Korea and Australia accounted for the bulk of sales volume during the quarter.

Asia Pacific GDP expected to grow by 6.6% in 2021

H1 2021 saw positive signs of global recovery boosted by the progressive rollout of COVID-19 vaccines. The World Bank expects the global economy to expand by 5.6% y-o-y in full-year 2021.

In the Eastern Asia and Pacific region, the World Bank is forecasting full-year growth of 7.7% in 2021, thanks primarily to a strong rebound in mainland China, which continues to see low COVID-19 rates. However, several other countries in the region witnessed a resurgence in infections in H1 2021, leading to the reimposition of restrictions on social and business activity, negatively impacting economic growth.

While the uneven recovery across geographies and industries is expected to continue, the outlook for 2021 is generally positive, with CBRE projecting full-year Asia Pacific GDP growth of 6.6% y-o-y. However, this forecast depends on a potential resurgence in COVID-19 cases and the pace at which vaccination programmes are conducted.

International tourist arrivals fall by 65% y-o-y in first five months of 2021

Travel restrictions continued to weigh on international tourism in H1 2021, with most countries' borders remaining shut to non-essential visitors.

United Nations World Tourism Organisation (UNWTO) data show international tourist arrivals during the first five months of 2021 fell by 65% y-o-y over the same period of 2020 and 85% over the same period in 2019. However, May 2021 saw some improvement, with arrivals for the month declining by 82% (versus May 2019) compared to 86% in April 2021 (versus March 2019), after several markets relaxed entry restrictions.

UNWTO data show international tourist receipts remained weak in the first five months of 2021, registering declines of between 50% to 90% compared to the same period of 2019.

Governments and industry players continue to implement policies and partnerships to revive the travel and tourism industries. While the rollout of COVID-19 vaccines is restoring some confidence in travelling and contributing to the gradual easing of travel restrictions in some markets, the situation remains highly uncertain.

FIGURE 1: YTD Change in International Visitor Arrivals by Region as of May 2021



Source: UNWTO, CBRE Hotels.

FIGURE 2: YTD Change in International Visitor Arrivals by Region as of July 2021



Source: UNWTO, CBRE Hotels.

Domestic demand is forecasted to drive the recovery

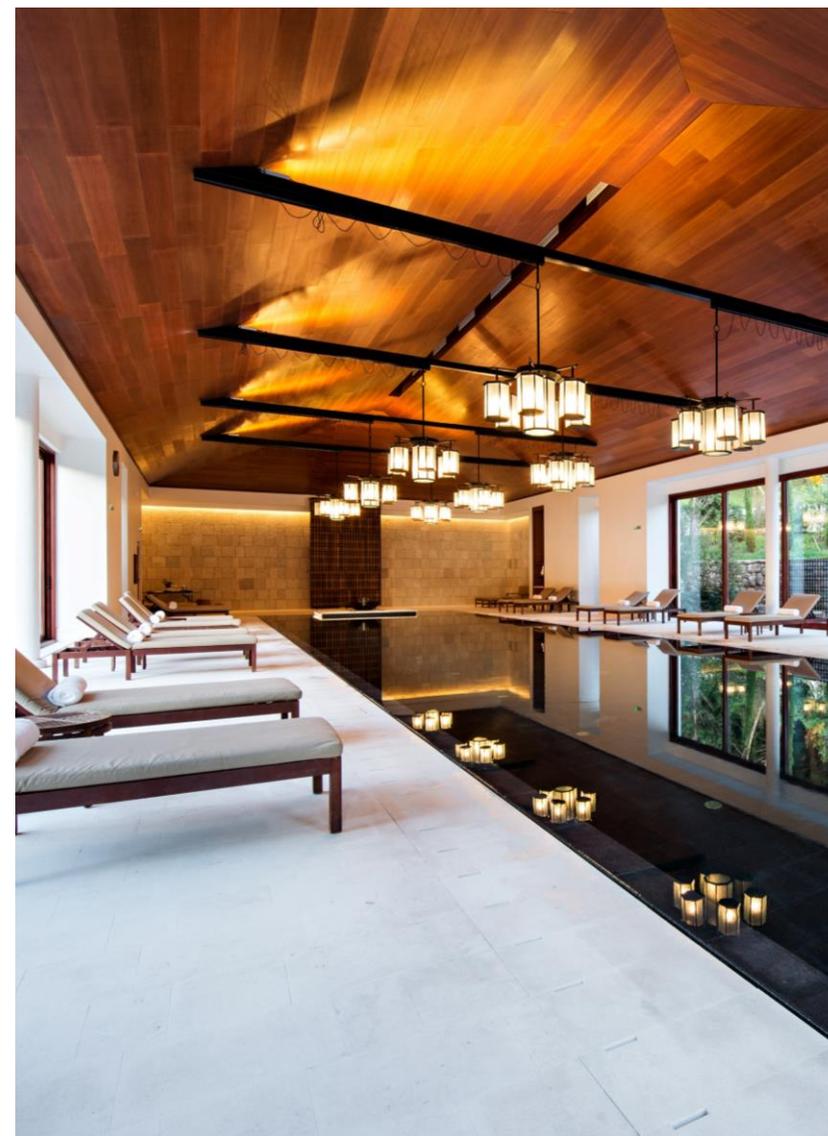
Asia Pacific recorded the largest decline in arrivals of any region for the first five months of 2021, with the number of visitors falling 86.2% y-o-y. This was due to a resurgence in COVID-19 infections and the slow vaccination rollout in several key markets, resulting in the continued imposition of strict travel restrictions and hindering the resumption of international travel.

Despite the current situation, the International Air Transport Association (IATA) is forecasting a strong recovery in the coming years, with global air passenger volume projected to recover to pre-pandemic numbers sometime in 2023-2024.

Many countries have already commenced staged re-openings to tourists. The Maldives opened its international borders on 15 July 2020, becoming the first destination within Asia Pacific to do so. In Thailand, the Phuket Sandbox initiative was launched in July 2021, enabling fully vaccinated tourists to visit the island, subject to certain restrictions. More recently, Singapore reopened its borders to fully vaccinated travellers from Germany and Brunei from 8 September 2021, while Vietnam reportedly plans to reopen Phu Quoc in October 2021.

CBRE expects the regional tourism market to experience a staged recovery. For countries with a large pool of domestic travellers, such as Australia, New Zealand, mainland China and Japan, local leisure travel will be the first segment to recover, supported by subsidies and policies to stimulate domestic tourism.

Corporate travel will be the next segment to recover, with many markets already permitting special exemptions for business travellers. However, the MICE segment is unlikely to experience a recovery in the short-term, due to corporate budget constraints and a reluctance on the part of many people to participate in large-scale in-person events. While international tourism is expected to restart this year, a full recovery will not occur until 2024. Any recovery remains contingent upon high vaccination rates and the creation of travel corridors.



Resort markets benefit from pent up leisure demand

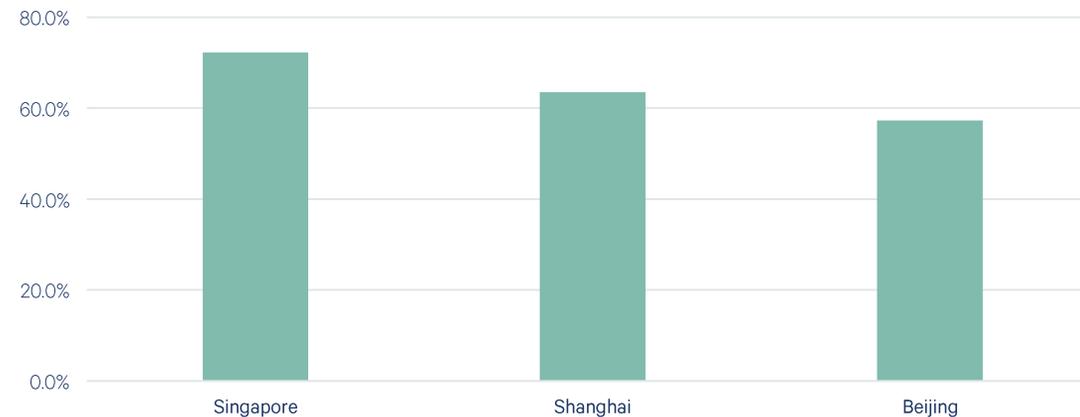
The near total shutdown in international travel ensured Asia Pacific hotel occupancy stood at just 49.5% for the 12 months ending July 2021, compared to 70.2% in the same month of 2019. Outperformers included Singapore, which registered occupancy of 72.2% on the back of government contracts for hotel rooms generated by stay home notices and quarantine orders. In mainland China, Sanya reported occupancy of 73.3%, reflecting the popularity of resort destinations as well as the country's broad domestic tourism base, which has also helped its other major hotel markets record growth in occupancy.

Regional ADR fell to US\$77.78 on a 12-month rolling basis for the year ending July 2021, representing a decline of 22.2% y-o-y. All key markets suffered a y-o-y drop in ADR, with declines ranging from -9.3% to as low as -55.4%. Sanya and the Maldives were the two exceptions, registering increases of 42.4% and 31.3%, respectively.

The strong ADR performance for Sanya and the Maldives contrasts with weaker ADR for city locations, reflecting the popularity of resort destinations as travellers seek to avoid crowded places amid a recent surge in COVID-19 infections.

Asia Pacific RevPAR stood at US\$38.50 for the 12 months ending July 2021, representing a decline of 16.9% y-o-y, underling the severe impact that the pandemic has had on global tourism.

FIGURE 3: Hotel Occupancy in Top Three Markets in Asia Pacific for July 2021 (12 months rolling)



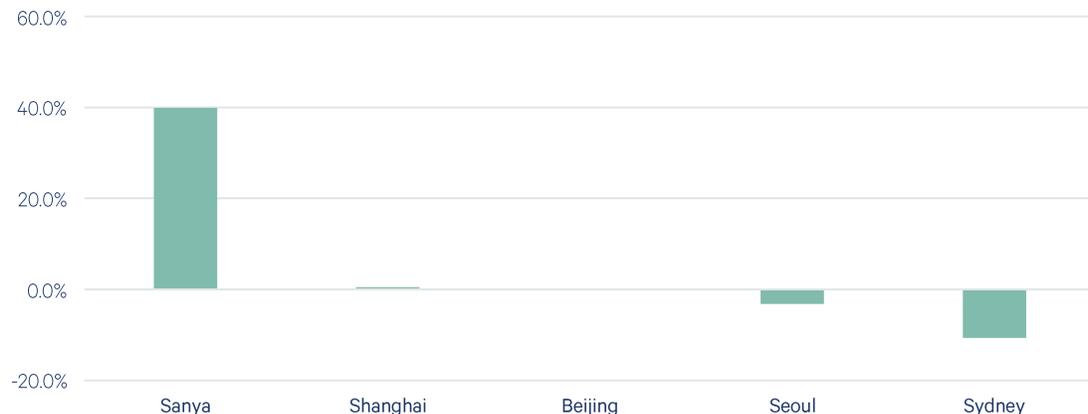
Source: STR, CBRE Hotels.

FIGURE 4: ADR across key markets (USD) for July 2021 (12 months rolling)



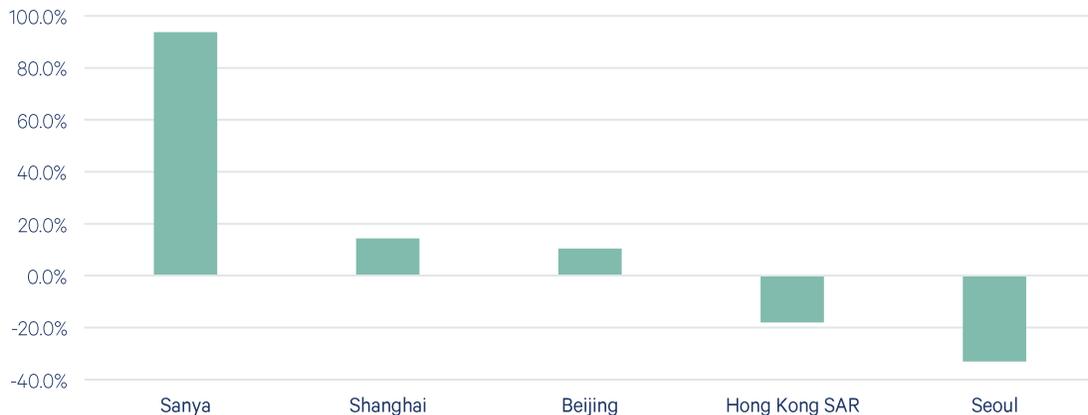
Source: STR, CBRE Hotels.

FIGURE 5: Change in Local ADR for July 2021 (12 months rolling)



Source: STR, CBRE Hotels.

FIGURE 6: Change in Local RevPAR for July 2021 (12 months rolling)



Source: STR, CBRE Hotels.

Selected markets begin to relax travel restrictions

Authorities continue to take steps to mitigate the impact of the COVID-19 pandemic and revive the travel and tourism industries. Following a resurgence in COVID-19 cases during Q2 2021 involving more transmissible strains, many governments have reintroduced restrictions on social and business activity, dragging on recovery momentum. However, others are taking steps to reopen to travel and tourism.

In Singapore, the government continues to work towards reopening. With approximately 81% of the country’s population fully vaccinated, more restrictions have been eased, including setting up special travel lanes for vaccinated travellers from Germany and Brunei. While this is only a small step, it is likely to spur additional demand for tourism and hotels. Elsewhere, Langkawi will reopen for domestic tourism from 16 September 2021 under Malaysia’s first travel bubble. The announcement has been broadly welcomed by the industry, which is hopeful that the scheme will provide a solid foundation for the revival of domestic tourism and could potentially be extended to other destinations such as Penang, Melaka, Sabah and Sarawak.

Following the opening of Phuket to fully vaccinated tourists in July 2021, the Thai Tourism Ministry plans to introduce similar schemes for other cities including Bangkok, Chon Buri, Phetchaburi, Prachuap Khiri Khan and Chang Mai, reportedly commencing on 1 October 2021. While the ministry hopes to attract 1 million visitors to Thailand this year, this figure will be substantially below the approximately 40 million visitors received in 2019.

Vietnam is also planning to reopen to international tourism this year as it looks at ways to revive its economy. From October 2021, the government intends to reopen the resort destination of Phu Quoc to fully vaccinated tourists from abroad.

As the vaccine rollout gains momentum across Asia Pacific, CBRE expects to see increasing consumer confidence, coupled with improved mobility, support the gradual recovery of tourism and hotel markets across the region. However, the pace of recovery will vary, and will depend on individual markets’ COVID-19 strategies. Those with zero-COVID policies involving tight border controls and long quarantine periods will take longer to recover.

Australia and Japan drive investment activity to \$4.7billion in H1 2021

Following a hugely challenging 12 months after the onset of the pandemic, investor sentiment towards hotels has improved in recent months on the back of the vaccine rollout and expectations of economic recovery.

Asia Pacific hotel transaction volume reached US\$2.3 billion in Q2 2021, a decline of just 5.1% q-o-q. Japan, mainland China, Korea and Australia accounted for the bulk of sales volume during the quarter. Major deals included Blackstone’s acquisition of eight hotels from railway holding company Kintetsu Group in Japan for approximately JPY 60 billion. The hotels included Hotel Kintetsu Universal City, which is near Universal Studios Japan in Osaka, and Miyako Hotel Kyoto Hachijo. The other major deal in Japan was the forward purchase of a super luxury hotel, Tokyo Torch, for approximately JPY 56 billion by Mitsubishi Estate and Tokyo Century.

Highlights in Australia included the AUD 620 million purchase of the Travelodge portfolio by Salter Brothers under a new joint venture with Singapore sovereign wealth fund GIC and Partners Group (on behalf of its clients). The portfolio of 11 hotels consisting of more than 2,000 rooms located across Sydney, Melbourne, Brisbane, Perth and Newcastle is expected to be rebranded following an operator selection process.

More investment opportunities set to emerge

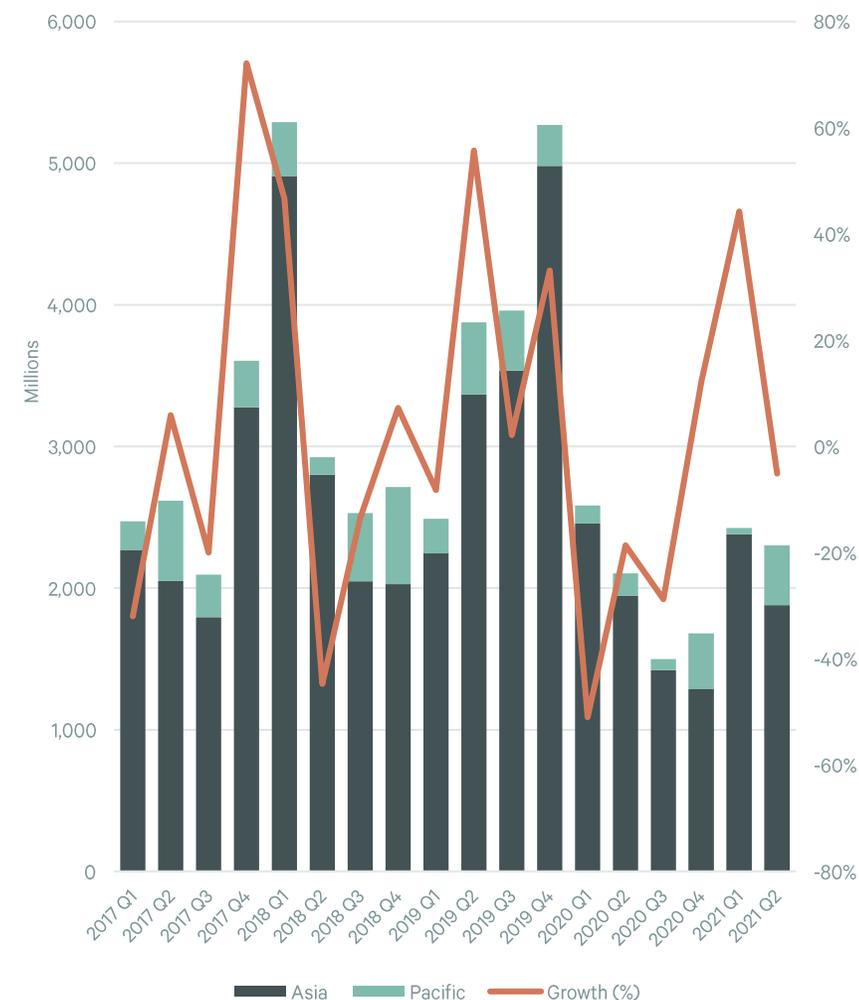
Elsewhere, Outrigger Hospitality Group signalled its return to Thailand with its purchase of a local Thai resort brand with three resorts. The properties will be rebranded as Outrigger Koh Samui Beach Resort, Outrigger Khao Lak Beach Resort and Phuket Manathai by Outrigger and are expected to reopen before the end of the year.

While the pandemic has seen hotel owners having to underwrite lower future trading incomes and discouraged potential investors from entering the market, the recent spate of transactions reflects the fact that this environment has created new opportunities. Well capitalised and experienced investors who are looking beyond the downturn and adopting a longer-term view towards investment returns have been increasingly active in recent months.

The gap between buyer and seller expectations still exists but is narrower compared to 2020. There continues to be a large quantum of capital looking for returns in the hotel sector. With hotel prices having remained stable in some markets such as Australia or in resort destinations like the Maldives, this indicates that yields might have fallen.

CBRE expects hotel investment demand to increase in the coming months as end-user demand improves on the back of rising vaccination rates and expectations of an economic recovery,

FIGURE 7: Asia Pacific Hotel Transaction Volume



Source: RCA, CBRE, 2021

*Including transactions worth over US\$10 million and excluding related-party transactions



Definitions

Average Daily Rate (“ADR”): The average rate charged per sold room and is calculated by dividing total rooms revenue for a period by the number of rooms sold during that period.

Occupancy Rate (“OR”): Calculated by dividing Rooms Sold by Rooms Available.

Rooms Revenue per available room (“RevPAR”): Total Rooms Revenue divided by Rooms Available.

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