

Intelligent Investment

MARCH 2024

APAC Hotels & Hospitality Market Update Hong Kong SAR

BRIEF

CBRE RESEARCH





Contents

- 01 **Executive Summary & Outlook**
- 02 **Tourism**
- 03 **Key Tourism Infrastructure Development**
- 04 **Performance**
- 05 **Supply**
- 06 **Investment**
- 07 **Key Trends**
- 08 **Investment & Taxation Guide**



01 Executive Summary & Outlook

After a prolonged period of challenging operational conditions, hotel performance in Hong Kong SAR rebounded strongly in 2023 following the removal of pandemic restrictions earlier in the year, which led to an increase in inbound travellers.

Hotel performance was outstanding during the eight-day Lunar New Year holiday in February 2024, with the Hong Kong Hotels Association (HKHA) reporting an average room occupancy rate of 93.4% and average room rates of HK\$1,715, both of which are at or above the levels measured for the same holiday period in 2019. The upturn in hotel performance has been driven by the return of global travellers, particularly mainland Chinese tourists, who account for over 79% of all inbound arrivals over the past 12 months.

With a considerable margin still existing between historical and current overnight visitor numbers, CBRE is confident that there will be further operational growth in Hong Kong SAR in 2024, driven by a recovery in occupancy in well-managed assets.

The luxury and upscale segments are expected to see a greater improvement in operating performance in 2024, with these assets having experienced relatively slower price appreciation when compared to other tier I markets in the region.

Whilst hotel operational numbers have improved significantly over the past 12 months, the investment market is still presenting some challenges at this time. Expectations are that borrowing costs will begin to decline in mid-2024 in tandem with the Federal Reserve, which will promote investment activity. However, negative carry and uncertainty over when these rates will begin to move will limit chances of a strong uptick in investment volume.

Private investors will continue to drive acquisitions in 2024, with a value-add and opportunistic strategy as their primary focus. Co-living, student accommodation, and serviced residence operators will further expand their footprint by capitalising on the overall shortage of assets in the living sector and the opportunities presented by the Top Talent Pass Scheme (TTPS).



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02

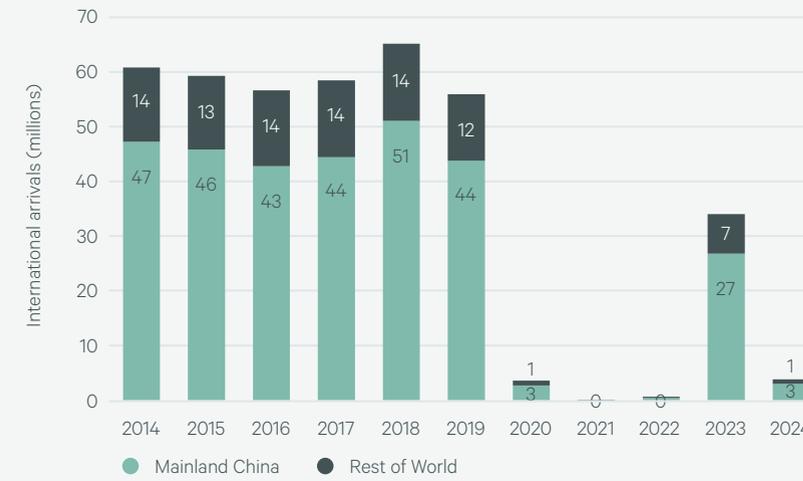
Tourism



Inbound tourism recovers to ~34 million arrivals, surpassing forecasts. Mainland China accounted for over 79% of all arrivals in 2023.

- Over 1.46 million tourist arrivals including 1.25 million mainland Chinese were recorded during the Lunar New Year holidays in February 2024, which surpassed the levels recorded during the same period in 2018.
- Overall per capita spending for overnight tourists into Hong Kong SAR has jumped to HK\$8,212, with the hotels industry seeing HK\$29.2 million of revenue in 2023, a level on par with 2019.
- The Hong Kong Tourism Board (HKTB) expects a full recovery of international tourism by the end of 2025, fuelled by continued influx of mainland Chinese travellers. The HKHA anticipates a full air capacity recovery by the end of 2024, with Hong Kong SAR still performing at around ~24% below full air capacity, according to OAG.

Figure 1: International tourism arrivals (millions) – as of January 2024



Source: CEIC, CBRE Research, March 2024

Top source markets 2023

Mainland China	79%
Taiwan	2.3%
Philippines	2.2%
USA	1.7%
Thailand	1.3%

Figure 2: Overnight visitor spend – By purpose and country in HKD millions (2023)



Source: CEIC, CBRE Research, March 2024

Top spending markets Per Capita – H1 2023

Japan & Korea	HKD 13,541
Southeast Asia	HKD 11,183
EMEA	HKD 10,072
Pacific	HKD 8,667
Americas	HKD 8,409
Taiwan	HKD 8,071
Mainland China	HKD 7,605

03 Key Tourism Infrastructure Development

2024 - 2025

Completion of Kai Tak Development Area

Phase 1
New sports park stadium with 50,000 seats will be the new home for sport tournaments such as Hong Kong Rugby Sevens; new facilities for water sports events etc.

Phase 2
Completion of 25.4 million sq ft retail GFA spanning across four retail malls; Hong Kong's first underground shopping street c.1,500m long.



2025 & Beyond

Completion of 11 SKIES Phase 2

Approx. 570,000 sq ft experiential entertainment facilities, i.e. 4D motion flying theatre, immersive media art exhibition, Paddington themed family play experience, and the first KidZania in Greater China.



Service Launch of the Third Airport Runway

Total airport passenger and cargo capacity to reach 120 mil. pax and 89 million tonnes, respectively by 2030.

Hong Kong-Shenzhen Western Rail Link (Proposed)

Cross-border railway to connect Hung Shui Kiu with Shenzhen's Qianhai 3 stations on Hong Kong side: Hung Shui Kiu, Ha Tsuen, Lau Fau Shan.



Completion of West Kowloon Lyric Theatre Complex

Approx. 441,000 sq ft and 2,320 seats spanning across 3 theatres for performing arts, 8 dance and rehearsal studios and an extensive programme allocation for retail, dining and entertainment.



Expansion of Convention and Exhibition Centre (HKCEC)

The three government towers near HKCEC and Kong Wan Fire Station is planning to be redeveloped into additional convention and exhibition facilities, offices and a hotel – approx. 2.5M sq.ft. The sites are expected to be vacated by 2026 at the earliest for redevelopment.



Wan Chai North Redevelopment

Note: Photo credit to Kai Tak Sports Park Limited & Populous, 11 SKIES 2024 & West Kowloon Cultural District Authority.

04

Performance



The Lunar New Year period saw the average room occupancy rate reach 93.4% (-0.4% vs 2019) and the average room rate climb to HK\$1,715 (+6.0% vs 2019).

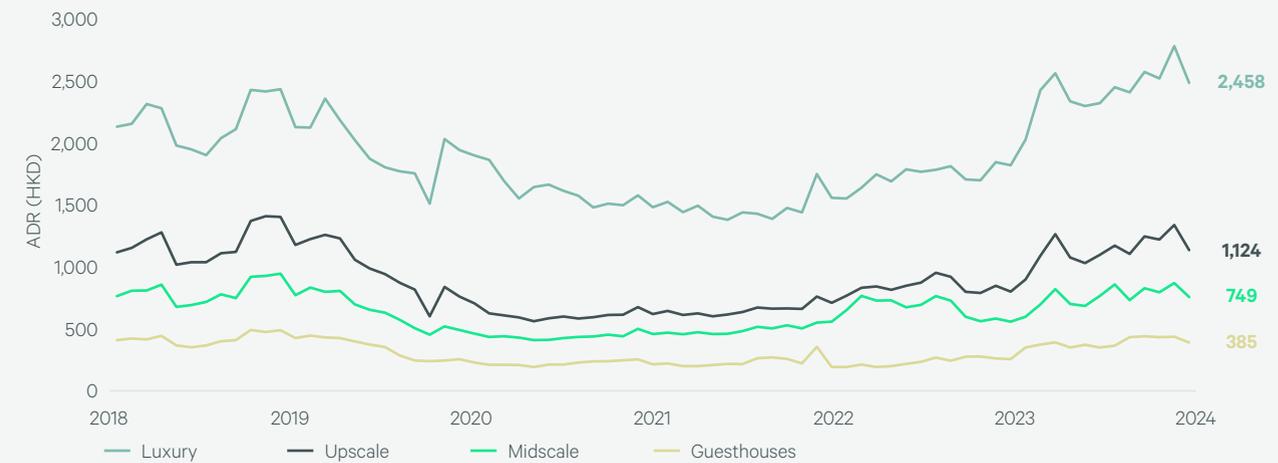
- According to the HKTb, the January 2024 Average Daily Rates (ADRs) of HK\$1,444 were 9% higher than January 2018, with overall RevPAR 1% above the same period.
- The strong January 2024 performance followed a year of recovery in 2023, with full year ADRs averaging HK\$1,395, which was 1.4% above full year 2019 ADRs (HK\$1,375).
- Whilst lagging other Asia Pacific markets in terms of RevPAR recovery, the expectation is that there will be a further recovery in occupancy in 2024, driven by luxury and upscale assets which have yet to see the same price inflation that has been observed in other Asia Pacific markets.

Figure 3: Occupancy rate (%) by scale – As of January 2024



Source: Hong Kong Tourism Board, CBRE Research, March 2024

Figure 4: Average Daily Rate (ADR) by scale – As of January 2024



Source: Hong Kong Tourism Board, CBRE Research, March 2024

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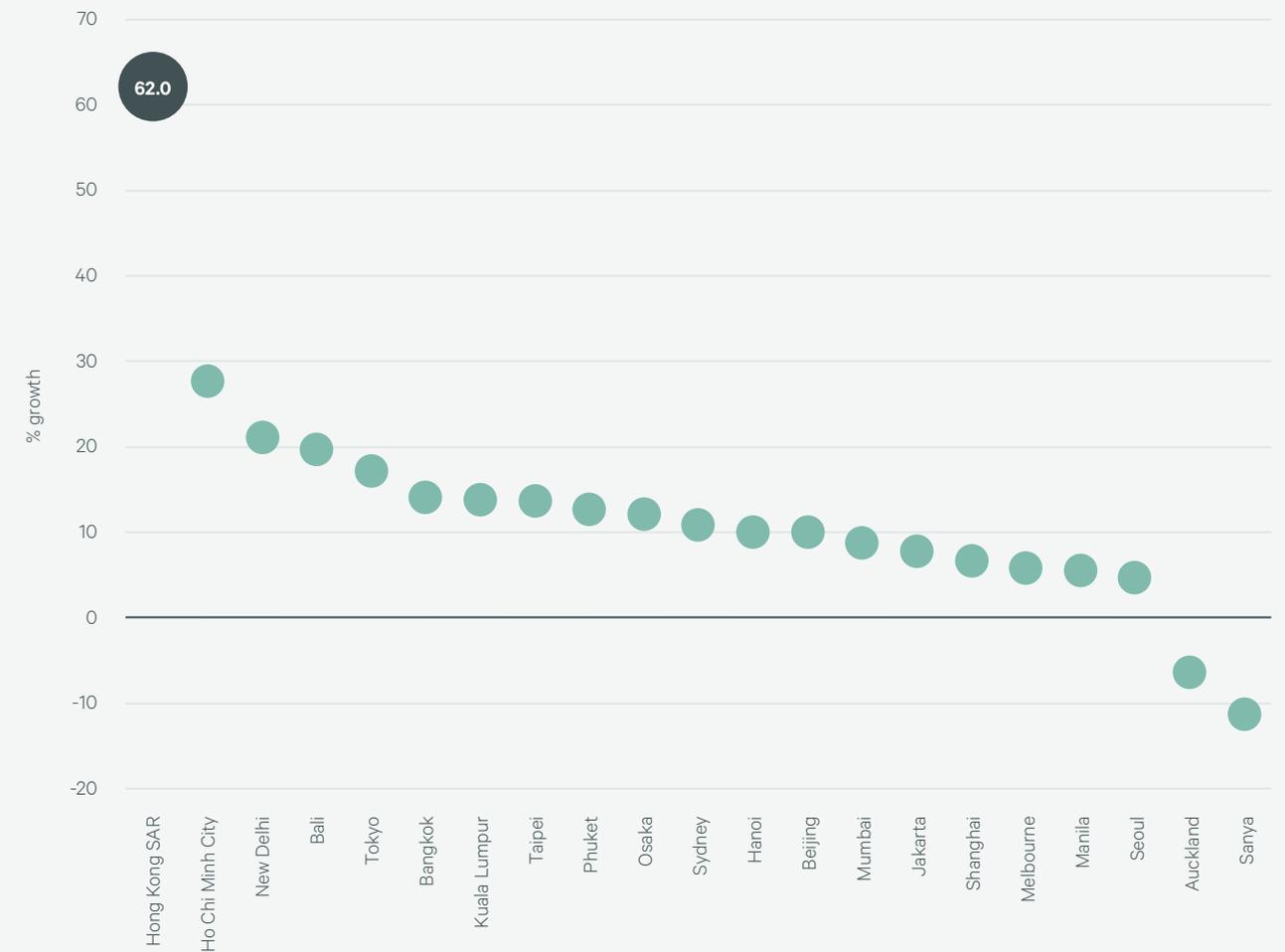
Performance (cont.)



Hong Kong SAR experiences greatest RevPAR recovery of any market in Asia Pacific when comparing February 2024 y-t-d to February 2023 y-t-d.

- Whilst RevPAR remains slightly below 2019 levels, significant growth in the first two months of 2024 has seen RevPAR growth in Hong Kong SAR outstrip every other key market in Asia Pacific by more than 100%.
- The strong growth in RevPAR has been boosted by a period of strong occupancy, with occupancy rates in Hong Kong SAR surpassing 80% in every month since November 2023.
- In terms of average daily rates (ADRs), Hong Kong SAR remains extremely affordable compared to other major markets in the region. When comparing February 2024 to February 2019, ADRs have only registered growth of 3% on a local currency basis. This is relatively mild compared to other key markets in Asia such as Tokyo (+42%), Seoul (+42%) and Singapore (+24%).

Figure 5: RevPAR growth rate (%) – February 2024 y-t-d vs. February 2023 y-t-d



Note: Growth rate shown in a local currency basis
Source: STR, CBRE Research, March 2024

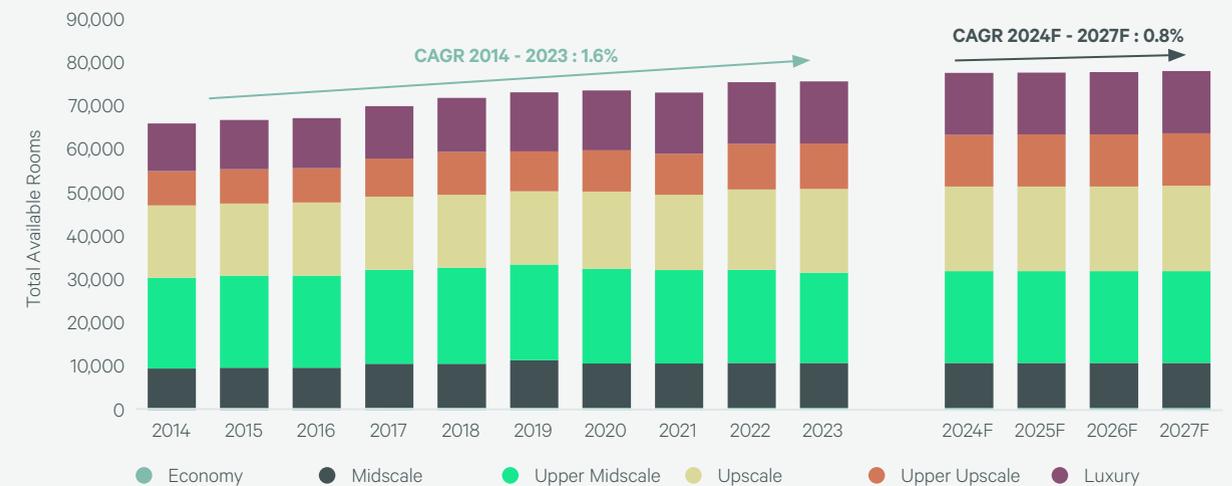
05 Supply



New supply to be extremely limited over medium term, with an estimated 2,515 rooms (3.1% of total market size) due to be completed between 2024-2027.

- Total room inventory in Hong Kong SAR has increased by just 3.4% over the past five years, with all new supply coming to the market (4,569 rooms) being in the Upscale+ segment.
- Whilst relatively unaffected compared to other markets in the region, a cumulative 13% increase in construction costs between 2022-2024F has seen projected completions decrease significantly.
- Most new supply due to come to market comprises Upscale and Upper Upscale developments. Brand penetration in this class will consist of Kimpton Hong Kong Mariners Club and Ascott serviced residences.

Figure 6: Hotel supply by scale – As of January 2024



Source: STR, CBRE Research, March 2024

Figure 7: List of key hotel openings – Hong Kong SAR

Year	Property	Class	Operator	Approx. Room Count
2024	Mondrian Hong Kong	Luxury	Accor	324
	Kimpton Hong Kong Mariners Club	Upper Upscale	IHG	492
	Motto Hong Kong Soho	Upper Midscale	Hilton	274
	Dorsett Kai Tak	Upscale	Dorsett	373
	Shama Hub Metro South Hong Kong*	Economy	Independent	139
	Ascott North Point Hong Kong*	Upper Upscale	Ascott	114
	Metropark Hotel Hung Hom	Economy	CTG	536
2025 & Beyond	Andaz Hong Kong Central	Luxury	Hyatt	123
	Hopewell Hotel	Upper Upscale	Independent	1,000

Note: * denotes serviced apartments/residences
Source: CBRE Research, March 2024

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Investment



Investment transactions total US\$947 million in 2023, down from US\$1,072 million in 2022.

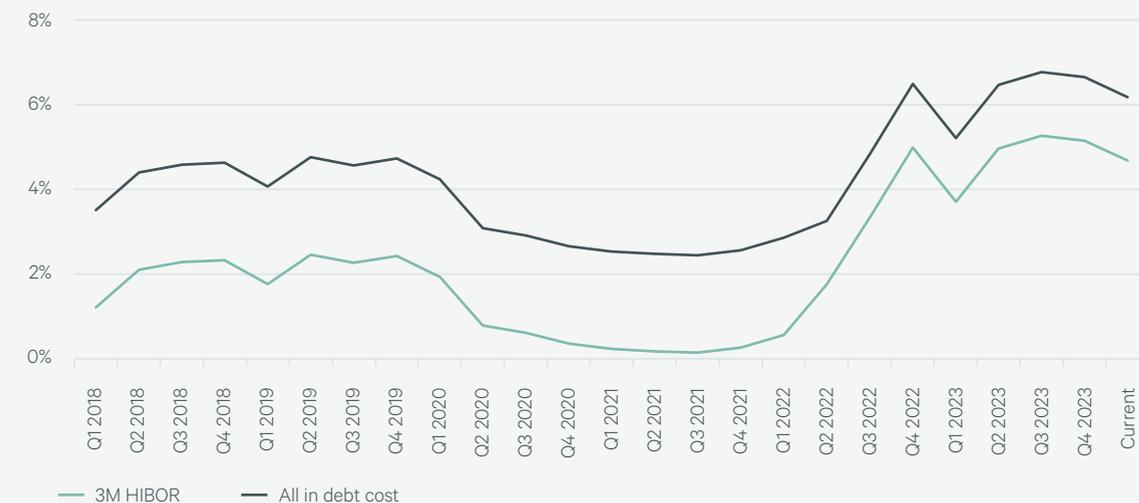
- Whilst investment for pure hotel assets remains subdued at this time, investors continue to look for opportunities to convert existing assets into co-living and student accommodation. Co-living operators such as Dash and Weave have now partnered with institutional investors looking to grow the market in Hong Kong SAR.
- Alongside most other regional markets, hotel investment in Hong Kong SAR was negatively impacted by elevated interest rates in 2023. CBRE estimates that all-in debt costs for stabilised commercial real estate assets stood at approximately 6.18% as of March 2024.
- CBRE forecasts central policy rates in Hong Kong SAR to fall by ~100bps in 2024, with the first interest rate cuts to occur subsequently after the first U.S. rate cut.

Figure 8: Recent key hotel transactions – Hong Kong SAR

	The Sheung Wan by Ovolo	Kimberley Hotel	Pentahotel Hong Kong, Kowloon	Grand City Hotel
Location	Sheung Wan	Tsim Sha Tsui	San Po Kong	Sai Ying Pun
Date	Jan-24	Jan-23	Jan-23	May-22
Price (approx. HKD)	330,000,000	3,400,000,000	2,000,000,000	900,000,000
Number of Rooms	56	534	695	214
HKD / key (approx.)	5,892,857	6,367,041	2,877,698	4,205,607
Vendor	Trio Capital	China Cinda AM	New World Development	Magnificent Hotel Investments
Purchaser	PGIM / Dash Living	China Tourism Group	Wang On Properties / Angelo Gordon	Angelo Gordon / Weave Living

Source: MSCI, CBRE Research, March 2024

Figure 9: Commercial real estate debt costs – Hong Kong SAR



Note: Current as of 11th March 2024. The chart represents a general cost of debt for a stabilised CRE asset.
Source: CBRE Research, March 2024

07 Key Trends

Hotel Accommodation Tax

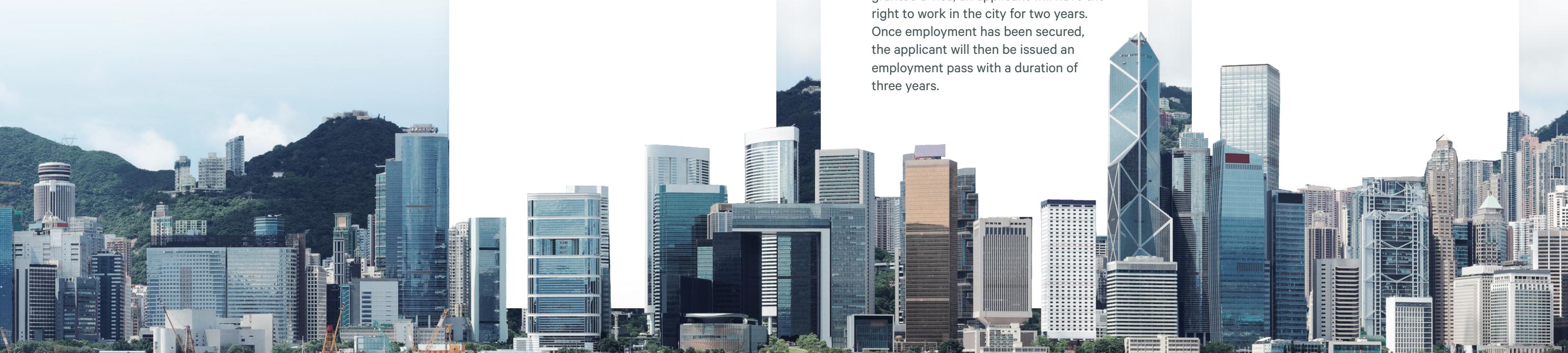
- Under government proposals, the rate of Hotel Accommodation Tax (HAT) will be adjusted from the current level of 0% to the rate of 3%, effective January 2025.
- In most cases, the accommodation charge is the agreed price paid by or on behalf of the guest for the hotel room.
- The normal 10% service charge added to the room rate is exempt from the HAT. Any additional service charge (on top of the 10%) for services incidental to the provision of the hotel room is part of the accommodation charge for the calculation of HAT.

Top Talent Pass Scheme

- The Top Talent Pass Scheme (TTPS) seeks to attract top talent to take up employment in Hong Kong SAR. The criteria is either those who earn HK\$2.5 million+ in annual salary, or those who have a degree from an eligible university alongside the prerequisite tenure of work experience. If the threshold is lowered further, this would add a greater number of experienced hotel industry professionals to the current labour market.
- The TTPS removes the need for an applicant to have secured employment before moving to Hong Kong SAR. If granted a visa, an applicant will have the right to work in the city for two years. Once employment has been secured, the applicant will then be issued an employment pass with a duration of three years.

Hong Kong Tourism Budget 2024

- The 2024-25 fiscal budget has allocated HK\$1.1 billion to promoting mega events and attracting tourists.
- The budget includes provisions for fireworks displays and drone shows every month in Victoria Harbour, and a revamp of the nightly light-and-sound show 'A Symphony of Lights'.
- These initiatives follow significant government spending on boosting inbound arrivals in 2023, including giving away 500,000 plane tickets for visitors to come to the city as part of its "Happy Hong Kong" drive.



08

Investment & Taxation Guide

Foreign Investment

Foreign ownership restrictions

While there are no restrictions on foreign ownership, more policies to protect domestic buyers in the residential market have been introduced in recent years.

On 6 September 2012, the government announced a long-discussed “Hong Kong property for Hong Kong residents” policy under which two residential sites in the new Kai Tak development area can only be sold and resold to Hong Kong SAR permanent residents in the capacity of an individual for 30 years.

Incentives to foreign investors

There are no specific foreign investment incentives. InvestHK is the government agency responsible for promoting foreign direct investment in Hong Kong SAR.



Property Taxes

Government Rates

Charged at a percentage of the rateable value which is an estimated annual rental value of a property and is subject to annual assessment. The current tax rate is 5%.

Government Rent

Charged at 3% of the rateable value of the property on certain land leases (please refer to “Land System” for details).

Property Tax

Payable by owners of property which generates rental income at the rate of 15% on net assessable value which is gross rent receivable minus Rates and 20% allowance for repairs and outgoings.

Profits Tax

All businesses in Hong Kong SAR are subject to tax on all profits derived from Hong Kong SAR, including rental income. The tax rates for incorporated and unincorporated entities are 16.5% and 15%, respectively.

If the income generated from the property chargeable to Property Tax is included as profit, the amount of Property Tax paid may be deducted from the amount of Profits Tax assessed.

Depreciation allowances for tax

Property type	Initial Allowance	Annual Allowance
Commercial Buildings	-	4% of construction cost
Industrial Buildings	20% of construction cost	4% of construction cost
Plant and Machinery	60% of cost	10%, 20% or 30% of the reducing value of the asset

Stamp Duty

Stamp duty is charged on all property transactions. The buyers are subject to the stamp duty rates charged at a progressive rate according to the table below:

Consideration exceeds (HK\$)	Does not exceed (HK\$)	Stamp Duty (HK\$)
-	3,000,000	100
3,000,000	3,528,240	100 + 10% of excess over 3,000,000
3,528,240	4,500,000	1.50%
4,500,000	4,935,480	67,500 + 10% of excess over 4,500,000
4,935,480	6,000,000	2.25%
6,000,000	6,642,860	135,000 + 10% of excess over 6,000,000
6,642,860	9,000,000	3%
9,000,000	10,080,000	270,000 + 10% of excess over 9,000,000
10,080,000	20,000,000	3.75%
20,000,000	21,739,120	750,000 + 10% of excess over 20,000,000
21,739,120	-	4.25%

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