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Savills World Research
Asia Pacific

Briefing
Hotel sales & investment

January 2014

Image: Oriental Hotel Kobe, Japan

SUMMARY

Investment in Asia Pacific hotel properties is at its highest level since 2007, with US$8.7 billion of transactions completed in 2013.

- Total investment sales increased by 23.4%, from US$7.1 billion in 2012 to US$8.7 billion in 2013.
- The Japanese market contributed US$2.05 billion or 23.5% of all investment sales in 2013.
- Singapore investors delivered nearly US$1.96 billion or 22.4% of all investment sales in 2013.
- Investment sales in Singapore and Japan increased, with transaction volumes surging 415.6% and 34.9% respectively year-on-year (YoY).
- Investment sales in Hong Kong and Southeast Asia decreased the most, with transaction volumes falling 73.6% and 24.3% respectively YoY.
- The cap rate treasury spread in the region remained relatively thin until the last quarter of 2013, when cap rates continued to compress at a rapid clip as treasury yields began to move up. An average yield of 5.2% for prime assets was recorded in 2013, 60 basis points lower than in 2012.

"In Japan, Singapore and Australia, a large number of risk-averse investors are still focused on core markets and prime assets. However, opportunistic investors are growing in number (and spending power), driving increased investment in countries such as Thailand, Viet Nam and Indonesia." Savills Research

Market overview

The fourth quarter registered approximately US$1.56 billion of investment transactions, representing an 88.2% increase over Q4/2012 (US$0.83 billion) and bringing the total investment volume for 2013 to US$8.7 billion, an approximate 23.4% increase over 2012 (US$7.07 billion).

Three major transactions in 2013 provide good examples of investment market trends: the sale of a 31-hotel portfolio in Australia, with a total transaction volume of A$800 million (US$721.9 million), to Abu Dhabi Investment Authority indicated that demand from overseas investors in Australia remains at an all-time high; the record sale of The Westin Singapore (US$372.4 million) signalled the health of Japanese investors; and the Hilton Tokyo Bay acquisition (US$293.06 million) showed that Japan hotel REITs were the driving force behind Japanese commercial property transactions.

Northern Asia[1]

It was a very busy year in Japan as the country witnessed US$528.9 million of investment transactions in Q4/2013, contributing a total of US$2.05 billion or 23.8% of all investment sales in the region in 2013. By the end of 2013, yields on prime assets had returned to their 2007 lows and were even lower in the case of prime properties. Both traditional core purchasers and opportunistic investors were more active outside the core segment and ensured that non-core assets accounted for a larger proportion of transactions. However, with significantly higher financing costs for non-core assets compared with the previous boom of 2007 and continued high levels of risk aversion, the extent of this is likely to be very limited.

1 South Korea and Japan.

The largest transaction in Q4/2013 was the acquisition of e Kobe Kyu Kyoryuchi 25 Bankan, including a Louis Vuitton flagship store and Oriental Hotel Kobe by Activia Properties, a Japan-based real estate investment trust. The acquisition price was JPY21.3 billion (US$208 million).

The South Korean economy is forecast to grow by 3.8% in 2014, according to the Bank of Korea. Inflation should remain stable, but the economy is likely to face gradually increasing pressure for an interest rate hike. As such, the South Korean real estate sector will remain stable over the short to medium term, with increasing hotel supply in Seoul and other second-tier cities such as Busan or Daejon adding to the sense that it is currently a buyer's market.

Eastern Asia[2]

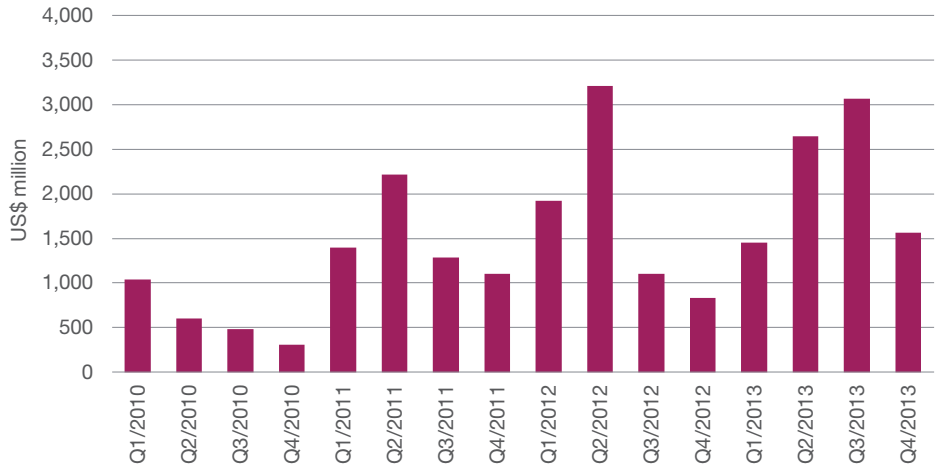
China recorded US$220 million of investment transactions in Q4/2013, which brings total investment volumes to US$1.04 billion for 2013, an increase of 14.8% over 2012.

Shanghai witnessed a robust hotel investment market in Q4/2013. Notable transactions during the reviewed quarter included China-based Shanxi Dongxiang's purchase of the 372-room Regal Junfeng Hotel for RMB600 million (US$98.2 million) from Shanghai Jinfeng Investment. The top three notable transactions in 2013 include the sales of the Hilton Guangzhou Tianghe, the Holiday Inn Downtown Beijing and the Regal Jingfeng Hotel in Shanghai. Despite tightening measures from the government, there are signs of recovering confidence in the property market and this momentum is set to continue. Although occupancy rates will remain a challenge due to the oversupply situation faced by major first-tier and even second-tier cities of China, in the short to mid term, the investor outlook is still positive if the

2 China, Macau, Hong Kong and Taiwan.

GRAPH 1

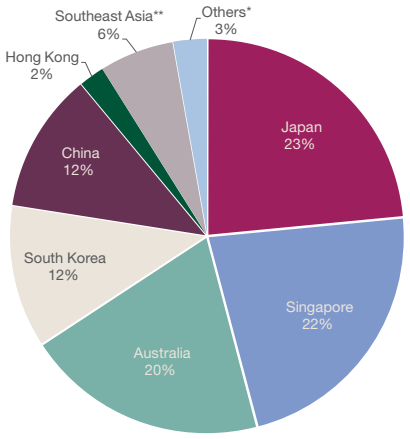
Asia Pacific investment sales transaction values, Q1/2010–Q4/2013



Source: Savills Research & Consultancy

GRAPH 2

Asia Pacific investment sales transaction volumes by location, 2013



Source: Savills Research & Consultancy
*Others includes Sri Lanka, India and Maldives.
**Southeast Asia includes Indonesia, Malaysia, Thailand, Viet Nam and Philippines.

hotel asset fits the strategic objectives of domestic and international institutional investors.

In 2013, four hotels were transacted for a total of HK$1.41 billion (US$182.7 million) in Hong Kong, with per-key values ranging from HK$2.2 million (US$293,076) to HK$6.9 million (US$894,779). Most of the hotels transacted are in the three- and four-star categories with less than 100 keys. The largest deal was the sale of the 98-key Butterfly on Morrison from Butterfly Hotels Group to a local investment consortium for HK$680 million (US$87.69 million). Investment demand in the hotel sector dropped by 73.6% from 2012 to 2013, affected by various factors such as the cooling measures implemented by the government in the first quarter of 2013, vendors firming-up on asking prices and good operating prospects.

Southeast Asia[3]

Hotel investment activity in Southeast Asia, excluding Singapore, continued to soften in Q4 in terms of total transaction volumes, with a decrease of 57% compared with Q4/2012. The total transaction volume registered US$536.31 million in 2013, mainly from Thailand, Viet Nam and Malaysia, a 24.3% drop from 2012. Emerging markets started to take off in 2013, including Koh Samui and Phuket in Thailand, Kota Kinabalu in Malaysia, and Ho Chi Minh City in Viet Nam.

In examining the transaction activities of all the Southeast Asia countries, only Viet Nam shows an increasing trend in terms of volumes, with an increase of 32.7% from 2012. As overseas investors withdraw from the market, domestic investors are taking their place, as illustrated by the Vietnamese VIPD Group's acquisition of Vinpeal Luxury Ho Chi Minh from Vingroup for a total of US$154.8 million.

Singapore witnessed S$606 million (US$483.41 million) worth of investment transactions in Q4/2013, with two hotel sales, bringing the total for 2013 to 11 hotels and an investment volume of S$2.45 billion (US$1.96 billion), 4.15 times higher than the total volume for 2012. In the largest deal of 2013, The Westin Singapore, located in Asia Square Tower 2 at Marina Bay, was sold to Japan-based Daisho Group from BlackRock for a total of approximately S$468 million (US$372.88 million) or S$1.5 million (US$1.22 million) per key, just over a month after its official opening. There is a certain premium attached to The Westin Singapore given its location and strong pool of office tenants, the ongoing planning of the Marina Bay area mixed-use district, and its prestige branding from Starwood Hotel Group. According to the latest statistics from the Singapore Tourism Board, year-to-date November revenue per available room (RevPAR) only increased in the luxury segment by 9.74%, while the upscale, mid-tier and economy segments declined by 10.57%, 3.08% and 8.64% respectively.

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

TABLE 1

Selected Asia Pacific investment transactions, Q4/2013

Hotel	Location	Approximate sale price (US$ million)	Approximate price per room (US$)	Buyer
Oriental Hotel Kobe*	Kobe, Japan	217.8	N/A	Activia Properties
The Westin Singapore	Singapore	372.4	1,221,000	Daisho Group
Butterfly on Morrison	Hong Kong	87.7	884,779	Local investment consortium
Shijiazhuang Yuhua Smartel	China	116.5	50,000	Shanghai Jinjiang International Hotels
Loisir Hotel & Spa Tower Naha	Okinawa, Japan	86.7	141,326	Morgan Stanley

Source: Savills Research & Consultancy
*Including retail component.
Note: JPY/US$ = 103.8; S$/US$ = 1.25; HK$/US$ = 7.75; RMB/US$ = 6.10.

Australia and New Zealand

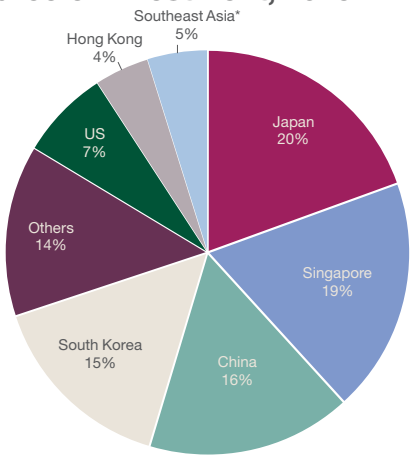
Hotel investments in Australia remained active in Q4 with a total of ten hotels transacted, representing a total transaction volume of A$92 million (US$83 million). During Q4, the Royal Automobile Club of Tasmania acquired a portfolio of regional tourism businesses including Freycinet Lodge, Cradle Mountain Chateau and Gordon River Cruises Strahan Village in Tasmania from the Federal Group for an undisclosed price.

Core hotel assets in gateway cities are still highly sought-after, with Sydney and Melbourne remaining very desirable for Asian investors. New hotel developments in the right location and of an efficient design are starting to stack up. While CBD locations have traditionally struggled to compete against residential and office buildings, the recent rise in values, operator positivity regarding trade forecasts and a dramatic increase in office vacancies for some areas are making hotel conversion and/or development an attractive alternative. Outside Australia's CBD markets, the emergence of modular construction is opening up a wealth of opportunities, with international operators entering into joint ventures with developers to bulk-build portfolios across Australia.

There are currently no signs that the market is slowing. With demand continuing to outstrip supply, current owners are looking to capitalise on rising values and see the next 12 to 18 months as a good time to exit the market. RevPAR across Australia is expected to increase ahead of inflation over the short to medium term, given the relatively strong demand.

GRAPH 3

Asia Pacific sales transaction volumes by source of investment, 2013



Source: RCA, Savills Research & Consultancy
*Southeast Asia includes Thailand, Indonesia, Viet Nam, Philippines and Cambodia.

OUTLOOK

The prospects for the market

- Core properties will continue to be the focus of investors next year. However, in view of the lack of appropriate supply, a notable increase in transaction volumes in this market segment is extremely unlikely. However, the greater impetus will come from the demand side, as higher capital values in the prime segment and short supply will lead even risk-averse investors to seek investment opportunities outside the pure core segment.

- Transaction levels will be buoyed by the low interest rate environment created by monetary policy, with increasing capital flows into the real estate market and rising activity in the non-core segment.

- In addition, there is the long-term risk of interest rate rises and associated yield increases in the bond market. In the event of such a turnaround in interest rates, the yields on core properties, which investors often regard as an alternative to bonds, would be particularly sensitive.

- For that reason, an investment volume of approximately US$9.0 billion is likely to be achieved in the hotel property market in 2014.

Please contact us for further information

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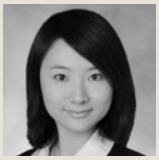

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