TAJARA
Hospitality

Horwath HTL™

Hotel, Tourism and Leisure

Hotel Sentiment Survey 2020

(Impact of COVID-19)

April 2020
Philippines

1.1 INTRODUCTION

As the world continues to find a cure for the new coronavirus COVID-19, there are more cases of infections recorded while death toll continues to rise. Responding to this pandemic, the Philippine government placed Luzon, including the country's capital – Metro Manila, home to more than half of the country's population, under enhanced community quarantine (ECQ) on March 16 to flatten the curve. All cities within implemented curfews from 8pm to 5am and there were strict home quarantine rules, allowing inhabitants to only leave homes to buy food and necessities. Hospitals, banks, utilities, telecommunications, groceries, food deliveries, pharmacies, BPOs and selected manufacturing companies can operate whilst domestic air, sea and land transportation services were suspended to stem the spread of the illness. At that point, the measures were considered one of the strictest in Asia and by the end of March, other key cities and destinations such as Cebu, Boracay, Bohol, Davao also implemented ECQ. Since, Philippine Airlines and Cebu Pacific have suspended all flights, including most international flights.

Most hotels are closed, whilst those which remains open are only allowed to operate on very limited or no-service to limit interaction. Long stay guests who checked in prior to March 17 can continue their residence. Considering the movement restrictions, business outsourcing, telecommunications, manufacturing and similar industries with business continuity plan programs have opted to use hotels to house their employees and project staff.

Horwath HTL in conjunction with Tajara Hospitality has conceived this sentiment survey as a hotel industry level gauge of the impact received by hotels/resorts in Philippines, to understand some of the mitigating measures applied to limit the fallout, and as a quick assessment of future market predictions. We hope it would provide the Philippine hospitality industry with some insights and indications as we navigate through this uncertainty together.
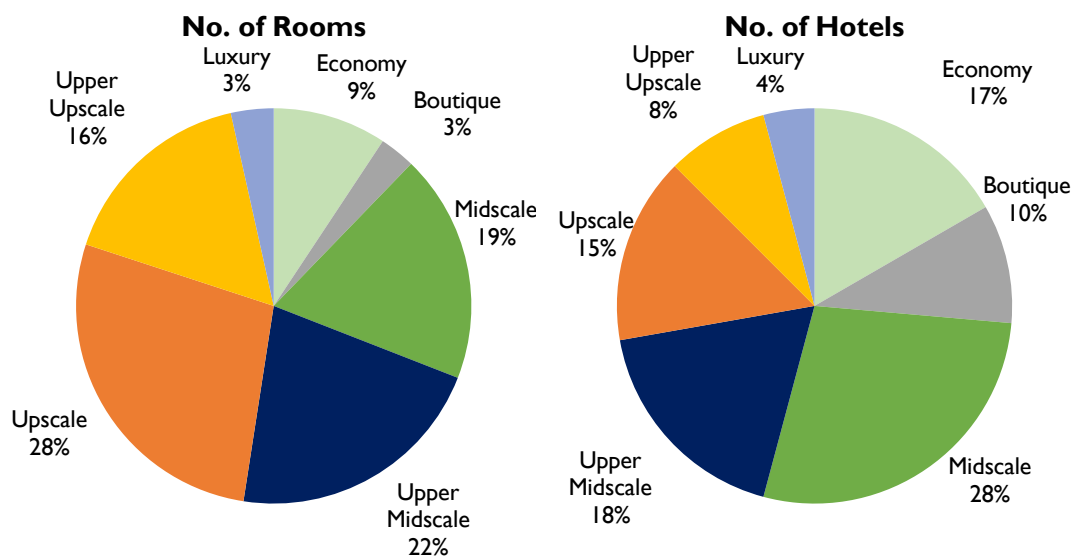
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1.2   PHILIPPINES TOURISM MARKET
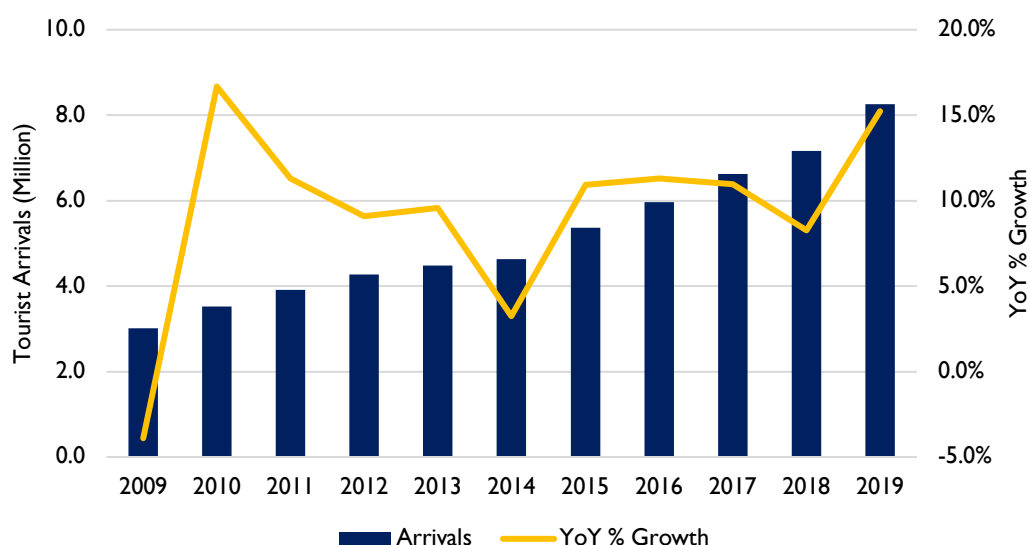
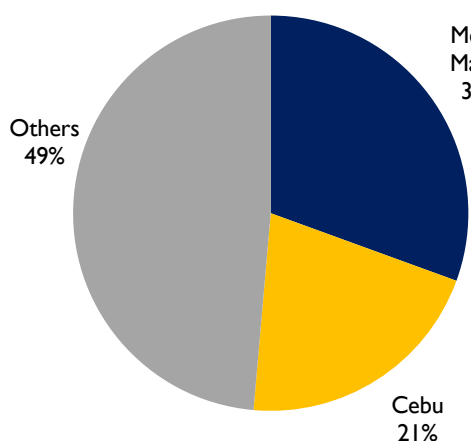|	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Tourist Arrivals	3.0	3.5	3.9	4.3	4.5	4.6	5.4	6.0	6.6	7.2	8.3
YoY % Change	-3.9%	16.7%	11.3%	9.1%	9.6%	3.3%	10.9%	11.3%	11.0%	8.3%	15.2%

Source: Department of Tourism

2020 would have marked the Golden Age of Philippine Tourism. After decades of lethargic growth, it has reached close to 8.3 million foreign arrivals, with 15.2% increase from previous year. The arrivals are shy compared to its Asian neighbors, however domestic travelers account for 110 million in 2018 and expected to have topped 120 million in 2019.   A decade after the Tourism Act of 2009 was signed into law, tourism now contributes 12.7% to the country's GDP compared to 5.8% in 2009. The tourism industry is the second largest contributor to national revenues that has not only generated investment and foreign exchange, but has also spurred employment and become a source of national pride.
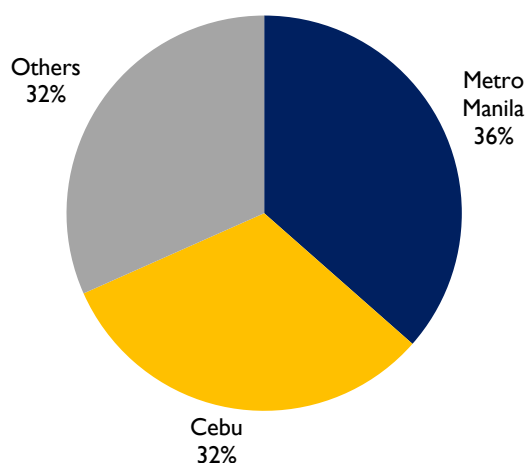
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2.1 DIVERSITY OF RESPONDENTS

Diversity of Respondents (Scale & Location)

No. of Rooms

Luxury 3%
Economy 9%
Boutique 3%
Upper Upscale 16%
Midscale 19%
Upscale 28%
Upper Midscale 22%

No. of Hotels

Upper Upscale 8%
Luxury 4%
Economy 17%
Boutique 10%
Upscale 15%
Midscale 28%
Upper Midscale 18%

No. of Rooms (by location)

Metro Manila 30%
Others 49%
Cebu 21%

No. of Hotels (by location)

Others 32%
Metro Manila 36%
Cebu 32%

Classification	No. of Rooms	No. of Hotels
Economy	1,027	12
Boutique	323	7
Midscale	2,062	20
Upper Midscale	2,374	13
Upscale	3,044	11
Upper Upscale	1,817	6
Luxury	385	3
Total	**11,032**	**72**

Source: Horwath HTL/Tajara

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Diversity of Respondents (Type)

No. of Rooms (by location)

Resort
32%

City
68%

No. of Hotels (by location)

Resort
18%

City
82%
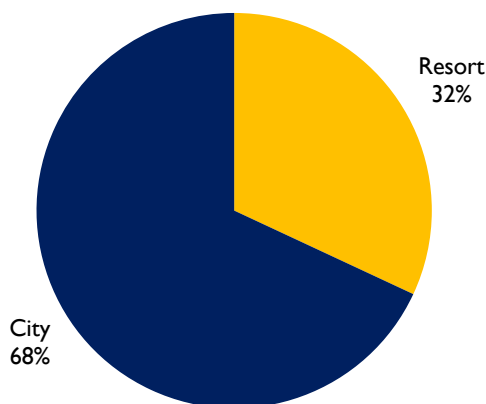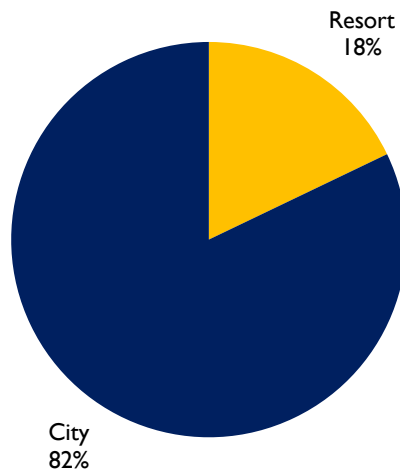
Source: Horwath HTL/Tajara

The Hotel Sentiment Survey was conducted in late March 2020, just as the world braces itself for a long-drawn battle against the virus pandemic. We received a total of 72 responders across 7 classifications to account for 11,032 rooms. For our analysis, we have split the 72 responses into 3 main geographical classification – Manila Metro, Cebu and Others and two hotel types – City and Resort to best understand how each segment is being affected by the pandemic.

3.1 NATIONALITY SEGMENTATION

Country	No. of Respondents
Domestic (Philippines)	67
United States	67
China	52
South Korea	50
Japan	48
Australia	19
Singapore	17
United Kingdom	12
Germany	6
Malaysia	4
France	4

Source: Horwath HTL/Tajara

To understand the market dynamics under analysis, we requested for an indication of the countries which fall within their top 5 demand contributors. Excluding Philippines, above lists the top 10 international demand contributors received by our respondents. Domestic remains a strong market and it is perceived to drive the demand once the lockdown is lifted. The top 5 foreign markets are consistent demand contributors since 2015 – 2018, except for Taiwan that ranked 5 in 2019.

As a comparison, following details the nationality segmentation for the entire Philippines market for 2019. Our findings from the survey largely corresponds to the contribution levels observed nationwide. Korea, China, USA and Japan are the main tourism drivers for Philippines and the survey respondents; of which recovery from and impact of COVID-19 will correlate strongly to these markets.

Nationality Segmentation (Philippines 2019)

	Number	Contribution
Korea	1,989,322	24%
China	1,743,309	21%
USA	1,064,440	13%
Japan	682,788	8%
Taiwan	327,273	4%
Australia	286,170	3%
Canada	238,850	3%
United Kingdom	209,206	3%
Singapore	158,595	2%
Malaysia	139,882	2%

Source: Department of Tourism

4.1 PRELIMINARY MARKET EXPECTATIONS

Question: Based on the current situation, for how long do you assess the influence of the COVID-19 outbreak on the hotel's operating performance will continue?
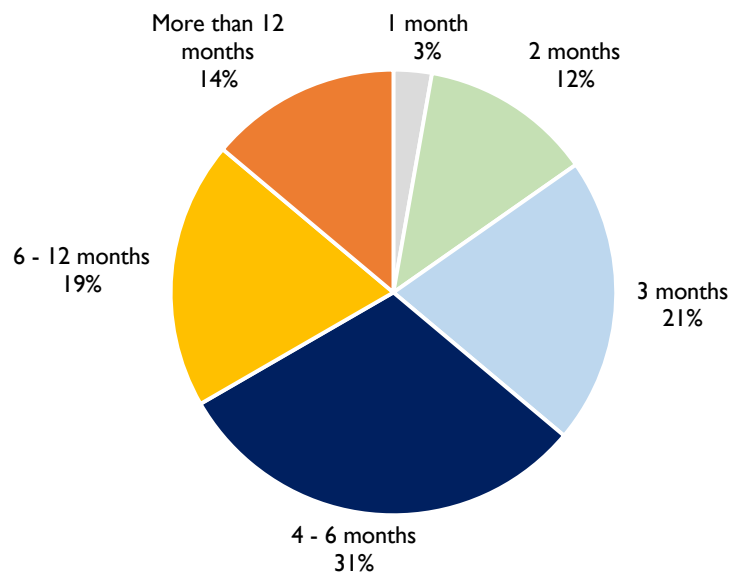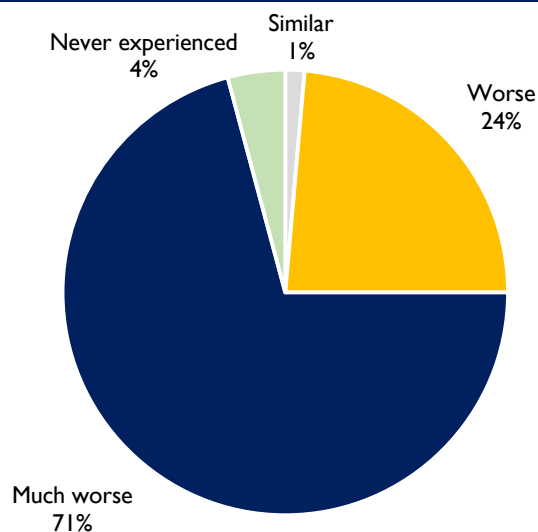

Source: Horwath HTL/Tajara

The effects of COVID-19 were noticeable felt as early as January with booking cancellations during Lunar New Year. Many of the respondents believe that the influence of COVID-19 will last at least 4 months. 31 percent of respondents believe it will last between 4 to 6 months whilst 33 percent of respondents believe it will last more than 6 months.

COVID-19 is unlikely to be solved within the next quarter as the number of transmissions continue to rise throughout most of the world. At the point of writing, only countries in Asia Pacific (APAC) have seen a sustained fall in transmissions with most new cases being imported cases from the West. Now, the world is awaiting a vaccine within the next 12 to 18 months; most have only begun preliminary trials.

Question: How do you assess the influence of the COVID-19 outbreak on the hotel market performance, compared to other similar health scares (e.g. SARS 2003, H5N1 2016)?
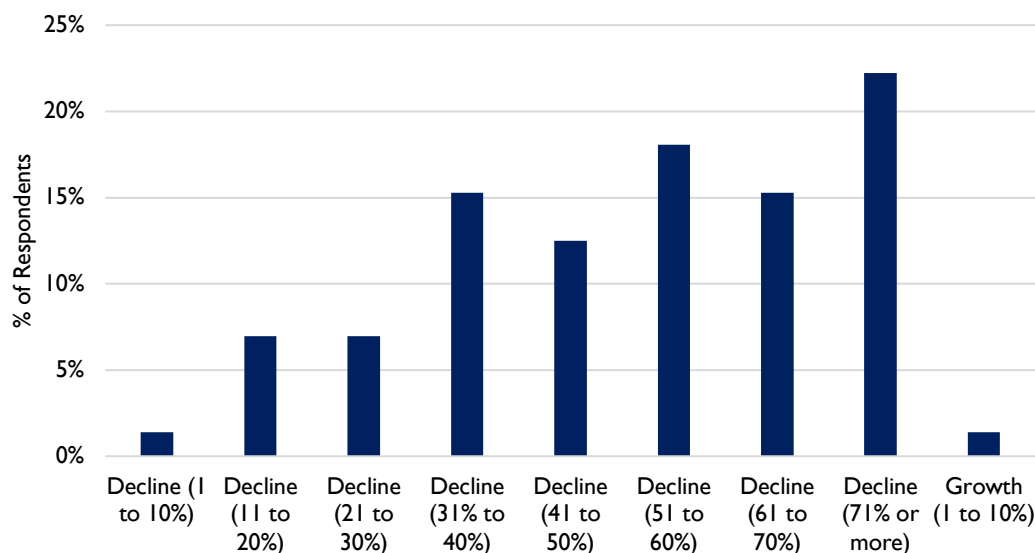

	City	Resort	Grand Total
Much worse	37	14	51
Never experienced		3	3
Similar		1	1
Worse	12	5	17

Source: Horwath HTL/Tajara

COVID-19 may have a lower mortality rate, but its transmission is significantly faster and easier. Resultantly, 24 percent of respondents expect it to be worse and the majority 71 percent of respondents expect it to be much worse than before. The outbreak has brought the country on a standstill with quarantine measures, travel bans and city lockdowns unforeseen before affecting all industries hitting tourism and hospitality the hardest.

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5.1   PERFORMANCE EXPECTATIONS

Question: Considering the influence of the COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline in the first half of 2020 (1H2020) vs the first half of 2019 (1H2019)? [Occupancy]
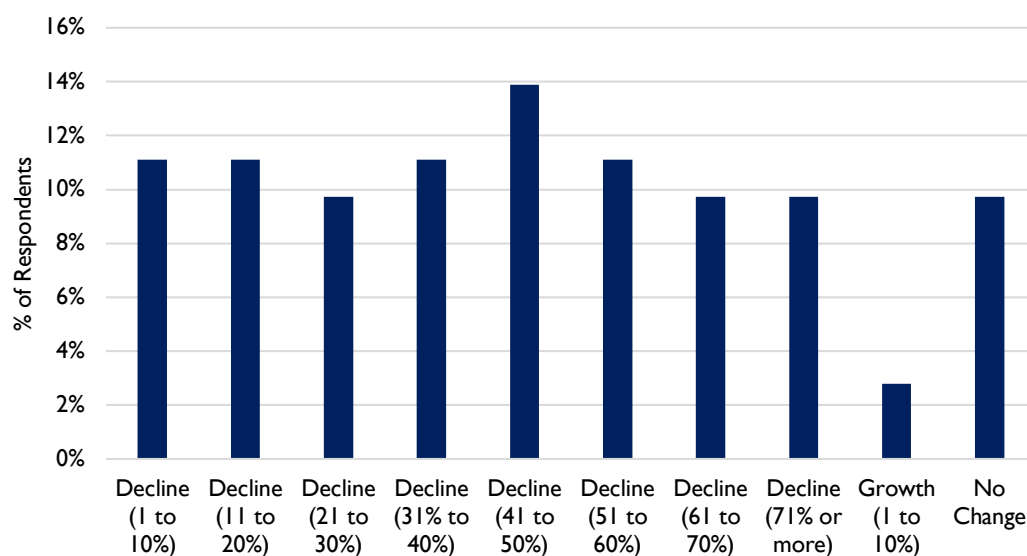

	Cebu	Metro Manila	Others	Resort	City	Grand Total
Decline (1 to 10%)		1			1	1
Decline (11 to 20%)	1	2	2	1	4	5
Decline (21 to 30%)		3	2		5	5
Decline (31% to 40%)	1	5	5	1	10	11
Decline (41 to 50%)	4	3	2	2	7	9
Decline (51 to 60%)	6	4	3	2	11	13
Decline (61 to 70%)	1		10	6	5	11
Decline (71% or more)	1	4	11	11	5	16
Growth (1 to 10%)	1				1	1
Grand Total	**15**	**22**	**35**	**23**	**49**	**72**

Source: Horwath HTL/Tajara

Although hotel performance was up to expectations in January, circumstances deteriorated significantly since. All except two respondents expect a decline in occupancy levels for 1H2020 vs 1H2019. Most expect more than a 50 percent decline in occupancy levels. Hotels in the Others segment appear to be most pessimistic about future performance likely because they belong in secondary locations. Between the two accommodation types, resorts seem to be more pessimistic with occupancy declining 71 percent or more.

Question: Considering the influence of the COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline in the first half of 2020 (1H2020) vs the first half of 2019 (1H2019)? [Average Room Rate]
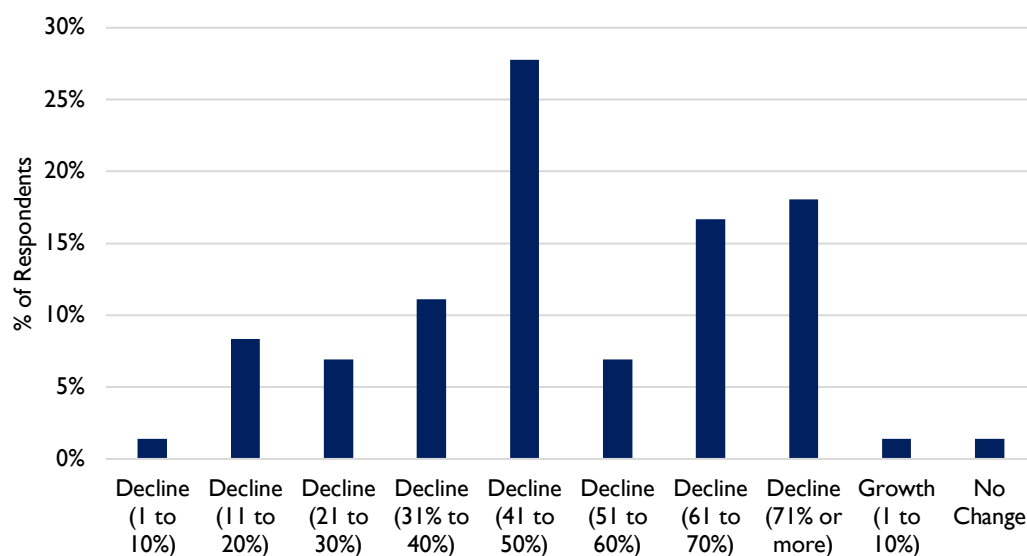

	Cebu	Metro Manila	Others	Resort	City	Grand Total
Decline (1 to 10%)	2	3	3	1	7	8
Decline (11 to 20%)	1	2	5	3	5	8
Decline (21 to 30%)	2	1	4	1	6	7
Decline (31% to 40%)	4	4			8	8
Decline (41 to 50%)	2	5	3	3	7	10
Decline (51 to 60%)	2	1	5	3	5	8
Decline (61 to 70%)	1		6	5	2	7
Decline (71% or more)		1	6	5	2	7
Growth (1 to 10%)	1		1	1	1	2
No Change		5	2	1	6	7
Grand Total	**15**	**22**	**35**	**23**	**49**	**72**

Source: Horwath HTL/Tajara

All except 7 respondents expect some decrease in ARR. There is no clear indication of the extent of decrease as the results are similar across all levels of decline. Between the two accommodation types, resorts seem to be more pessimistic with heavier weightage or replies centered on a decline of 61 percent or more.

Question: Considering the influence of the COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline in the first half of 2020 (1H2020) vs the first half of 2019 (1H2019)? [Total Revenue]
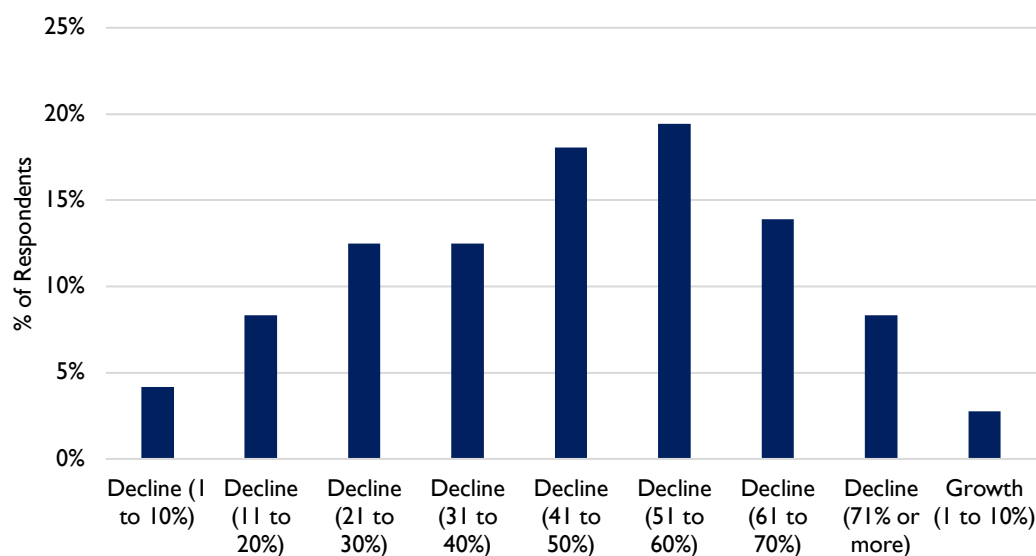

	Cebu	Metro Manila	Others	Resort	City	Grand Total
Decline (1 to 10%)		1			1	1
Decline (11 to 20%)	1	1	4	1	5	6
Decline (21 to 30%)	1	3	1		5	5
Decline (31% to 40%)	2	3	3	1	7	8
Decline (41 to 50%)	4	7	9	6	14	20
Decline (51 to 60%)	1	2	2	1	4	5
Decline (61 to 70%)	4		8	6	6	12
Decline (71% or more)	1	4	8	8	5	13
Growth (1 to 10%)	1				1	1
No Change		1			1	1
Grand Total	**15**	**22**	**35**	**23**	**49**	**72**

Source: Horwath HTL/Tajara

The majority consensus from the respondents is that total revenue will fall significantly by more than 40 percent for 1H2020 against 1H2019. The finding is synonymous across all geographical segments and between the two accommodation types.

Some outsourcing companies have started to work from hotels thus benefitting the industry. Measure include the housing of OFWs and seafarers in quarantine. Hotels have responded positively although with limited services, such as having sheets provided but with no daily cleaning services and/or food being delivered in brown bags.

Question: Considering the influence of the COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline for full-year 2020 (FY2020) vs full-year 2019 (FY2019)? [Occupancy]
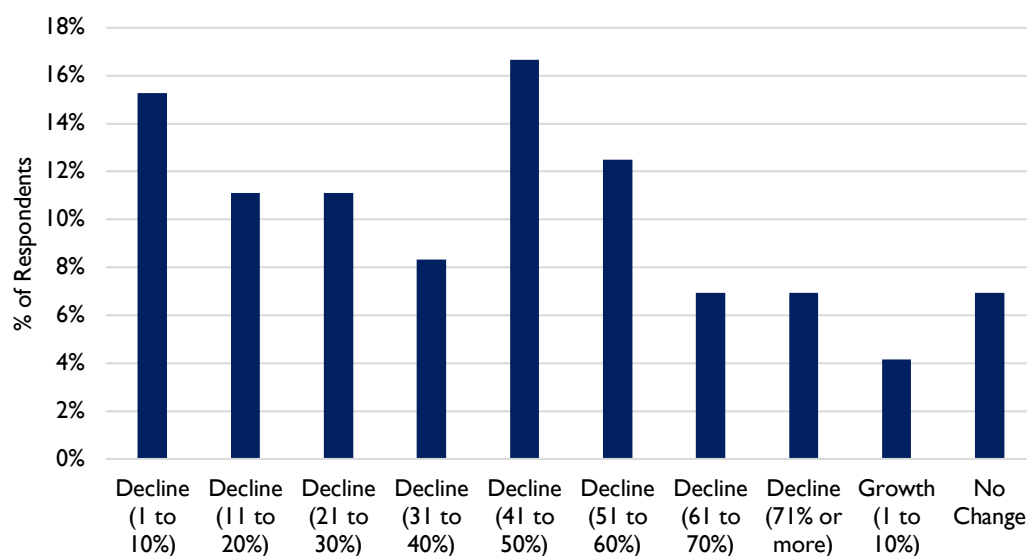

	Cebu	Metro Manila	Others	Resort	City	Grand Total
Decline (1 to 10%)		2	1		3	3
Decline (11 to 20%)	1	3	2	1	5	6
Decline (21 to 30%)	2	4	3	1	8	9
Decline (31 to 40%)	2	2	5	2	7	9
Decline (41 to 50%)	4	3	6	7	6	13
Decline (51 to 60%)	4	3	7	3	11	14
Decline (61 to 70%)	1	4	5	4	6	10
Decline (71% or more)			6	5	1	6
Growth (1 to 10%)	1	1			2	2
Grand Total	**15**	**22**	**35**	**23**	**49**	**72**

Source: Horwath HTL/Tajara

For the FY2020 occupancy performance, most respondents expect at least a 40 percent decline in occupancy. The highest percentage of respondents expect a 51 to 60% decrease in occupancy.

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Question: Considering the influence of the COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline for full-year 2020 (FY2020) vs full-year 2019 (FY2019)? [Average Room Rate]
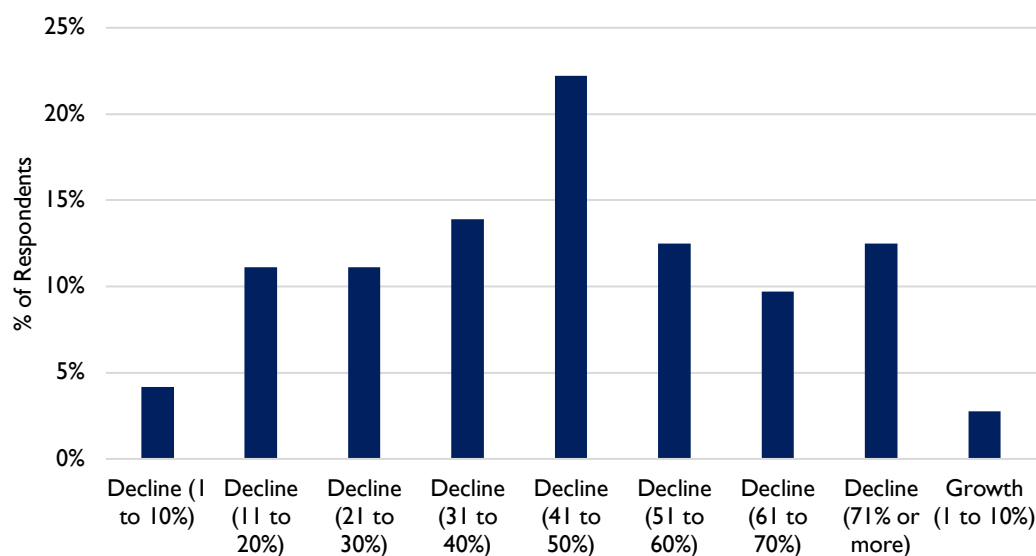

	Cebu	Metro Manila	Others	Resort	City	Grand Total
Decline (1 to 10%)	2	5	4	1	10	11
Decline (11 to 20%)	2	3	3	2	6	8
Decline (21 to 30%)	2	1	5	2	6	8
Decline (31 to 40%)	3	1	2	2	4	6
Decline (41 to 50%)	3	4	5	4	8	12
Decline (51 to 60%)	2	3	4	3	6	9
Decline (61 to 70%)		1	4	3	2	5
Decline (71% or more)			5	4	1	5
Growth (1 to 10%)	1		2	1	2	3
No Change		4	1	1	4	5
Grand Total	**15**	**22**	**35**	**23**	**49**	**72**

Source: Horwath HTL/Tajara

When it comes to rates, there is a divergence in opinion between a low percentage of decline under 20% versus a decline of 41 to 60%. A low percentage of decline of under 20% is understandable given the impact although severe declines in ARR in the short term is not recommended. ARR declines are often difficult to recover; adding that reductions in ARR would be unable to induce demand since it is virtually non-existent given lockdowns and the lack of connectivity.

Question: Considering the influence of the COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline for full-year 2020 (FY2020) vs full-year 2019 (FY2019)? [Total Revenue]


	Cebu	Metro Manila	Others	Resort	City	Grand Total
Decline (1 to 10%)		2	1		3	3
Decline (11 to 20%)	2	3	3	1	7	8
Decline (21 to 30%)	3	4	1	1	7	8
Decline (31 to 40%)	2	2	6	2	8	10
Decline (41 to 50%)	3	3	10	8	8	16
Decline (51 to 60%)	2	4	3	2	7	9
Decline (61 to 70%)	2	1	4	3	4	7
Decline (71% or more)		2	7	6	3	9
Growth (1 to 10%)	1	1			2	2
Grand Total	**15**	**22**	**35**	**23**	**49**	**72**

Source: Horwath HTL/Tajara

Ultimately, from a combination of ARR and occupancy, total revenue is expected to decline in the range of 41 to 50%. City hotels appear to be more optimistic with a heavier weightage expecting some decline as opposed to resorts which most expect a significant decline.

5.2 OVERALL OCCUPANCY – BUDGET VS ACTUAL & FORECAST 2020

Budget vs Actual & Forecast 2020 (Overall)
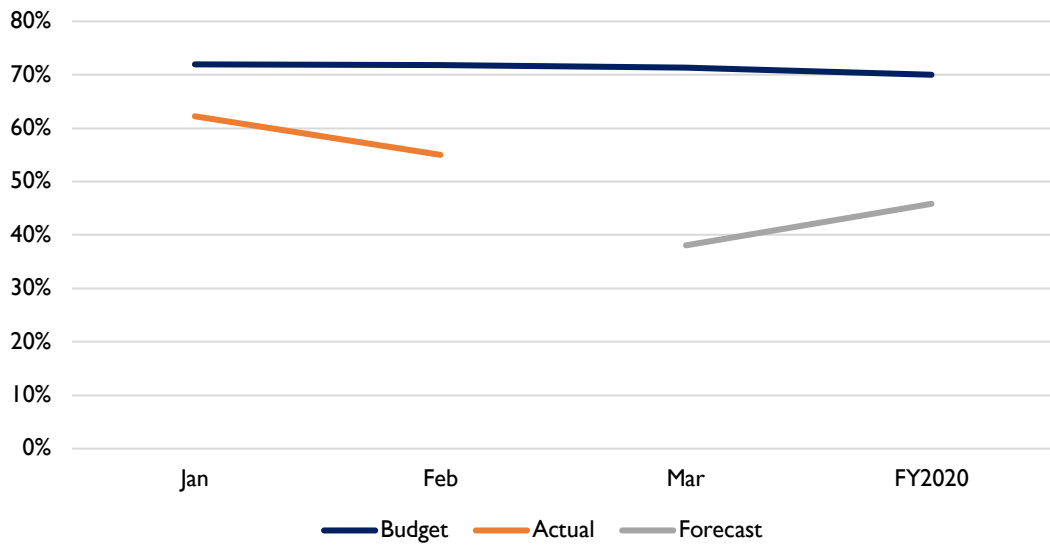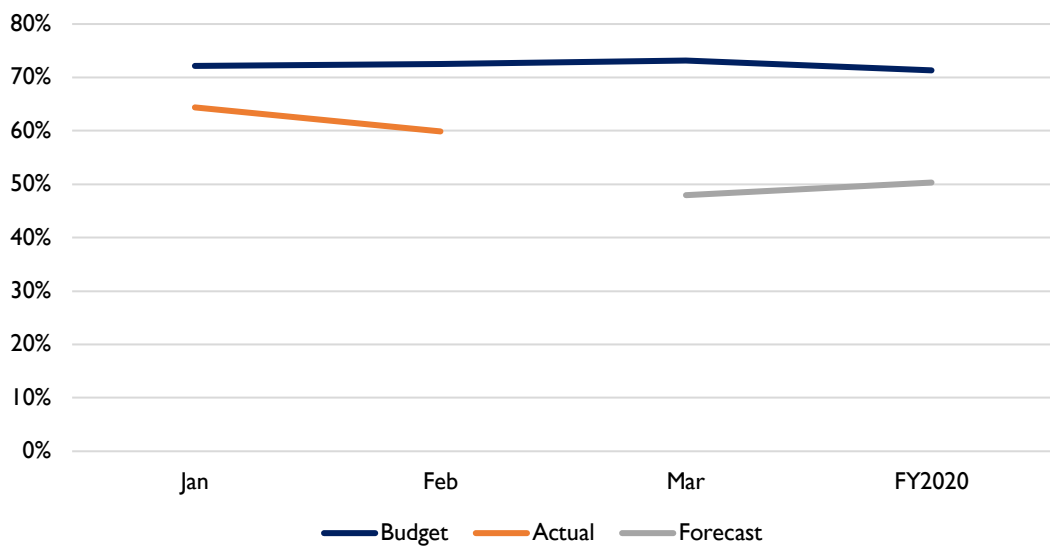

Source: Horwath HTL/Tajara

In the last part on performance estimates, we pursued a comparison between budgeted occupancy levels versus actual and forecasted levels. Above presents our findings for the overall expectations for FY2020. From the inflection point in March, the consensus amongst respondents is for a marginal recovery to occur within 2H2020 that will bring up FY2020's occupancy above its current low of under 40 percent in March 2020.

Budget vs Actual & Forecast 2020 (Resort)
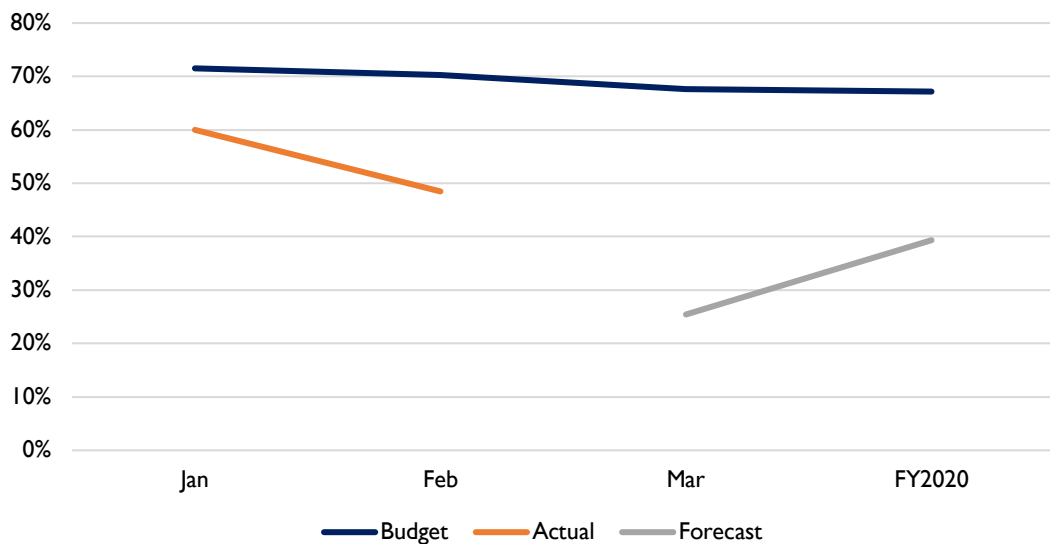
Source: Horwath HTL/Tajara

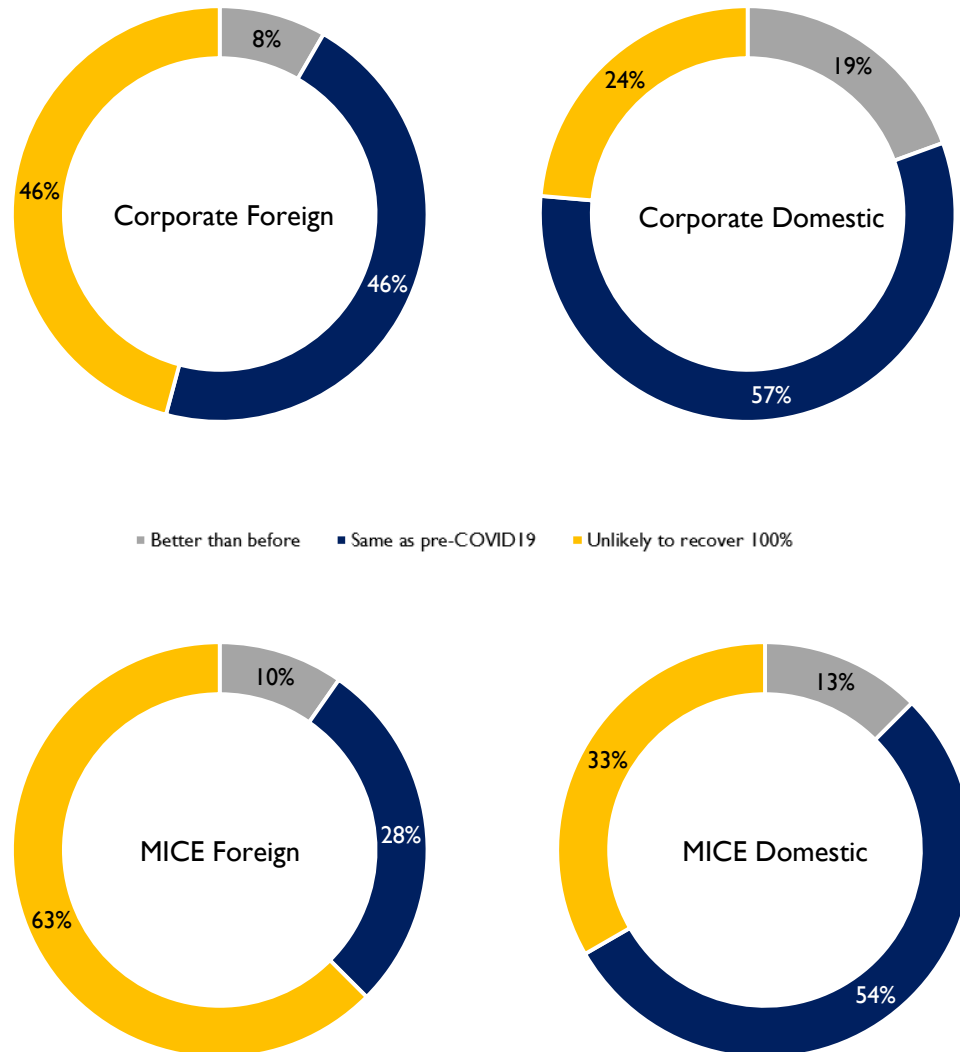**Budget vs Actual & Forecast 2020 (City)**

Source: Horwath HTL/Tajara

Between the two accommodation types, city hotels are performing and expects to perform better with reduced volatility and magnitude. This is expected as resorts benefit from leisure demand which is more elastic. Lockdowns are instead confining populations to cities which may offer some offsetting benefits. Essential city workers who are expected to continue in their jobs but do not live within the city are being housed in hotels which will help bring in some income.

6.1   ROAD TO RECOVERY

Question: How are each of the major demand segments expected to recover, once the COVID-19 outbreak is over?

Corporate Foreign

8%

46%

46%

Corporate Domestic

24%

19%

57%

■ Better than before   ■ Same as pre-COVID19   ■ Unlikely to recover 100%

MICE Foreign

10%

28%

63%

MICE Domestic

33%

13%

54%

Source: Horwath HTL/Tajara

When asked about the level of recovery for the major demand segments, majority of respondents feel positive about domestic recovery rates but negative about foreign recovery rates.

Corporate – Respondents are more optimistic about domestic corporate demand as opposed to foreign corporate demand. A majority 76 percent feel that domestic corporate demand will recover to at least pre-COVID-19 levels whilst only 54 percent feel that foreign corporate demand will recover to at least pre-COVID-19 levels.

MICE – The same is true for MICE demand in that 63 percent feel that foreign MICE demand will never recover whilst 67 percent feel that domestic MICE demand recover to at least pre-COVID-19 levels.

Legend: ■ Better than before ■ Same as pre-COVID19 ■ Unlikely to recover 100%
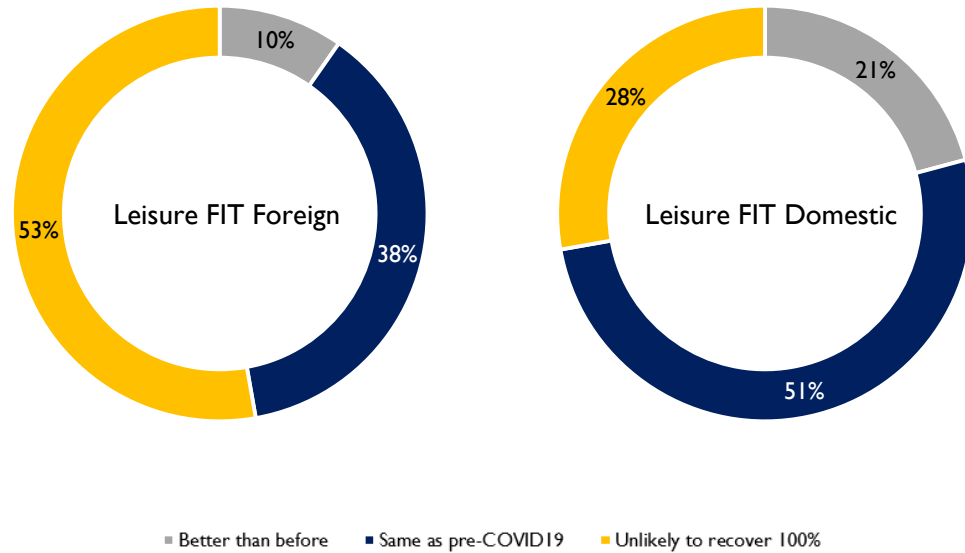
Source: Horwath HTL/Tajara

Leisure FIT – Domestic Leisure FIT is expected to recover positively with a minority 28 percent of respondents having a negative opinion. The market is mostly undecided over foreign Leisure FIT with 53 percent having a negative outlook.

Leisure Group – Domestic Leisure Group demand is expected to recover positively with 65 percent of respondents agreeing so. In stark contrast, the same number of respondents think that foreign Leisure Group demand will never recover fully.

Question: By ranking, how fast do you expect each of the major demand segments to recover to their original contribution levels, once the COVID-19 outbreak is over? (1st - fastest to 4th - slowest) [1st (Fastest)]

Ranking	Segment	No. of Respondents
1st	Corporate	37
	Leisure FIT	24
	Leisure Group	3
	MICE	8
2nd	Leisure FIT	27
	MICE	19
	Corporate	16
	Leisure Group	10
3rd	Leisure Group	30
	Leisure FIT	20
	Corporate	12
	MICE	10
4th	MICE	33
	Leisure Group	27
	Leisure FIT	6
	Corporate	6

Source: Horwath HTL/Tajara

It is no surprise that corporate demand is ranked fastest in recovery as it is demand inelastic. A majority 37 respondents voted for the segment. Leisure FIT and Leisure Group were voted for second and third fastest to recover. Lastly, respondents feel that MICE will recover the slowest.

Question: How do you see your property tackling the COVID-19 situation within the immediate term?
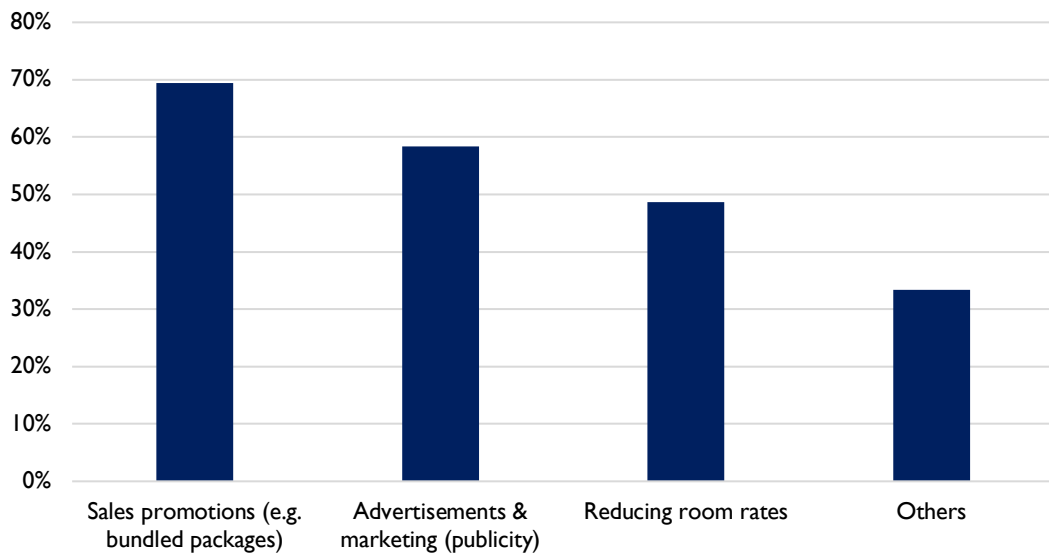
Source: Horwath HTL/Tajara

Amongst the available options, three options stood out as measures adopted by respondents from a demand standpoint. 69 percent of respondents have adopted sales promotions in the form of bundled packages that may include complimentary food, drinks and services. 58 percent of respondents have employed additional marketing efforts whilst 49 percent have reduced room rates to induce demand.
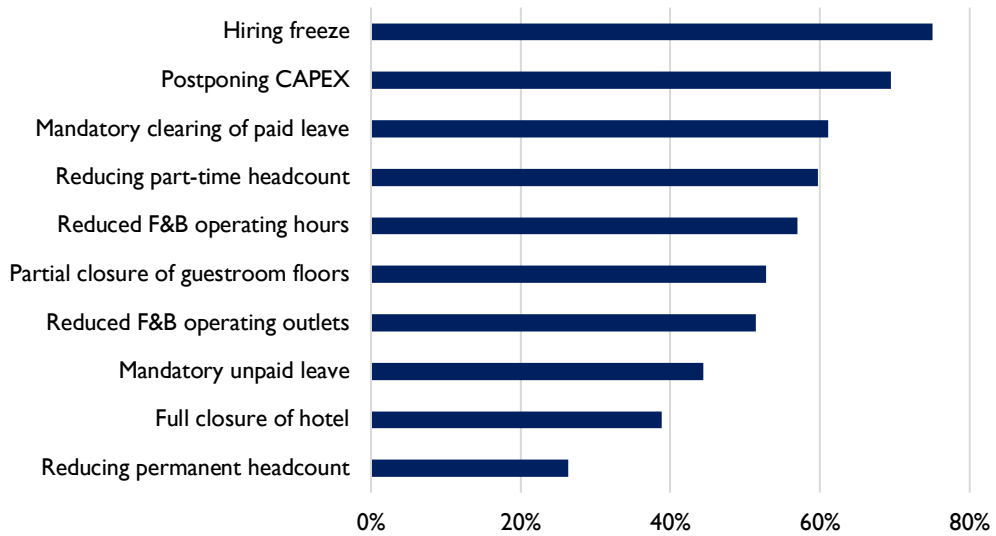
Question: Has your property implemented cost control measures?
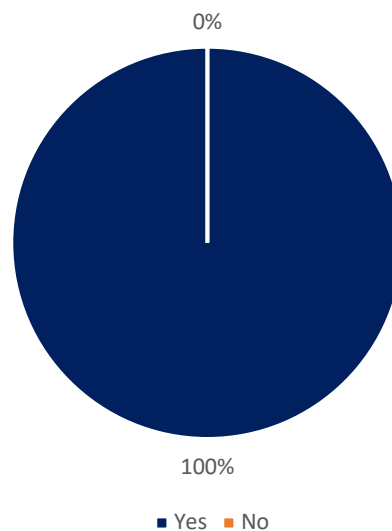
Source: Horwath HTL/Tajara

On the flipside, respondents have also adopted cost control measures with all of them giving a positive response to the question.

Question: If yes to the above, what are some measures which have been taken?

Source: Horwath HTL/Tajara

Amongst those which had adopted cost control measures, most have implemented measures with limited direct impact on employees, such as hiring freeze, postponing CAPEX, mandatory clearing of paid leave and reduced services/operational hours.

Question: Do you expect some form of support from the government/statutory board?
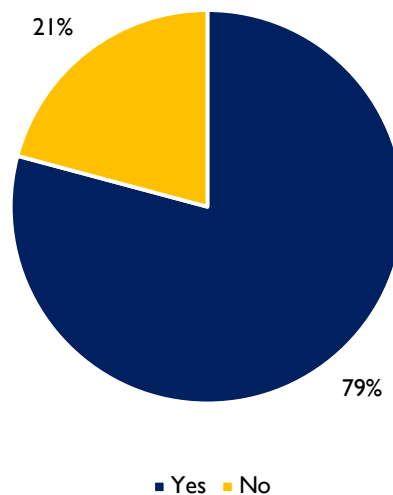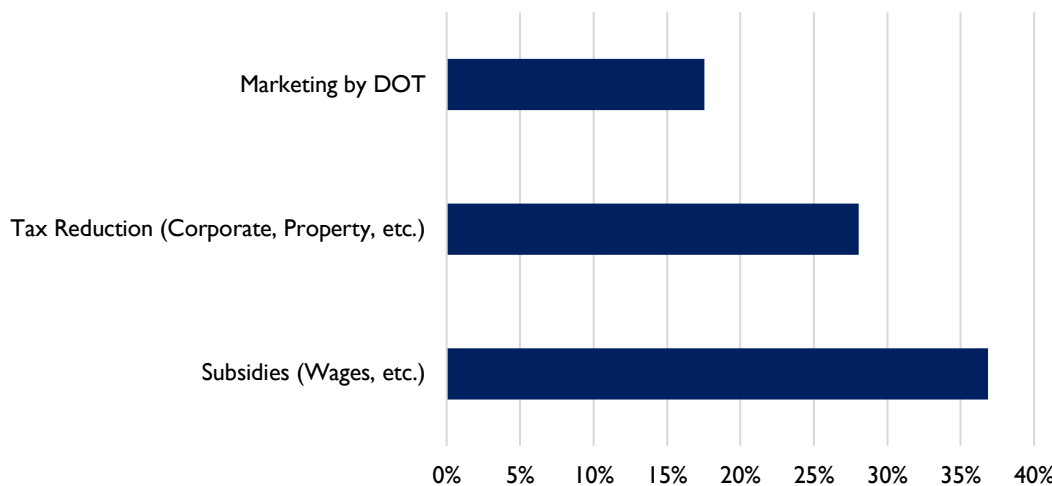

Source: Horwath HTL/Tajara

When asked if they expect some form of support from the government/statutory board, 79 percent of respondents replied positively. Many have noted that under such dire circumstances, the lack of support will crush the industry, particularly those with low liquidity. Afterall, there is still significant fixed costs in maintaining a large asset such as a hotel.

Question: If yes to the above, what are some forms of support you would like to receive?

Marketing Promotions supported by Department of Tourism   Tax
incentives (income tax holiday and property taxes)
Government Subsidies (cash handouts)

Direct subsidies and payouts are preferred by respondents as support measures within the immediate term. Beyond, respondents also feel that it would be beneficial to receive support in cost control areas such as the reduction in income and property taxes. Some have opined that the government should focus on recovery efforts, preparing marketing plans for when COVID-19 washes over. Meanwhile, it may also be a good time for re-training and skills enhancement.

6.2 CLOSING STATEMENT

Enhanced community quarantine in Metro Manila and Luzon is until April 12 however there's an emerging consensus that the lockdown might be extended for another two weeks. The Philippines being an archipelago has attributed to the slowdown of the virus compared to other countries. P200 billion in emergency subsidies has been allocated to low-income households most affected in this pandemic.

As we cannot predict how long this virus will end, and how the industry will recover after, the domestic market seems the most resilient post COVID-19. A glimpse of hope is how China shows sign of performance recovery, one of the country's top foreign markets and where the pandemic also began. What is needed is a collective recovery effort driven by the private sector, working closely with the Department of Tourism on marketing campaigns to drive market demand and ignite interest among consumers. Tax breaks and incentives are also needed, to cushion the losses affecting all hotels and resorts. Together we can withstand this existential crisis.

TAJARA Hospitality

TAJARA is a leading hospitality consulting and development company in the Philippines working with clients throughout Asia. Its in-depth knowledge and experience in mainstream and emerging destinations guide owners and investors in making strategic decisions and provide local intelligence to facilitate the projects' development process. TAJARA handles rollout plans for investment funds, independent and hotel chains taking on the projects' full development cycle from acquisition, project management, marketing, hotel operator selection and asset management.

TAJARA Hospitality
3/F Junction Hostel, Don Pedro corner General Luna Streets
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