STR GLOBAL

Horwath HTL™

Hotel, Tourism and Leisure

Asia Pacific Quarterly Update Volume 5

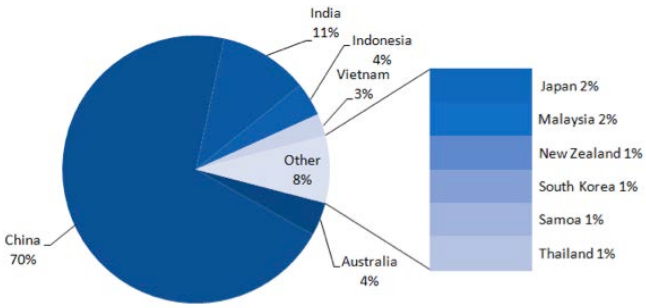
Spotlight: Philippines

ASIA PACIFIC HOTEL REVIEW

QUARTER 1	2014	2015	% CHANGE
Number of Hotels	42	74	76%
Number of Rooms	10,579	11,934	13%

Source: Horwath HTL

HOTEL OPENING BY COUNTRY



Source: Horwath HTL

HOTEL OPENINGS

- Opening activity jumpstarted in Q1 2015 with the opening of 74 new hotels, a 76% increase on the same period last year. However, the increase in number of rooms was much more modest at 13%, highlighting that the new hotel openings in 2015 have a smaller average key count of 153 compared to 251 witnessed in Q1 2014.

- Opening activity is still China centric, accounting for almost three quarters (70%) of hotel opening in 2015. It is worthwhile to note that the significant growth (148%) in China openings compared to Q1 2014 is largely due to one management companying rolling out a significant number of properties under their budget hotel brand (also impacting the average key count above).

- Q1 2015 witnessed a reversal of the usual APAC management model, the majority of hotels (69%) opened during the start of the year are operated under franchised agreements, instead of the typical management agreement model that dominated in the first quarter of 2014 and throughout 2014. The roll out of the budget brand discussed above, is largely responsible for this shift in management model as all of the hotels in question are franchised.

- While the trend for new build hotel openings continued from last year, Q1 2015 saw an increase in the number of converted properties when compared to the same period last year, growing from 12% to 27%.

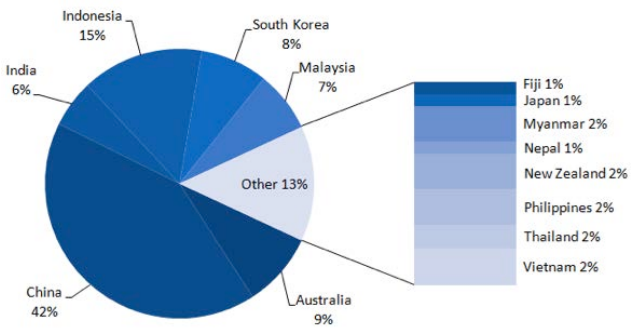
DEAL SIGNING

QUARTER 1	2014	2015	% CHANGE
Number of Hotels	128	123	-4%
Number of Rooms	29,623	29,672	0.2%

Source: Horwath HTL

- Deal signing activity got off to a good start in 2015 with 123 hotels signed, only a small drop of 4% when compared to the 128 deals signed in Q1 2014. In terms of the number of rooms, Q1 2015 recorded a marginal increase of 0.2% when compared to Q1 2014, equivalent to an average key count of 241 compared to 231.

DEAL SIGNING BY COUNTRY



Source: Horwath HTL

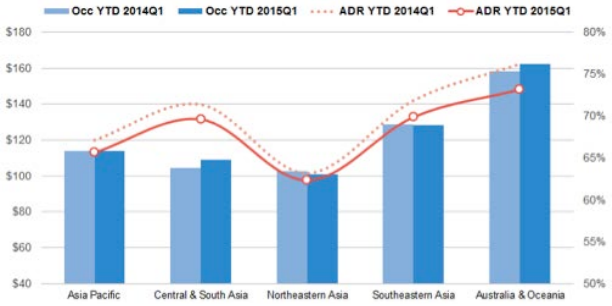
Note: Deal signing refers to management and franchise agreements signed by the international hotel management companies.

- China continued to dominate the overall deal signings, however the number of deals signed fell by 19% when compared to Q1 2014. Malaysia witnessed a surge in the number of deals signed by approximately 125%, while South Korea and Indonesia also showed robust growth of 43% and 29% respectively. India witnessed a harsh drop of 36%.

- Almost a quarter (24%) of the deals signed are on a franchise agreement basis, however, at 76% of all deals signed, management agreements still prove to be the most dominant model of operation. China, South Korea, and Australia are the most common locations for franchising.

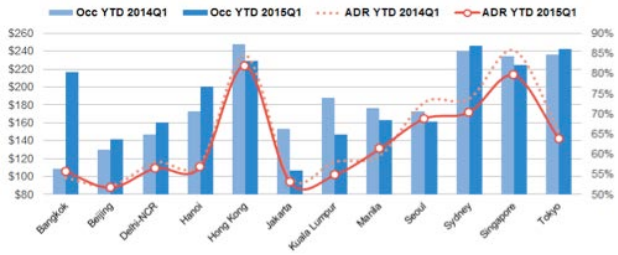
- New build hotels are the preferred property type, accounting for 88% of the new signings in Q1 2015. Conversion properties are less common, only 12% of the deals signed will see an existing property converted and these are mainly Australian deals.

ASIA PACIFIC - HOTEL OCCUPANCY AND ADR



Source: STR Global

ASIA PACIFIC - HOTEL OCCUPANCY AND ADR ACROSS SELECTED MARKETS



Source: STR Global

ASIA PACIFIC HOTEL PERFORMANCE

- Performance varied within the Asia Pacific region; several countries within the APAC sub region experienced positive exchange rate fluctuations against the USD and as a result illustrate more positive ADR and RevPAR Growth rates, while North-Eastern Asia experienced more stability in respect to exchange rates, thereby witnessing a less significant shift in these measures.

- Thailand; despite recording a slight decline in ADR (-3.1%), the country was able to show a strong double-digit occupancy increase of +21.0%. This comeback effect was driven by Bangkok recording a significant drop in 2014, as a result of the Military coup. Occupancy for Q1 2015 was at 80%, almost the same as the all-time high in Q1 2013 (80.7%).

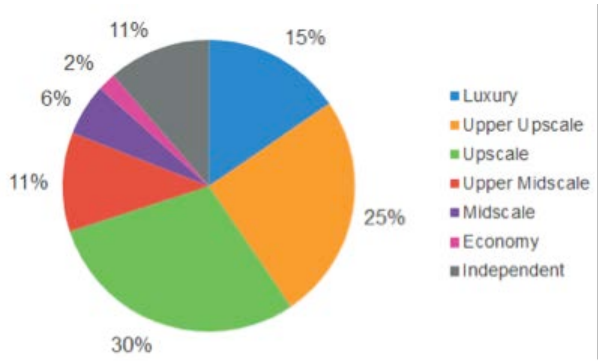
- Japan finished Q1 2015 with a positive RevPAR increase (+12.5%). High occupancy compression, coupled with high land and construction costs, allows rates to continue to rise in most areas across the country.

- Australia recorded positive growth in all three key performance measures, occupancy (+0.9%), ADR (+4.3%) and RevPAR (+5.2%), in local currency. Similar to Japan and New Zealand, Australia showed limited new supply, economic and tourism growth especially in New South Wales.

- Malaysia struggled in Q1 2015 with a significant decline in RevPAR (-14.1%) mainly driven by a drop in occupancy (-11.8%). Weakened confidence in tourism remains, following the air incidents in 2014.

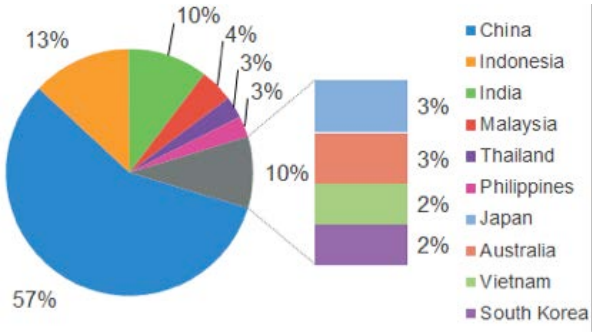
- China showed a slight setback in some markets. Q1 2015 overall picked up the trend shown at the end of 2014, showing 1st tier cities improving with a slower supply growth.

ASIA PACIFIC ACTIVE ROOM PIPELINE BY CLASS



Source: STR Global

ASIA PACIFIC ACTIVE ROOM PIPELINE BY COUNTRY



Source: STR Global

ASIA PACIFIC ACTIVE ROOM PIPELINE

- In the coming years, more than 2,300 hotels with +545k rooms are expected to enter the region.
- China remains the country with the strongest under-contract room pipeline for the region (+291k rooms), followed by Indonesia (+65k rooms) and India (+53k rooms).
- The Upscale class is expected to grow the fastest (+160k rooms), followed by the the Upper Upscale (136k rooms) and Luxury (84k rooms) classes.
- Within the last 12 months (April 2014 – March 2015), the Luxury class experienced the strongest growth in supply (+5.2%), followed by Upper Upscale (+4.34%) and Midscale & Economy class (+4.27%).

SPOTLIGHT: THE PHILIPPINES

PHILIPPINES HOTEL MARKET REVIEW

HOTEL OPENINGS

- The Philippines hotel market has been slow to evolve, in part due to the slow tourism market as well as poor infrastructure conditions that deter developers and investors. Although a growing market, unlike its neighbouring countries, tourism is not a significant contributor to gross domestic product (GDP). For example, in in 2013, travel and tourism accounted for only 4.2% of the country's GDP.

- Opening activity from the selected international management companies that form the participants of this study has been limited, only four hotels opened in 2013 and three hotels in 2014.

- Similar to last year, opening activity is non-existent in the first quarter of the year.

- However as can be seen later in this report, the future hotel market is growing with more than 58 hotels in the development pipeline.

QUARTER 1	2014	2015	% CHANGE
Number of Hotels	0	0	--
Number of Rooms	0	0	--

Source: Horwath HTL

Note: the above data does not include all hotels in the Philippines market, Horwath HTL opening and signing data is sourced from selected international management companies.

DEAL SIGNINGS

- The Philippines market is segregated by location, with greater activity occurring in the Manila hotel market and slower more selective activity in the regional markets as international airlift and transport issues prevail at the smaller regional airports.

- As discussed earlier, the Philippines is a low activity market, only 6 hotel deals were signed throughout 2014. Of these, four deals related to new hotels in Manila including a 1000 key property to be located within the mixed use township known as Newport City.

- Deal signing activity in Q1 2015 was on par with that seen in Q1 2014, however the deals signed this year are for large scale hotels, including a 530 key property in Manila and a 300 key property in northern Luzon Island.

- The growing economy, new developments in the gaming industry and the government's drive to promote the Philippines should have a positive impact on the tourism market, which will in turn have a positive impact on deals and openings.

QUARTER 1	2014	2015	% CHANGE
Number of Hotels	3	3	0
Number of Rooms	744	1,119	50%

Source: Horwath HTL

Note: the above data does not include all hotels in the Philippines market, Horwath HTL opening and signing data is sourced from selected international management companies.

OVERALL HOTEL PERFORMANCE

- The heavy typhoon that struck the country in the end of 2013 resulted in a slow first quarter of 2014.

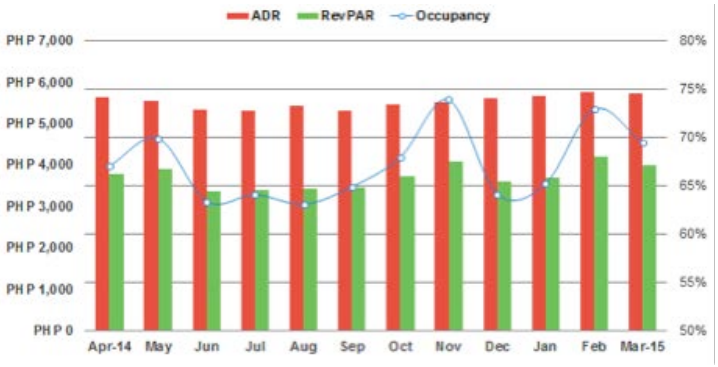
- The Philippines reported a strong growth in ADR in Q1 2015, offsetting the slightly negative occupancy performance, which resulted in a RevPAR increase to PHP 3,955 (+3.2%).

- In spite of a strong local currency (PHP), ADR has been increasing significantly in the first three months of the year. Occupancy recorded a decline (-5.8%) in February. Overall supply showed positive growth (+4.8%) when compared to Q1 2014.

	MAR 2015 YTD	MAR 2014 YTD	% CHANGE
Occupancy	69.1	69.8	-1.1
ADR (PHP)	5,726	5,489	4.3
RevPAR (PHP)	3,955	3,834	3.2

Source: STR Global

THE PHILIPPINES OVERALL HOTEL PERFORMANCE BY MONTH



Source: STR Global

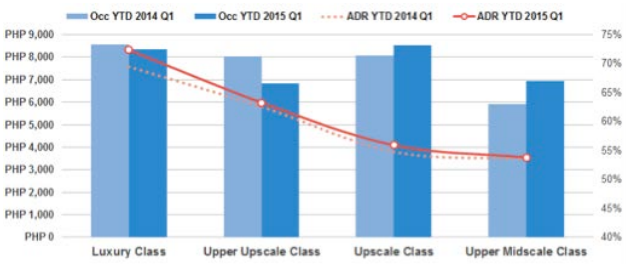
HOTEL PERFORMANCE BY CLASS

- The Upscale (+2.4%) and Upper Midscale (+6.4%) classes experienced positive occupancy growth in first quarter, while Upper Upscale (-6.5%) and Luxury classes (-1.1%) declined.

- All classes increased in ADR, with Luxury being the strongest segment (+9.8%), followed by Upscale class (+7.7%).

- The strongest supply growth in the past 12 months (April 2014 – March 2015) was seen in the Upscale class (+8.7%), followed by Upper Upscale class (+4.6%).

OCCUPANCY & ADR LEVELS BY CLASS



Source: STR Global

HOTEL PERFORMANCE BY MARKET

- For the purpose of this analysis, the Philippines is divided geographically into the following markets: **Metro Manila**, which comprises of two submarkets; Makati City and Manila Area. **Philippines Area**, which comprises of two submarkets; Cebu Metro and Regional Philippines.

- The general supply growth for the Philippines (+4.8%) outpaced demand (+3.6%).

- The supply trend is mainly driven by the Metro Manila market, which outpaced demand with +7.8% versus +3.3%. However, the Philippines Area market picked up strongly in demand for Q1 2015, especially in the Cebu Metro submarket, where demand grew by +12.2%.

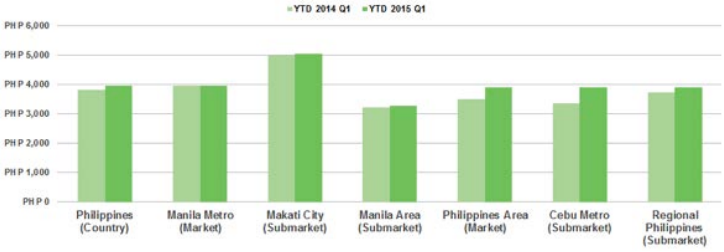
- The Philippines Area recorded growth in occupancy levels in Q1 2015 of +8.0% whilst the Metro Manila market declined by -4.0%.

- In terms of RevPAR levels, all markets are within the range of approximately PHP 3,950. The biggest gap between submarket RevPAR performances was between Makati City (PHP 5,041) and Manila Area (PHP 3,276). The recently additions to supply in the Manila Area added pressure to occupancy, which dropped by -3.0%.

OCCUPANCY & ADR LEVELS BY MARKET

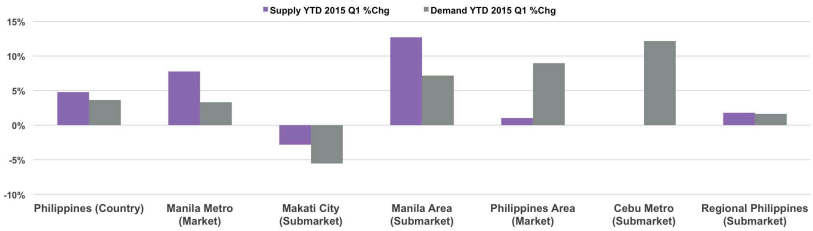
Source: STR Global

REVPAR LEVELS BY MARKET



Source: STR Global

SUPPLY AND DEMAND % CHANGE BY MARKET



Source: STR Global

THE PHILIPPINES UNDER CONTRACT* PIPELINE

- The Philippines currently has an existing supply of 340+ hotels, with 48k+ rooms. The country recorded an increase of +4.8% in supply in Q1 2015.
- The Upper Upscale class showed the largest increase in Q1 2015(+13.2%), Upscale & Upper Midscale classes grew by a more modest +2.4%.
- With an under contract room pipeline of +28.9% on top of the existing supply, the Philippines has the sixth largest under contract room pipeline within APAC, following Malaysia (4) and Thailand (5) and being ahead of Japan (7), Australia (8) and Vietnam (9).

THE PHLIPPINES UNDER CONTRACT* HOTEL PIPELINE BY PROJECT PHASE

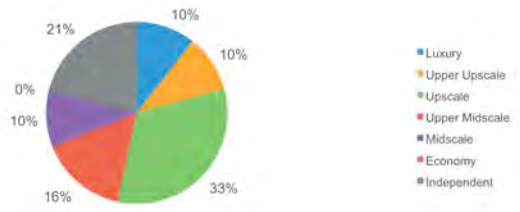
	In Construction	Final Planning	Planning
Philippines	9	23	16
Manila Metro	5	16	11
- Makati City	2	10	4
- Manila Area	3	6	7
Philippines Area	4	7	5
- Cebu Metro		1	
- Reg. Philippines	4	6	5

Source: STR Global

**"Under Contract" includes projects currently under construction, in final planning or planning phase*

For the purpose of this analysis, the March 2015 STR Global Pipeline Report has been used.

THE PHILIPPINES UNDER CONTRACT* HOTEL PIPELINE BY CLASS



Source: STR Global

THE PHILIPPINES: MARKET OUTLOOK

- The GDP growth of the country is currently one of the highest in South East Asia at over 7%. As the nation's capital city, Manila is expected to experience robust growth in the coming years, with key drivers from domestic demand, public spending, manufacturing and real estate development, renting and business activities. We believe this will inevitably help to grow the competitive hotel demand in all segments.

- The NAIA Terminal 3 expansion is believed to help in relieving air traffic congestion by serving more airlines, faster turnover and therefore receiving more visitors. Except domestic airlines, five major international airlines have transferred their operations to NAIA Terminal 3. In addition, the budget terminal expansion in the Clark Diosdado Macapagal Airport is expected to be completed in 2016. The increase of international direct flights to resort destinations will not only help to ease some domestic traffic from the congested capital, but also help to boost the country's destination tourism.

- The Philippines ranked the second most important BPO destination in the world by Tholon's survey in 2014. In recent years, the rebranding of BPO into BPM (Business Process Management) gives it the identity of being a full-service value provider rather than an outsourcing industry that plays only in the lower-end of the services spectrum. This is especially true in terms of IT-BPM industry, which not only involves voice BPO sector, but also non-voice/KPO, health information management outsourcing, engineering software outsourcing, animation and even game development sectors. The BPM FTEs (Full Time Equivalent) in Metro Manila represents almost 80 percent of the total current FTEs in the country, which further shows its importance in supporting the corporate business demand of the identified hotels.

- Manila will host the Asia-Pacific Economic Cooperation (APEC) in November, this will largely help to generate more hotel room night demand in both business and leisure sectors.

- As can be seen from the pipeline, Manila accounts for most of the new additions to supply, half of which, are casino resorts in Manila Bay and Pasay area. We believe these integrated-casino resorts will generate different types of clientele and induce new source of leisure demand, which will transform the tourism industry.

- However, security issues remain a threat to the tourism outlook. Travel advisories against the Philippines causes concern amongst potential tourists and visitors. The United States, United Kingdom and Australia have continuously re-issued travel warnings to the country. The prevalence of terrorism and political instability affect the country's image, as well as the perception of safety.

ABOUT STR GLOBAL

STR Global benchmarks hotel data for over 6.4 million hotel rooms worldwide with the industry standard STAR report, allowing hoteliers to identify changes in market share and provides developers, financiers, analysts and suppliers in the hotel industry-access to hotel research with regular and custom reports.

As the eminent provider of benchmarking reports to the global hotel industry, our data covers daily and monthly performance data, forecasts, annual profitability, pipeline and census information across Europe, Middle East, Africa, Asia Pacific and South America.

STR Global is a part of the STR family of companies and is proudly associated with STR, STR Analytics and HotelNewsNow.com.

For more information, please visit www.strglobal.com

STR GLOBAL CONTACT DETAILS

ASIA PACIFIC

BEIJING, CHINA
apinfo@strglobal.com

GUANGZHOU, CHINA
apinfo@strglobal.com

JAKARTA, INDONESIA
apinfo@strglobal.com

MUMBAI, INDIA
apinfo@strglobal.com

SINGAPORE, SINGAPORE
apinfo@strglobal.com

SYDNEY, AUSTRALIA
apinfo@strglobal.com

TOKYO, JAPAN
apinfo@strglobal.com

EUROPE & CENTRAL AND SOUTH AMERICA

LONDON, UK
info@strglobal.com

MILAN, ITALY
info@strglobal.com

MIDDLE EAST & AFRICA

DUBAI, UNITED ARAB EMIRATES
info@strglobal.com

NORTH AMERICA

HENDERSONVILLE, USA
support@str.com

ABOUT HORWATH HTL

Horwath HTL is the world's number one hospitality consulting network. We are the industry choice; a global network offering complete solutions across all markets.

At Horwath HTL, we focus one hundred percent on hotels, tourism and leisure. With over two hundred and fifty professionals world wide, our network can draw on a tremendous amount of international experience and local knowledge that gives us, and our clients, a unique advantage.

Over the last 20 years, Horwath HTL has gained extensive market knowledge through involvement in thousands of projects. We use this experience to bring the maximum value to any assignment. Horwath HTL has become synonymous with quality, service, impartial advice and expertise. We are known for always providing the highest level of service to our clients.

We offer a broad range of advisory solutions that covers the whole cycle of the hotel product, starting with planning and development, on to asset management and operational advice, to transactional and financial restructuring. At any stage, Horwath HTL will add value to your project and ensure that you receive the very best support every step of the way.

ASIA PACIFIC
AUCKLAND, NEW ZEALAND
auckland@horwathhtl.com

BANGKOK, THAILAND
ischweder@horwathhtl.com

BEIJING, CHINA
beijing@horwathhtl.com

HONG KONG, SAR
hongkong@horwathhtl.com

JAKARTA, INDONESIA
jakarta@horwathhtl.com

KUALA LUMPUR, MALAYSIA
kl@horwathhtl.com

MUMBAI, INDIA
vthacker@horwathhtl.com

SHANGHAI, CHINA
shanghai@horwathhtl.com

SINGAPORE, SINGAPORE
singapore@horwathhtl.com

SYDNEY, AUSTRALIA
jsmith@horwathhtl.com

TOKYO, JAPAN
tokyo@horwathhtl.com

AFRICA
CAPE TOWN, SOUTH AFRICA
capetown@horwathhtl.com

DAKAR, SENEGAL
bmontagnier@horwathhtl.com

EUROPE
AMSTERDAM, NETHERLANDS
amsterdam@horwathhtl.com

ANDORRA LA VELLA, ANDORRA
vmarti@horwathhtl.com

BARCELONA, SPAIN
vmarti@horwathhtl.com

BUDAPEST, HUNGARY
mgomola@horwathhtl.com

DUBLIN, IRELAND
ireland@horwaththl.com

FRANKFURT, GERMANY
rknospe@horwathtl.com

ISTANBUL, TURKEY
merdogdu@horwathhtl.com

LIMASSOL, CYPRUS
cmichaelides@horwathhtl.com

LISBON, PORTUGAL
vmarti@horwathhtl.com

LONDON, UK
eheiberg@horwathhtl.com

MADRID, SPAIN
vmarti@horwathhtl.com

MOSCOW, RUSSIA
mohare@horwathhtl.com

OSLO, NORWAY
oslo@horwathhtl.com

PARIS, FRANCE
pdoizelet@horwathhtl.com

ROME, ITALY
zbacic@horwathhtl.com

SALZBURG, AUSTRIA
austria@horwathhtl.com

WARSAW, POLAND
dfutoma@horwathhtl.com

ZAGREB, CROATIA
scizmar@horwathhtl.com

ZUG, SWITZERLAND
hwehrle@horwathhtl.com

NORTH AMERICA
ATLANTA, USA
pbreslin@horwathhtl.com

CHICAGO, USA
tmandigo@horwathhtl.com

DENVER, USA
jmontgomery@horwathhtl.com

MONTREAL, CANADA
pgaudet@horwathhtl.com

TORONTO, CANADA
pgaudet@horwathhtl.com

LATIN AMERICA
BUENOS AIRES, ARGENTINA
cspinelli@horwathhtl.com

SÃO PAULO, BRAZIL
mcarrizo@horwathhtl.com

MEXICO CITY, MEXICO
mjgutierrez@horwathhtl.com

DOMINICAN REPUBLIC
speralta@horwathhtl.com

SANTIAGO, CHILE
cspinelli@horwathhtl.com

BOGOTA, COLOMBIA
mjgutierrez@horwathhtl.com