



A Year-end 2015 Overview of the South Korean Market

SOUTH KOREA HOTEL MARKET REVIEW

Overall, hotels in South Korea performed weaker in 2015 than in 2014. Occupancy was down by 11.9% and RevPAR (revenue per available room) declined 18.9%, based on year-end figures.

The outbreak of the Middle East Respiratory Syndrome Coronavirus (MERS) in South Korea and the declining strength of the Japanese Yen against the Korean Won, which affected tourist arrivals from Japan, led to an overall decline in demand. Japan is South Korea's second largest contributor to hotel demand, so a decline in arrivals from that demographic makes a big impact. The MERS outbreak, however, was the main reason for South Korea's weak hotel performance in 2015.

With the first signs of the outbreak at the end of May 2015, South Korea experienced a significant decline in international arrivals, which was evident in demand drops in June (-29.9%) and July (-23.0%) when compared with 2014. The outbreak scare caused occupancy to drop considerably from 70.8% in May 2015 to 48.4% in June 2015.

When it was announced that MERS was no longer a major threat by the end of July, occupancy levels started to pick up again in August. Followed by the strengthening of the Japanese Yen, hotels performed better in the second half of 2015 as peak holiday season and renewed confidence gradually pulled performance up during Q4. Year-over-year occupancy also increased in January 2016 (+0.6%).

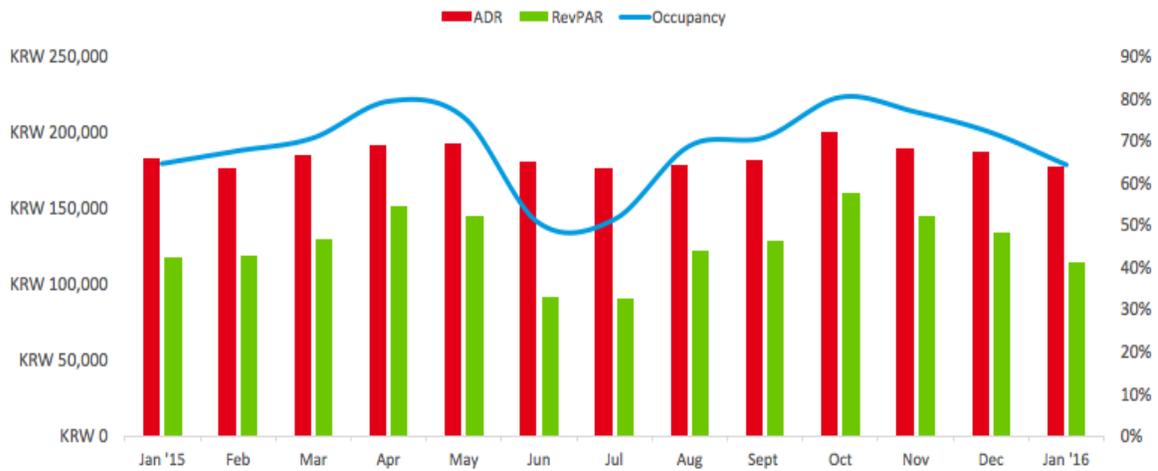
The transient segment recovered quickly from the decline caused by MERS. This is reflected for January 2016, when transient business experienced renewed positive growth in occupancy (+2.5%) after an average decline of -12.4% in 2015.

The group segment, on the other hand, is still struggling. Year-end occupancy showed a 22.4% decline compared with 2014, and this trend has continued through January (-4.2%). According to STR analysts, a possible explanation is that the group segment is more cautious with health concerns due to insurance concerns. However, the data does indicate some signs of recovery.

SOUTH KOREA	December 2015 YTD	December 2014 YTD	% Change
Occupancy (%)	64.9	73.7	-11.9
ADR (KRW)	174,043	189,104	-8.0
RevPAR (KRW)	113,035	139,393	-18.9

Source: STR

SOUTH KOREA MONTHLY HOTEL PERFORMANCE



Source: STR

HOTEL PERFORMANCE BY MARKET

For the purpose of this analysis, South Korea is divided geographically into the following submarkets: Seoul and Regional South Korea (all of South Korea excluding Seoul).

Seoul, South Korea’s capital, is a well-known and more popular destination for international tourists than other areas throughout the country, which are typically more popular among domestic travelers.

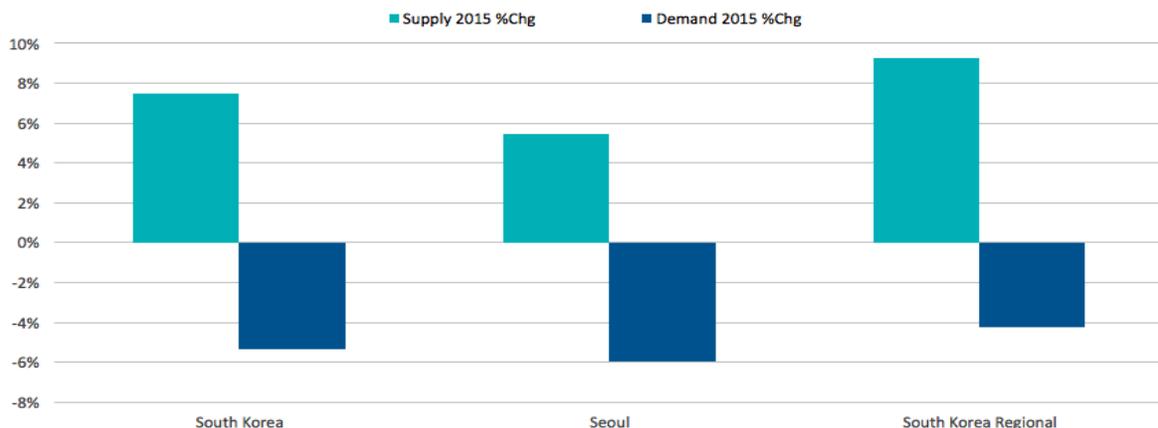
Year-over-year, both Seoul and Regional South Korea posted declines in occupancy, ADR and RevPAR. Overall, RevPAR in Seoul (-18.3%) was lower than Regional South Korea (-17.0%).

Seoul’s year-end 2015 occupancy was 68.9%, versus 59.1% for Regional South Korea. RevPAR in Seoul (KRW 127,833.25) was also higher than Regional South Korea (KRW 90,452.76) due to both higher occupancy and higher ADR.

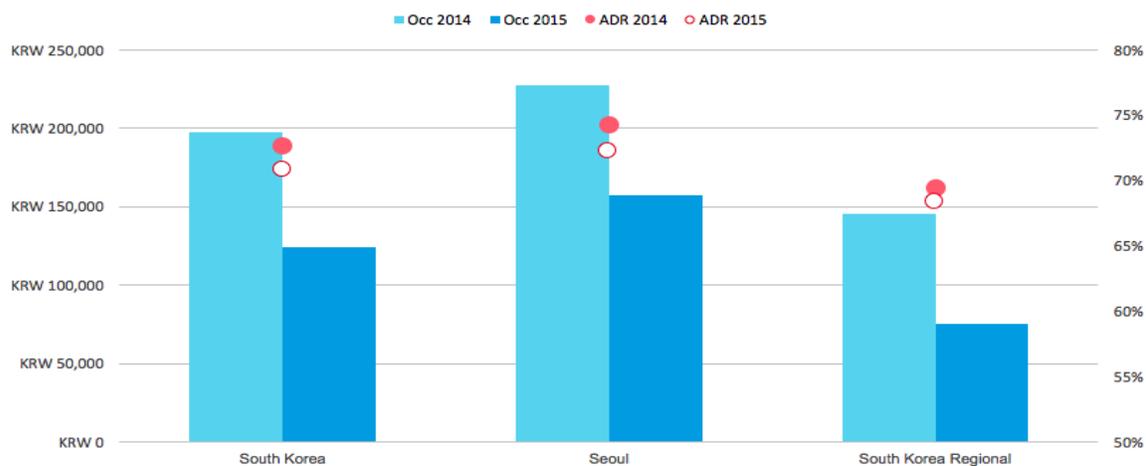
In July and August 2015, Regional South Korea’s occupancy (57.8% July and 71.2% August) outperformed Seoul (51.1% July and 68.6% August). In terms of RevPAR, Regional South Korea (KRW 95,196.20 in July and KRW 123,800.92 in August) managed to outperform Seoul (KRW 89,696.10 in July and KRW 121,996.02 in August). Summer vacation in South Korea starts in mid-July and ends late August, driving increased domestic travel within Regional South Korea.

Although the MERS virus did affect provinces outside of Seoul, year-over-year comparisons indicate that Regional South Korea recovered quicker than the capital. This is likely because the MERS virus was largely concentrated in Seoul.

SUPPLY AND DEMAND % CHANGE BY MARKET



OCCUPANCY & ADR LEVELS BY MARKET



Source: STR

HOTEL OPENINGS

According to Horwath HTL, Seoul's Central Business District has several major tourist attractions and a bustling political scene. Other popular areas include the Gangnam-gu district, one of the city's newest business districts and a destination for high-end luxury hotels, shops and restaurants.

In 2015, all other hotels opened outside of Seoul were in Seogwipo City, Jeju Province.

Wyndham Hotel Group and Accor Hotel Group were the two biggest contributors to hotel openings in South Korea, with Wyndham opening six hotels and Accor opening four over the course of 2014 and 2015.

QUARTER 4	2014	2015	% CHANGE
Number of Hotels	4	3	-25%
Number of Rooms	851	832	-2%

YEAR-ON-YEAR	2014	2015	% CHANGE
Number of Hotels	10	7	-30%
Number of Rooms	1912	1821	-5%

Source: Horwath HTL

SOUTH KOREA UNDER CONTRACT* PIPELINE

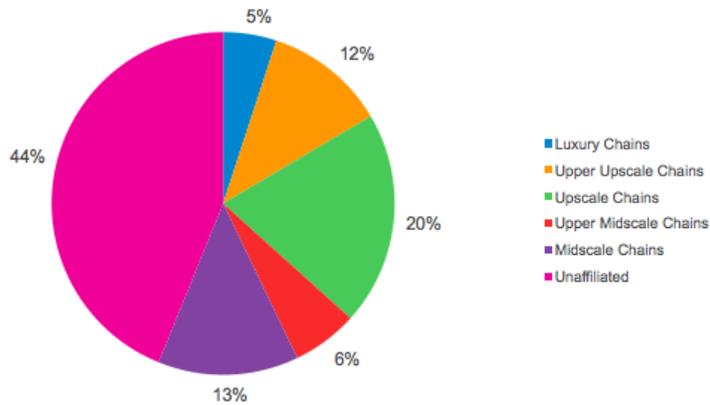
South Korea has an existing supply of 280+ hotels, with 64k+ rooms. The country recorded an increase of +7.5% in supply for 2015 YTD and an Under Contract room pipeline of 10k+ rooms on top of its existing supply.

Even though the Midscale class has seen the strongest supply growth YTD (+41.8%), the Upper Midscale class is gaining traction (+22.9%).

	In Construction	Final Planning	Planning
South Korea	9	3	19
Seoul	3	2	11
South Korea Regional	6	1	8

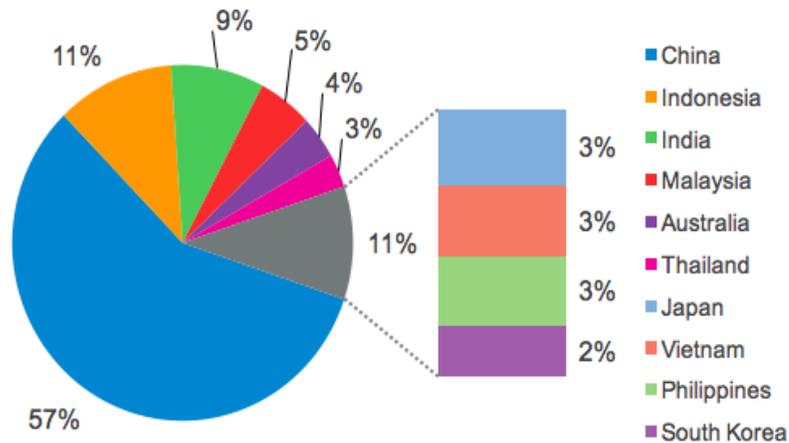
Source: STR

"Under Contract" includes projects currently under construction, final planning- or planning phase. For the purpose of this analysis, the January 2016 STR Global Pipeline Report has been used.



Source: STR

ASIA PACIFIC UNDER CONTRACT* ROOM PIPELINE BY COUNTRY



Source: STR

SOUTH KOREA HOTEL MARKET OUTLOOK

According to Horwath HTL, South Korea has gained popularity among travelers in recent years due to the Hallyu Wave – a phenomenon of Korean entertainment and culture blending together to attract foreign visitors.

South Korea is the fifth largest economy in Asia Pacific, and it relies heavily on exports, which accounts for 50% of the country's GDP. China and Japan are South Korea's largest export markets. China's growth deceleration has dragged overall economic growth down to 2.6% by the end of 2015 - more than one percentage point below the government's forecast at the start of 2015. As a result, the government introduced temporary tax cuts until the end of December 2015. Talks of a bearish market have caused GDP forecast for 2016 to be adjusted from 3.1% to 2.8%.

Consumer spending remains the only positive contributor to GDP data. Private consumption was up by 1.5% in the fourth quarter of 2015, following 1.2% growth in the previous quarter. Consumption will likely remain the dominant GDP driver.

The Ministry of Culture, Sports and Tourism (MCST) is positive about tourism growth in South Korea, and is taking steps to invigorate the market. "Visit Korea Years 2016 – 2018" is a project leading up to the 2018 Pyeongchang Winter Olympic that aims to attract 20 million foreign tourists a year through food, hospitality and culture programs. Campaigns have been planned to create quality tourism content across the nation. Also, the Korea Tourism Organization is promoting the "K-Smile" campaign to raise awareness of the warm hospitality of South Korean citizens.

To improve the quality of tourism products in the country, the government plans to inject KRW25 trillion into boosting competitiveness. There are also plans to attract KRW8.5 trillion in new investments to build two new integrated resorts with casinos and tourist hotels.

ABOUT STR

STR provides clients from multiple market sectors with premium, global data benchmarking, analytics and marketplace insights. Founded in 1985, STR maintains a presence in 10 countries around the world with a corporate North American headquarters in Hendersonville, Tennessee, and an international headquarters in London, England.

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