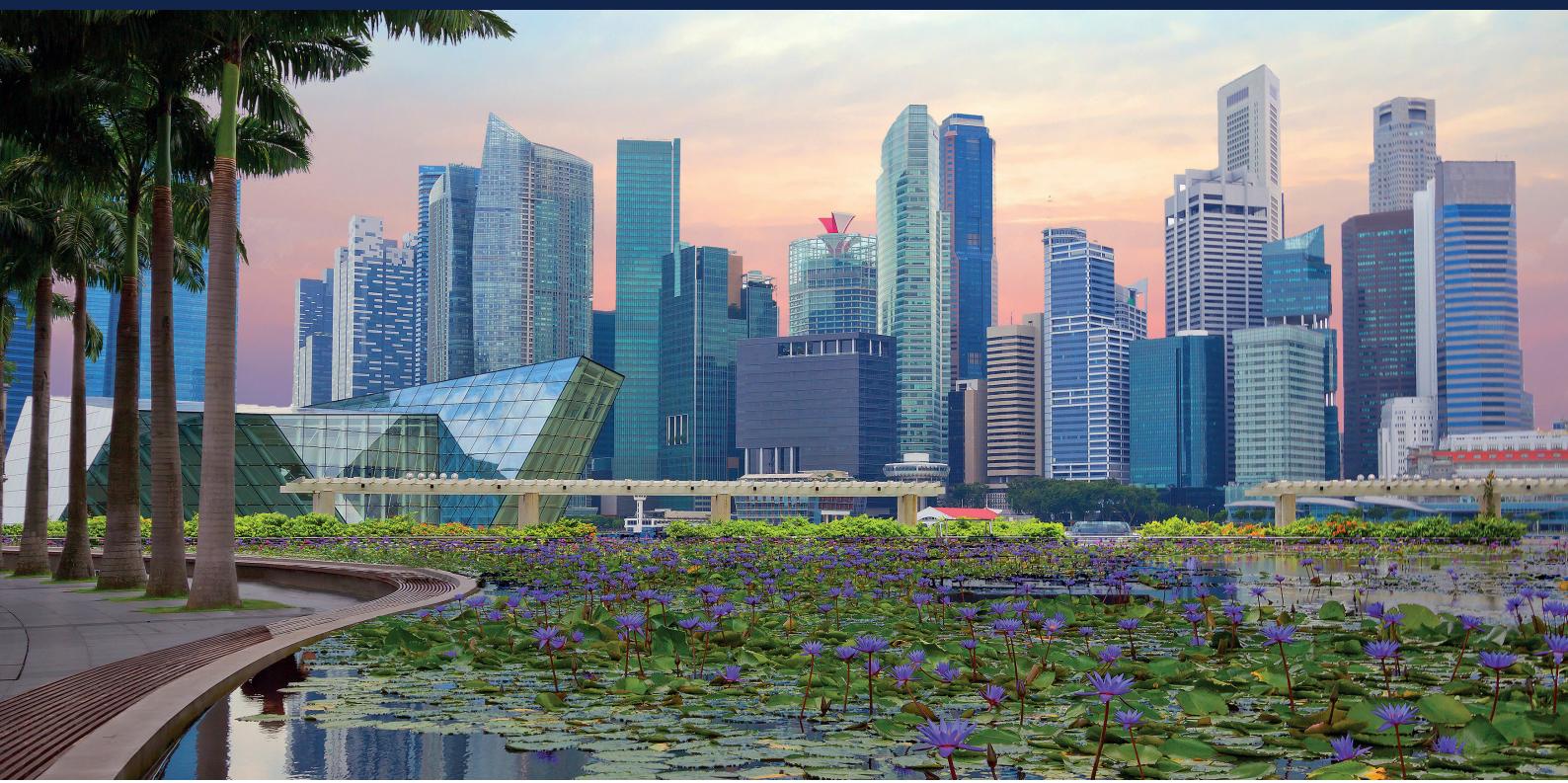




MARKET REPORT

Singapore: Hotel Market

MARCH 2019



Introduction

The 2019 new year kicked off with a bang as the first dedicated hotel use site (Club Street) put up for tender under Singapore's Government Land Sales (GLS) program in over a decade sold for a whopping SGD562 million (USD414 million). The winning bid translates to SGD 2,148 (USD1,583) per square foot per plot ratio (psf ppr), surpassing the second-placed bid price by 12 percent and exceeding last year's winning bid for a redevelopment site (into hotel use) on nearby Hill Street by some 22 percent.

Such aggressive land pricing is understood to signify the prevailing strong market confidence in Singapore's resilient tourism sector, buoyed by the medium-term outlook for limited new supply growth in land-scarce Singapore. With demand and supply growth expected to continue diverging, investor interest will be heightened for both acquisitions and new development.

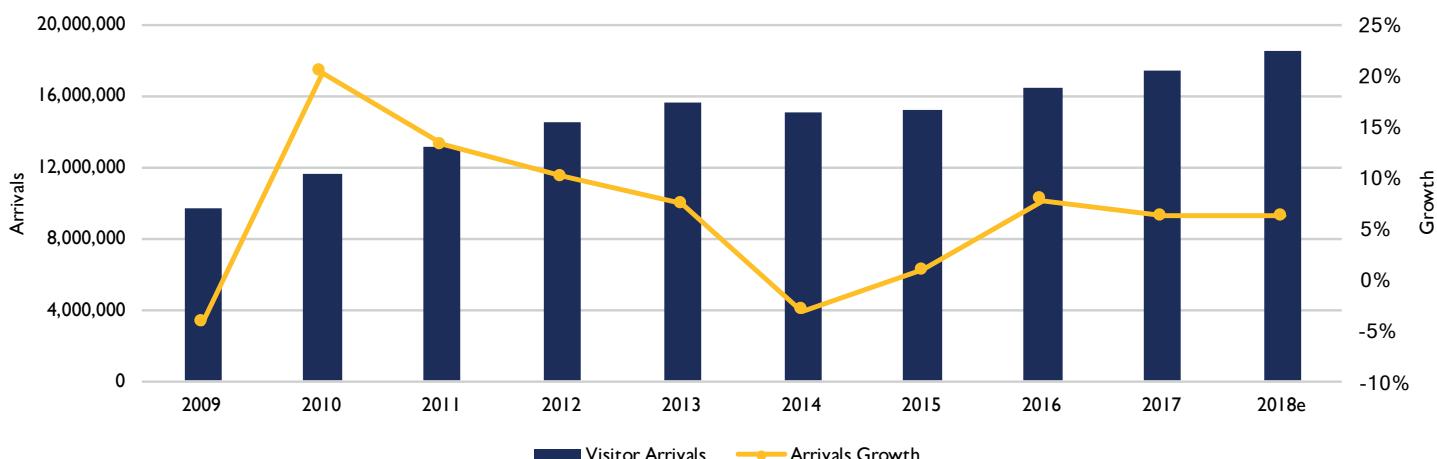
Visitor arrivals to Singapore has always been a market strength. Since 2000, there have been only three instances of contraction – 2003's Severe Acute Respiratory Syndrome (SARS) Outbreak, 2009's Global Financial Crisis (GFC) and 2014's Malaysian Airline Twin Tragedies – but all were short-lived, testament to the market's resilience in overcoming adversities through proactive intervention by Singapore Tourism Board (STB) to drive demand.

Efforts have included promotional campaigns such as "Singapore: Passion Made Possible" and developing Singapore into a leading Meetings, Incentives, Conferences and Exhibitions (MICE) destination.

Visitor arrivals over the past 10 years have grown at a Compound Average Annual Growth (CAAG) rate of 6.7 percent, reaching an estimated 18.5 million visitor arrivals in 2018.

This exceeds official estimates of 17.6 to 18.1 million on the back of enhanced publicity from the 'Trump-Kim Summit 2018' and the Hollywood film 'Crazy Rich Asians'. The strong performance also benefitted from global economic optimism and improved flight and cruise connectivity.

On the latter, STB has proven successful in expanding Chinese demand from second- and third-tier cities through marketing to local tour agents. The cruise segment has also grown popular with Indian travellers who enjoy the convenience of visiting multiple destinations on a single trip.

Visitor Arrivals, 2009 – 2018e

Source: Singapore Tourism Board

Top 10 Source Markets, 2018 vs 2014

Nationality Mix 2018		Nationality Mix 2014	
PR China (+1)	19%	Indonesia	20%
Indonesia (-1)	16%	PR China	11%
India (+2)	8%	Malaysia	8%
Malaysia (-1)	7%	Australia	7%
Australia (-1)	6%	India	6%
Japan	5%	Japan	5%
Philippines	4%	Philippines	4%
South Korea (+1)	3%	Hong Kong SAR	4%
United States (+2)	3%	South Korea	4%
Vietnam (+3)	3%	Thailand	3%
Others	26%	Others	26%

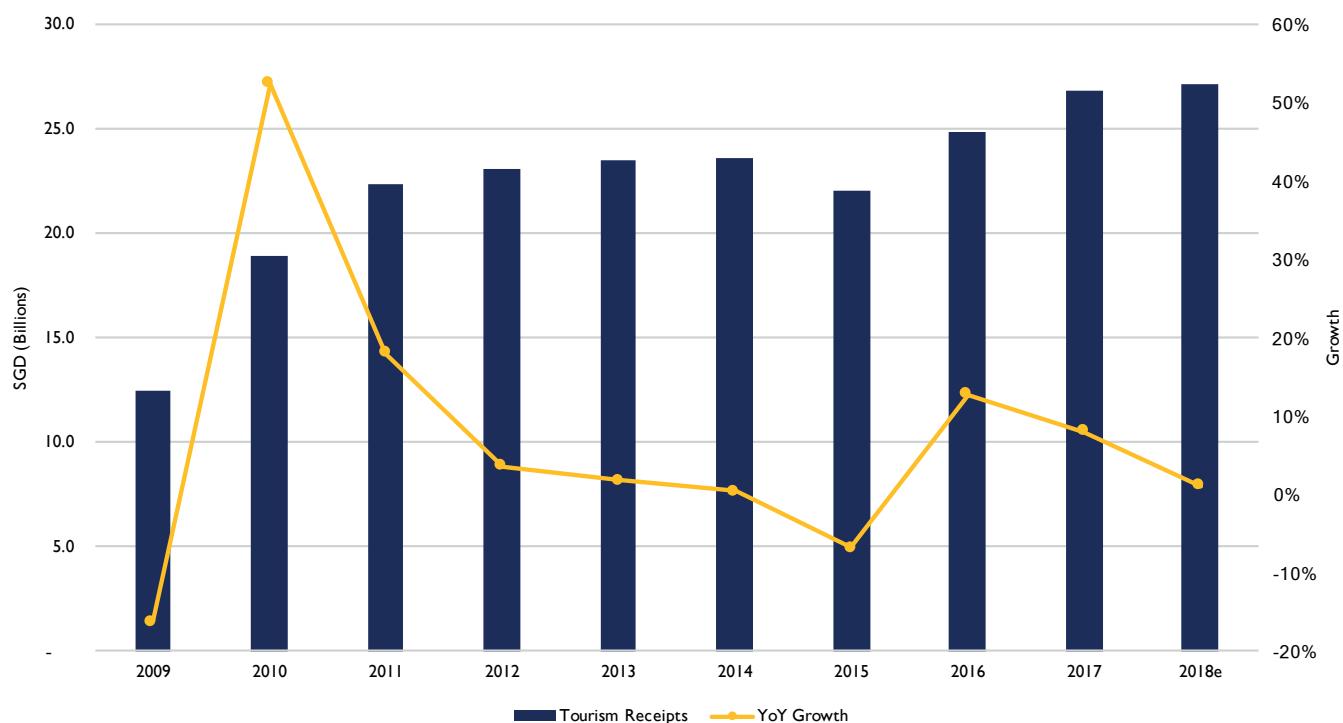
Source: Singapore Tourism Board

The demand changes have caused a structural shift in Singapore's market line-up. In 2017, China officially deposed Indonesia's 20-year reign as the biggest source market making up 19 percent of demand whilst Indonesia fell to 16 percent. Growth from India has also been strong, rising two positions with a market share of 8 percent in 2018.

Little is changed in the middle of the list, but the United States and Vietnam are new entrants to the top ten in the ninth and tenth spots.

Newly introduced technologically-advanced aircrafts have allowed the reopening of direct flight routes for both United States (US) east and west coast destinations. This allowed the US to climb two spots as Singapore strengthens its attractiveness as the gateway to Asia.

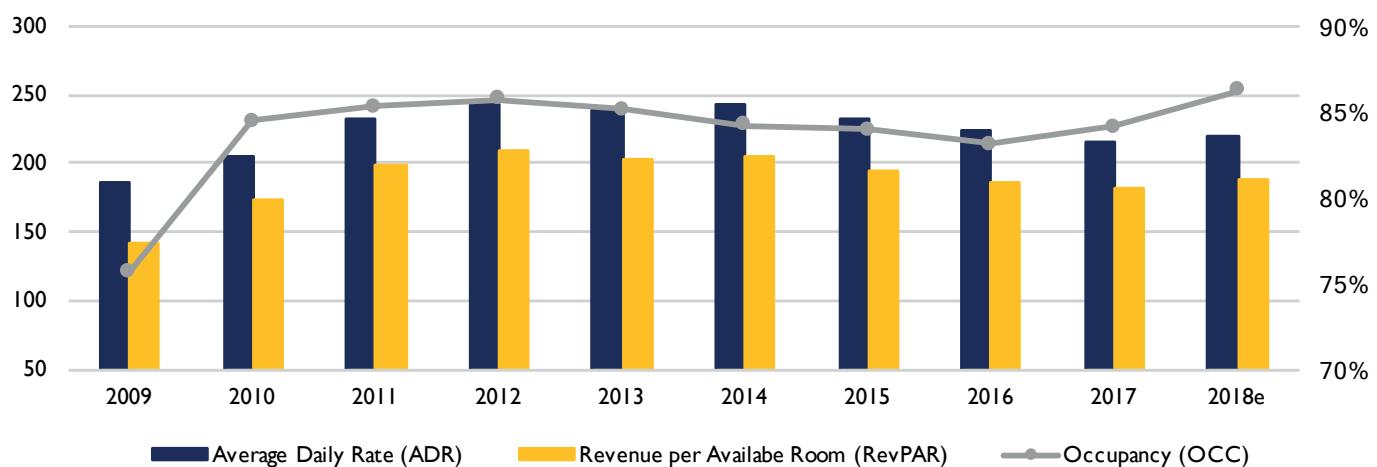
Accelerated economic development in Vietnam and expansion of its national carrier has enabled more Vietnamese to travel abroad, pushing the country up by three spots. Singapore's appeal to the Vietnamese lies in its futuristic cityscape, clean environment and gaming offerings.

Singapore Tourism Receipts, 2009 – 2018e

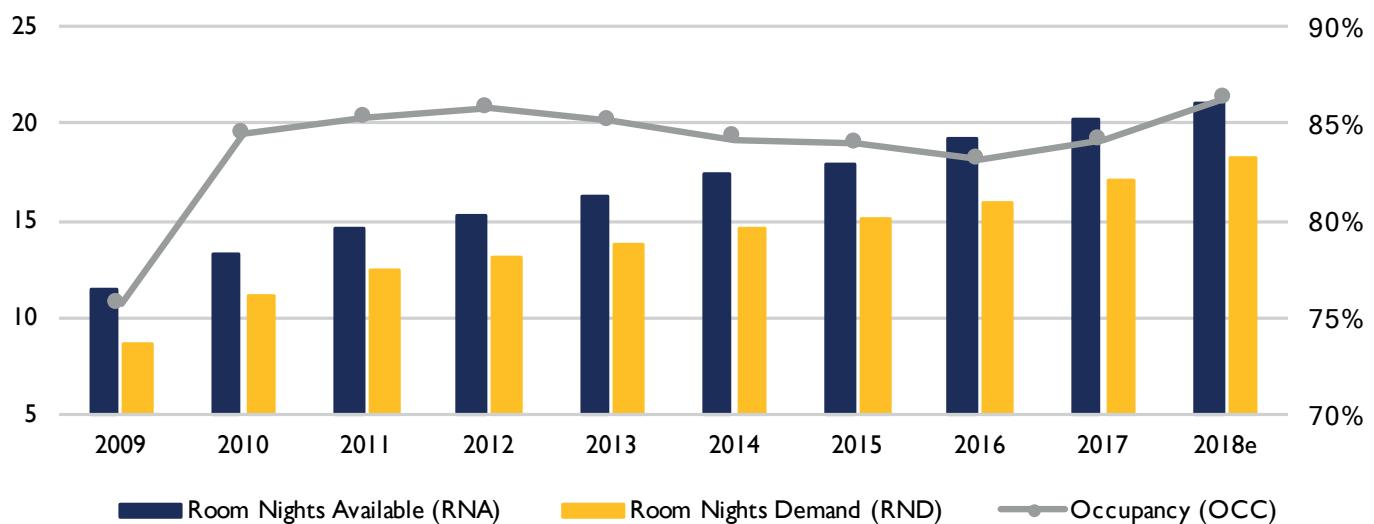
Source: Singapore Tourism Board

Altogether, the top ten source markets continue to contribute 74 percent of total demand. However, demand now relies more heavily (approximately 3 percentage points more) on emerging economies, contributing to a new issue: lower per capita spending.

In 2018, total tourism receipts are estimated to have hit a new historical high of SGD 27.1 billion, but with per capita spending hitting an 8-year low of SGD 1,464. This is 13.4 percent lower than 2011's historical high of SGD 1,693, and indicative of the overall negative trend affecting businesses and room rates.

Hotel Market Performance Indicators, 2009 – 2018e

Source: Singapore Tourism Board

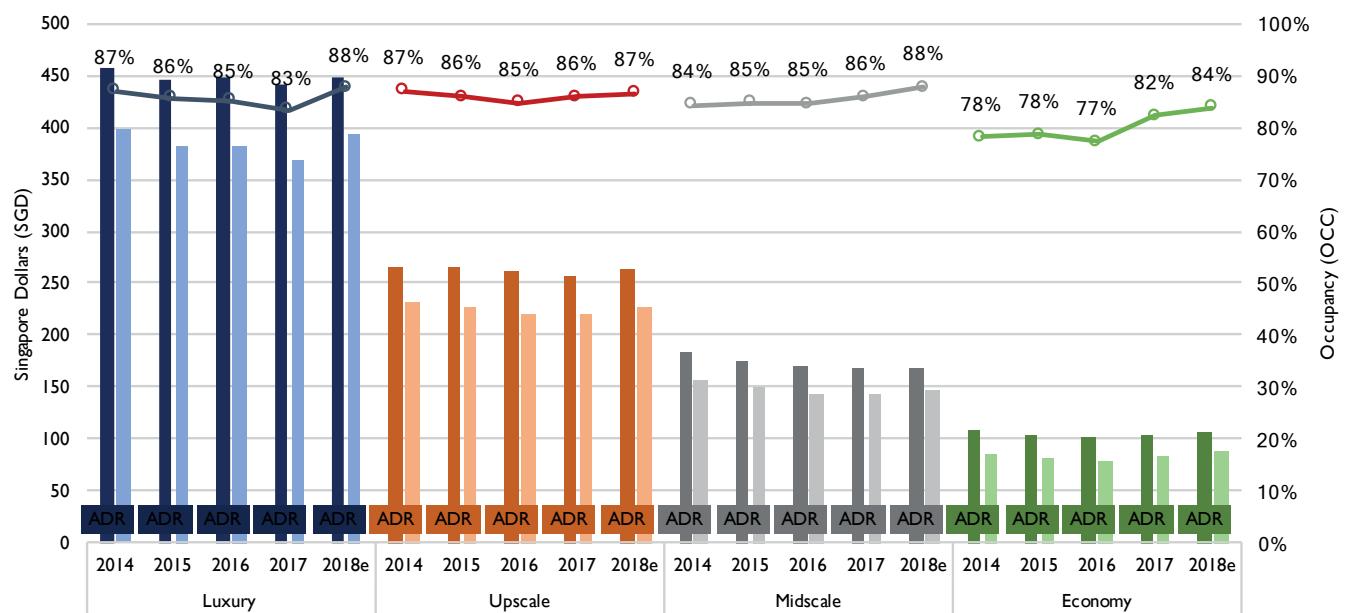
Room Nights Supply & Demand, 2009 – 2018e

Source: Singapore Tourism Board

Average Daily Rate (ADR), which had recovered post-GFC up till 2012's high of SGD 244, was generally falling since, reaching a low of SGD 216 in 2017 but recovering in 2018 to an estimated SGD 219. This trend can be explained by three compounding factors – 1. Increased reliance on emerging markets with lower propensity to spend, 2. Marginally higher proportion of economy and mid-tier supply which has a suppressive effect on market-wide ADR, and 3. Strong supply growth through 2017 creating a slack in the market.

Between 2009 and 2018, Room Nights Demand (RND) grew 74.6 percent whilst Room Nights Available (RNA) growth was significantly higher at 85.5 percent. This divergence was accelerated between 2014 – 2017, instigating room rate reductions across the market as means to shore up occupancy figures by attracting demand from competitive and local sources (staycations became increasingly popular as a result). Additionally, the hotel industry faced some rivalry from home-sharing platforms, though the impact is somewhat muted with short-term rentals remaining illegal under the law for both public and private establishments.

(Note: Singapore's Urban Redevelopment Authority (URA) is considering a revised scheme enabling short-term rentals in private housing buildings, provided majority of unit owners approve its operations.)

Segmented Hotel Market Performance Indicators, 2014 – 2018e

Source: Singapore Tourism Board

Splitting the market up into four major segments – luxury, upscale, midscale and economy – it becomes apparent 2018's exceptional performance was not restricted to any segment. RevPAR improved across the board, albeit more so for luxury and economy hotels which performed 6 and 5 percent better YoY respectively, while Upscale and Midscale hotels improved their RevPARs by 3 percent each.

The strong performance by economy hotels is fuelled by the Chinese's preference for affordable options. Thus, most of its RevPAR improvement came from an improvement in occupancy as opposed to ADR. Separately, luxury hotels stood to gain from a strong media presence leading up to and during the Trump-Kim Summit 2018. The event helped the segment recover from 2017's low which witnessed a large influx of luxury openings (over 800 keys), including Sofitel Singapore City Centre, InterContinental Robertson Quay and Andaz Singapore.

In 2018, the market officially entered a period of consolidation as supply growth slowed while demand picked up. RNA growth for 2018 is estimated to be 4.1 percent, 2.3 basis points (bps) below the 10-year CAAG of 6.4 percent.

However, the year saw two new and interesting brands entering the market. Six Senses opened a combined 187 rooms at its two properties – Six Senses Duxton (49 keys) and Six Senses Maxwell (138 keys). The two properties are housed in conserved historical buildings and mark the brand's first foray into creating city hotels.

The year also saw the opening of the 157-key Capitol Kempinski Hotel Singapore. Originally slated to open as the Patina Singapore, it was delayed due to a drawn-out dispute between the owners, two of Singapore's top developers. The resulting Capital Kempinski is expected to vie for Singapore's top luxury hotel status along with the Capella, Fullerton Bay Hotel and The Raffles (when it reopens in mid-2019 after an extended renovation project).



What Next?

Hotels Opening in 2019

Name	Keys	Segment
Sentosa	606	Midscale
Capri by Frasers China Square	304	Upscale
Dusit Thani Laguna Singapore	208	U.Upscale
The Outpost Hotel	193	Upscale
YOTELAIR Changi	130	Midscale
The Barracks	40	Upscale

Source: Horwath HTL

2019 will see a shift in the development trend as hotels open outside the Core-Central Region (CCR). Of note, Sentosa will have a 25 percent jump in RNA with an additional 839 keys spread across three hotels (Village, The Outpost and The Barracks) being developed by Far East Organization. This might cause some rate depression in the near-term as the hotels ramp up.

On the other end of Singapore, Dusit Thani Laguna will be the first golf-course related hotel in Singapore. It will help cement the east as the go-to golfing destination just as Singapore Land Authority (SLA) begins winding down golf courses elsewhere in the state.

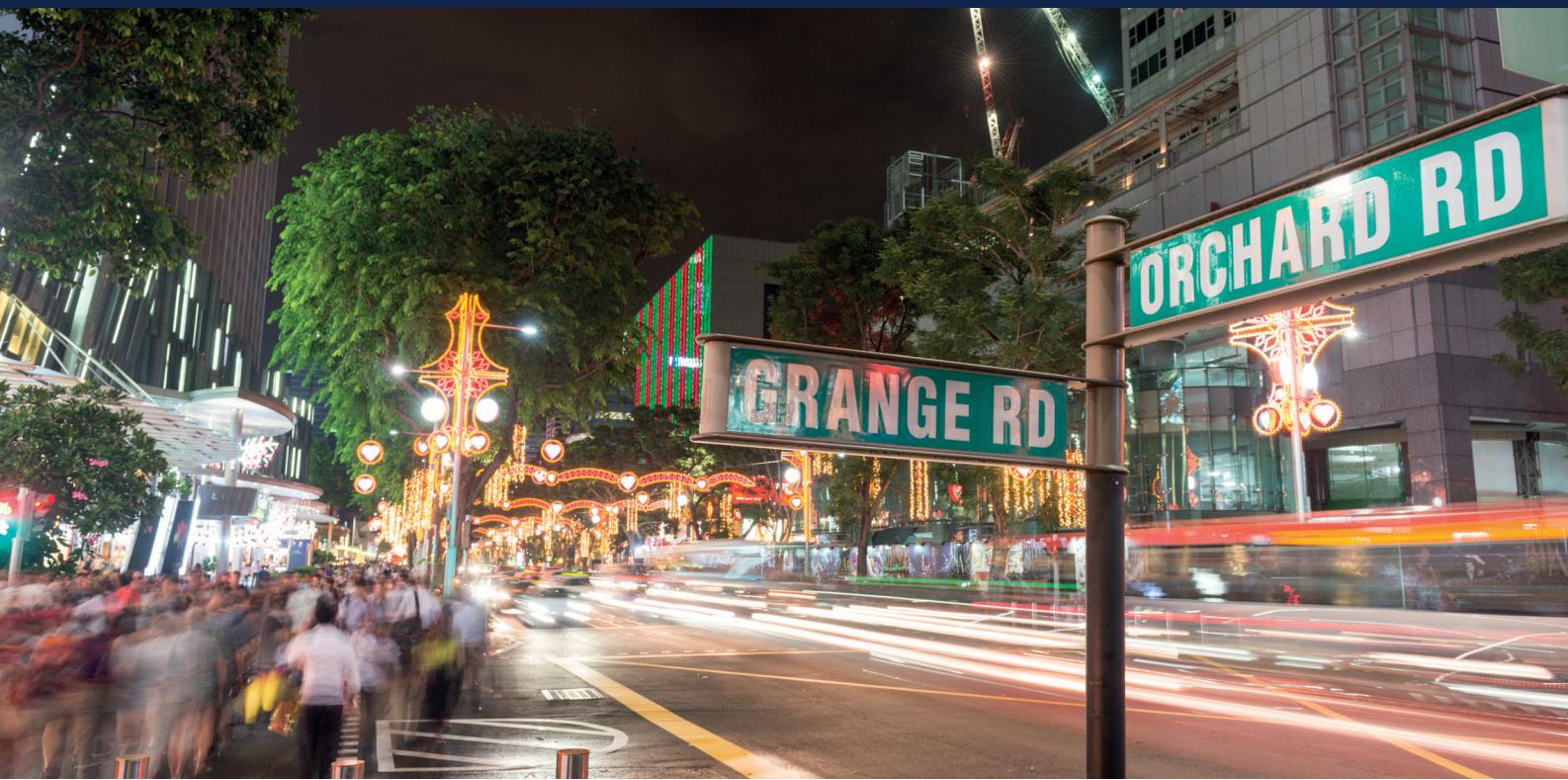
Hotels Opening in 2020-2023

Name	Keys	Segment	Year
The Clan	292	U. Midscale	2020
Aqueen Hotel Geylang	100	Economy	2020
EDITION	190	Luxury	2021
Artyzen	150	Luxury	2021
Pullman	342	U. Upscale	2022
TBD (Banyan Tree to manage)	400	Luxury	2023

Source: Horwath HTL

Beyond 2019, Singapore continues to attract new and interesting brands to the city. Particularly, half of the new brands are lifestyle brands – The Clan, Artyzen, and EDITION – representative of the shift to younger travellers who prefer interactive communal space and a differentiated experiential stay. The market will also have homegrown Banyan Tree finally operating accommodations in Singapore as part of an eco-friendly development in Mandai, the potential segmentation of the project's 400-keys into separate products and branding have not yet been finalized.

The development will incorporate nature conservancy into its design and operations and will be part of Mandai's rejuvenation project. The project includes the relocation of Jurong Bird Park and the development of a new Rainforest Park in the same area as the Singapore Zoo, Night Safari and River Safari.



Orchard Road and Sentosa will also undergo their respective rejuvenation programs. Orchard Road seeks to include better “pop-up” activities to attract crowds, more walking options, and permanent attractions. The lead committee is also exploring ways at incubating local talent in design and fashion, affording them opportunities to showcase their works.

Sentosa will be reshaped to offer more leisure amenities and investments, along with better infrastructure and accessibility. The island will be redeveloped as part of a larger area including adjacent Pulau Brani and Tanjong Pagar, providing exciting opportunities to develop new tourism attractions and anchor this precinct as the Southern Gateway of Asia.

The rejuvenation projects are much needed as Singapore's existing attractions begin to age. Since 2010 (opening of Marina Bay Sands and Resorts World Sentosa), there have not been any further game changing developments. However, the to-be-vacated city-port will present the optimal prospect for development given its size and location. No definite plans have been announced, but an overall view has been taken on how the whole area can be developed for tourism as well as commercial and residential purposes.

The prospect of development opportunities within the locality will alleviate the shortfall in available space elsewhere, a positive advancement towards furthering Singapore's tourism sector. It will also help boost traffic flow to Sentosa, integrating the attraction closer to its mainland counterparts.

Other Potential Development Sites

URA Sites	Location	Status
URA White Site (Reserved List)	Marina View	Available for application
URA Hotel Site (Reserved List)	Sims Avenue	Available for application in May 2019
Masterplan 2014	Wallich Street	Zoned Hotel Development
	Tanjong Pagar Rd	
	Merchant Loop	
	Zion Road	
	Clemenceau Ave	
	Stadium Lane	
	Stadium Road	
	Kallang Airport Way	
	Old Terminal Lane	
	Bukit Timah Road	
	Mayne Road	
	Cuscaden Road	

Source: Horwath HTL



Analysing Masterplan 2014 in greater detail for sites which have been zoned hotel development, the clues point toward the same finding.

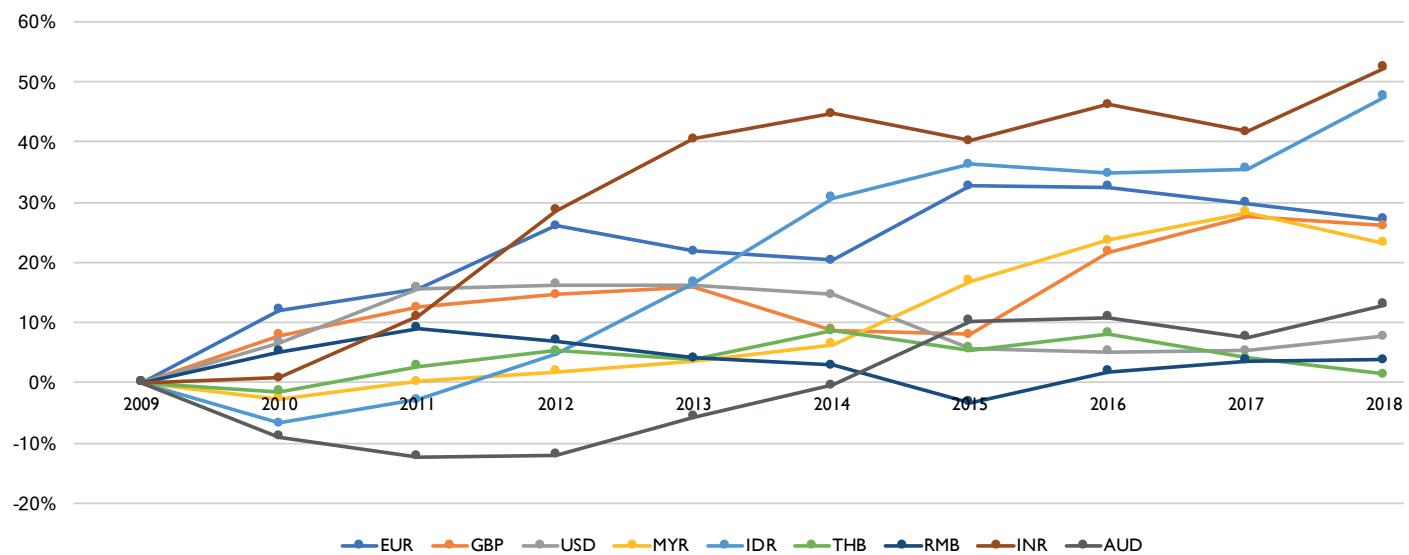
Development will shift outside of the CCR as there remains few remaining green-sites within. New potential hotspots have emerged in the Stadium precinct - particularly around the dysfunctional Kallang Airport and in the peripherals of Little India. Their distance from the city-centre will likely limit their development potential to midscale and upscale segments. By contrast, the Tanjong Pagar redevelopment area will likely skew towards upscale and luxury projects.

The current period of consolidation offers a reprieve for hoteliers. Particularly, tourist arrivals should continue to grow notwithstanding exigencies, although at a slower pace relative to 2018's 6.2 percent.

As a result, market occupancy is expected to grow into the high 80s, giving hotelier's compression and confidence to push for ADR growth. Given the lacking pipeline in existence, ADR growth is expected for at least the next 3 to 5 years.

A sustainable yearly RevPAR rate of growth would be in the range of 4 - 5 percent.

SGD's Relative Appreciation Against Competitive Currencies (Base Year 2009)



Source: Singapore Tourism Board

Macro Economic Outlook

Certainly, key macroeconomic threats may undermine Singapore's healthy market performance. These include:

1. Currency appreciation against main inbound markets;
2. Trade-war between United States and China;
3. Potential rising interest rates.

Setting 2009 as the base year, the Singapore dollar has strengthened against the currencies of all top ten source markets, indicative of the currency's strength and tendency to appreciate. This undermines Singapore's affordability as a travel destination especially for its geographical neighbours mainly comprising emerging economies.

With lower disposable incomes, foreign exchange rates thus form a large part of their travel destination considerations. Their ability to spend also affects Singapore hotels' abilities to push for ADR growth.

The China-United States trade war casts a shadow over the entire world's economy, just as performance has stabilised from the GFC. The two countries are engaged in disputes over tariffs imposed on goods traded between them. In effect, this reduces the amount of trade occurring and thus diminishing the flow of goods through Singapore's transhipment hub.

Being a gateway city, Singapore stands to lose in the ongoing dispute as business demand between the regions are reduced. The rhetoric between Washington and Beijing has fuelled uncertainty amongst business leaders, reducing their risk appetite in furthering business investments.

Rising borrowing costs may also decrease business and consumer travel as liquidity is tightened. For the past 3 years, the Federal Funds Rate has climbed 250bps from 0.25 percent. This is accompanied by London Interbank Overnight Rate which has also crept up around 200bps since 2015.

Other major financial markets such as Australia and Eurozone hold steady. Together, this represents a combined stance by the global economy towards contractionary monetary policy that seeks to limit inflation. The contractionary policies increase the cost of doing business and limit investment opportunities.



Conclusion

The gears of Singapore's hotel market are in tune for continuing the forward march with no immediate concerns impeding progress.

The conditions are conducive for ADR growth although hoteliers remain cautious against the threatening backdrop of an economic slowdown. Any drastic push is likely to be undermined.

As news outlets post a constant reminder of the potential trade war, STB can ease the headwinds through pursuing the planned rejuvenation projects of key attractions to help drive market confidence and demand growth.

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After graduating from Singapore Management University in December of 2017, Benjamin joined Horwath HTL. His work, thus far, has focused on financial feasibility, market reporting and investment analysis for projects across Asia-Pacific, including Malaysia, Singapore, and Vietnam.

Horwath HTL

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