THE CONNECTED VISITOR ECONOMY BULLETIN

ASIA PACIFIC HOTEL PERFORMANCE – WHAT'S DRIVING GROWTH?

INTRA-ASIA PACIFIC TRAVEL AND EASED VISA REGULATIONS

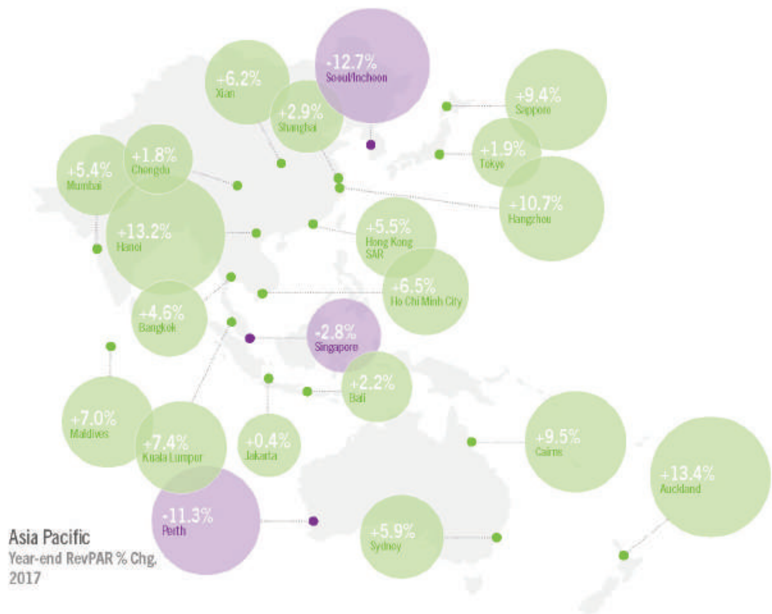
The world's most populous region saw strong growth in travel and tourism in 2017, in some cases stronger than expected. This has profoundly affected the hospitality sector, and only a handful of countries across this vast region saw performance declines in comparison with 2016. The steady rise of the travel-curious middle class, in both developing and industrialised nations, continues to hasten the agenda to offer improved and increased accessibility in domestic and overseas locations. This includes expanding travel infrastructure (airlift, airports, train stations, roads, etc.), implementing visa deregulations, and increasing the visibility and perception of destinations through marketing campaigns.



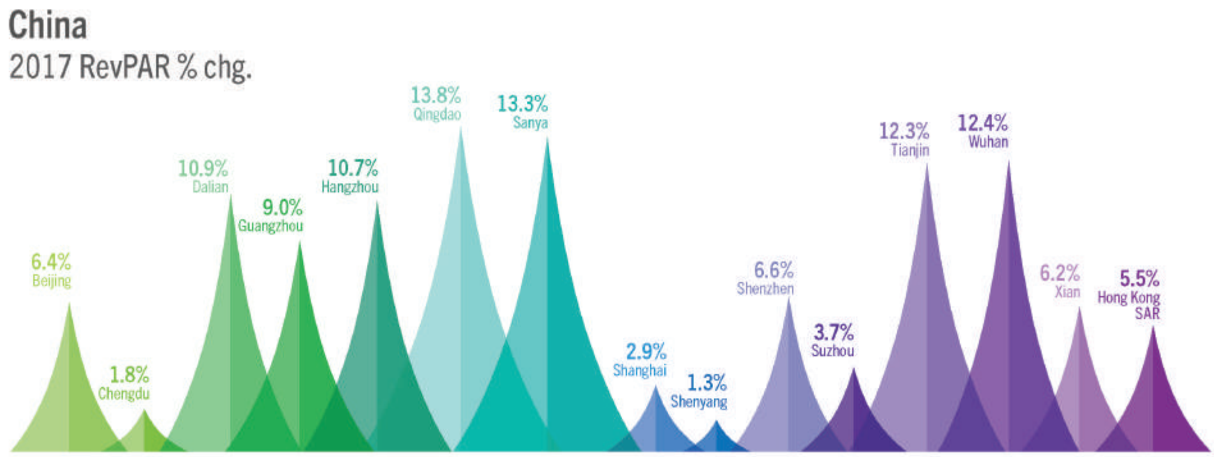
There are many factors contributing to national and regional nuances, but the main theme for 2017 was growth. However, this growth does not mean that all countries follow the same patterns, see the same rationale behind growth, or that they are even part of the same cycle. This is often highlighted by, for instance, the increase in outbound Chinese travellers, both FIT (free independent traveller) and group (bookings of 10 or more at once) business. According to UNWTO, China remained the world leader in travel spending in 2017 at roughly US$257.5 billion (+3.0% over 2016). This spending was spread across 142.7 million Chinese travellers. According to the China National Tourism Administration (CNTA), nine of the top 10 destinations for Chinese tourists in 2017 were countries in the Asia Pacific region, which illustrates just how vital outbound tourism from China is for the travel and tourism industry.

GROWTH ACROSS THE REGION

In 2017, the Asia Pacific region's tourism and hospitality industries saw strong growth despite the continuing threat of terrorism and ongoing geopolitical tensions, such as the situation in the South China Sea. Hotel demand grew 5.9%, outpacing a 3.3% increase in supply. This trend has continued in 2018, as supply was up 2.9% in the first four months of the year, while demand was up 4.3%.



Looking at hotel performance across different parts of the region, Northeast Asia is ahead with RevPAR (revenue per available room) up 5.7% (US$, constant currency), boosted by increased domestic travel within Mainland China as well as the comeback of Hong Kong SAR as one of the top destination for visitors from Mainland China.



Southeast Asia ranked second, with RevPAR up 5.3% over the first four months of 2017. Despite challenges with supply growth in Singapore and the November volcano eruption in Bali, the rest of Southeast Asia showed strong tourism growth.

Pacific hotels came in third place, with RevPAR up 4.5% in the first four months of 2018. There has been a significant uptick in arrivals to New Zealand, and Australia remains strong in terms of economic and tourism performance.

Central and South Asia experienced a 1.5% increase in RevPAR in the first four months of the year. Recent increases in hotel inventory have put pressure on ADR (average daily rate) growth, keeping this area's RevPAR growth below other parts of the region.

GEOPOLITICAL ISSUES IMPACTING SOUTH KOREAN PERFORMANCE

Seoul saw some of the most severe performance declines across the Asia Pacific region in 2017. Exports to Mainland China across numerous fields, including cosmetics and electronics, were cut drastically in 2017. This was partially due to pressure from Beijing concerning U.S. plans to deploy THAAD missiles in South Korea. Additionally, changes in visa policies as well as economic and political unrest caused international arrivals to decline from 17 million in 2016 to an estimated 13 million in 2017, closer to 2015 levels. As a result, hotels in Seoul/Incheon struggled in 2017, both in terms of occupancy (-7.6%) and ADR (-5.5%). As demand decreased, supply grew, putting pressure on hotels to lower rates.

Despite this decline, global and local developers remain interested in the long-term potential of South Korea, and continue to plan new hotels across the country. There are currently over 6,000 confirmed rooms in the pipeline for Seoul/Incheon, with more than 2,300 of them set to come online in 2018.

MALDIVES RECOVERS AS A TOP RESORT DESTINATION

After two years of performance declines, the Maldives hotel market experienced rate-driven RevPAR growth (+6.8%) in 2017. Rates remain below historical peaks, but this is an encouraging uplift for operators around the islands. The government is working to refresh the Maldives' image, and is redeveloping the guesthouse concept that has been part of the Maldives tourism since the '80s. There are also plans to diversify the destination's offerings beyond the traditional honeymoon and high-ADR resort draws. Additionally, Chinese investment in the new second runway at Male Airport, along with a redevelopment of the current terminals, could help arrivals grow from 1.3 million to 3 million.

According to the Maldives Ministry of Tourism, in the first four months of 2018 the country welcomed more than 530,000 international visitors, a 12.7% increase compared with the January to April period in 2017. Europeans represented the largest share of arrivals (55.9%) and the highest rate of growth (+18.2%) during this period. Tourism in the Maldives is proving to be resilient despite ongoing political tensions, and hotel demand was up 7.3% in the first four months of the year. The market's hotel inventory is expected to expand considerably over the next few years, with more than 3,200 rooms currently in the pipeline, representing 24% of the market's existing supply.

AUSTRALIA LEADS THE PACIFIC

Australia's hotel industry has seen years of performance growth following sharp declines during the global financial crisis in 2008 and 2009. Since 2010, Australia's RevPAR has had a compound annual growth rate (CAGR) of 2.4%. While the economy remains strong, a weakened Australian dollar has helped boost both international and domestic tourism, as travel down under has become cheaper for international tourists and traveling abroad more expensive for Australian residents. Additionally, hotel supply growth has been moderate, up 1.6% in 2017, helping most Australian markets attain high occupancy levels and in turn yield high rate growth.

Sydney, Australia's largest city and business centre, saw marginal RevPAR growth in the first months of 2018, up 0.2% compared with the same period last year. As investments in new hotel developments are starting to emerge, Sydney experienced a 5.0% increase in supply growth compared with the first four months of 2017, eclipsing a 3.8% increase in demand. New hotel supply in Sydney is typically absorbed quickly, and this has recently occurred in suburban areas especially. Despite this recent supply growth, Sydney still held the nation's highest actual occupancy level at 85.7%, although this was a 1.1% decline compared with January to April 2017. Meanwhile, Sydney's ADR is now over AU$40 (approximately US$30) higher than the national average. Demand has been driven by strong international arrivals, as a substantial number of visitors to Australia start their journey in Sydney. ICC Sydney, the newly-built convention centre that opened in December 2016, is beginning to stimulate demand from the MICE (meetings, incentives, conferencing, exhibitions) segment, with increasing numbers of international conferences coming to the city.

THE RISING STARS OF SOUTHEAST ASIA

Malaysia

Reduced traveller confidence has impacted Malaysian hotel performance since the two Malaysia Airlines crashes in 2014. In 2015, arrivals to Malaysia declined by 6.3% compared with the previous year. Hotels were further impacted by slowing economic growth in 2015, along with declining prices of commodities and oil prices at that time. Malaysia's RevPAR dropped almost 10% in 2015, reaching its lowest level since the global financial crisis.

The Malaysian market's hotel performance started to bounce back in 2016, and further improved in 2017 when Kuala Lumpur hosted the Southeast Asian Games. For year-end 2017, Malaysia posted a 5.1% increase in occupancy and a 5.9% increase in ADR, combining for an 11.3% growth in RevPAR. This positive trend has continued into 2018, with RevPAR up 1.3% for the first four months of the year. RevPAR in the region is up despite a high basis of comparison with the early months of 2017, when Malaysia was visited by King Salman of Saudi Arabia, hosted the Southeast Asian Games, and welcomed the biennial Langkawi International Maritime and Aerospace Exhibition.

Kuala Lumpur currently has a strong pipeline with over 7,700 confirmed rooms, mainly in the upper-tier classes. At the end of 2017, the Malaysian government temporarily froze approvals for luxury developments in an effort to control the national oversupply of property and prevent economic risks. Infrastructure developments like the KUL-SIN High Speed Rail, which is slated to be ready by the end of 2026, should boost domestic travel from the south and make it easier for visitors to travel throughout the country.

Vietnam

As one of the fastest-growing economies in Asia, Vietnam has recently experienced strong RevPAR increases. The Vietnamese capital Hanoi posted a 12.6% RevPAR growth in 2017, driven by a 4.2% increase in occupancy to an actual level of 81.4% for the year. Growth in foreign investment, particularly from South Korea, Japan and Singapore, have helped bolster Vietnam's hotel growth.

In addition to economic growth, Vietnam introduced e-visas for 40 countries in February 2017, including the U.S., China, Japan, South Korea and the Philippines. This has helped boost tourism significantly. According to the Vietnam National Administration of Tourism, the country saw record foreign arrivals in 2017, nearing 13 million, which was a 29% increase over 2016. The Asia-Pacific Economic Corporation (APEC) Summit was held in Da Nang in November, with many ministerial meetings driving hotel business in Hanoi. Additionally, Hanoi is well connected to the northern part of Vietnam, making it a good stopover for travel to other destinations.

The government is currently working to improve Hanoi's infrastructure. Despite a series of delays, the first phase of the Hanoi Metro project is expected to be completed in 2018. As one of the hottest markets in Asia, Hanoi should expect to see increased development interest and infrastructure growth. The impact of added hotel supply is already apparent in the market's performance for January to April 2018, with occupancy down to an actual level of 79.6%, a 6.1% decline compared with the first four months of 2017.

Thailand

As the number one tourism market in Southeast Asia, Thailand's hotel performance has grown considerably since recovering from the 2014 coup d'état. Thailand recorded its highest-ever absolute RevPAR level in 2017 at THB2,774.70, a 3.9% increase over 2016. Tourism's share of the country's GDP continues to grow as visitors come in droves, with the country reaching a record 35 million visitors just two days before New Year's Eve in 2017.

Thailand's strong hotel performance is expected to continue throughout 2018, with RevPAR up 8.1% in the first four months of the year. ADR was up 6.1% for the period while occupancy rose 1.9%. Two of Thailand's key markets saw considerable growth, with Bangkok's RevPAR up 7.7% for the period and Phuket's up 11.6%.

Following the 2014 coup d'état, Bangkok's hotel growth levels have stabilised. The Bangkok market showed resilience in the face of travel advisories issued by several countries as a result of the coup, taking less than a year for performance to recover.

Bangkok's hotel demand is expected to continue rising and the city should be able to absorb incoming supply growth, including 1,500 rooms set to come online in 2018. Looking at the performance of Bangkok hotels that opened between 2012 and 2017, these newer hotels only needed two and a half years for their RevPAR performance to catch up to pre-existing hotels. In other key Asian markets, such as Singapore and Bali, it has typically taken longer for newer properties to catch up.

Phuket remains the top leisure destination in Thailand. Supply growth began slowing down in 2016, and since there has been a surge in tourism demand, heightened occupancy levels have allowed Phuket hotels to yield some of the highest rates in the region. During periods of high occupancy, hotels have opportunities to raise their rates as available rooms become more valuable. Over the 12-month period of May 2017 to April 2018, Phuket recorded 65 nights with occupancy above 90%. On these nights, hotels were able to charge an average rate 98% higher than all nights when occupancy came in below 70% during the same period, making Phuket the top performer in terms of high-compression nights among key Asia Pacific markets. While there are currently 4,600 rooms set to open over the next few years, Phuket's strong demand is expected to absorb this new supply quickly.

For any hotel, it is important to stay up to date on market performance trends and plan for how these factors can impact business. Hotels should use benchmarking to track their performance levels against a group of select competitors and their local markets to help them strategise and thrive.

ABOUT THE AUTHOR

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Jesper Palmqvist leads STR in the Asia Pacific Region, overseeing teams across China, Japan, Australia, Singapore, India and Indonesia. He has 20 years of experience in hospitality, online travel and IT through various verticals in regional European IT start-ups and regional hotel chains, as well as global companies such as Orbitz Worldwide, Wyndham Hotel Group and Groupon, leading efforts in Distribution, Sales & Marketing and contracting. Jesper frequently presents the latest trends and updates at industry events in the APAC region and has also been interviewed by several news outlets, including CNN.

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