



MARCH 2016

MARKET UPDATE: SINGAPORE

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The Republic of Singapore is a metropolitan city-state and island country in Southeast Asia with a total land area of 714.3 square kilometres. It is situated at the southern tip of the Malayan Peninsula, between Malaysia and Indonesia. With an estimated population of 5.5 million, Singapore has established itself as a global commercial, financial, and transportation hub in the region.

According to World Travel & Tourism Council, the direct and indirect contribution of Travel & Tourism to Singapore Gross Domestic Product (GDP) was 4.9% and 10.1%, respectively of the total GDP in 2014, making tourism one of the key supporting industries for the economy.

Amongst the numerous international tourism awards and accolades received, Singapore has consistently ranked as one of the top destinations for various travel segments, which include leisure, business and meetings, incentives, conferences, and exhibitions (MICE). Despite its limited land space, Singapore has also managed to introduce new tourism attractions such as the Gardens by the Bay, River Safari, and the National Gallery.



Economic Outlook

	Actual				Forecast					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real GDP growth (%)	6.2	3.4	4.4	2.9	2.1	2.2	3.3	3.4	3.9	4.0
Consumer price inflation (av %)	5.3	4.5	2.4	1.0	0.5	1.0	1.8	2.2	2.3	2.5
Current-account balance (% of GDP)	22.0	17.2	17.9	19.1	26.6	24.0	22.8	22.9	21.9	20.6
Short-term interest rate (av %)	0.39	0.38	0.40	0.46	1.13	-	-	-	-	-
Exchange rate US\$:S\$ (av for period)	1.26	1.25	1.25	1.27	1.38	1.42	1.39	1.37	1.36	1.35

Source: Department of Statistics Singapore, the World Bank, Economist Intelligence Unit, Dec-Jan 2015/16

In 2015, amidst weak global and regional market performance, Singapore's economy grew at the lowest rate since rebounding from the financial crisis in 2009. Real GDP growth was 2.1% in 2015. The Singapore dollar weakened against the US dollar to a six-year low at the start of 2016 due to devaluation in Chinese yuan and increase in US interest rates. However, as compared to the currency performance of its neighbouring countries such as Malaysia and Indonesia, the Singapore dollar remains a strong currency in the region.

Given the linkages between Singapore's and China's economy and the uncertainty of the latter, weaker global trade performance and poor growth in the Southeast Asia region, growth is expected to remain slow in 2016. However, as pro-growth policies underlie Singapore's development, long-term growth is expected to pick up given adjustments to economic policy in response to international developments.



Singapore Tourism Landscape

In conjunction with the island city-state's 50th year of independence, a full year national campaign named SG50 was initiated to commemorate the significant year with activities for both locals and foreigners. Despite the activities and extensive marketing for the year, the performance of the tourism industry in 2015 started off slowly amidst weak global and regional market performance. Year-end figures indicate that while tourist arrivals met the revised targets set by Singapore Tourism Board (STB) for 2015, the tourism receipts did not.

Although growth has slowed down, given Singapore's constant efforts in renewing its attractiveness as a destination for both leisure and corporate travellers, it still has the potential to recover in the mid to long-term.

Revised Tourism Target 2015

15.1-15.5m visitor arrivals
S\$23.5-S\$24b tourism receipts

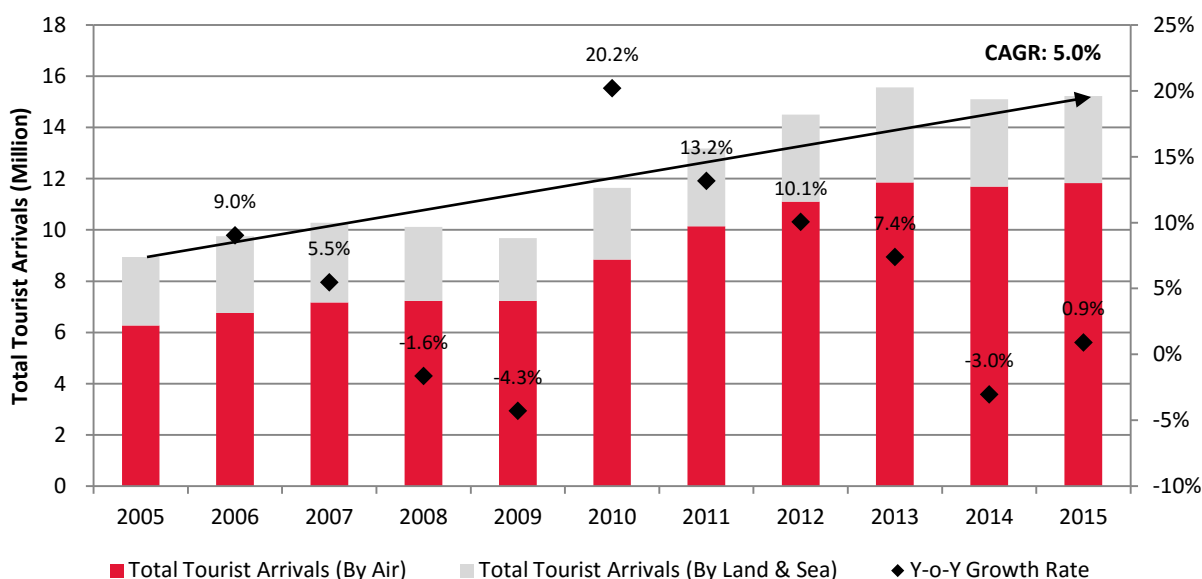


Actual Performance 2015

15.2m visitor arrivals
S\$22b tourism receipts

International Visitor Arrivals

FIGURE 1: INTERNATIONAL VISITOR ARRIVALS (2005-15)



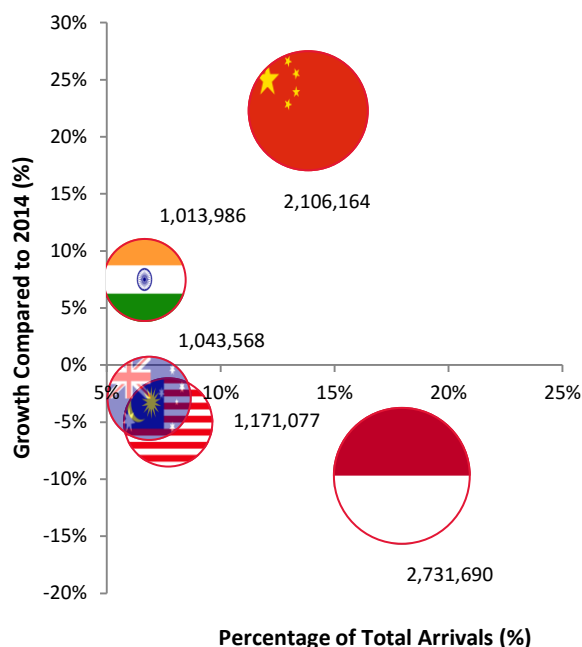
Source: STB Statistics

Except for the dips in international visitor arrivals (IVA) during the 2008-09 financial crisis and in 2014, Singapore achieved a period of consistent growth in arrivals with a compounded annual growth rate (CAGR) of 5.0% during 2005-15.

In 2015, Singapore received a total of 15.2 million international arrivals, which represents an increase of 0.9% as compared to 2014. This is

largely due to a rebound in IVA during the second half of the year; however, the growth rate was subdued due to the intensifying competition in the regional travel destinations and deterrence to travel in the face of the strong Singapore dollar relative to other regional currencies.

FIGURE 2: TOP 5 SOURCE MARKETS (2015)



Source: STB Statistics

Average Length of Stay and Source Markets

Historically, the average length of stay (ALS) of travellers to Singapore was 3.8 days. However, this average is expected to dip slightly as day trips and shorter corporate trips to Singapore become more common. This may be due to the changing travel habits of travellers from nearby source markets.

Top international source markets in 2015 remained consistent with 2014 rankings. The top five source markets made up 53% of all IVA in 2015, with Indonesia (17.9%) as the largest inbound market, followed by China (13.8%), Malaysia (7.7%), Australia (6.9%) and India (6.7%). While the Indonesian arrivals contracted by 9.7% in 2015 as compared to 2014 due to the economic and political situation in Indonesia, the strong growth in Chinese and Indian arrivals picked up the slack. As a result, arrivals from the top five source markets grew marginally by 0.8% as compared to 2014.

Changi Airport

Changi Airport, the internationally acclaimed airport in Singapore, logged a healthy performance in 2015. It handled a record 55.4 million passengers, which represents an increase of 2.5% as compared to the previous year. Serving more than 100 airlines and connecting with some 320 destinations, Changi Airport is one of the most well connected airports in the South East Asia region. This strengthens Singapore's position as a transportation and transit hub.

However, the benefits to the local tourism industry and to hotels in particular, depend on the proportion of passengers who are retained as overnight visitors. According to the MasterCard Global Destination Cities Index 2015 estimate, Singapore received 11.9 million overnight visitors. This amounts to around 21% of the passengers who pass through Changi Airport.

Record Performance for Changi Airport 2015

▲

55.4 million passengers
100+ airlines
320 destinations





Singapore Hotel Market

Singapore hotel market can be considered as non-seasonal given the diversity of its consumer base. Leisure and corporate travel patterns complement each other and contribute to considerably high demand for hotels in Singapore. This leads to higher market-wide average daily rate (ADR) and occupancy rate (OCC) as compared to other regional destination cities.

According to STB, in 2014, there were 220 gazetted hotels with a total of 50,676 available rooms. While URA figures in 4Q2014 indicated a total of 5,864 hotel rooms under construction in 2015, actually only about 4,000 rooms opened, as per HVS tracking of major new hotel openings. The balance hotel rooms were under construction or believed to be delayed.

According to Urban Redevelopment Authority Singapore figures in 4Q2015, a total of 5,704 hotel rooms are expected to be constructed in 2016 and 2017 (Fig. 3).

The CAGR for total available room nights (ARN) during 2011-15 was 4.2% while that for occupied room nights (ORN) during the same time period was 4.0%.

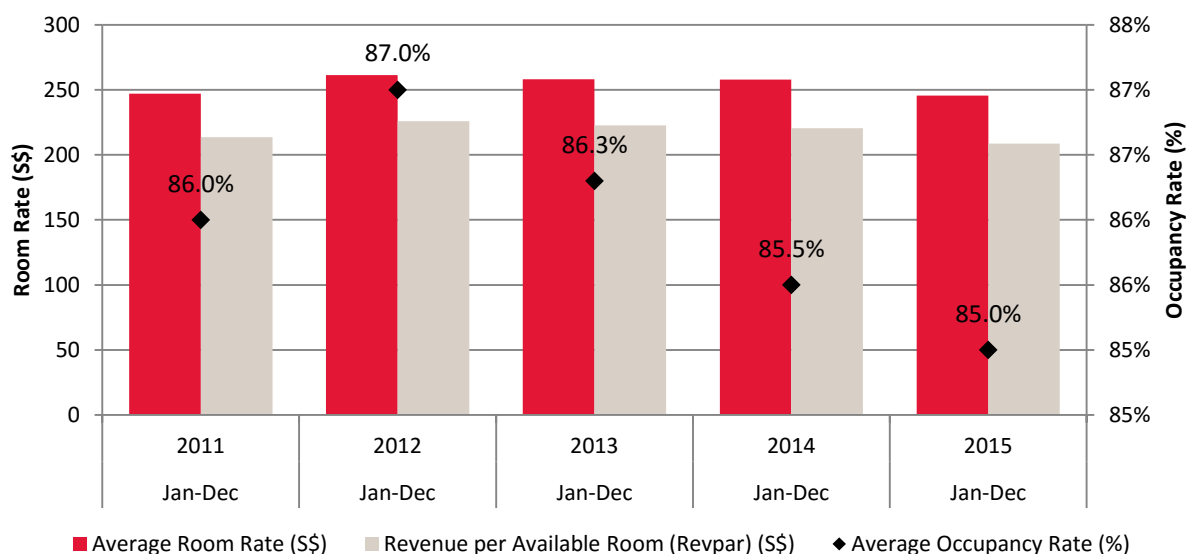
Marketwide hotel performance was softer in 2015 as compared to the previous years. Average occupancy rate came in at 85.0%, which is on par with 2014 performance. However, standard average room rate decreased by 4.8%, from SGD 258 in 2014 to SGD 246 in 2015. The dynamics of occupancy and rate have resulted in a decrease of 5.3% in RevPar from SGD 221 in 2014 to SGD 209 in 2015, which marks the third consecutive year of correction in marketwide RevPar.

FIGURE 3: SINGAPORE HOTEL ROOMS PIPELINE (2016-20)

Hotel Rooms Pipeline	Total	2016	2017	2018	2019	2020	>2020
Total	8,514	2,731	2,973	1,026	1,568	216	-
Under Construction	7,712	2,731	2,973	590	1,202	216	-
Planned	802	-	-	436	366	-	-

Source: Urban Redevelopment Authority

FIGURE 4: SINGAPORE OVERALL HOTEL PERFORMANCE (2011-15)



Source: STB Statistics

Key Factors for Decrease in ADR

Corporate demand from large accounts in the oil and gas industry fell due to the recent volatility in the industry. This has led to lower room demand and cut in the hotels' price premium.

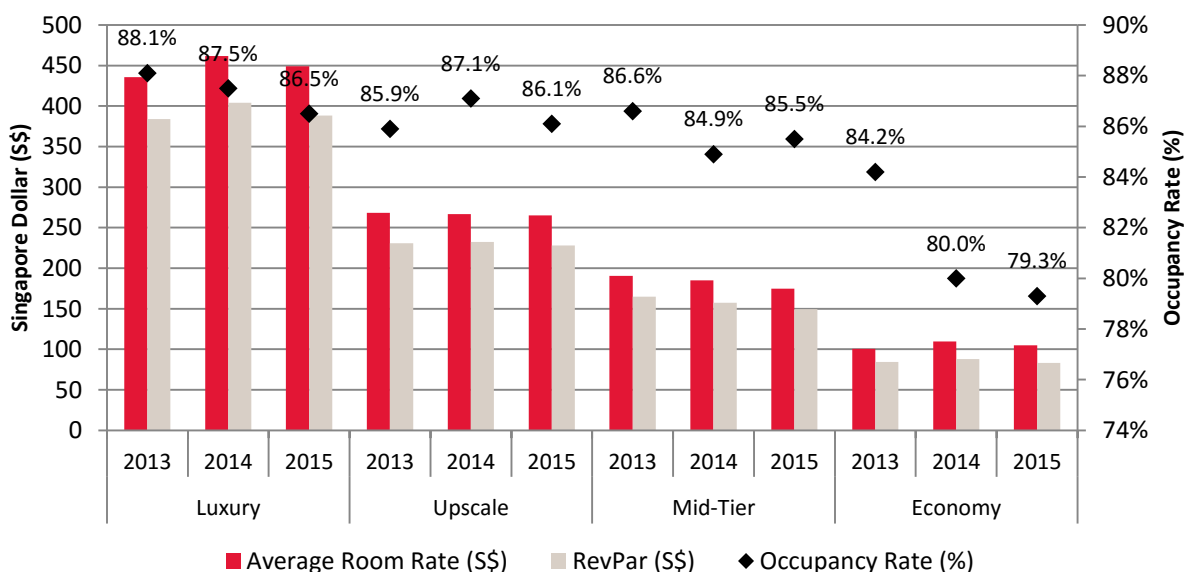
Regional currencies such as Indonesian rupiah and Malaysian ringgit have weakened significantly against the Singapore dollar, which has led visitors from these main feeder markets to cut down on overnight stays or turn to more economic accommodation alternatives.

Singapore has been increasingly perceived as an expensive destination relative to other regional cities; this may have dampened the travel demand and pushed hoteliers to decrease their rates.



However, given that the magnitude of the decrease is considerably small, there should be no pressing concern regarding the long-term sustainable revenue generation. Despite short-term headwinds, Singapore remains a hotspot for hotel industry with strong fundamentals for future growth. Looking forward, 2016 sets out to be an eventful year with major events such as Singapore Airshow and Food & Hotel Asia Expo, which are likely to boost hotel demand.

FIGURE 5: SINGAPORE HOTEL PERFORMANCE BY SEGMENT (2013-15)



Source: STB Statistics

Comparing performance across the segments, the luxury segment has managed to retain high rates, averaging SGD 449, while maintaining the occupancy in the high 80% range. Upscale hotels had the least decrease in OCC and ADR in 2015 as compared to the 2014 performance. The mid-tier hotels' OCC had improved by 0.7% from 84.9% in 2014 to 85.5% in 2015. However, the improvement in occupancy is contrasted by a decrease of 5.6% in ADR. Meanwhile, economy hotels have seen a similar decrease in OCC as the mid-tier hotels while the ADR has improved as compared to 2013 rates.



Hospitality Transactions

Based on recorded transactions, in recent years, hospitality asset investments in Singapore peaked in 2013 with total transaction sale volume achieving more than SGD 2,900 million and involving 13 assets. Majority of the buyers involved in hospitality asset transactions are Singapore-based companies, with occasional foreign investors from the region.

Most recent notable transactions are:

- Acquisition of BIG Hotel by Gaw Capital from ERC Holdings for approximately SGD 203 million.
- Acquisition of Capri by Fraser Changi City by Frasers Centrepoint from Ascendas Group for approximately SGD 203.4 million.



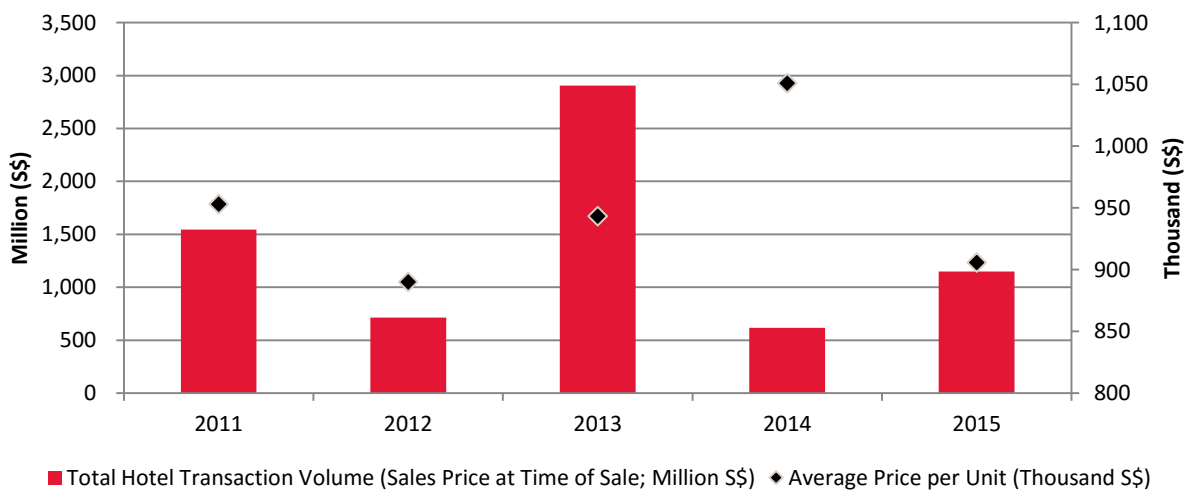
Some key hospitality transactions include:

Gaw Capital bought the **BIG Hotel** at approximately SGD 203 million in 2015.

Frasers Centrepoint bought **Capri by Fraser Changi City** at SGD203.4 million in 2015.



FIGURE 6: SINGAPORE HOTEL TRANSACTION (2011-15)



Source: HVS Research, RCA



Singapore Hotel Market Outlook 2016

At the start of 2016, HVS conducted the Hotel Industry Professional Opinion Survey: Singapore, to collect professional opinions on the performance of the Singapore market for the year.

The survey was sent out to Property-Based, Corporate Level and External Hospitality professionals. The Property-Based professionals represented a range of hotel segments varying from Luxury to Economy. The respondents were asked to gauge the expected percentage change of three key indicators: Occupancy Rate, Average Daily Rate, and Total Revenue in 2016 as compared to 2015.

By the end of the surveying period, we received 82 responses from hospitality industry professionals from a selected list of 180 respondents who are experienced in the Singapore market. The following section outlines the findings of the results.



Total Sample Set Results on Key Performance Indicators

Occupancy: ▼ 2.2% Average Rate: ▼ 3.8% Total Revenue: ▼ 3.4%

FIGURE 7: AVERAGE PERCENTAGE CHANGE ON KEY INDICATORS BY HOTEL SEGMENT FOR 2016

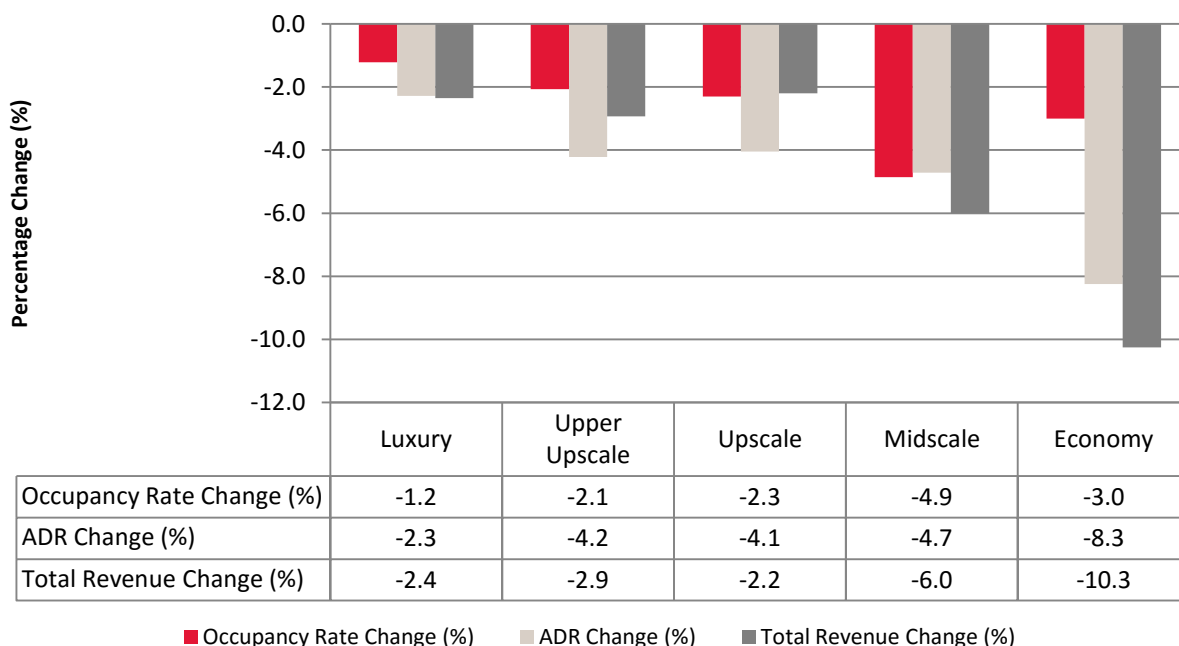
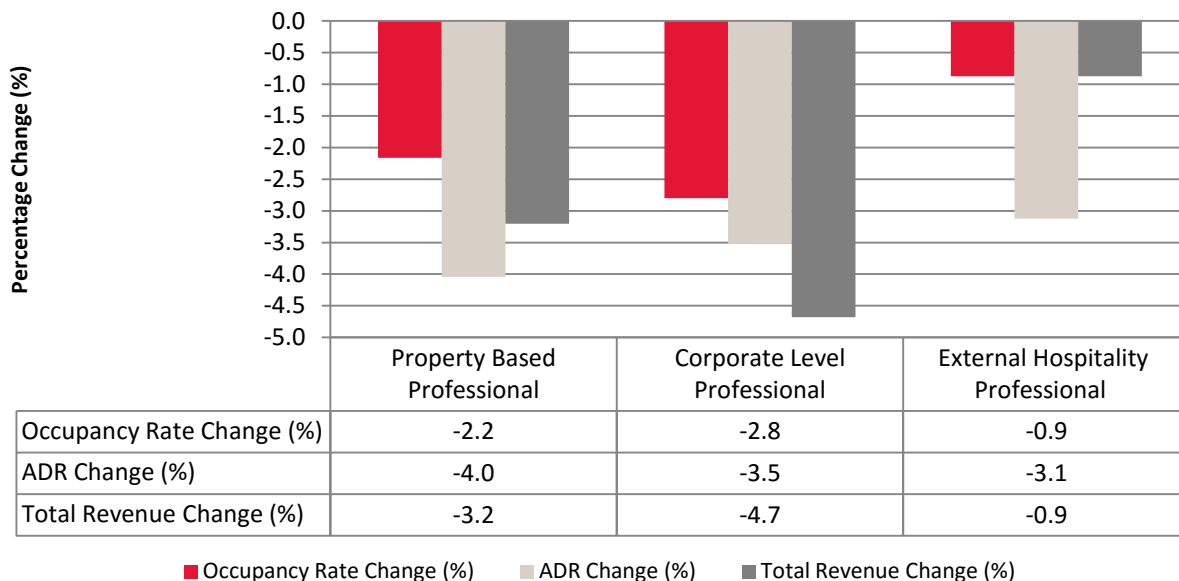


FIGURE 8: AVERAGE PERCENTAGE CHANGE ON KEY INDICATORS BY PROFESSIONAL TITLE FOR 2016



Source: HVS Survey and Research

The findings indicate that the market professionals are expecting a slight decline in hotel performance across all key indicators in 2016. The expected decline is most pronounced in the Economy segment given the significant increase in supply and intensifying competition.

The respondents also shared their views on which factors/events would impact Singapore's travel accommodation industry the most in 2016. A closer analysis on the responses yielded the following word cloud with the most frequently cited factors emphasized in red.



In general, the market sentiment is slightly pessimistic towards the hotel industry performance in 2016. This is mainly due to macro reasons such as the uncertainty in global and regional economy, currency fluctuation in the region and concerns with the Chinese market, which is Singapore's top trading partner.

On a micro level, new hotel supply, intensified competition, decrease in corporate demand and labour shortage are issues that will affect the hotel industry's ability to maintain current OCC and ADR levels. In view of the numerous initiatives by STB to promote Singapore, it is likely that despite the pessimism at the start of 2016, hotel performance may maintain at current levels.



What's Next

Established Hub in the Southeast Asia Region

Singapore has established itself as a global commercial, financial and transportation hub in the region, given its consistent improvement on infrastructure and business environment. Demand should remain stable or rebound in the mid to long-term. For 2016, STB forecasts tourism receipts to be in the range of S\$22.0 to \$22.4 billion and international visitor arrivals in the range of 15.2 to 15.7 million.

Uncertainty in Global Environment

Being an open economy, Singapore is highly affected by global and regional economic performance and sentiments. As hotel performance is closely linked to the economic performance, uncertainty in global economic environment will impact performance expectation negatively.

Moderation in Occupancy & Rate

Growth in arrivals will remain low while hotel supply increases, particularly in the mid-tier and economy segment. This may lead to pressure on occupancy and average rate.

Attempts to Rejuvenate Tourism Products to Increase Attractiveness as a Destination

STB has deepened its collaboration with major inbound markets such as China and Japan through new initiatives to boost arrival numbers. Furthermore, STB will continue to pull in demand by growing secondary cities in top source markets and anchoring pipeline of business events.

Initiatives to Boost Hotels

Especially for the hotel industry, STB has introduced Hotel Sector Manpower Plan and Experience Step-Up Fund which aim to improve the industry's competitiveness. The combination of new initiatives and industry's well-established foundations will enable hotel performance to recover in the mid to long term.



About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary last year. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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HVS ASIA PACIFIC is represented by eight offices in Singapore, Bangkok, Beijing, Hong Kong, Jakarta, New Delhi, Shanghai and Shenzhen. HVS also hosts three of the main annual industry events in the region, namely the China Hotel Investment Conference (CHIC), Hotel Investment Conference - South Asia (HICSA) and the Tourism, Hotel Investment & Networking Conference (THINC) Indonesia. Additionally, HVS publishes a wide range of leading research reports, articles and surveys, which can be downloaded from our online library (HVS.com/Library).

HVS SINGAPORE team has worked on a broad array of projects that include economic studies, hotel valuations, operator search and management contract negotiation, development strategies for new brands, asset management, research reports and investment advisory for hotels, resorts, serviced residences and branded residential development projects.

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