



2009 Asia Hotel Valuation Index (HVI)

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ASIA HOTEL VALUATION INDEX 2009

2008 has been a tale of two fortunes for the tourism and hospitality industries in Asia. Although the subprime crisis began in 2007, the effect of the fallout was only felt in Asia in the second half of 2008. According to the United Nations World Tourism Organisation, the Asia Pacific region's annual tourism performance growth declined the most in 2008 as compared to the other regions of the world like the Americas, the Middle East, Europe and Africa. While arrivals in the Asia Pacific region grew 6% in the first half of 2008, the last six months of the year saw a 3% drop-off in arrivals to book an overall 2% growth in the full year 2008 as compared to approximately 10% in 2007. The year will also be remembered for the meltdown in the global financial markets, and commodities, oil price and exchange rate fluctuations.

The tourism industry has been growing in significance in many local economies and receiving greater attention from authorities. Stimulus packages have been declared in countries such as China, Thailand, Singapore and Indonesia to support domestic and regional travel and shore up the tourism sector. Looking ahead, we anticipate tourism demand to ease in the short-to-medium term; however, the long-term potential of the region remains buoyant.

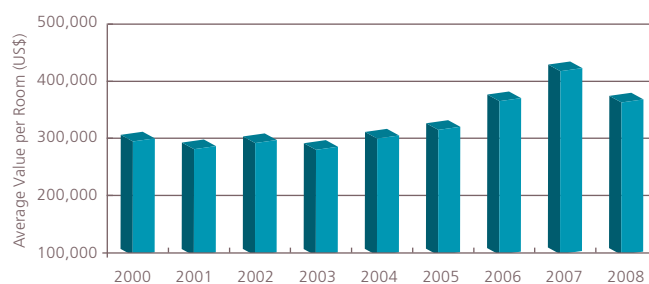
On the investment and development front, hotel transactions are few and far between as compared to 2007, while some development projects are being put on hold due to the credit crunch, which resulted in the difficulty in obtaining financing and refinancing. Despite this setback, notable transactions over the year include the approximate US\$700 million acquisition of the Westin Tokyo by the property

investment arm of the Government of Singapore Investment Corporation and the acquisition of a 87% stake in the 435-room Four Seasons Shanghai by Shanghai Industrial Holdings from its parent company for a reported price of approximately US\$173 million.

The value of a hotel property is the present worth of its future economic and other benefits. Knowledgeable hotel investors, whilst concerned with cashflow in progress, will take into consideration future risk and return profiles. The value of a hotel tends to fluctuate in line with market conditions, investor sentiment and performance outlook.

The Hotel Valuation Index (HVI) is a hotel valuation benchmark developed by HVS. It provides an indication of the average percentage change in the values of upscale and luxury hotels across 13 major markets in Asia. In 2009, HVS has recalibrated its calculations and values to ensure that the benchmark remains relevant. The HVI also reports the estimated average value per room, allowing the ranking of each market relative to an average of the markets reviewed.

Hotel Valuation Index 2009



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Average Value per Room for Upscale Hotels in Asia, 2000–08 (US\$)

	2000	% Change	2001	% Change	2002	% Change	2003	% Change	2004	% Change	2005	% Change	2006	% Change	2007	% Change	2008
Tokyo	806,000	-5%	766,000	3%	789,000	-2%	773,000	4%	804,000	5%	844,000	12%	945,000	9%	1,030,000	-14%	888,000
Hong Kong	565,000	-8%	520,000	6%	551,000	-5%	523,000	11%	580,000	10%	638,000	14%	727,000	11%	807,000	-12%	710,000
Singapore	342,000	-9%	311,000	2%	317,000	-6%	298,000	6%	316,000	12%	354,000	30%	460,000	25%	575,000	-13%	500,000
Seoul	504,000	-6%	474,000	7%	507,000	-4%	487,000	1%	492,000	4%	512,000	12%	573,000	5%	602,000	-18%	494,000
Taipei	320,000	-7%	298,000	2%	304,000	-3%	295,000	7%	316,000	8%	341,000	12%	382,000	14%	435,000	-12%	383,000
Shanghai	191,000	3%	197,000	9%	215,000	0%	215,000	9%	234,000	7%	250,000	25%	313,000	26%	394,000	-10%	356,000
Beijing	184,000	3%	190,000	5%	200,000	-6%	188,000	13%	212,000	8%	229,000	24%	284,000	29%	366,000	-13%	320,000
Kuala Lumpur	166,000	-2%	163,000	2%	166,000	-5%	158,000	8%	171,000	7%	183,000	23%	225,000	20%	270,000	-12%	238,000
Phuket	220,000	-3%	213,000	12%	239,000	-5%	227,000	10%	250,000	-9%	228,000	12%	255,000	10%	281,000	-16%	237,000
Bangkok	215,000	4%	224,000	10%	246,000	-3%	239,000	5%	251,000	4%	261,000	1%	264,000	10%	290,000	-20%	232,000
Bali	188,000	-3%	182,000	-10%	164,000	-6%	154,000	14%	176,000	-9%	160,000	14%	182,000	16%	211,000	-1%	210,000
Manila	155,000	-6%	146,000	-4%	140,000	-7%	130,000	4%	135,000	9%	147,000	25%	184,000	16%	213,000	-11%	191,000
Jakarta	148,000	-4%	142,000	-9%	130,000	-6%	122,000	9%	133,000	-5%	126,000	17%	147,000	14%	168,000	-5%	159,000
Marketwide Average – Asia	308,000	-5%	294,000	4%	305,000	-4%	293,000	7%	313,000	5%	329,000	16%	380,000	14%	434,000	-13%	378,000

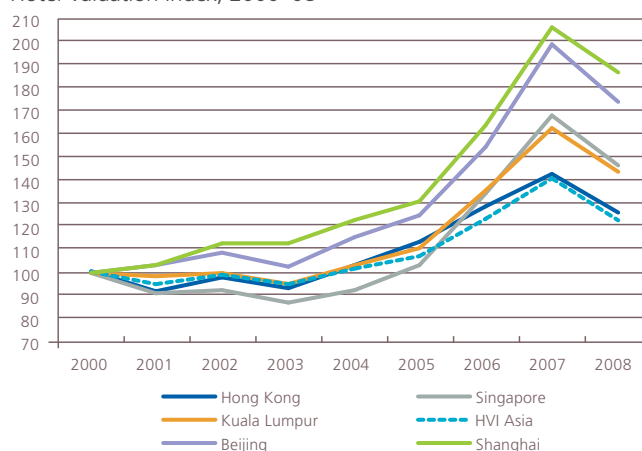
Source: HVS Research

The HVI 2009 indicates a fall in average values of upscale and luxury hotels across all selected markets in Asia, with the average decrease in value for the region standing at approximately 13%. Except for Jakarta and Bali, hotel values in the rest of the markets reviewed in this year's Asia HVI exercise saw a double-digit correction.

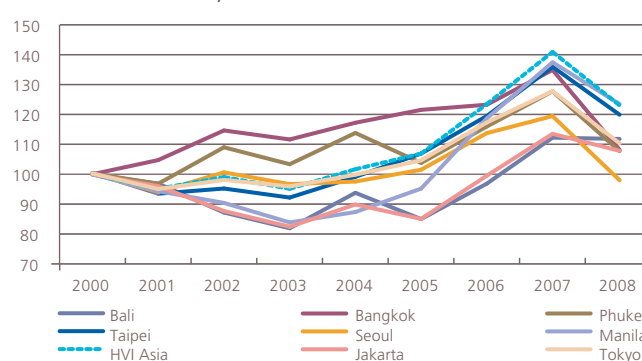
Thailand's tourism destinations led the correction in hotel values with Bangkok decreasing approximately 20% while hotel values in Phuket fell 16% in the midst of the global economic crisis coupled with the country's political crisis. Despite a 14%, 12% and 13% fall in hotel values in Tokyo, Hong Kong and Singapore, respectively, these markets retained their positions of achieving the highest hotel values in Asia. Mirroring the hotel market conditions of Singapore, hotel values in Kuala Lumpur decreased approximately 12%.

The success of the Beijing 2008 Olympic Games was unanimous and brought a record amount of tourist dollars to the country in mid-2008; however, its positive effect remained limited while the brunt of the financial turmoil took its effect in the second half of the year. This caused hotel occupancies to plummet which resulted in the decline in hotel values by 13% in Beijing and 10% in Shanghai. 2008 has generally been a good year for the tourism and hotel sectors in Indonesia. Hotel values in Jakarta and Bali fell 5% and 1%, respectively.

Hotel Valuation Index, 2000–08



Hotel Valuation Index, 2000–08



Value Trends

Over the last eight years, the HVI illustrates how far hotel values have progressed in the various Asian markets. The top two markets with the most significant increase in hotel values are the Chinese cities of Beijing and Shanghai. Singapore and Kuala Lumpur also experienced significant increases in hotel values in the last three years, outperforming the Asiawide average growth. Overall, hotel values in Hong Kong, Singapore, Kuala Lumpur, Beijing and Shanghai have retained their index positions and recorded trends above the Asiawide average in 2008.

While Bali, Bangkok, Phuket, Taipei, Seoul, Manila, Jakarta and Tokyo recorded indices below the regional average in 2008, Manila, Jakarta and Bali recorded impressive increase in hotel values from 2005 to 2007. The Thai cities of Bangkok and Phuket have traditionally outperformed the growth of Asiawide hotel values, but its indices have eased below the regional trends in recent years.

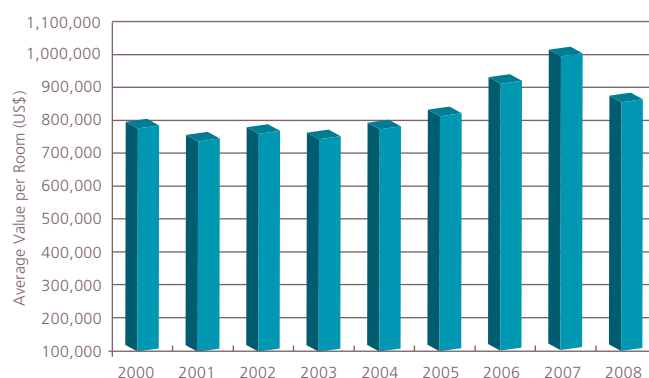
Performance In 2008

Following 2007, the lodging industry in Asia continued its stellar operating performance into the first six months of 2008. Hotels in the region averaged an increase in revenue per available room (RevPAR) of 13.2%. According to the World Tourism Organisation, the Southeast Asian and South Asian regions saw the highest increases in arrivals at 4% growth each, while a noticeable fall in arrivals growth was seen in the Northeast Asian (0.4%) and Oceania regions (-1.5%). The second half of 2008, however, saw a sharp drop-off in long-haul business travel as the economic situation in the Americas and Europe worsened.

Nevertheless, the tourism sector in Asia remains in the spotlight as Asian governments acknowledge the significance of tourism for their local economies. Gaming and integrated recreational facilities were the buzzwords of the year as Thailand, Japan, Korea, Vietnam, Taiwan and the Philippines contemplated the expansion or legalisation of the gaming industry. Expenditure and investments on tourism infrastructure, marketing and promotion of domestic tourism markets also saw no let up among the Asian countries.

Tokyo, being one of the key economic powerhouses in the world, was one of the earliest countries to be affected by the subprime crisis. Occupancies of hotels in Tokyo took a hit as corporate travel volume declined in a bid to cut corporate costs. Hotel values in the city remained the most expensive in Asia Pacific, despite decreasing by 14% over 2007 values. Although new hotel openings are few and far between, international and local hotels remained competitive with many refurbishment exercises in recent years.

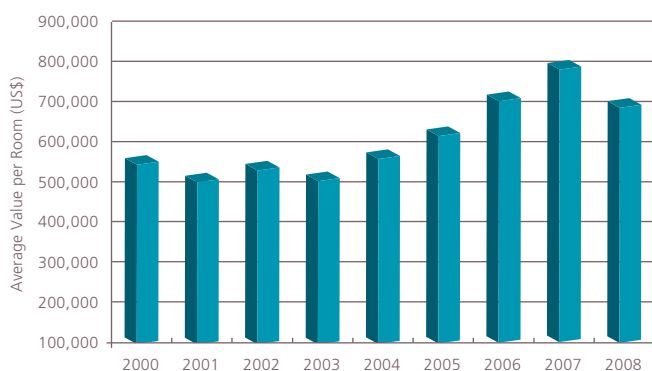
Tokyo



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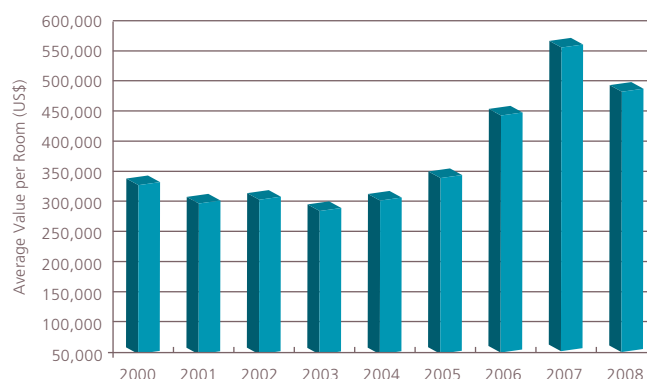
Despite hosting the equestrian competitions for the Beijing 2008 Olympic Games, **Hong Kong** attracted approximately 29.5 million visitors in 2008, representing a 5% increase from 2007, but fell short of the tourism authority's targets. The increase is driven largely by inbound mainland Chinese arrivals, while foreign visitors fell, especially in the second half of 2008. As investor sentiment turned cautious, hotel values fell 12% in 2008.

Hong Kong



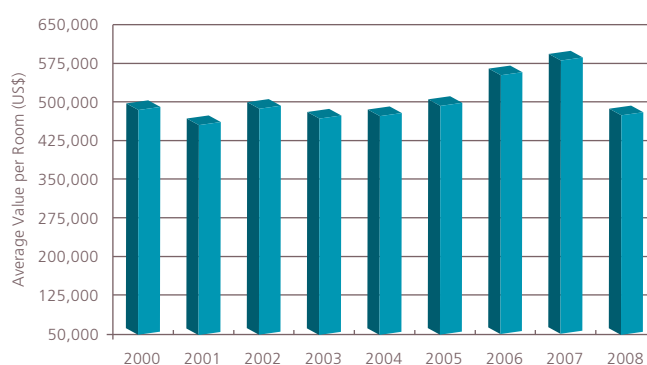
2008 was a mixed year for **Singapore**'s upscale and luxury hotels as it started out strong but closed weaker. The country's tourist arrivals in 2008 fell 2% compared to 2007, with approximately 10.1 million arrivals. The successful Formula One night race held in September 2008, the addition of more Singapore Airlines routes for the Airbus A380 and the opening of the Singapore Flyer have contributed to occupancies and average room rates of upscale and luxury hotels. However, looking ahead, arrivals are projected to fall. Hotel values decreased approximately 13% in 2008 as the investment climate in Singapore softens.

Singapore



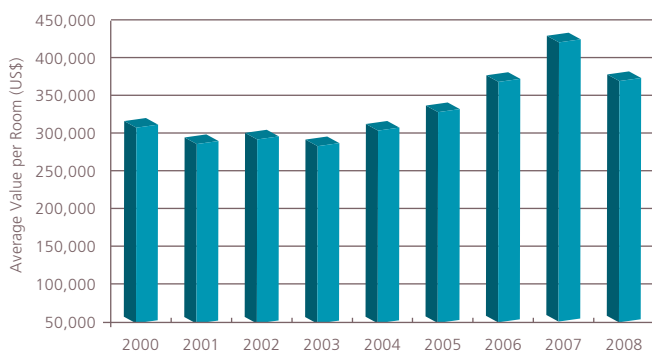
In a bid to keep pace with competition, several major upscale hotels in **Seoul** like the Grand InterContinental Seoul and the JW Marriott Seoul have either completed or announced extensive refurbishment plans, allowing the lodging market to hold on to average room rates over the year, while the city saw a surge in Japanese arrivals due to the weakening Korean Won against the Japanese Yen, resulting in increases in occupancies of upscale hotels for the year 2008. The slowdown in the Korean economy and investor sentiment, however, has dampened capital values, which went down 18% from 2007.

Seoul



Since the completion of the political transition of Taiwan with the incumbent President Ma Ying-Jeou taking office in May 2008, the cross-strait relations between mainland China and Taiwan hit a high note. The first direct charter flight with mainland China commenced in July 2008. However, visitor arrivals towards the end of 2008 were affected by the global economic uncertainty, while investor sentiment waned. The city, however, has taken steps to enhance its sluggish economy and tourism sector with economic stimulus policies in the course of 2008, including the passing of legislation to allow gaming facilities to be integrated with resort and other recreational developments to be built on the islands of the Penghu Archipelago. **Taipei**, being the largest city, will definitely benefit from the increased tourism activity.

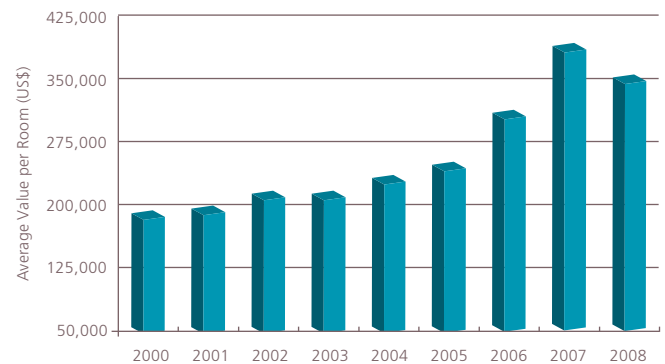
Taipei



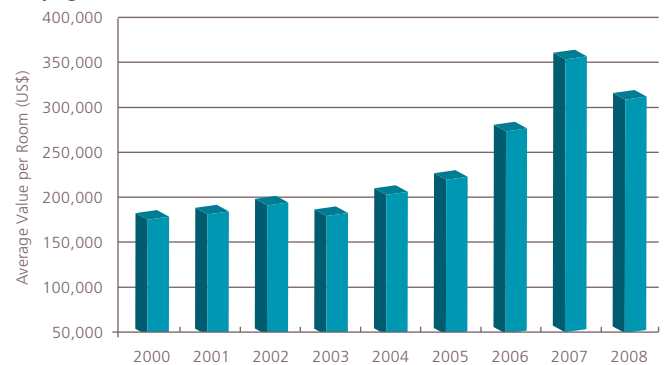
With the successful hosting of the Beijing 2008 Olympic Games, China received approximately 130 million inbound travellers, including those from Hong Kong SAR, Macau SAR and Taiwan. Tourism revenues for the year were up by 5.8%, but revenues from foreign visitors fell approximately 9% in 2008. **Shanghai**, being the key financial and economic centre of the country, was affected by the travel restrictions during the Olympic season and falling corporate travel, as occupancies fell by approximately five to 15 percentage points.

The hosting of the Summer Olympics 2008 was a tremendous success for **Beijing**. The cityscape was transformed, including the relocation of industries, improvement to major highways and the opening of the airport's new Terminal 3. In the period running up to the Olympic event, room rates of upscale and luxury hotels increased steadily. The city also saw the addition of numerous international standard hotels in the upscale and luxury categories with contemporary design and facilities. However, the city saw a drop-off in occupancies after the Olympic Games as the global financial crisis unfolded in the second half of 2008 and there had been an influx of room supply in the period leading up to the Games.

Shanghai



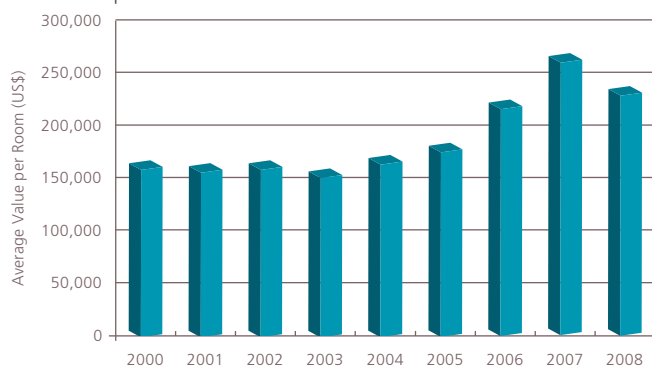
Beijing



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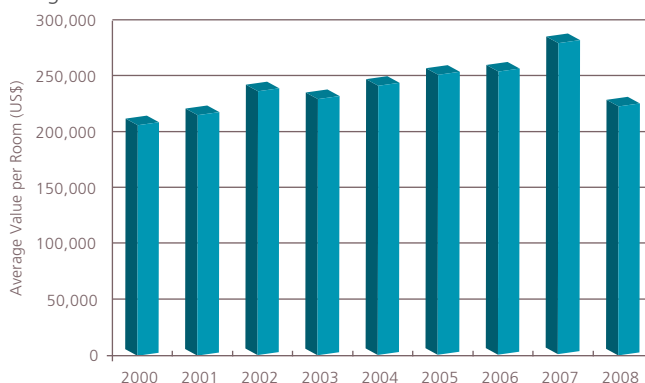
As the 'Visit Malaysia Year 2007' came to a close in August 2008, tourism arrivals to the country showed an increase of 4.4% in the first nine months of 2008 as compared to the same observed period in 2007. **Kuala Lumpur** saw a slew of successful events taking place in 2008, including the tennis exhibition event, the Showdown of Champions Kuala Lumpur 2008, and the Chelsea Football Club Asia Tour 2008. Nevertheless, the country was not spared by the cautious economic environment.

Kuala Lumpur

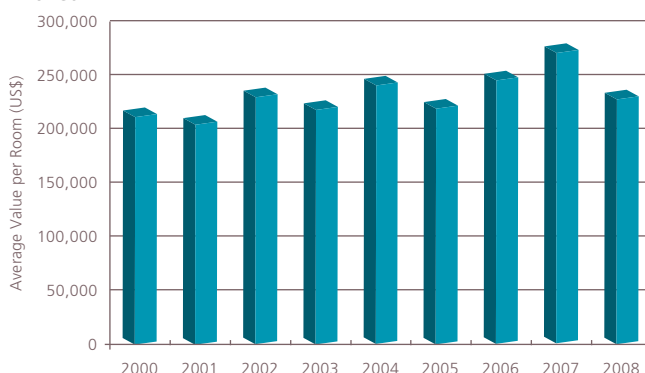


2008 was a very eventful year for Thailand's tourism sector as the political transition and social unrest was carried forward from 2007 and climaxed in the last quarter of 2008. Despite a strong first six months performance for international arrivals, the spillover from the political protests, including the closure of **Phuket's** international airport in August 2008 for two days and access to **Bangkok's** Suvarnabhumi Airport and Don Muang Airport being blocked for a week by protestors in November 2008, caused arrivals in the second half of the year to plummet. Looking ahead, the authorities have lined up a series of support plans including the approved US\$28.6 million spending plan in a bid to revive the battered tourism industry, international marketing and tourism campaigns and reduced flight fares from Thai Airways International to encourage tourists to return to Thailand.

Bangkok



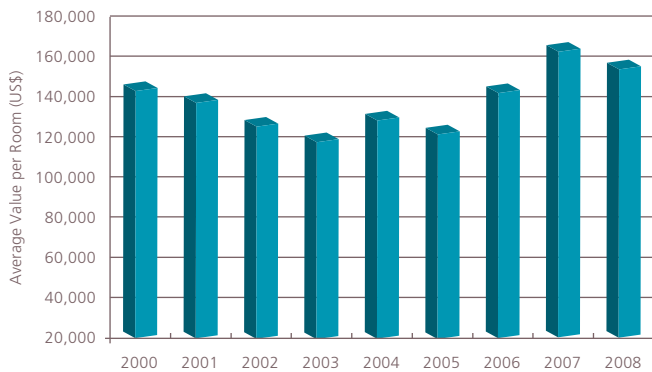
Phuket



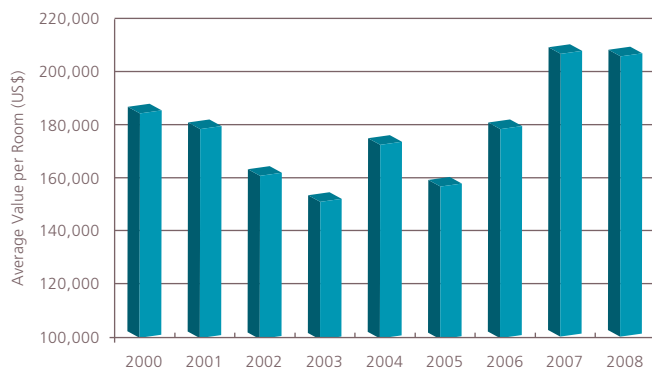
2008 proved to be a good year for destinations in Indonesia like Bali and Jakarta. The downturn and drop-off in visitor arrivals in the second half of the year failed to dent the overall performance of the tourism sector, driven by the successful Visit Indonesia Year 2008 marketing campaign and strong domestic Corporate demand shoring up the hotel performance in **Jakarta**. Lodging establishments were able to somewhat maintain their occupancies and average room rates for the year from 2007.

With key improvements in the security of the country and in key tourism destinations like **Bali**, leisure travellers led by the Japanese and Australians returned to the leading resort destination in Asia. The first Asian Beach Games was also held in Bali in October 2008. Other notable milestone achievements which contributed to the success of the tourism sector included the opening of an additional 12 promotional offices in Japan, China, Australia, Germany, India and other countries. Overall, hotel values in Jakarta and Bali fell slightly at 5% and 1%, respectively.

Jakarta

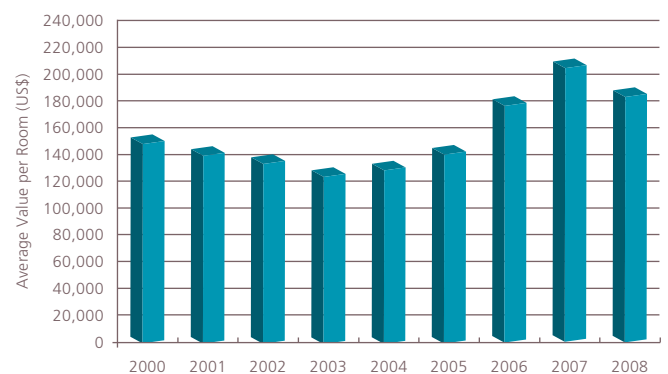


Bali



The Philippines and its capital city **Manila** have in recent years enjoyed steady growth in the tourism and lodging sectors. However, with the economy being highly linked to foreign trade, business travel has been adversely affected, which in turn caused hotel values to depreciate by approximately 11% in 2008.

Manila



Conclusion

2008 was a roller coaster year for the tourism and hotel industries in Asia. The global financial crisis, fluctuations in oil and commodities prices and volatility in exchange rates have affected inbound travellers and invariably demand for accommodation in Asia. Generally, as hotel operating performance is expected to be adversely affected and investor sentiment turns cautious, hotel values in the various cities reviewed declined.

ASIA HOTEL VALUATION INDEX 2009

While the global economic and financial situation remains uncertain, there are views that Asia is expected to fare relatively better than the economies of the USA and Europe, led by the growth of China and India. However, the short-term prospect of the lodging industry in Asia looks unfavourable as the global economy requires time to unwind and recover. In the interim, domestic and inter-country travel is anticipated to play a more significant role for the hotel industry.

Nevertheless, barring any further negative externalities, Asia's long-term growth prospects remain optimistic as most Asian governments are reviewing their strategies for tourism as the world is undergoing a paradigm shift.



HVS is the world's leading hospitality consulting firm, specialising in valuation, consulting, advisory and investment services. For further details, please contact the Singapore regional office at +65 6293 4415 (Tel) or +65 6293 5426 (Fax)

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