Horwath HTL

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SINGAPORE: THE MARKET REMAINS ROBUST

Following a profound transformation into a leading hotel market in the Asia Pacific region, concerns are again at the forefront of hoteliers minds in Singapore. STR Global recently announced that in August this year, room supply increased by 5.2%, the highest since December 2013. Concerns on an ever growing supply and a recent trend of declining average room rates and hotel profitability have resulted in some negative media and talk of a need to cap future hotel supply growth. However, Horwath HTL believes that the Singapore market remains strong and resilient and that the future hotel supply pipeline does not represent the risk that is perhaps being perceived in the market. Now is not a time for Singapore hoteliers to panic and compete on price.

Rise up this mornin',
Smiled with the risin' sun,
Three little birds
Pitch by my doorstep
Singin' sweet songs
Of melodies pure and true,
Saying', ("This is my message to you")
Bob Marley

STR Global recently reported that in August, the Singapore hotel market recorded its highest growth in room supply (5.2%) since December 2013 and that occupancy performance for the month declined by 4.1%. Average Daily Rate also recorded a 2.6% decrease, resulting in a RevPAR decline of 6.6% for the month. This follows on from STR Global reporting a decline in occupancy, ADR and RevPAR of 0.4%, 3.3% and 3.7% respectively in 2015 (Occupancy 82.5%, ADR $289, RevPAR $238)
There has also been a decline in Total Revenue per room and GOP per room, based on Horwath HTL's annual Singapore Hotel Industry Study, which saw these metrics peak in 2012 and 2011 respectively. For 2015, Total Revenue was 4% below the peak in 2012, while GOP was 11% below the 2011 peak.

These recent trends have prompted some hand-wringing by hoteliers, some negative press on the outlook for the hotel market and some talk of the need for tighter regulation on future hotel development in the city.
But before we dwell further on the current malaise in the Singapore hotel market, let's step back in time to better place into perspective today's current issues.

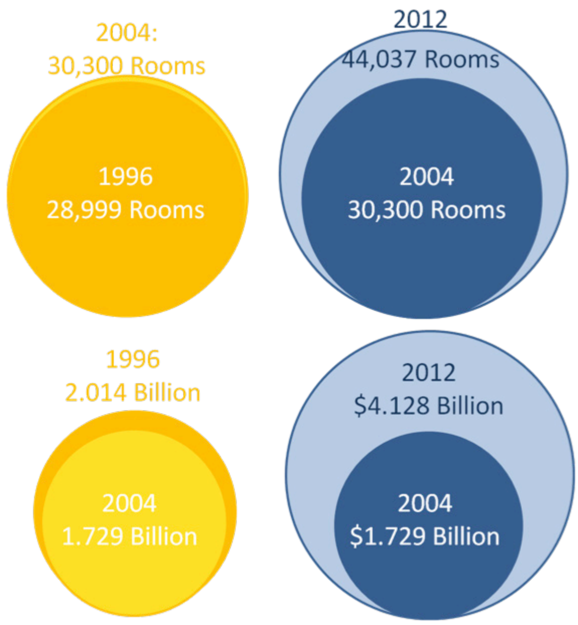
The Singapore Back-Story

In May of 2003 I sat around a table with about 15 hoteliers at the Grand Copthorne Waterfront hotel discussing how long we thought the SARS epidemic might impact upon the Singapore hotel market. All of the hoteliers at the time were grappling with occupancy levels below 20%. In the end the heavy impact lasted until the end of June and the market picked up and finished the year slightly above 65% occupancy. In 2003 Singapore had about 100 Gazetted hotels with approximately 30,000 Gazetted rooms and a total market ADR of $115 (RevPAR $78).

In today's Singapore, that 2003 ADR of $115 will shock, but there's more. The ADR in 1992 was $146 and between 1992 and 2003, room occupancy in the market only went below 75% occupancy in three of those years, including the SARS-effected 2003. Why am I pointing all this out you might ask? Well what it demonstrates is that for a long time the Singapore hotel market was a solid occupancy performer, but seemed to have a focus on positioning itself as a value-for-money destination and was also considered susceptible to quickly dropping rates at the first sign of market weakness.

The market dynamics prior to 2004 and that experienced from 2005 up to today are very stark and can best be demonstrated graphically.

The earliest data I could easily get my hands on was for 1996, so I have split the analysis into two 8-year growth periods that nicely coincides with the market peak in 2012 (1996 to 2004 and 2004 to 2012).



In the first period (1996 to 2004) hotel room supply experience a very marginal annual average growth of 0.6%, very much reflecting the state of the market with developers focusing on other real estate types for development and hotels even being removed from supply to be redeveloped for other uses (primarily residential). Hotel revenues (rooms and F&B) during this period recorded an annual average decline of 1.9%, shrinking from $2.014 billion to $1.723 billion.

In the second period (2004 to 2012) hotel room supply grew at an annual average rate of 4.8%. Considerable growth in room rates from 2005 to 2008 and the development of the IR projects significantly boosted developer confidence in the hotel sector. This growth average is a little misleading however, as the majority of new rooms (approximately 7,000) entered the market in 2010 alone.

Hotel revenues during this period increased at a very impressive annual average rate of 11.5%, through significant ADR growth as well as from the increase in hotel supply. Hotel revenues grew from $1.723 billion in 2004 to $4.128 billion in 2012, a clear case of the pie becoming significantly larger for the expanded hotel market to share. These numbers show that the Singapore market is in a far healthier state than what it was following the SARS epidemic. After a period of exceptional growth, the market could be considered to be currently going through a period of stabilization.

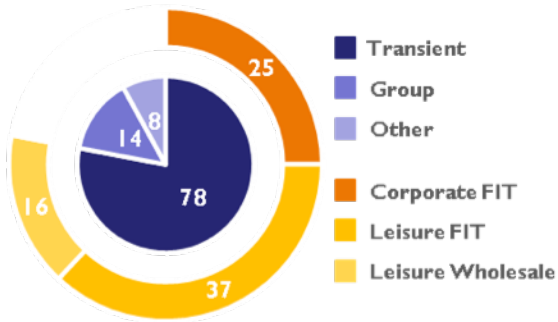
Strength In Numbers

Of course these growth figures are great and many understand this already, but recent trends as identified at the beginning of this piece, there should still be cause for concern right? To help answer this let's look at some of the strengths of the Singapore hotel market.

Singapore is able to draw from a diversified number of demand segments, with a significant base in Transient demand, reducing the reliance in lower-yielding volume demand segments. Corporate demand accounts for 25% of total room night demand, although some if this is likely hidden under Direct FIT demand due to the rise of OTA bookings and the difficulty to track purpose of visit through this medium.

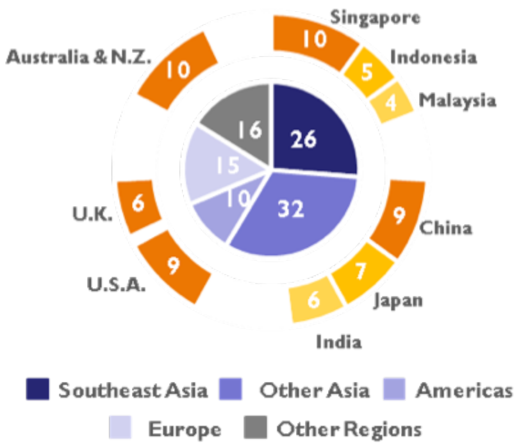
Group demand accounted for only 14% of room night demand in 2015, with approximately 9% being corporate-related group demand. Only 5% represents leisure groups. While the data does not represent many hotels with an ADR below $150, where a greater share of leisure group demand would likely reside, it does indicate the strength of the Singapore hotel market at the higher levels. Singapore has a diversified source of demand by nationality, a very important indicator for a resilient hotel market. As the largest single source market does not exceed 10% of total demand, Singapore is not a risk of a major collapse in demand should a key source market be effected.

Business Segmentation



Source: Horwath HTL (Singapore Hotel Industry Study)

Nationality Mix



Source: Horwath HTL (Singapore Hotel Industry Study)

Strangely enough (for a City State) Singapore demand is the largest single source of room nights at 10%, following the growth of the Staycation market due to improvements to the attractiveness of Sentosa as a destination and the development of the IRs. China is an important and growing source market for hotels in Singapore, but on balance continues to represent a manageable portion of total room night demand in the market.

Another data point pointing to a strong and healthy market for Singapore is the seasonal demand pattern experienced by the market. In a market with an occupancy in excess of 80%, it is not surprising that Singapore has a very low fluctuation in demand from month to month. However, this is also the case for ADR, pointing to further strength of the market.

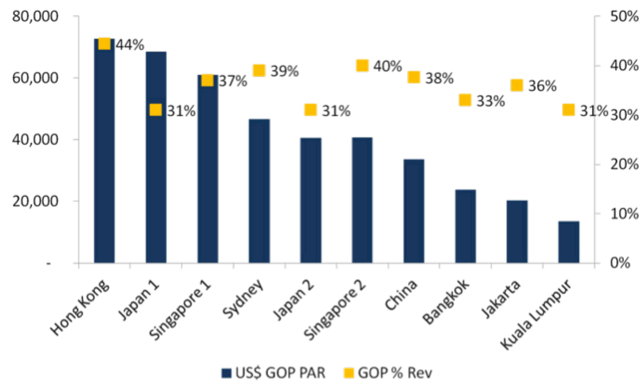
In 2015, the Singapore hotel market exceeded 80% occupancy in 10 of the 12 months and in the two months it dropped below 80%, it recorded an occupancy and 78% and 79%. In regards to room rates, in 10 of the 12 months for 2015, rates fell within the range of $260 to $280, a relatively low 8% variance. Peak rates in September (driven by F1) were only 12% higher than the lowest rate recorded in July.

Singapore has also established a good rate depth in the market with clear distinctions in price gaps between different sectors. While there is still competition for demand sources between rate sectors, the difference in rate from one positioning level to the next is significant enough to minimise competition between the sectors and allow for greater rate integrity in the market.

The above demonstrates that the significant growth of the last decade has not been driven by an unhealthy reliance on one demand source and that growth has been balanced and across the board. This further demonstrates that hoteliers should be less concerned about the current state of the market in Singapore.

Show Me The Money

So how does Singapore compare regionally? Let's look at one key metric, Gross Operating Profit (GOP) Per Room (PAR). Singapore compares well in terms of the GOP PAR, well above regional comparables of Bangkok, Jakarta and Kuala Lumpur, well above top-tier hotels in China and compares well to Sydney, top-tier Japan and Hong Kong.

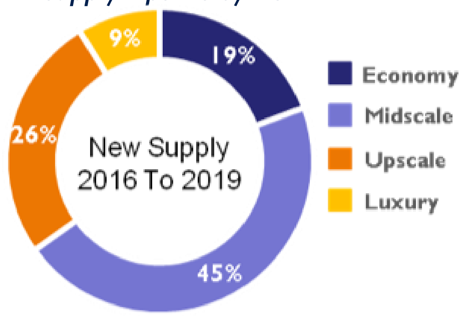


Source: Horwath HTL Hotel Industry Studies
Note: Hong Kong = Hotels HKD 1,651 and above; Japan 1 = Hotels Y30,000 and above; Japan 2 = Hotels Y20,000 to Y30,000; Sydney = Hotels AUD 250 and above; Singapore 1 = Hotels SGD 325 above; Singapore 2 = Hotels SGD 250 to SGD 325; China = Hotels RMB 1,000 and above; Bangkok, Jakarta and Kuala Lumpur = selected top-tier hotels.

New Supply Is Not So Scary

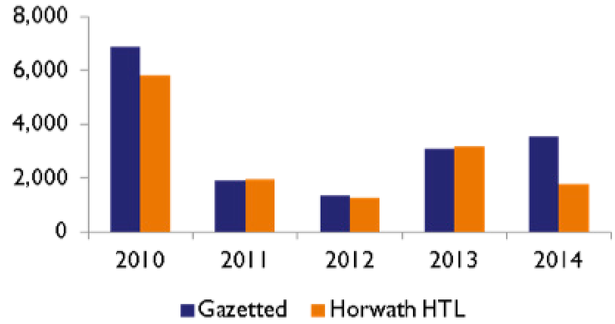
Since 2010 there has been consistent growth in hotel room supply in Singapore and as mentioned at the beginning of this piece, August 2016 recorded the largest monthly supply increase for close to three years. From 2009 to 2015, hotel supply has grown at an average annual rate of 8%. Future supply growth based on Horwath HTL's hotel supply database for Singapore, is estimated to grow at an annual average rate of 4% between 2015 and 2019. While the Horwath HTL database may not cover all new supply additions, historically our numbers match that of gazetted supply, with the only real variance (in 2010 and 2014) due to the conversion of non-gazetted supply to gazetted supply, rather than real new additions to the market.

Horwath HTL Supply Pipeline by Tier



Source: Horwath HTL STB

Horwath HTL Supply Pipeline Vs Δ to Gazetted Supply

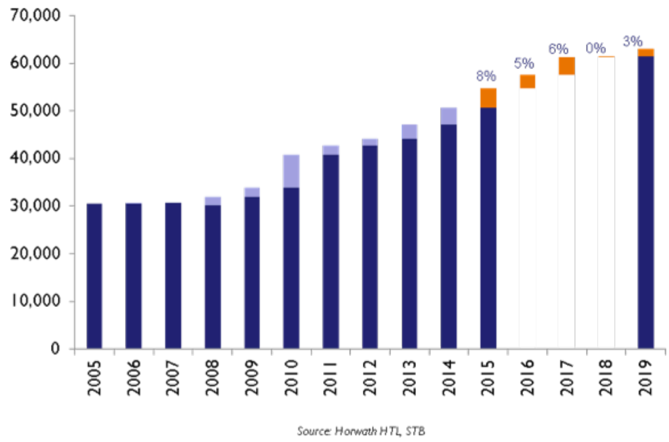


Source: Horwath HTL STB

Our project information for new supply from 2016 to 2019 places most of the new rooms in the Economy and Midscale tiers, accounting for about 64 percent of future additions. And that statistic brings us back to where we started, reporting that August 2016 saw a 5.2% increase of room supply. May, June and July saw the opening of a number of new Economy and Midscale hotels in Singapore including Ibis Styles Macpherson (298 rooms), Oasia Downtown (314 rooms), Mercure Singapore Middle Road (395 rooms), Holiday Inn Express Katong (451 rooms) and Premier Inn Singapore (300 rooms). All this saw growth in supply accelerate in June and July and pushed it over the 5% mark for August.

Naturally these hotels need time to build up a demand base and will have a soft period of occupancy performance for at least six months. The impact of these new underperforming hotels has been seen in the decline in market occupancy and given their lower-tier positioning, also to the market rate.

Historial Gazetted Supply Growth & Future Horwath HTL Supply Estimates



Source: Horwath HTL STB

The good news is that the market is now almost at the end of this prolonged growth in hotel supply and the known projects up to 2019 would indicate that the market will experience slower hotel supply growth through to 2019 and probably 2020. Now is not the time to panic about the impact of new supply. The market has withstood the historical growth and remains at an occupancy above 80%. Rates, while down marginally in recent times, remain very healthy and profitability in the market compares very well across the region.

I would recommend that the hoteliers in Singapore take the advice from the three little birds on the doorstep singing…

"Don't worry 'bout a thing,
'Cause every little thing gonna be alright."
Singing' "Don't worry (don't worry) 'bout a thing,
'Cause every little thing gonna be alright!"
Bob Marley

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Damien Little is a Director of Horwath HTL in Asia and is based in the Singapore office. He has previously been based in both the Beijing and Hong Kong offices of Horwath HTL, having worked for the company for the last 15 years. Damien has 17 years of consulting experience and has significant experience in financial modeling. During this time he has undertaken hotel related projects in 17 countries across the Asia Pacific region, being involved in more than 400 projects.

Damien has been involved in projects across all industry segments including 5 star city hotels, golf resort properties, mid-scale regional hotels, budget hotels, backpacker accommodation, restaurants and clubs. He has significant experience in the China market having traveled to more than 70 cities across the country. Prior to joining Horwath HTL in 2001, Damien worked for both Arthur Andersen and PricewaterhouseCoopers in Sydney.

He is also a frequent speaker at industry related conferences around the region and has published numerous research articles in regional industry publications.

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