



FINDING THE RIGHT INVESTMENT FOR CLIENTS



INCREASING BORROWING COST AND INTEREST RATES, WHAT'S NEXT?



TRACKING OF INVESTORS' MOVEMENT AND BEHAVIOUR

Financial focus

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ADDRESSING THE NEEDS OF INDIVIDUAL INVESTORS AND PLANTING THE SEEDS FOR A SECURE FUTURE.

The new year began with a bang as big hotels are transacted in Singapore, as contrary to news of a gloomy economy. This article will discuss more on the various asset plays and strategies behind the acquisitions.

Hotel Asset plays: Boutique vs Main-stream

THE world enters into the new year and it will be one of the more anticipated year for all investors as they mull over the various investment opportunities on the market. One particular signal of opportunity will be the hospitality market in Singapore. The new year was greeted by two high-profile deals, namely: The sale of Oxley's hotels on Stevens Rd - Novotel and Mercure, and Ascott Raffles Place Singapore. Both were transacted at the price of S\$950 Million and S\$353.3 Million respectively. So the question: What is the rationale?

Singapore, often praised as one of the world's most transparent market, offers a strong pool of luxury real estate properties. Due to the challenging market climate over the past few years, there were minimal activities in the hospitality sector as they were not seen to be yield-productive. However, investors are looking into hotels, ranging from boutique hotels to luxurious hotels to invest in recently. Such a change in investors' behaviors can only suggest one thing: They see the value-added properties in hotels now.



Property in picture: Novotel and Mercure on Stevens (transacted at S\$950 Million and brokered by Quillion Global)

Quillion's SPOTLIGHT

Novotel & Mercure

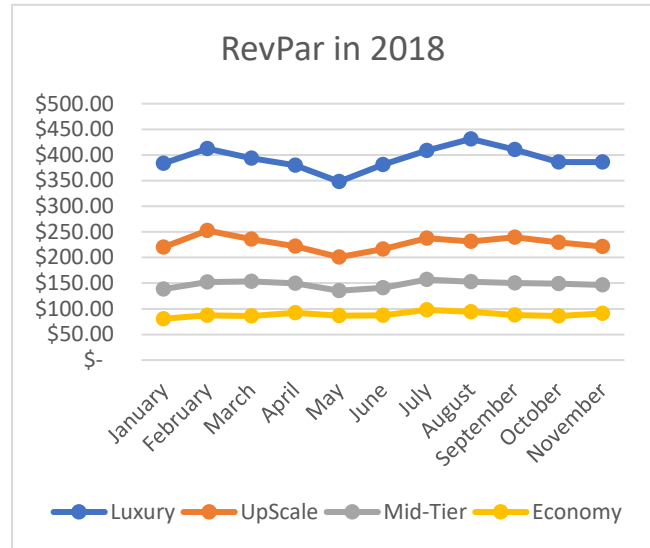
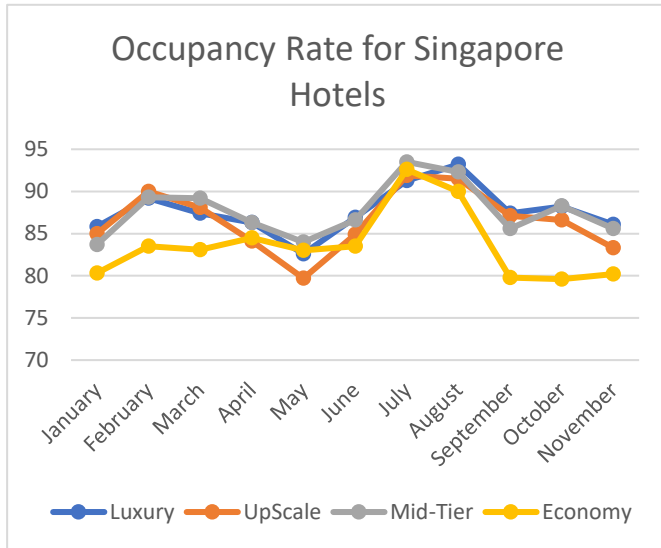
- Property type - Hotel
- Tenure - Freehold | District 9
- OMV - S\$950,000,000
- PPK - S\$1,230,570
- Number of Floors: 8 | Total Units: 772
- Expected Yield: 4.77%

Ascott Raffles Place

- Property type - Serviced Apartment / Hotel
- Tenure - 999 | District 1
- OMV - S\$353,300,000
- PPK - S\$2,419,863
- Number of Floors: 20 | Total Units: 146
- Expected Rental Yield: 1.59%



“In line with the hospitality macroeconomic trends?”



Source: Singapore Tourism Board, author

Macroeconomic trends, such as continued growth of international visitor arrivals and increasing purchasing powers of neighbouring countries, are setting the stage of a positive outlook for the hospitality market. As we delve deeper into the respective demands of hotel spaces, we will realise that the tourists are demanding more of budget spaces or boutique stays. This can be seen from the table as shown above. The top two highest occupancy rates are at 86.2% and 85.5% for Luxury and Mid-Tier hotel spaces respectively. Notably, the Mid-Tier hotel spaces, or commonly referred to as, Boutique Hotels, are seeing an almost on par performance against the Luxury and Upscale hotel spaces.

At the same time, the more recent hotel transactions mostly consist of boutique hotels. For the past two years, there were six hotel transactions and four of them are boutique hotels.

They are namely: Naumi Liora Hotel (\$\$75 Million), Wanderlust Hotel (\$\$37 Million), Ann Siang House (\$\$52 Million) and Wangz Hotel (\$\$46 Million).

One common characteristic of these boutique hotels as opposed to mainstream hotel is the size of the land and the intensity of development. Conventionally, such boutique hotels are in the form of shophouses which are conserved in Singapore. This allows the investors to effectively own a piece of freehold land which is considered to be very scarce in Singapore. Furthermore, the barrier of entry for boutique hotel is effectively lower as compared to a typical main-stream hotel. Investors are able to reduce their exposure in the hospitality market with a lower investment cost which makes them more lucrative to invest in, especially in times of an increasing demand for boutique hotel spaces.

Conversely, luxurious and upscale mainstream hotels are a form of asset play for big ticket players who would prefer both capital value appreciation and good flow of revenue. The distinguishing factor of investing in big hotels is the underlying rationale of landbanking for future potential development. Subsequently, the land is further developed for value-adding results (i.e. re-zoning of master plan from commercial to residential).

Nevertheless, with the increasing demand of hotel stays and visitor arrivals, one can expect a positive outlook for the hospitality market in 2019.

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