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MOVEMENT AND BEHAVIOUR



Financial *focus*

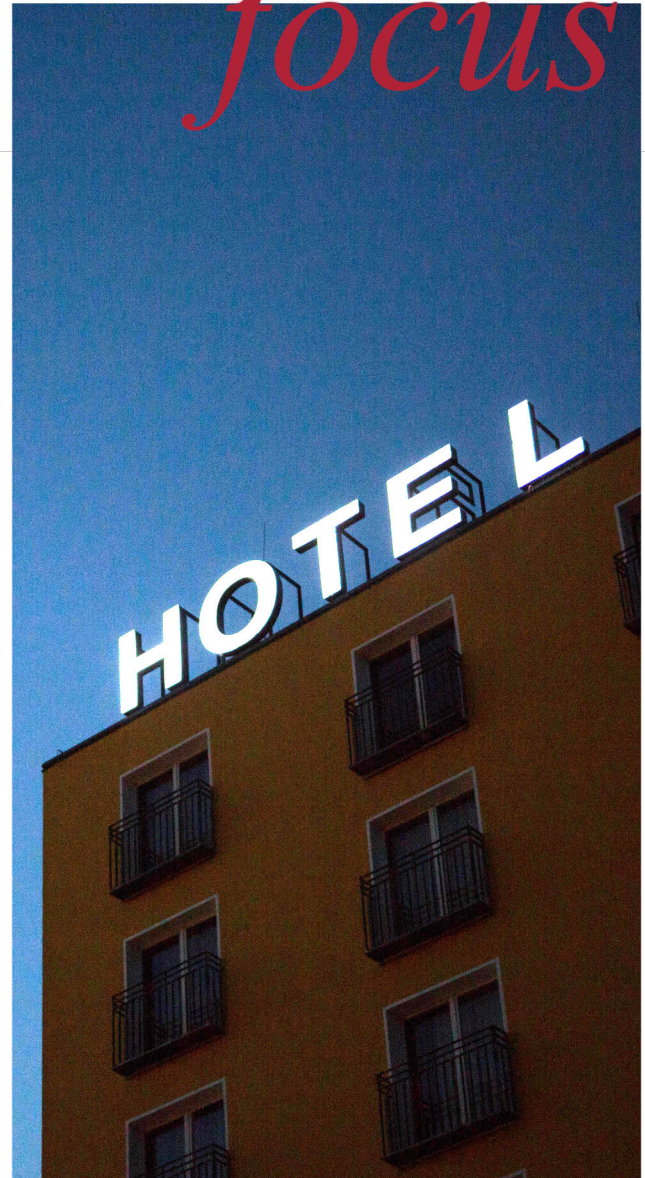
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Strategy Review: Hotels in Mixed-Use Developments

This article will review the hotel investment strategy in Singapore. Investing in hotels within mixed-use development has potential to revive more profitable NOI as compared to a standalone hotel.

MIXED-USE developments are growing in popularity in Singapore as developers cautiously plan the combination of hotel residential, recreation, retail, office, or other complimenting functions to make the project more economically feasible. For instance, retail tenants may be willing to pay higher rents because of the increased customer traffic generated by the compatible and complementary uses of residential, hotel and office components.

In our previous article, we had delved into Singapore's burgeoning market of economy hotels, which is one of the best performing hotel sectors within Singapore. With this in mind, we now analyse hotel investment strategies from another viewpoint - investing in hotel assets which are part of mixed-use developments. This strategy is fast becoming one of the most popular ways for developers to make their development projects profitable.



Latest Transaction Highlights

Woodleigh Residences (70 Units)

- ✚ Property type – Residential Tenure
- ✚ – 99 | District 13
- ✚ Total No. of Units - 667
- ✚ Estimated completion – 2022
- ✚ PSF – Approx. S\$1,733 – S\$2,331

Copper House

- ✚ Property type – Residential
- ✚ Tenure – 99 | District 4
- ✚ Site Area – Approx. 18,053 sq. ft
- ✚ Transacted price – S\$32,000,000
- ✚ PSF PSF – S\$1,773



“Should We Invest in Hotels in Mixed-used Developments?”

**SMARTER
INVESTING:**
Experience vs.
Discipline

Development	Year Completed / Due	Office Component	Hotel / Serviced Apartment Component	Retail Component	Residential Component	Convention Centre
Raffles City	1985	Yes	Yes	Yes		
Suntec	1994	Yes		Yes		Yes
UE Square	1997	Yes	Yes	Yes	Yes	
MBFC	2010/12	Yes		Yes	Yes	
Asia Square	2011/13	Yes	Yes	Yes		
South Beach	2014	Yes	Yes	Yes	Yes	
Duo	2016	Yes	Yes	Yes	Yes	
Marina One	2016	Yes		Yes	Yes	
Tanjong Pagar Centre	2016	Yes	Yes	Yes	Yes	
OUE Downtown	1994 (refurbishment expected to be completed in 2016)	Yes	Yes	Yes		

Examples of mixed-use developments in Singapore.
Source: JLL

Having the status of a mixed-use development can help to generate numerous benefits and value for hotel investors. They have the potential to outperform single-use developments which we commonly observed.

Firstly, researches reveal that the hotel component in a hotel-retail mixed-use development environment received a premium in RevPAR over comparable hotels in the competitive set. This could be explained by the presence of retail outlets such as F&B shops and restaurants that are located within the retail segment. Such retail outlets will cater to the needs of hotel visitors and improve their overall hotel experience. The guests will be attracted to the convenience of the hotel's proximity to dining, retail and entertainment sites. This can help to increase the intrinsic value of the hotel. With the increased consumer spending on restaurant food and services of 1.7% year-on-year, it bodes relatively well for the retail units in the mixed-use development. This in turn helps to attract potential customers and improve on the occupancy rate of the hotel because there will be a wider selection of retail shops and restaurants during their hotel.

Moreover, from an office occupier's viewpoint, a hotel and strong retail offering provides an immense convenience to staff and visiting clients. The hotels, in turn, benefit from the demand generated by workers in adjacent offices. Thus a hotel with office component in a mixed-use development does not only attract leisure tourists but also is suitable for travellers with business purposes.

Thus, both hotel-retail and hotel-office combinations have shown economic feasibility. Together with the selection of facilities which are absent from typical “stand-a-lone” hotels in Singapore, a wide selection of retail shops, restaurants, or offices within the same development will draw more customers to ensure a growing rental yield and high occupancy rate. As such, an enhanced net operating income (NOI) will in turn, improve the value of the assets.

Furthermore, we believe that the hotel market in Singapore will continue to grow, and analysis from our past articles suggest that the economy hotel segment is one of the best performing segments in Singapore because tourists' preferences are gradually tilting towards affordable accommodation.

In spite of this, URA is restrictive towards Airbnb style short-term home sharing, making it still illegal if rented out less than 3 months.

Therefore, both economy hotels and hotels within mixed-use development are yield-productive investment. We believe that Hotel fulfilling both criteria is definitely a worthwhile investment.



**We have
Economy Hotels
in our portfolio.**

**Contact us if
interested.**

marketing@quillionrealestate.com

+65 6222321

10 Anson Road, International Plaza,
17 - 13 Singapore 079903

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