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Financial *focus*

Economy Hotels: Is This The Best Performing Hotel Segment?

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Quillion's latest article explores the various asset plays in Singapore. By targeting on specific types of the hotel with increasing demand, investors will be able to enjoy a higher yield for their investment.

SINGAPORE has been constantly ranked as one of Asia's premier tourist destinations, offering a diverse range of accommodation options, from luxury hotels to boutique spaces, as well as budget stays. New hotels continue to open its doors in recent years, each with its own unique signature calling card targeted at different traveller segments. Tourists can indeed be assured of diverse hospitality selections and offerings when travelling to Singapore for businesses or leisure.

In the past articles, we have recommended investing in hotel asset because the hotel market is booming with growing and steady rental yield, as well as high capital appreciation potential. After discussing hotel investment strategies to enhance or rejuvenate existing hotels, this article will focus more on the specific types of hotel asset and analyse their competitive advantages. Targeting at a specific type of hotel is an important strategy because different hotels classes, in fact, would perform differently.

Latest Transaction Highlights

Amber Park(115 Units)

- ✚ Property type - Residential
- ✚ Tenure - Freehold | District 16
- ✚ Estimated completion - 2024
- ✚ PSF - S\$2,425
- ✚ Number of Floors: 3 residential towers, 21-storey

Realty Centre

- ✚ Property type - Commercial
- ✚ Tenure - Freehold | District 2
- ✚ Site Area - 11,000 sq. ft
- ✚ Transacted price - S\$148,000,000
- ✚ Number of Floors: 12



“How does economy hotel asset perform?”

SMARTER INVESTING:
Experience vs. Discipline

Hotel Statistic 2018	Luxury	Upscale	Mid-Tier	Economy
Standard Average Occupancy Rate (% Increment)	2.4%	0.1%	1.3%	1.3%
Standard Average Room Rate (ARR) (% Increment)	1.1%	2.0%	0.2%	2.4%
Revenue Per Available Room (RevPar) (% Increment)	4.0%	2.1%	1.8%	4.1%

Singapore hotel statistics 2018 by segment, Source: STB

Looking into the hotel market in Singapore, the performance of economy tier hotel has shown the greatest growth in 2018. Growths for both standard average room rate and revenue per available room (RevPAR) have outperformed other hotel tiers with 2.4% and 4.1% annual increments respectively. This suggests that the budget hotel asset is currently the most in-demand accommodation option with the fastest growth. Thus, it provides opportunities to generate a higher rental yield for investors compared to other hotel classes.

Moreover, the latest STB statistics revealed that although gazetted hotel revenue went up 7.4% in 2018, the proportion which tourists spent on accommodation declined 13% in 2018 Q3 year on year; 5% in the first three quarters of 2018. This suggests a trend that tourists are becoming budget conscious and spending less money on their accommodation in Singapore. This trend is likely to persist due to the slowed global

economy, policy uncertainty, and trade conflicts between the US and China, which would affect the spending behaviour of Chinese tourists who have contributed most receipts in visiting Singapore.

On the other hand, despite rising demand for boutique hotels and economy options, URA recently stated that they are still restrictive towards the current rules for short-term stays in private homes, making Airbnb-style short-term home sharing less than 3 months still illegal. As a result, there would not be potential future room supply coming from home-sharing platforms. In addition to the recent hike in development charges for hotels that could slow developer appetite for such land, the hotel supply will be kept stable in the short term. Ultimately, mid-market and especially economy hotels will benefit the most from URA's move to keep the status quo as this will reduce the potential competition from cheaper accommodation alternatives.

We believe that URA will not review the regulation in the next 2 or 3 years as they have been investigated the issue since 2015 and eventually made a decision.

In conclusion, the hotel market in Singapore, especially the economy hotels are rising in popularity and have the potential to be more yield-productive. The effectively lower barrier of entry for budget hotels compared to other hotels also reduces the investment cost for such assets. As such, investing budget hotel asset is lucrative with positive tourism outlook and stable regulatory environment.

Tourism Receipts by Major Components, Q3 2018

% Share



All percentage changes are vs same period in 2017 Source: STB

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We have Economy Hotels in our portfolio.

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