2018
Asia Pacific

The hospitality industry in review

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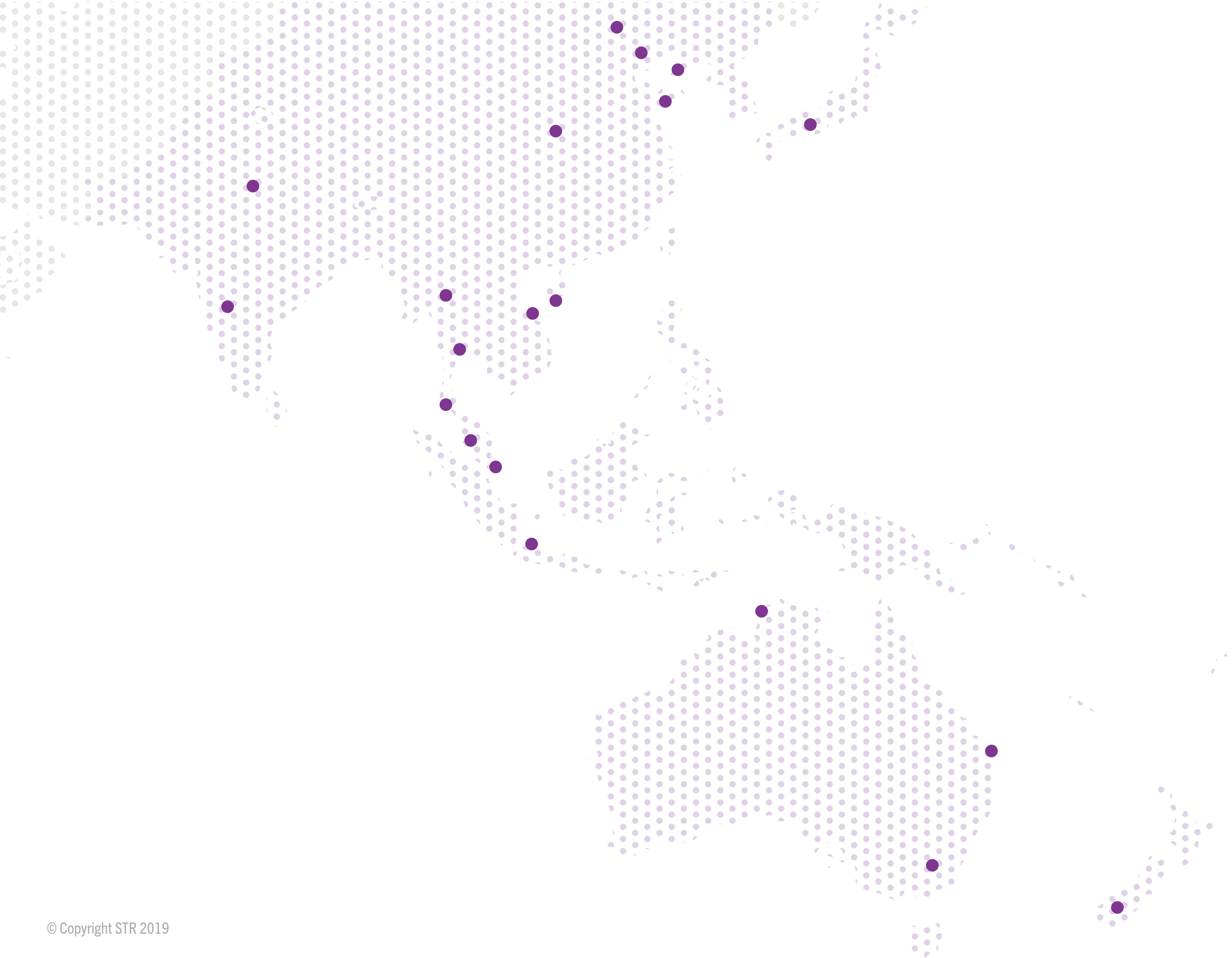

Key Findings by Region & Markets Included

APAC

- Travel and tourism kept running, but competition is getting stronger
- Industry movements and expansions
- Strong markets remain strong
- Supply growth continued to slow down, providing a good performance platform
- Political impact on hotel performance

Markets in this report:

Queenstown	Canberra	Darwin
Gold Coast	Tianjin	Osaka
Bangkok	Qingdao	Kuala Lumpur
Xi'an	Sanya	Danang
Beijing	Singapore	Phuket
Pune	Chiang Mai	Dalian
New Delhi/NCR	Jakarta	

Strong markets remain strong

It is likely that traditionally stable and strong markets such as Singapore, Australia, Hong Kong and New Zealand will continue to grow, although some Australian markets are slowing down. Ongoing supply growth in Sydney, for example, is putting pressure on performance levels. New Zealand, as expected, saw more normalized RevPAR growth of 2.7% in 2018 following multiple years of double-digit acceleration, primarily in rates.

Japan had a very dramatic 2018 with a long list of natural disasters, ranging from earthquakes in Osaka and Hokkaido, flooding, heat waves and the most powerful typhoon to hit landfall in 25 years. The country has historically been very capable of overcoming these challenges and remaining a highly popular destination not only for new visitors, but (critically) for repeat guests. Japan retained the highest actual occupancy level for any country in the Asia Pacific region at 83.8%, just ahead of Singapore (83.7%). Japan's ADR rose 2.5% in 2018, and we are entering an interesting phase where an unprecedented amount of new supply will come online over the next couple of years, as the country looks forward to the 2019 Rugby World Cup, the 2020 Summer Olympics and many more events over the next five years. The true test will be whether Japan can maintain growth after these events, as arrivals will need to continue rising to fill the expanded room supply.

There are concerted efforts in some countries to spread arrivals beyond the major cities. For Japan, this means easing congestion in Tokyo, Osaka and Kyoto. For Indonesia, this means bringing to life other destinations under the '10 new Bali' project. These long-term efforts are starting to shift traffic, but they may expose potential deficiencies in some markets that do not have the capabilities to cater to mass tourism due to their infrastructures, cultural offerings or hotel offerings.

The issue with finding talent and staffing hotels continues to grow across the region, particularly in Japan and parts of Southeast Asia.

Supply growth continued to slow down, providing a good performance platform

As expected, supply growth dropped to 3.5% in 2018, the slowest pace in five years and a far cry from the levels seen above 4% between 2013-2015, which put pressure on performance levels for several markets. But the biggest shift in 2018 was in demand growth (+3.7%), which was almost halved compared with 2017. Looking at the current pipeline, supply growth is expected to pick up again, which could put pressure on performance levels moving forward. The limited supply growth in 2018 allowed most key markets to continue similar growth patterns recorded in 2017, despite slowing demand growth. More importantly, following years of heightened demand and occupancy trends, hotels in the region had more room to drive rate growth.

Political impact on hotel performance

In 2019, there will be elections in some of the world's largest democracies, including India and Indonesia. Presumably, there will also be long-overdue general elections held in Thailand. In all three of these countries, the outcomes of their elections can have a direct impact on hotel performance, particularly in Indonesia, where policy changes in the past have substantially affected travel and tourism.

In 2018, several countries focused on fixing destroyed coral reefs and polluted beaches in an effort to improve sustainability. The biggest initiatives were seen in popular mass tourism resort markets like Boracay in the Philippines, which closed for six months for cleaning and now open on a test basis with limited tourism allowed. Thailand's Maya Beach, on the island of Koh Phi Phi Leh, was closed for six months and this was extended indefinitely in an effort to preserve wildlife. Pending the success rates of these measurements, it is certainly possible that we will see more of these initiatives throughout the region in the future, likely during slower months for resort markets, typically from March to October.

Throughout 2018, there were escalations in the ongoing tariff dispute between the U.S. and China, but this did not appear to impact hotel performance at a large scale. While the Chinese economy has proven it is big enough to sustain similar tests, there may be a limited time frame that this can be upheld.

Shifting Trends

Jesper Palmqvist
Area Director - Asia Pacific

There are many signs that we have entered a new outlook across the Asia Pacific region, and it's easy to portray this as a negative outlook, with fluctuating outbound demand from China, a heavy pipeline, and the peak just behind us. There is certainly some truth to the dark clouds covering the white beaches and megacities around the region. But, as always, in the vast geographic spread, the story is very diverse below the surface.

Competition for Chinese outbound tourists continues to grow fiercer, with increased airlift to new destinations and wider tourism and accommodation offerings. Markets like Cambodia, Vietnam and Sri Lanka continue to see a higher share of Chinese travelers. Conversely, some markets are starting to consider this mono-source market strategy to be a volatile one, with fluctuations in traffic from mainland China. It is, however, not an easy task to shift this strategy, especially for emerging markets.

Shifting performance paces set up conversations about 2019

Confidence levels for 2019 are more subdued than those seen 12 months ago. Of markets that experienced growth in 2017, some saw shifts in supply that put pressure on performance in 2018, while some struggled to capture demand from certain source markets.

Thailand still has a very strong demand engine, but the second half of 2018 showed what a 30% dependency on Chinese outbound travelers can mean, as key markets experienced declines in arrivals and spend. While this was impacted by the strong depreciation of the Chinese yuan to the Thai baht, as well as increased competition in the area, the publicity challenges in the wake of the boat incident in Phuket that saw a tragic loss of lives was a major factor. While Bangkok continues to drive high demand, it too saw a drop in arrivals from China toward the end of the year and is currently dealing with image concerns due to poor air quality and increased traffic congestion. In light of all this, it is reasonable to see that overall growth in Thailand is slowing down, but performance should remain positive given that incoming supply levels are fairly reasonable by historical standards.

Cambodia continues to see growth across all metrics, with foreign arrivals booming, particularly from China (up more than 70% year over year). The country plans to see over 7 million arrivals by 2020, and most tourism activity continues to flow through the Siem Reap area, where hotel development is on the rise. Given the market's fairly limited existing inventory, this is not yet seen as a big challenge for the market.

Myanmar, on the other hand, has continued into a deeper negative spiral. Demand is not picking up at the same pace as other markets in Southeast Asia, and this is certainly not helped by ongoing PR challenges and a travel advisory in light of political conditions.

Maldives hotels are coming off some strong years, but in 2018 there was a supply increase in villas and rooms across the atolls, which resulted in a RevPAR decline of 2.6%, mainly driven by rate drops. There are more resorts on the way and even if arrivals grow, it is reasonable to expect that performance and profitability around the islands will soften in 2019.

2018

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