

Asian hotel values increase by 6% in 2000

WITH the overall recovery well underway in many countries around Asia, it does not come as a surprise that hotel values throughout the region saw strong growth in 2000 – but, in many instances, values still lag behind pre-crisis levels.

This explains the ongoing exhaustive search by investors for hotel-investment opportunities in this part of the world. Although many expected 2000 to be the first year to see numerous hotel transactions, this did not transpire, leaving investors empty handed and disappointed in the restructuring process.

Practically all hotel markets in Asia reported significant growth in demand last year. With limited new supply, many hotels around the region enjoyed growth in occupancy and average room rate (ARR) for the second consecutive year since 1998.

The combined efforts to increase revenue and minimise operational inefficiencies have also helped hotels to increase their cashflows over 1999 levels.

More importantly, with limited hotel investment opportunities available and an increasing number of investors looking for deals – together with local and foreign debt being more readily available – the presumed cost of funds seems to



VALUE JUDGMENT

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have decreased, resulting in hotel values increasing last year by an average of 6%.

Kuala Lumpur topped the list, with a staggering 23% growth while, at the other end of the scale, Manila experienced a decline of approximately 18% – the only city in Asia to record a fall in values.

Singapore, Hong Kong, Shanghai, Bali and Jakarta enjoyed double-digit growth, while markets with little immediate upside, such as Seoul and Tokyo, experienced growth of 5% and 2%, respectively.

With the exception of Singapore, hotel values have increased for the second consecutive year – but they are still below pre-crisis levels, averaging 30% below 1996 values.

Despite strong growth in demand, with occupancies climbing back to pre-crisis levels, ARR did not increase accordingly, which means revPAR is still lagging behind. Other revenues, comprising primarily F&B, conference and

banqueting income, are also falling short of 1996 levels.

In many markets, hotel F&B outlets are seeing increasing competition from stand-alone restaurants, and reduced corporate budgets have affected the number of MICE events hosted at hotels. Disregarding the effects of inflation, hotel cashflows are, consequentially, generally below pre-crisis levels.

Another important factor that drives hotel values is the availability of funds and the cost of capital. Although debt has become more readily available during the past year, it is not as abundant or as cheap as in pre-crisis times.

The variety of debt and the number of lenders in today's market is not as extensive as before, which means the cost of debt – although decreasing – remains higher than in 1996.

Although investors have reduced their equity-return requirements compared to 1999, they are generally seeking higher returns than in pre-crisis times, due to the perception of risk still associated with investing in hotels in Asia. ■

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Hotel Values Per Room (US\$)										
	1996	1997	% Change	1998	% Change	1999	%Change	2000	% Change	% of Pre-Crisis Value 1996 per room
KUALA LUMPUR	214,000	131,000	-39%	74,000	-44%	75,000	1%	92,073	23%	43%
BALI	153,000	162,000	6%	101,000	-38%	105,000	4%	121,693	16%	80%
JAKARTA	221,000	199,000	-10%	70,000	-65%	70,000	0%	79,432	13%	36%
HONG KONG	678,000	625,000	-8%	357,000	-43%	369,000	3%	408,657	11%	60%
SHANGHAI	252,000	249,000	-1%	202,000	-19%	177,000	-12%	196,019	11%	78%
SINGAPORE	376,000	322,000	-14%	294,000	-9%	344,000	17%	378,038	10%	101%
BANGKOK	229,000	165,000	-28%	150,000	-9%	154,000	3%	167,765	9%	73%
SEOUL	361,000	313,000	-13%	259,000	-17%	310,000	20%	326,586	5%	90%
BEIJING	254,000	215,000	-15%	166,000	-23%	140,000	-16%	147,395	5%	58%
TOKYO	777,000	794,000	2%	633,000	-20%	683,000	8%	697,084	2%	90%
MUMBAI	309,000	290,000	-6%	250,000	-14%	209,000	-16%	209,586	0%	68%
MANILA	216,000	201,000	-7%	139,000	-31%	130,000	-6%	107,179	-18%	50%
Average	336,667	305,583	-9%	224,583	-27%	230,500	3%	244,309	6%	69%

Source: HVS International Research