Savills World Research
Taiwan

# Asian Cities Report
# Taiwan Hospitality

2H 2014

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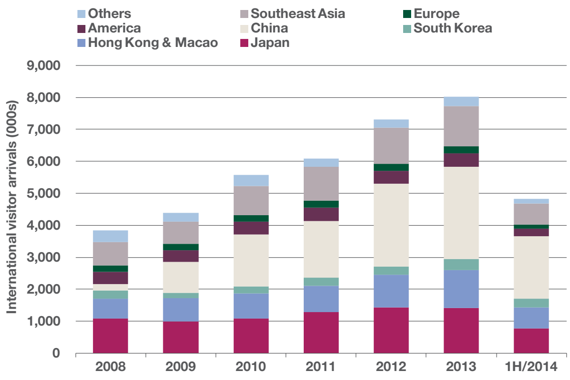
GRAPH 1

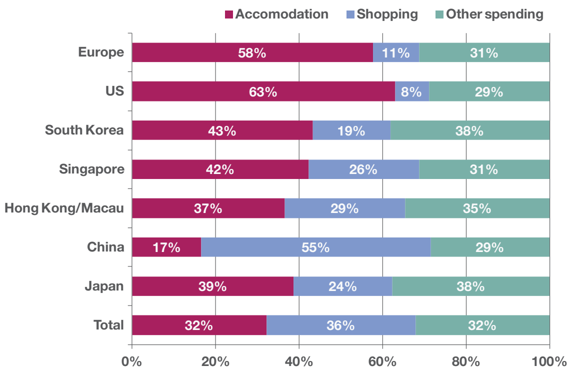
### Number of inbound visitors, 2008–1H/2014




Source: Taiwan Tourism Bureau, Savills Research & Consultancy

GRAPH 2

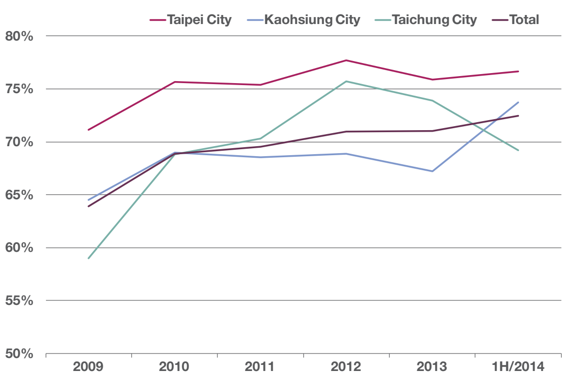
### Inbound tourist consumption by country and expenditure type, 2013




Source: Taiwan Tourism Bureau, Savills Research & Consultancy

GRAPH 3

### International tourist hotel occupancy rates, 2009–1H/2014




Source: Taiwan Tourism Bureau, Savills Research & Consultancy

## Inbound visitor numbers

The Taiwan tourism market continued to enjoy fast growth of inbound visitors in 2013. More than 8 million international travellers were recorded last year, representing a 10% increase year-on-year (YoY) and, furthermore, the rate of growth accelerated in the first six months of 2014, with international travellers reaching 4.6 million, up 27% compared with the same period in 2013. This was driven mainly by travellers from China and Japan, with a 38% and 19% increase YoY respectively. Apart from that, several popular South Korean variety shows being shot in Taiwan also helped promote the Taiwan tourism market and led to an 80% increase in visitors from South Korea.

According to a survey from the Taiwan Tourism Bureau, independent travel is gradually becoming preferred by international visitors, with the proportion of visitors joining group tours declining from 42% in 2011 to 31% in 2013. This can largely be attributed to the increase of independent travellers from China, whose total number in the first half of 2014 had almost reached the full previous year's level. The changing travel style has also resulted in the emergence of boutique and business hotels. The government is further allowing residents from another ten Chinese cities to take independent trips to Taiwan by mid-2014, and the Taiwan Tourism Bureau expects that international travellers could easily reach 9 million by the end of 2014 and potentially 10 million in 2015.

## Inbound tourist consumption

The total consumption by international visitors in 2013 was up 12% to US$12.3 billion due to the growth of visitor numbers. However, the daily consumption by individuals did not improve, with everyday spending showing a slight drop of 5% to US$224. This was mainly due to the 14% drop in daily expenditure by Japanese visitors, who accounted for 18% of total inbound visitors in 2013. The weak Japanese yen caused these visitors reduce their shopping and accommodation expenditures.

In contrast, US visitors' daily expenditure increased 16% compared with the previous year and was mainly spent on accommodation. US tourists usually have higher hotel budgets and prefer to stay in 5-star hotels such as the Grand Hyatt Taipei, Far Eastern Plaza Hotel, The Westin Taipei and W Taipei, taking up around one fifth of rooms in the first six months of 2014. In terms of tourists from China, the rising proportion of independent travel has yet to cause an obvious change in expenditure patterns. We have already seen more spending on accommodation and less on shopping. However, the accommodation budget for tourists from China has potential for improvement as their accommodation costs are 40% less than the average of total inbound tourists.

## Stock distribution by class and area

With the tourism industry experiencing rapid growth and inbound travellers increasing by 1 million annually since 2010, more and more hoteliers have entered the market. During the past 12 months, 107 hotels with a total of 10,394 rooms have opened, mainly concentrated in metropolitan areas. Of these, 47 hotels adding 2,756 rooms were located in Taipei City, followed by Taichung City and Kaohsiung City adding 1,447 rooms and 1,593 rooms respectively.

High-end hotels usually take more time to build because they have to meet more stringent quality standards. Therefore, only three high-end hotels opened in Taipei City during this period including Humble House Hotel Taipei (235 rooms), The Okura Prestige Taipei (208 rooms) and Mandarin Oriental Taipei (303 rooms). Each of them has taken more than three years to be built. Humble House Hotel Taipei is located in Xinyi district and is the first own-brand hotel for My Humble House Hospitality Group, a local hotelier. This is the group's third hotel – it also operates the Sheraton Grande Taipei Hotel and Le Meridien Taipei. The Okura Prestige Taipei, operated by a high-end Japanese hotelier, is located in Zhongshan district and is targeting Japanese visitors. Mandarin Oriental Taipei, the latest high-end hotel launched, is close to Songshan

Airport and recorded the highest room rates in Taipei City, starting from NT$15,600 (US$530) per night.

The increase in independent travellers has made the hotel market in Taipei City more competitive for business or boutique hoteliers. From 2012 to 1H/2014, 81 business hotels were launched and more than 60% of those are clustered in the Zhongshan and Ximending areas. This is because these two areas have an abundant stock of old office buildings which allow hoteliers to rent or buy at lower budgets and remodel quickly to expand their market share. The average capacity of newly launched business hotels was 50 rooms, and those having between 20 and 30 rooms expanded the fastest.

Aside from hoteliers, local life insurance companies and construction companies have been actively involved in the hotel market in order to receive stable incomes or to improve the efficiency of old buildings. For instance, Cathay Hospitality, affiliated with Cathay Life Insurance Company, was established in 2012. Utilising old buildings rented from Cathay Life Insurance Company, it has opened three hotels in Taipei City quickly and is planning to expand its territory to southern Taiwan and the high-end hotel market.

## Occupancy rates and room rates

The occupancy rate for international hotels has continued to improve. According to data from the Taiwan Tourism Bureau, average occupancy rates for international hotels overall reached 71.02% in 2013 and grew further to 72.44% in the first half of 2014, representing a 3.99% increase YoY. In Kaohsiung City, the occupancy rate in 1H/2014 climbed to 72.75%, the highest since 2009, due to successful marketing and promotion campaigns by the Kaohsiung City Government. Budget airlines starting new routes from Kaohsiung to Busan in South Korea and Osaka in Japan also brought more inbound visitors into the local tourism market.

Even though average room rates for international tourist hotels decreased slightly by 4.6% YoY to NT$3.672 per night in 1H/2014, Taipei City witnessed an increase of 1.4% in room rates. As for the general hotel segment, hotels in the CBD usually record a stronger performance. In 2013, general hotels in Taipei City had an occupancy rate of 67.5% and average room rates of NT$2,599, significantly higher than those in Taichung and Kaohsiung City, with average room rates of NT$2,039 and NT$1,590 respectively. Nowadays, room rates for newly remodelled business hotels in Taipei City usually range from NT$2,500 to NT$3,000, targeting independent travellers in Asia.

## Hotel transactions

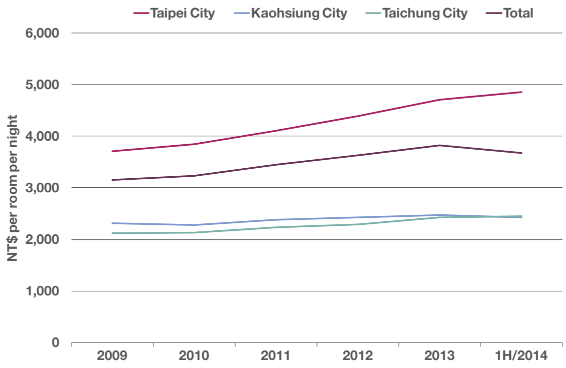
Savills has recorded hotel transactions totalling approximately NT$14.8 billion from 2012 to date, with over 70% of the transactions occurring in Taipei City. Only one high-end hotel transaction took place in the past two years – Imperial Hotel Taipei with 326 rooms was purchased by Taiwan Life Insurance Company for NT$4.6 billion in mid-2012, representing a 3% yield. The remaining transactions were focused on business hotels with sizes ranging from 50 rooms to 100 rooms and the price ranging from NT$500 million to NT$1.5 billion. In order to further enhance capital efficiency, some hoteliers intend to remodel older buildings into hotels for resale with a sale-and-leaseback package.

## Outlook

In the near future, we forecast that inbound tourism will maintain its current growth rate by increasing 10% every year and attract more local as well as international hoteliers to the market. High-end hotels can depend on their brand reputation, quality services and global reservation systems to attract customers. However, the relatively lower entry barriers in the business hotel market will lead to intensified competition and make it difficult to increase room rates in the short term.

GRAPH 4

### International tourist hotel room rates, 2009–1H/2014




Source: Taiwan Tourism Bureau, Savills Research & Consultancy

TABLE 1

### Selected hotel sales, 2012–May 2014

| Transaction date | Property | Location | Price (NT$ mil) | No. of rooms |
|---|---|---|---|---|
| May 2012 | Imperial Hotel Taipei | Taipei City | 4,600 | 326 |
| May 2012 | Holiday Inn East Taipei | New Taipei City | 1,880 | 252 |
| Jun 2013 | Hotel June | Taipei City | 1,200 | 88 |
| Oct 2013 | Green World Hotel Jian Pei Suites | Taipei City | 1,850 | 68 |
| May 2014 | Charming Hotel | Taipei City | 648 | 54 |

Source: Taiwan Tourism Bureau, Savills Research & Consultancy

TABLE 2

### Selected International tourist hotels in Taipei City, 1H/2014

| Hotel | No. of rooms | Room rate (NT$ per room per night) | Occupancy rate in 1H/2014 (%) |
|---|---|---|---|
| W Taipei | 405 | 9,932 | 81 |
| Le Meridien | 160 | 9,736 | 78 |
| The Regent Taipei | 538 | 5,973 | 80 |
| Far Eastern Plaza | 420 | 7,532 | 48 |
| The Westin Taipei | 288 | 6,277 | 66 |
| **Taipei Average** | | **4,859** | **77** |

Source: Taiwan Tourism Bureau, Savills Research & Consultancy

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