Singapore Hotel Market View

August 2021

Contributor: Glendon Hoon
(+65 6323 1788)

Contents

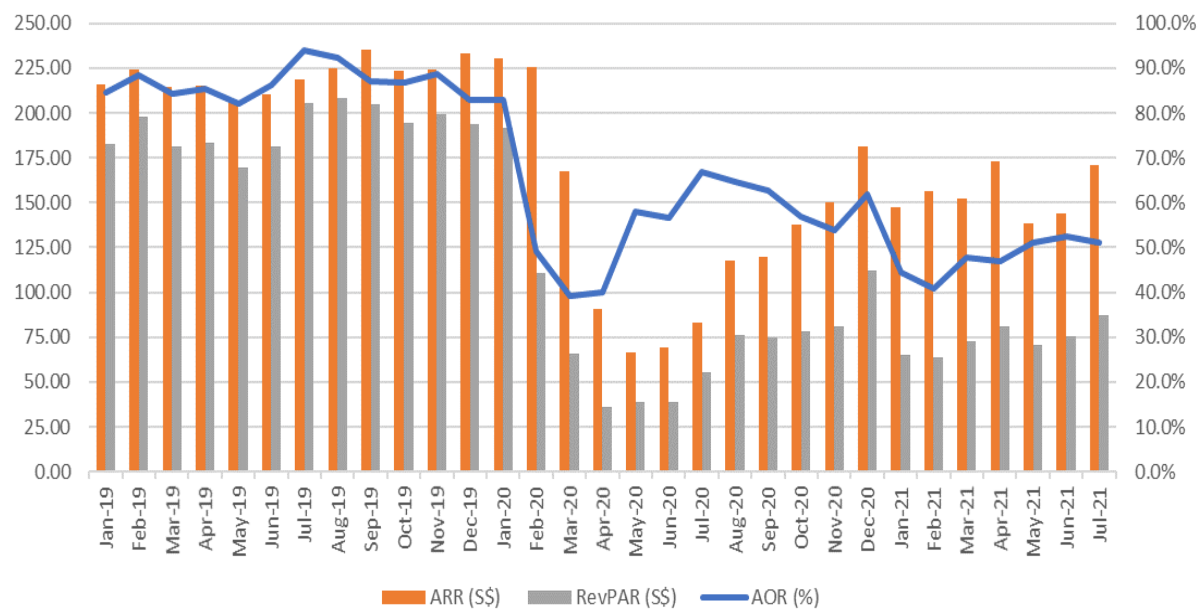
Hotel Market Overview

In this hotel market overview, we will first review recent key themes surrounding the Singapore hotel market, and then discuss the market outlook.

Weak overall hotel performance in the first 7 months of 2021

In recent months, a moderate improvement in key hotel indicators like occupancy and revenue per available room (RevPAR) as reflected in **Exhibit 1** suggest a broad-based recovery in the Singapore hotel market.

Exhibit 1: Trend in performance of key hotel indicators in Singapore



Source: STB, FPA Financial

To a large extent, hotel demand has been supported by the need for Government Quarantine Facilities (GQF) and Stay-Home Notice (SHN) dedicated facilities, as well as staycation demand which has in part been boosted by the launch of the SingapoRediscover vouchers. Hotels in Singapore have also been proactive in launching new initiatives like 'Work-from-Hotel' as well as offering staycation deals to attract demand.

However, amid the challenging environment, overall hotel performance remained weak in the first 7 months of 2021 (Jan-Jul 2021), as reflected by latest data from the Singapore Tourism Board (STB). During the period, the average occupancy level (AOR) across gazetted hotels stood at 47.6%, 8.0 percentage points lower than the same period a year ago. Meanwhile, the average room rate (ARR) registered S$154.46, down by 2.4% year-on-year (y-o-y). Overall, revenue per available room (RevPAR) over the 7-month period was S$73.56, a 16.4% decline from a year ago, as shown in **Exhibit 2** on the next page.

Exhibit 2: AOR, ARR and RevPAR comparison for Jan-Jul 2020 and Jan-Jul 2021

Performance indicator	Jan-Jul 2020	Jan-Jul 2021	y-o-y change
AOR (%)	55.6%	47.6%	-8.0% points
ARR (S$)	158.30	154.46	-2.4%
RevPAR (S$)	87.98	73.56	-16.4%

Source: STB, FPA Financial

By hotel tier segment, the Luxury and Upscale segments recorded an average RevPAR growth of 1.2% y-o-y and 0.6% y-o-y respectively in Jan-Jul 2021. This could probably be due to staycations, during which people are more likely to opt to stay in higher-end hotels. In contrast, the lower tier segments continued to feel the brunt of the Covid-19 pandemic, given limited demand from budget travellers amid tight border measures. During the period, the Mid-tier and Economy segments recorded an annual average RevPAR decline of 30.5% and 39.7% respectively. The breakdown of average RevPAR for Jan-Jul 2020 and Jan-Jul 2021 based on hotel tier are summarized in **Exhibit 3**.

Exhibit 3: Breakdown of average RevPAR based on hotel tier

	Average RevPAR (S$)		
Hotel tier	Jan-Jul 2020	Jan-Jul 2021	y-o-y change
Luxury	145.22	147.02	1.2%
Upscale	84.00	84.48	0.6%
Mid-Tier	65.85	45.76	-30.5%
Economy	47.62	28.69	-39.7%

Source: STB, FPA Financial

In Jan-Jul 2021, total hotel room revenue for gazetted hotels fell by 41.0% y-o-y to S$501.6 million, according to STB data. All hotel tier segments recorded a decline, with the Economy segment being the hardest hit and recording a 66.6% y-o-y decline. Conversely, the Luxury segment was least impacted and recorded a relatively moderate decline of 5.9% y-o-y. The breakdown of hotel room revenue for Jan-Jul 2020 and Jan-Jan 2021 based on hotel tier are summarized in **Exhibit 4**.

Exhibit 4: Breakdown of hotel room revenue based on hotel tier

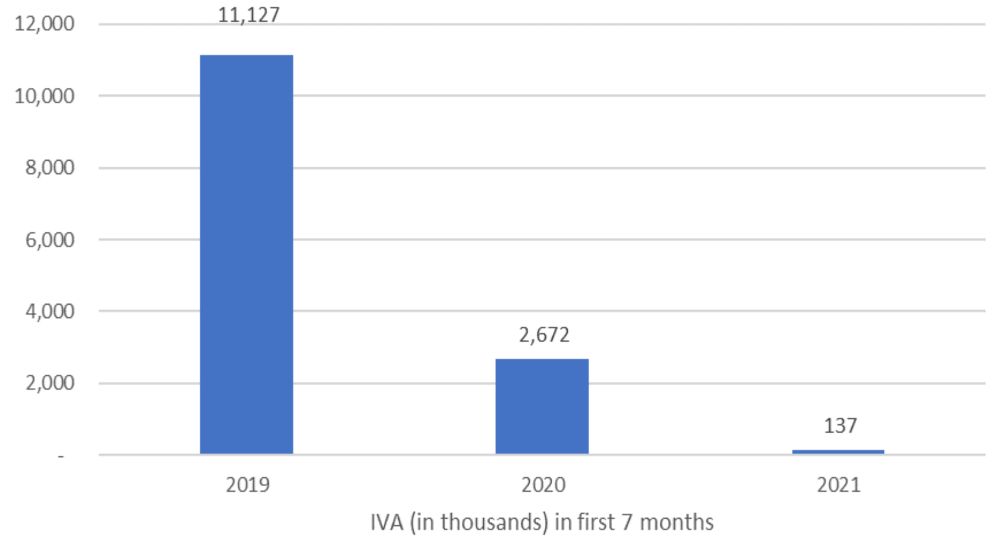
	Hotel room revenue (S$ million)		
Hotel tier	Jan-Jul 2020	Jan-Jul 2021	y-o-y change
Luxury	263.8	248.1	-5.9%
Upscale	192.5	109.4	-43.2%
Mid-Tier	243.3	93.9	-61.4%
Economy	150.1	50.1	-66.6%
Total	**849.7**	**501.6**	**-41.0%**

Source: STB, FPA Financial

Subdued visitor arrivals in first 7 months but border reopening may provide a boost

Amid strict border controls, Singapore continued to receive subdued number of visitor arrivals during Jan-Jul 2021. During the period, international tourist arrivals (IVA) totaled 137,181, a 94.9% drop from 2.7 million a year ago, according to STB data, as shown in **Exhibit 5**. Relative to pre-Covid times, IVA in the period was only 1.2% of the 11.1 million visitor arrivals recorded during Jan-Jul 2019.

Exhibit 5: International visitor arrivals in first 7 months (in thousands)



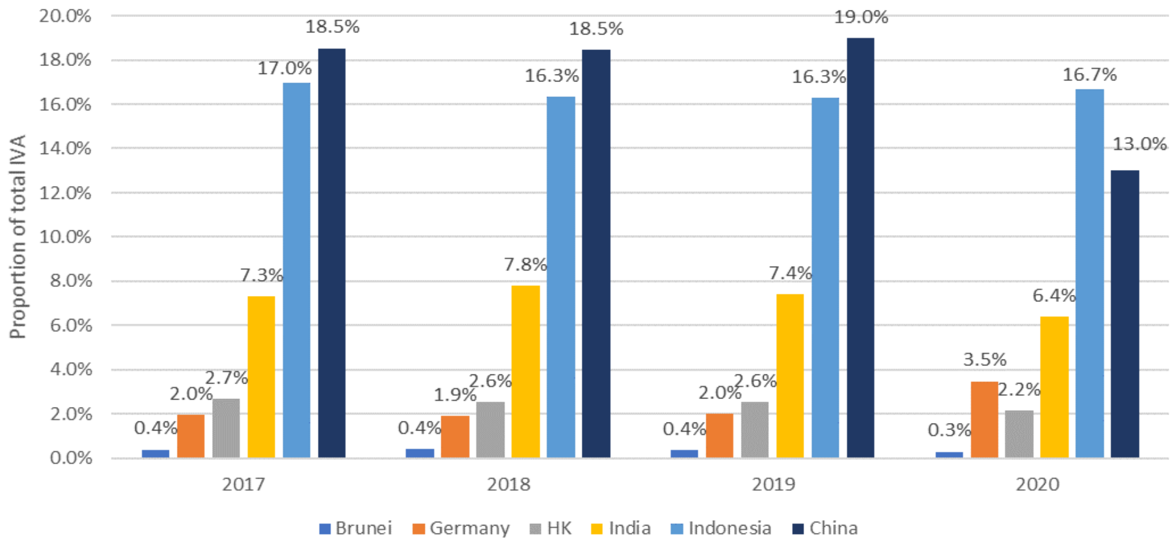
Source: STB, FPA Financial

Nevertheless, the national vaccination rate has steadily risen and on track to meet the target of 80% by September 2021. Given the higher vaccination rate, the Singapore government recently announced on 19 August that border restrictions would be eased in a calibrated manner. This could suggest that an uptick in IVA numbers in Q4 2021 may be expected.

As part of the border reopening, a new Vaccinated Travel Lane (VTL) scheme has been launched to allow vaccinated travellers from selected countries to enter Singapore, starting with Germany and Brunei from September 8 onwards. On a weekly basis, there will be 7 designated VTL flights from Germany to Singapore, which would translate to up to 2,000 travellers weekly. Meanwhile, there will be 3 designated VTL flights per week from Brunei. In lieu of a stay-home notice (SHN) period, fully vaccinated travellers from these two countries are required to undergo Polymerase Chain Reaction (PCR) tests, which include a pre-departure test within 48 hours of the departure flight, an on-arrival test at Changi Airport, and post-arrival tests in Singapore on Day 3 and 7. Further, travel restrictions would also be lifted for inbound travellers from Hong Kong and Macau, where short-term visitors from both cities will be able to enter Singapore without serving SHN, regardless of vaccination status. Instead, they will have to undergo a Covid-19 on arrival and be insured against the disease.

Looking at historical IVA figures, we note that visitor arrivals from Brunei, Germany and Hong Kong have on average made up about 0.4%, 2.0% and 2.6% of total IVA from 2017 to 2019, as shown in **Exhibit 6** on the next page. Comparatively, top markets like India, Indonesia and China have contributed about 7.5%, 16.5% and 18.7% on average over the 3-year period.

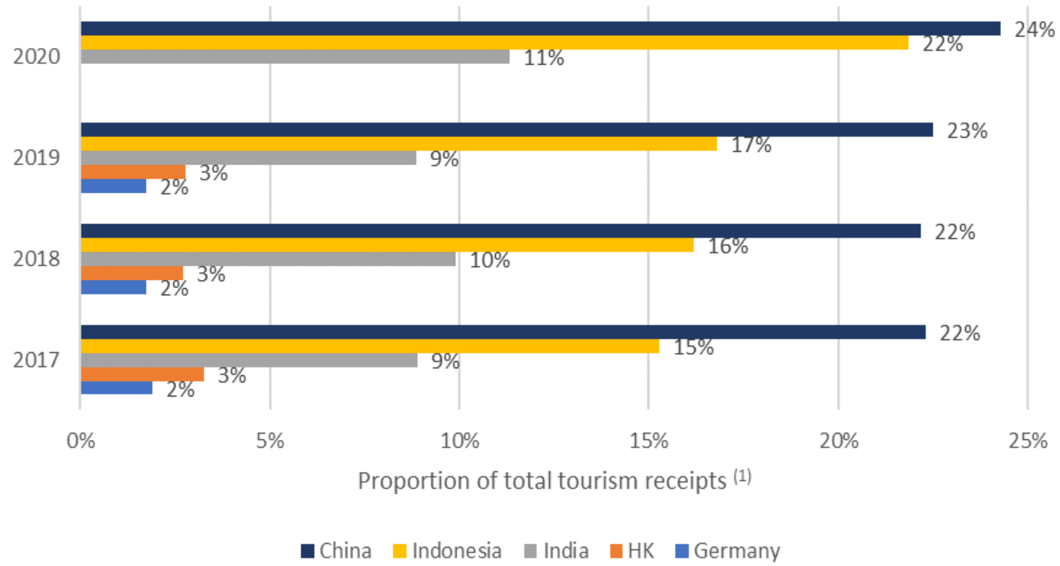
Exhibit 6: Proportion of total IVA from 2017-2020



Source: STB, FPA Financial

Meanwhile, In terms of spending, we also note that tourism receipts (excluding Sightseeing, Entertainment & Gaming expenditure) from Germany and Hong Kong made up a relatively small proportion of total tourism receipts over the last few years, as shown in **Exhibit 7.**

Exhibit 7: Proportion of tourism receipts from 2017-2020



(1) Excluding Sightseeing, Entertainment & Gaming expenditure due to commercial sensitivity
Source: STB, FPA Financial

Overall, if we were to consider the historical contribution of IVA and tourism receipts by countries like Brunei, Germany and Hong Kong, it may suggest that the scope of the impact from recent border easing measures on Singapore's tourism recovery could be limited.

Virus uncertainty remains the key concern

As it stands, many parts of Asia, including Singapore's top tourism markets like China, Indonesia and India, are grappling with rising Covid-19 cases relating to the spread of the Delta variant. Similarly, other parts of the world like the United States (US) and Europe have also recently experienced virus resurgences due to the Delta variant. Furthermore, there are also concerns over the threat of new Covid-19 variants, as seen by the spread of the Lambda variant in South America, and more recently in the Philippines.

While the domestic Covid-19 situation in Singapore may be kept under control with a majority of the total population being fully vaccinated, the success of travel bubble arrangements or VTL's will be also largely dependent on the external Covid-19 environment. Given the ongoing virus uncertainty globally, this may limit the scope for such initiatives to be implemented.

In its latest press release on 11 August, the Ministry of Trade and Industry (MTI) upgraded Singapore's GDP growth forecast for 2021 to "6.0% to 7.0%" from "4.0% to 6.0%". However, the ministry highlighted that aviation- and tourism-related sectors are projected to recover more slowly than previously expected, given that demand is not expected to return quickly as travel restrictions globally are likely to be lifted cautiously and global travel demand may also remain sluggish amidst the spread of more contagious strains of the virus. As such, activity in these sectors is expected to remain significantly below pre-COVID levels even by the end of 2021, according to MTI.

Entrance of new brands suggest a positive long-term outlook

In 1H 2021, new supply was only contributed by the opening of the 324-key *The Clan Hotel* by Far East Hospitality. CBRE highlighted that new supply is expected to remain limited in 2H 2021, where the former *Le Meridien* and *Six Senses Maxwell* will reopen as *Oasia Resort Sentosa* under Far East Hospitality and *Maxwell Reserve Singapore, Autograph Collection* by Marriott respectively. A summary of the details of these new hotels is shown in **Exhibit 8**.

Exhibit 8: Details of hotels scheduled for opening in 2H 2021

Name of hotel	Location	No. of rooms*	Scheduled opening
Oasia Resort Sentosa	Sentosa Island	191	Q3 2021
Maxwell Reserve Singapore, Autograph Collection	2 Cook Street	120	Dec-2021

**Inclusive of suites*

Source: CBRE, Far East Orchard Limited, respective hotel websites

Looking ahead, CBRE expects a pipeline, comprising a diverse mix of new hotel brands such as *Artyzen Cuscaden Singapore* and *Mondrian Singapore*, to help alleviate the adverse impact from Covid-19 and lend some support during the recovery period. In addition, we note from CBRE that new brands are also to enter Singapore via rebranding efforts. CBRE believes the diverse mix of brands entering Singapore in the next few years reflects hotel operators' positive outlook of Singapore's hotel market in the long term.

Hotel Market Outlook

Owing to the ongoing adverse impact of the Covid-19 pandemic on tourism, Singapore's hotel market performance remained weak during Jan-Jul 2021. In the coming months, the need for GQF and SHN dedicated facilities should continue to support domestic hotel demand, though a gradual progress toward non-SHN travel could soften demand. Another potential driver would be staycation demand given the recent easing of measures for fully vaccinated individuals. Hotels in the Luxury and Upscale segments are more well-positioned to benefit from this as people may be more inclined to select high-end options for staycations. Meanwhile, the outlook for tourism-led demand is improving as Singapore gradually reopens its borders. Economy and Mid-Tier hotels should see a moderate improvement in performance as budget travellers' demand improves, given the recent border easing measures. Indeed, given the current narrow scope of the VTL scheme, the overall impact of border reopening may be limited in the immediate term.

Against the above backdrop, we are less likely to see a significant improvement in overall hotel performance in the next few months. Nevertheless, looking further ahead into 2022, a stronger hotel market recovery is more likely as international travel recovers and countries globally achieve higher vaccination rates. This will provide greater scope for border reopening, and thereby supporting a more meaningful rebound in visitor arrivals. Consequently, a stronger inflow of budget travellers will help to uplift performance of hotels catered for affordability. In addition, a gradual return of business travel as well as meetings, incentives, conferencing, and exhibitions (MICE) tourism could support an increase in demand for luxury hotels. Meanwhile, further vaccination progress should allow for a further resumption of domestic tourism. The recovery will also be supported by a supply pipeline comprising a diverse mix of new hotel brands, which is expected to help alleviate the adverse impact from Covid-19.

Disclosures/Disclaimers

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of FPA Financial Corporation Pte Ltd ("FPA"). This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as FPA may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject FPA and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by FPA to be reliable. However, FPA makes no representation as to the accuracy or completeness of such sources or the Information and FPA accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. FPA and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of FPA and its connected persons are subject to change without notice. FPA reserves the right to act upon or use the Information at any time, including before its publication herein.