

Key Takeaways from the 2018 South East Asia Hotel Investor's Summit (SEAHIS)

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This year's South East Asia Hotel Investors' Summit (SEAHIS) took place at the Westin Grande Sukhumvit Bangkok on May 14-15, and HVS proudly sponsored the conference for the second consecutive year. The event tackled some of the key issues facing the hospitality sector including the role of Online Travel Agencies (OTAs), hotel management agreement negotiations, and fear of oversupply in certain markets, as well as the 2018 regional outlook. These matters were debated during the panel discussions among top executives, ranging

from hotel developers, owners, investors, consultants, and hotel operators.

Our key takeaways from the 2018 SEAHIS are:

The Changing Landscape of Hotel Management Agreements

The summit kicked off with Daniel J Voellm, Managing Partner, HVS Asia Pacific, moderating a lively panel discussion on the changing landscape of hotel management agreements. The alignment of interests between the owner and the operator were heavily debated. The owner's goal is to select the right management company to maximise profitability of the asset, while at the same time ensuring the operator is incentivised to perform. Over the past decade, due to a shift in hotel investment trends, hotel owners have developed a better understanding of the hotel landscape and have become more sophisticated in their choice of operators, as well as negotiation of contract terms. Operators, on another hand, have become flexible in a number of key commercial terms, ranging from budget approvals to capex control, in order to accommodate owner's need, especially with an asset that is situated in a strategic location. However, sticking points remain especially with regard to termination rights, in case of a merger and restrictive covenants.

The Role of Online Travel Agencies

The global increase in social media usage has grown exponentially, as a result of direct connectivity via mobile devices. This opportunity has urged many hotel chains to aggressively promote their direct booking channels in an effort to bypass OTAs. It has been well-documented that OTAs have claimed a bigger share of hotel bookings. A pick-up in direct booking business has allowed hoteliers to be less reliant on OTAs, which conversely reduces expenses associated with OTA commissions, creates more loyalty between hotel guests and their brands, and a more profitable business practice. On another hand, OTAs have claimed that the commission paid are marketing costs for hotels, and in many cases lower than costs related with direct booking efforts. Expedia, one of the largest OTAs, has made a significant investment in its technology platform in hope to transform the travel industry through its data collection and leverage customer experience. What will the OTAs do next with all this data is going to be very interesting in the coming years (maybe months?).

Fear of Oversupply and Tourism Management

Hotel markets in South East Asia are tipped to continue their growths in demand due to a rise of international visitor arrivals. Stronger demand can be attributed to a surge of regional travellers, who although establish shorter length of stays, frequently visit the destination as return guests; this thanks to low-cost carrier

Summary

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expansions in a number of key airports and continuous promotional tourism campaigns from the various ministries of tourism. High demand has boosted confidence in the hospitality sector with the pipeline landscape looking on the up in many hotel markets across South East Asia. However, some cities and destinations may struggle to absorb new supply if demand struggles to keep up. According to STR, Bali has over 9,000 hotel room inventory entering the market in the near term, but the Mount Agung eruption in September 2017 deterred tourists and had a negative effect on Indonesia's tourism industry, the market is yet to bounce back. Myanmar is seeing subdued levels of demand due to the political challenges that the country is facing, trailing the growing supply. There are a number of bright spots however; Vietnam, for example, that, despite a 43% increase in supply or approximately 35,000 rooms in 2018, seems to be coping well supported by strong demand growth. However, there are fears for oversupply in cities such as Da Nang, Halong Bay, Ha Noi and Phu Quoc. Overall, the hotel landscape in the near future looks promising, however, it is crucial to find the right balance between lodging demand and supply of hotel rooms moving forward. A major concern is going to be tourism management as many destinations struggle to cope with the number of growing visitors from an infrastructural and environmental point of view. Will the closures of Boracay and Phi Phi Island be seen in many more destinations soon?

Do investors price in risk premium?

Chee Hok Yean, President HVS Asia Pacific and Malcolm Kerr, Director KerrWood, chaired this round table which had active participation from all attendees in the session. The main takeaways from this session were that investors make their decisions based on several factors such as location, size of hotel as in number of rooms and size of rooms, quality and grade of hotel, branding of the hotel, cashflow generation from the hotel's operations and the total investment. In addition, political stability, economic and tourism growth, inflation and lending rates were also of consideration. The degree of importance of each factor may defer amongst the investors depending on whether they are high net-worth individuals/families, funds, developers, local or foreign investors.

Outlook

The 2018 outlook remains positive with hoteliers looking to further expand in various markets across South East Asia. The industry is at the stage where the approach of 'one-size-fits-all' no longer works. Hoteliers should strive to embrace the differences of their diversified guests by developing the 'right' products to fit an increasingly multifaceted demand. Millennial-focused hotels and brands are already a thing of the past, as Gen Z is on the rise. Thus, the need to evaluate and create the 'right' projects becomes even more relevant.

About Hok Yean CHEE



Hok Yean CHEE is the Regional President of HVS Asia Pacific. She has 30 years of experience in more than 30 markets across 19 countries in Asia Pacific, providing real estate investment advisory services for a wide spectrum of property assets. Her forte lies in providing investment advisory on hotels and serviced apartments including brokerage, strategic analyses, operator search, market feasibility studies, valuations and litigation support. For further information, please contact: [\[email protected\]](#)