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MARKET PULSE: SINGAPORE

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A wide-angle photograph of the Singapore skyline at sunset. The sky is a deep blue with wispy clouds. The city's skyscrapers, including the Marina Bay Sands and the Esplanade - Theatres on the Bay, are silhouetted against the sky. The buildings' lights are reflected in the calm water of the bay. A bridge with multiple arches is visible in the foreground, also reflected in the water.

SINGAPORE



Asia's Lion City

The Republic of Singapore is a metropolitan city-state and island country in Southeast Asia with a total land area of 714.3 square kilometres. It is situated at the southern tip of the Malayan Peninsula, between Malaysia and Indonesia. With an economy supported by its growing population of around 5.8 million, Singapore rose as an Asian Tiger economy and today serves as a global commerce, finance and transportation hub.

According to World Travel & Tourism Council, the direct and indirect contribution of Travel & Tourism to Singapore's Gross Domestic Product (GDP) was 4.8% and 10% respectively of the total GDP in 2015, making tourism one of the key supporting industries for the economy.

Amongst the numerous international tourism awards and accolades received, Singapore has ranked consistently as one of the top destinations for leisure, business and meetings, incentives, conferences, and exhibitions (MICE) travellers. In 2017, Singapore will introduce future developments in areas such as attractions, commercial, residential and transportation.

Key Highlights of 2016

- Singapore witnessed **record high performance** in the tourism sector, in both tourist arrivals and receipts
 - 16.4 million tourist arrivals
 - S\$24.8 billion tourism receipts
- Rebound of Chinese tourist market by approximately **36% growth from 2015**
- **Highest passenger traffic** of approximately **58.7 million** achieved by Changi Airport compared to **55.5 million in 2015**
- Hotel sector declined in performance with **RevPAR falling by approximately 4%**



Economic Outlook

| | Actual | | | | | Forecast | | | | |
|--------------------------------------|--------|------|------|------|------|----------|------|------|------|------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Real GDP Growth % | 3.7 | 4.7 | 3.3 | 2.0 | 1.8 | 2.0 | 1.8 | 1.7 | 2.2 | 2.4 |
| Consumer Price Index (av; %) | 4.6 | 2.4 | 1.0 | -0.5 | -0.5 | 0.9 | 1.3 | 1.0 | 1.2 | 1.3 |
| Budget Balance (% of GDP) | 1.9 | 1.3 | 1.3 | 0.6 | 0.7 | 0.8 | 0.6 | 0.5 | 0.4 | 0.4 |
| Current-account Balance (% of GDP) | 18.1 | 17.9 | 17.5 | 19.8 | 22.5 | 22.3 | 19.6 | 18.3 | 18.8 | 18.6 |
| Commercial banks' prime rate (av; %) | 5.38 | 5.38 | 5.35 | 5.35 | 5.40 | 5.40 | 5.40 | 5.40 | 5.40 | 5.40 |
| Exchange Rate (SGD:USD) | 1.25 | 1.25 | 1.27 | 1.37 | 1.38 | 1.39 | 1.41 | 1.41 | 1.40 | 1.40 |

Source: Economist Intelligence Unit, January 2017

2016 is recognised as having been a tumultuous year for the world at large, in view of notable global events such as Britain's exit vote from the European Union (Brexit), Trump's presidency win in the United States of America (USA) and several terror attacks across Europe. As a result, Singapore continues to strive to hedge itself against weak external demand through higher spending by the government, approximately 7% increase as compared to 2015.

Economic Performance & Outlook

Due to weak global trade seen in 2016, real GDP growth reduced to 1.8% from the 2% previously achieved in 2015. Given the country's dependency on China, China's slowed GDP growth and the expected weak future performance of global trade will hold Singapore's real GDP growth at 2% each year on average from 2017-21. Over the same period (2017-21), Singapore's annual average inflation rate will be expected to be around 1.1% as prices of global commodities such as oil recover modestly.

Currency Exchange Outlook

The Economist Intelligence Unit expects that the US Federal Reserve will increase its interest rates, thus, the Singapore dollar is likely to weaken against the US dollar to approximately S\$1.39:US\$1. It is anticipated to depreciate even more till 2019 before gaining stability in 2020 onwards.

Future Geo-political Relations

In January 2017, President Donald Trump withdrew the US from the Trans-Pacific Partnership (TPP) trade pact which could lead to the agreement's end. Nevertheless, Singapore is expected to continue and maintain good relations with the US, reassuring other agreements currently in place.

In 2017, Singapore is also expected to continue to be a key player at improving cooperative relations with the Association of South-East Asian Nations (ASEAN) and China, mediating any disputes over territorial claims in the South China Sea between China and other ASEAN members.

Lastly, the commencement of construction of the high-speed rail between Singapore and Malaysia's capital - Kuala Lumpur in 2021 will help to improve connectivity and economic ties, keeping relations warm between the two nations. The new rail line will connect the two cities within 90 minutes instead of four hours by car.



Singapore Tourism Landscape

In comparison to 2015, Singapore had a better start with tourism arrivals in 2016. This was mainly due to the rebound in Chinese travellers to Singapore after additional collaboration efforts were made by the Singapore Tourism Board (STB) and Chinese online travel services such as Alitrip and Tuniu. In order to remain competitive with other regional destinations, STB has rolled out the 2016-2020 Travel Marketing Strategy to boost both tourism arrivals and receipts in the coming future.

As the global economic outlook remains weak and unstable, STB had initially forecasted approximately 0-3% growth in tourism arrivals and 0-2% growth in tourism receipts in 2016. It may be noted, however, that Singapore has witnessed record highs in tourism performance in 2016.

Tourism Target 2016

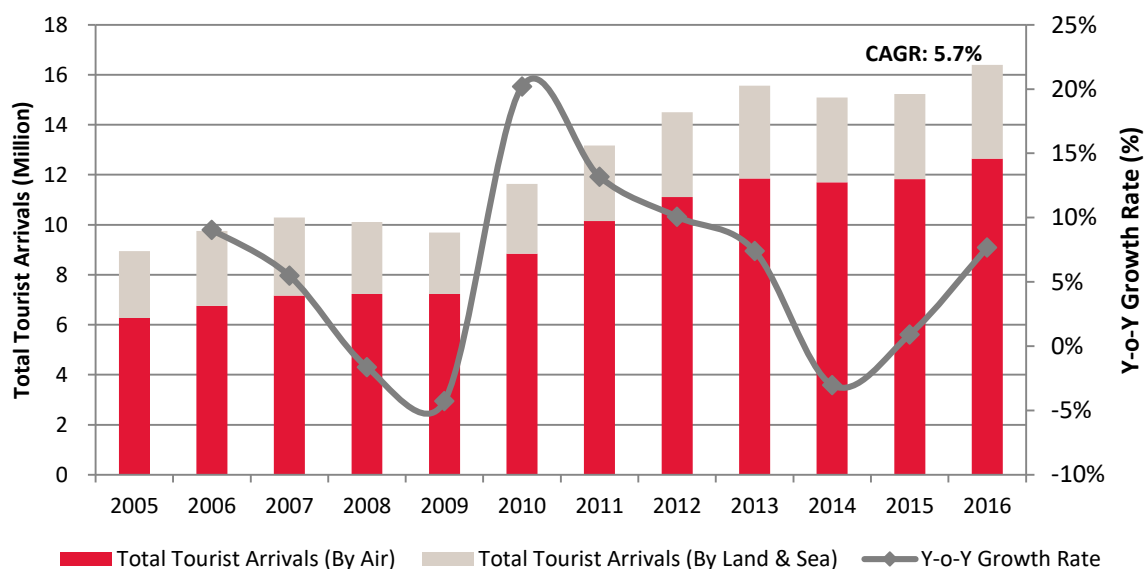
Visitor Arrivals:
15.2-15.6m
Tourism Receipts:
S\$21.8-S\$22.2b

Actual Performance 2016

Visitor Arrivals: 16.4m
Tourism Receipts:
S\$24.8b

International Visitor Arrivals

FIGURE 1: INTERNATIONAL VISITOR ARRIVALS (2005-16)



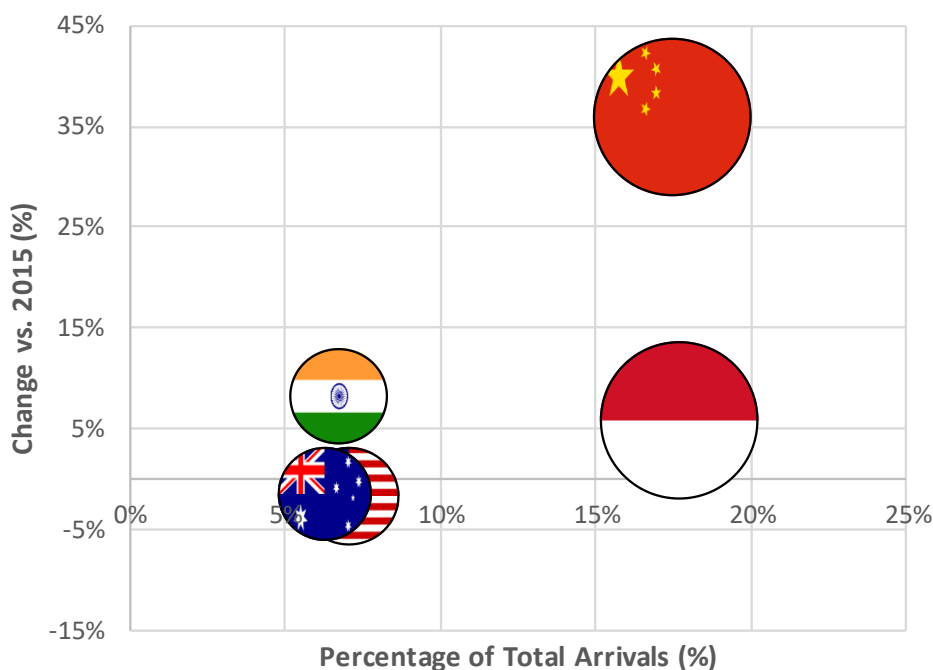
Source: STB Statistics

Apart from the dips in International Visitor Arrivals (IVA) during the 2008-09 financial crisis and in 2014, Singapore achieved a period of consistent growth in arrivals with a compounded annual growth rate (CAGR) of 5.7% during 2005-16.

In 2016, Singapore received a total of 16.4 million international arrivals. This was a significant improvement of 7.7% in growth as compared to the 0.9% growth previously seen in 2015.

The recent roll out of STB's 2016-2020 Travel Marketing Strategy has contributed to Singapore's improved tourism figures. Additionally, to strengthen Singapore's position for business tourism, STB has supported over 15% more business events in 2016 than in 2015. Despite the outbreak of the Zika virus, several other factors such as the stability and safety of Singapore as a tourist destination have contributed to the success seen in 2016.

FIGURE 2: TOP FIVE SOURCE MARKETS



Source: STB Statistics

Average Length of Stay and Source Markets

Historically, the average length of stay (ALS) of travellers to Singapore was 3.6 days. However, this average is expected to dip slightly as day trips and shorter corporate trips to Singapore with the changing travel habits of travellers from nearby source markets.

Top international source markets in 2016 remained consistent with 2015 rankings. The top five source markets made up 53% of all IVA in 2016, with Indonesia (17.2%) as the largest inbound market, followed by China (16.9%), Malaysia (6.9%), India (6.7%) and Australia (6.2%). Due to the strong Singapore Dollar vis-à-vis other regional currencies, source markets such as Malaysia and Australia have seen a decline in 2016. Similar to the trend in 2015, China and India have shown tremendous growth of 24% and 8% respectively in 2016. As a result, arrivals from the top five source markets grew significantly by 9% as compared to 2015.

Changi Airport

The internationally acclaimed Changi Airport in Singapore, logged its highest performance ever recorded in 2016. It handled 58.7 million passengers, which represents an increase of 5.9% as compared to the previous year. Serving more than 100 airlines and connecting with 380 destinations, Changi Airport is recognised as the World's Best Airport by Skytrax for the fourth consecutive year, thus strengthening Singapore's position as a transportation and transit hub.

However, the benefits to the local tourism industry and to hotels in particular, depend on the proportion of passengers who are retained as overnight visitors. According to the MasterCard Global Destination Cities Index 2016 estimate, Singapore received 12.1 million overnight visitors. This amounts to approximately 21% of the passengers who pass through Changi Airport.



Singapore Hotel Market

Singapore's hotel market can be considered as non-seasonal given the diversity of its consumer base. Leisure and corporate travel patterns complement each other and contribute to considerably high demand for hotels in Singapore. This leads to higher market-wide average daily rate (ADR) and occupancy rate (OCC) as compared to other regional destination cities.

According to STB, in 2015 there were 398 gazetted hotels with a total of 60,908 available rooms. While Urban Redevelopment Authority (URA) figures in 4Q2015 indicated a total of 2,731 hotel rooms under construction in 2016, only approximately 2,567 rooms opened, as per HVS tracking of major new hotel openings. The balance of hotel rooms to be opened were still under construction or believed to be delayed.

According to URA Singapore figures published in 4Q2016, a total of 5,841 hotel rooms are expected to be constructed between 2017 to 2021 (Fig. 3).

The CAGR for total available room nights (ARN) during 2011-16 was 6.9% while that for occupied room nights (ORN) during the same time period was 6.4%.

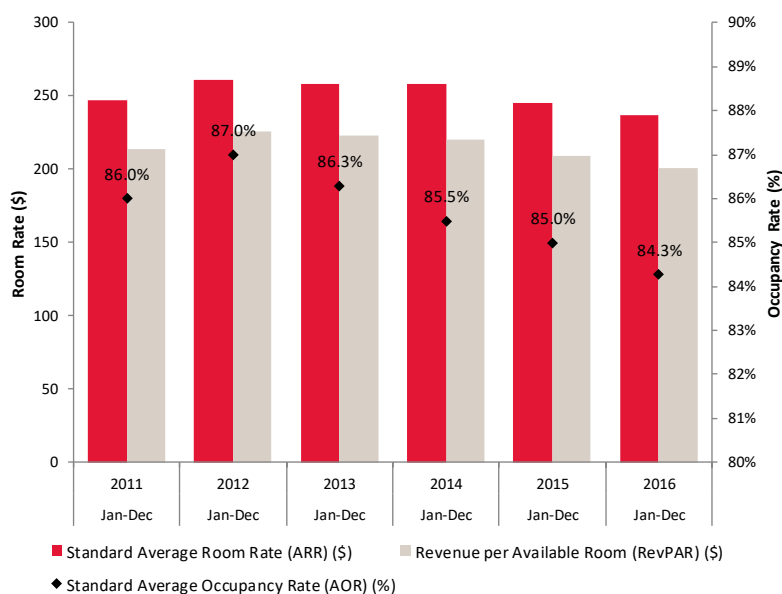
Marketwide hotel performance has softened further in 2016. The average occupancy rate came in at 84.3%, slightly under the 85% occupancy rate achieved in 2015. The average room rate decreased by 2.0%, from SGD 246 in 2015 to SGD 237 in 2016. The dynamics of occupancy and rate have resulted in a decrease of 4.0% in RevPAR from SGD 209 in 2015 to SGD 200 in 2016, which marks the fourth consecutive year of decline in marketwide RevPAR.

FIGURE 3: SINGAPORE HOTEL ROOMS PIPELINE (2017-21)

| Hotel Rooms Pipeline | Total | 2017 | 2018 | 2019 | 2020 | 2021 | >2021 |
|---------------------------|-------|-------|------|-------|------|------|-------|
| Total | 6,496 | 3,425 | 628 | 1,297 | 945 | 201 | - |
| Under Construction | 5,841 | 3,425 | 628 | 1,143 | 444 | 201 | - |
| Planned | 655 | - | - | 154 | 501 | - | - |

Source: Urban Redevelopment Authority

FIGURE 4: SINGAPORE OVERALL HOTEL PERFORMANCE (2011-2016)



Source: STB Statistics



Dealing with Adversity and Change

As mentioned, 2016 had been a year of tumultuous change across the globe, which consequently made it a challenging year for hotels in Singapore. As the future continues to appear uncertain for many, both hoteliers and owners need to identify crucial areas to adapt and change. This year, HVS has delved further to identify key trends and solutions which could make a difference in value creation for hotels in Singapore.

Revenue Management

Pricing and Positioning

Despite the surge in Singapore visitor arrivals and tourism receipts, hotels did not perform in tandem as both marketwide average rate and occupancy declined, resulting in a loss of 4% in revenue per available room (RevPAR). Challenged by the weak global economy and the surge in supply of hotel rooms in Singapore, operators have succumbed to lowering their rates in the short term. However, research has shown that lowering ADR will possibly result in a lower RevPAR performance due to contracting demand. As a result, it may become harder to maintain rate integrity and pull it back up. A hotel should maintain a premium against competitors' room rates to communicate its positioning and value. Instead of taking a straight discount across all room rate levels, hotels could revise their strategy to focus on particular market segments and distribution channels in order to yield the best possible RevPAR.

Total Hotel Revenue Management

Whilst room revenue typically constitutes the major revenue component for full-service hotels, the remainder of the hotel's revenue are often neglected by many hotels' management teams. In Singapore, total hotel revenue management has not been practiced prevalently, but hotels that apply total hotel revenue management have seen a 5% to 10% increase in contribution to total revenue. Taking an example of events revenue management in a five-star hotel in Singapore, after placing a premium on popular wedding dates, the hotel saw an increase of approximately 55% to 60% in additional weddings revenue. Despite the fact that total hotel revenue management is a relatively new approach, hotels should start to focus their approach to profit maximization from all revenue streams.

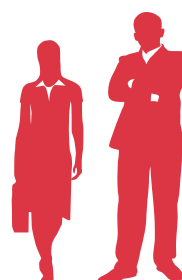
Some other solutions...

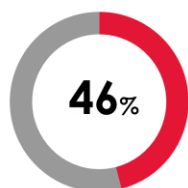
Effective Packaging Before Discounting:

If the occupancy level for the hotel is low, the hotel needs to better meet guests' expectations with the price. For instance, the hotel can lower the price for accessing the club lounge or attach a less strict cancellation policy, to emphasize on value and make the product more attractive.

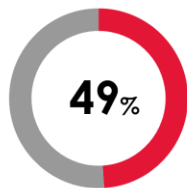
Full pattern length of stay (FPLOS) improves occupancy on the shoulder days by contributing approximately 1.5% to 3.0% additional revenues over optimal rate management programs alone, without incurring additional costs for the hotel. By applying FPLOS, hotels are able to accept longer reservation requests and yield a significantly higher profit than shorter reservations whilst maximizing all revenue opportunities during high demand periods. This in turn leads to increased occupancy on shoulder dates and maximized revenues/profits in the long term.

Regularly assess the distribution channel effectiveness based on net ADR yield and the channel's total revenue generation ability: Leverage the result to negotiate fairer commission rate with the channels if the channel's effectiveness and revenue generation ability are undesired, thus, to reduce the channel cost.

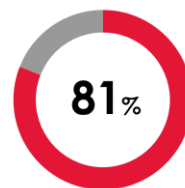




of travellers post hotel
reviews



of travellers won't book
a property without
reviews



of travellers find user
reviews important

Source: HVS Research

Cost Management

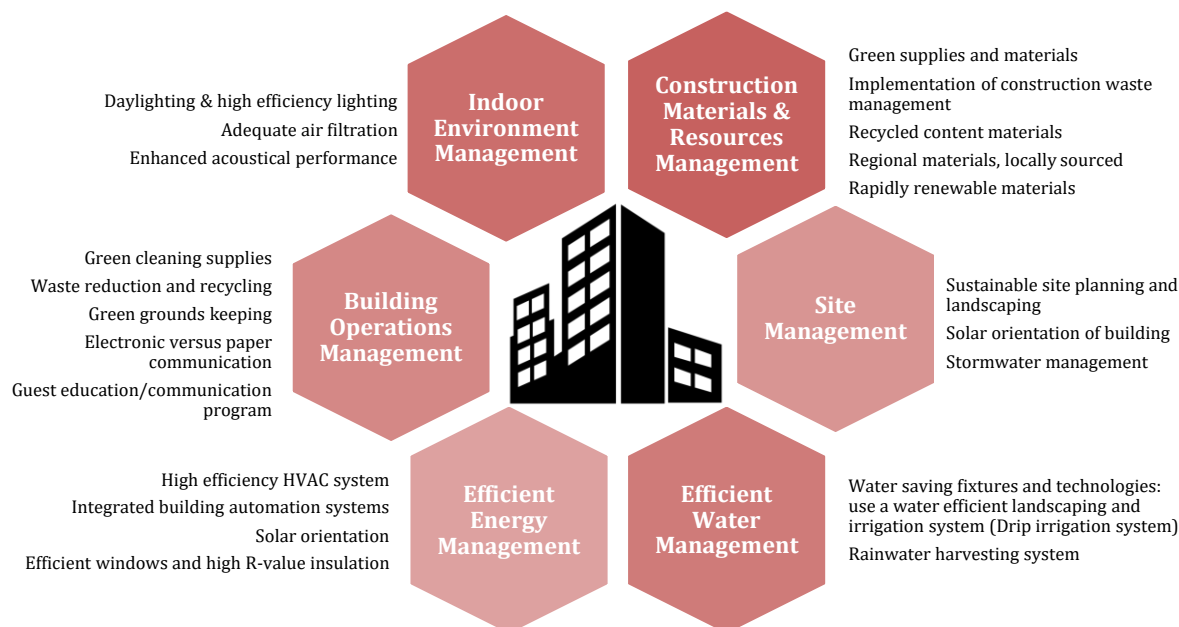
Social Media Marketing is the new 'Word-of-Mouth'

Social media and distribution channels have become the primary sources of information that travellers look to before deciding on which hotel to stay. As 46% of travellers post hotel reviews, and 49% of travellers will not book a hotel without scanning the reviews either on social media or OTAs, hotels should grab this opportunity to communicate their quality and unique selling points to travellers. Through this medium, the cost of social media is comparatively lower than that of direct advertising.

The marketing efficacy of social media and its conversion rate can be higher than even those of direct advertising. Hotels first need to create unique and worth-sharing content and be proactive with online interactions. Subsequently, hotels can leverage on guest information gathered from social media to design customized marketing content and personalize its services to their targeted customers. Although most hotels have adopted social media marketing, few have conducted detailed analyses of the customer data captured through these mediums to help optimize operations.

Green and Smart Buildings Can Lead to Smarter Savings

Singapore is taking the initiative in building sustainable, green and smart architectures by having launched the third Green Building Masterplan in 2014 as a further expansion of the initial BCA Green Mark Scheme in 2005. The hotel industry could also adopt such practices, as many are integrated as part of a mixed-use development comprising other real estate uses. More advanced building automation platforms can help integrate the various building systems to optimize energy usage solutions in unison, enhancing cost efficiencies in the long term. In applying the following approaches effectively, hotels can reduce the use of raw materials and production energy, potable water consumption and energy consumption up to approximately 25%, 35% and 45% respectively*.



Source: HVS Research, Journal of Green Building

*Note: Figures are subjected to factors such as the extent of the implementation of the approaches, type and size of property, advancement of technology and systems in place, quality of management, etc.

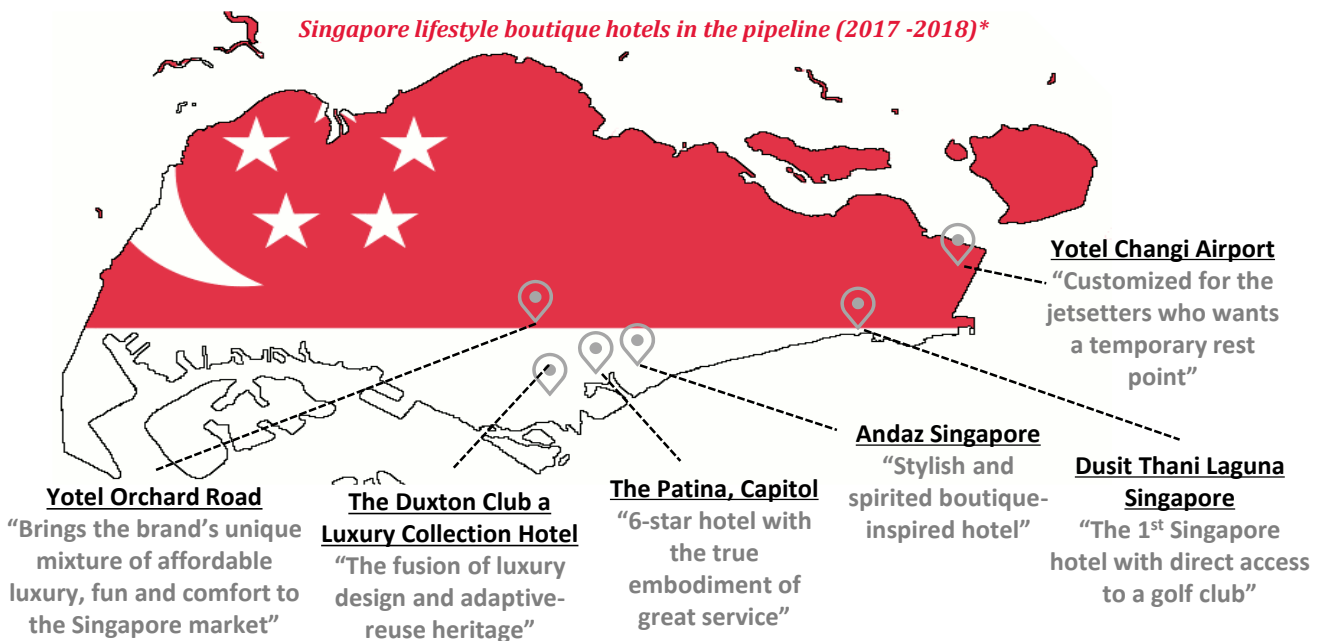
Maximising Market Penetration

Reshaping Value Through Differentiation

Customers' perception of value is an ever-changing factor that the existing hotels and newcomers need to take into consideration. As today's consumers become more aware of design, they would expect a higher level of service and increasingly seeking a unique experience and product authenticity in place of standardization. Three of the top six hotels in Singapore rated by travel website TripAdvisor are local boutique or independent hotels.

Boutique and lifestyle hotels have capitalized on this trend, by engaging their employees in order to provide more personalized service, as well as by offering add-on benefits and free amenities. A few of these hotels in Singapore for instance, has introduced a Handy phone service (either via mobile device or mobile applications) that acts as an e-concierge for guests who prefer to explore the city on their own. Facing fierce competition, Singapore's traditional hotels should re-bundle their products and create a unique customer touchpoints, in order to gain greater market share through differentiation.

*Singapore lifestyle boutique hotels in the pipeline (2017 -2018)**



**Note: This is not an exhaustive list of the overall hotel pipeline of Singapore
Source: HVS Research*

In 2017 and 2018, a handful of the hotels in the pipeline are in the upscale and luxury segments, with two lifestyle boutique hotels under construction, including 'Andaz' by Hyatt Hotels and 'The Duxton Club a Luxury Collection Hotel' by Marriott. The surge in the number of lifestyle boutique hotels indicates that there is high demand for unique, stylish and local-adapted stay experiences. Additionally, serviced apartment management groups have also considered introducing new brands. For example, in 2016, The Ascott Limited introduced its newest brand 'Lyf' which will redefine travel for Millennials.

Among these hotels, mid-scale brand Yotel significantly supplements the current hospitality offering in Singapore, as many corporate and leisure consumers are attracted by the good value for money on offer.

The idea of replacing a reception with an electronic check-in system, and pairing 'capsule'-designed rooms together with interactive technology has attracted value-conscious customers from all segments. With the success of Yotel New York, as well as three other terminal airport hotels in London and Amsterdam, Yotel is planning to add its first two hotels into the Asia portfolio – Yotel Orchard Road Singapore and Yotel Changi Airport Singapore. Having said that, it can be seen that a handful of new hotels in Singapore are finding ways to differentiate themselves to attune to the current customers' perception of value while trying to accommodate to their needs; making differentiation a key strategy for hotels entering the Singapore market.

Two-Pronged Approach: Dual-Branded Hotels

During the past several years, the dual-branded hotel trend has accelerated across Asia. Recently in 2016, the dual-branded hotel under The InterContinental Hotel Group (IHG) debuted in Singapore's Joo Chiat area, featuring IHG's upscale design brand hotel Indigo, together with the mid-scale brand Holiday Inn Express. Both hotels target different demand segments. While hotel Indigo is targeting customers who are looking for a unique luxury experience, Holiday Inn Express targets more value-conscious guests.

A dual-branded development strategy creates synergies both on the construction side and the operation side of the project. By building the hotels with a common back of the house or guest areas provides savings of approximately 20% of construction costs, as well as additional savings on sharing labour and overhead costs between the two brands. However, when envisioning a dual-branded development strategy, it is vital to maintain brand integrity while selecting the brands to fit in with the local market environment.

Dual-branded hotels in the pipeline

| | 2017 | 2017 | 2018 | 2018 |
|------------------|-------------------------------|--|-------------------------------------|-------------------------------------|
| Countries | Singapore | Lucknow, India | Yogyakarta, Indonesia | Hanoi, Vietnam |
| Brand | Novotel + ibis | Hotel Formule 1 + Novotel | Grand Mercure + ibis | Hilton + Double Tree |

*Note: Properties presented are not exhaustive.

Source: HVS Research



Going Forward

Adaptability Through Quick Reaction to Change

Being an open economy, Singapore is highly affected by global and regional economic performance and sentiments. Thus, it is important for both owners and hoteliers to identify gaps in the market for new opportunities. As the market situation evolves quickly, actions and contingencies to mitigate the impacts of the global economy need to be fast to apply and easy to integrate.

Maximisation By Taking Multi-functional Spaces to New Heights

Given Singapore's lively social and cultural scene, hotels should not only consider creative new concepts to introduce to the city but also find ways of marketing various areas in the hotels for multi-functional usage. For instance, similar to selling the presidential suite as a meeting and event space, hotels could consider an intimate section of the public and common areas for other functions such as co-working spaces instead of a pure sitting/resting area.

Collaboration By Going 'Glocal' beyond Design and Location

As STB continues its efforts to draw and attract more business events into Singapore, hotels need to consider how they can play a part to support this initiative and collaborate closely with STB or other local event organisations to increase the attractiveness of Singapore as a destination yet increase their market presence. One notable example is PARKROYAL on Pickering being the main official accommodation partner with Asia's sustainable light art festival, iLight Marina Bay 2017.



About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary in 2015. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 40 offices and more than 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

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HVS ASIA PACIFIC is represented by eight offices in Singapore, Bangkok, Beijing, Hong Kong, Jakarta, New Delhi, Shanghai and Shenzhen. HVS also hosts four of the main annual industry events in the region, namely the China Hotel Investment Conference (CHIC), Hotel Investment Conference - South Asia (HICSA), Tourism, Hotel Investment & Networking Conference (THINC) Indonesia and THINC Sri Lanka. Additionally, HVS publishes a wide range of leading research reports, articles and surveys, which can be downloaded from our online library.

HVS SINGAPORE has worked on a broad array of projects that include economic studies, hotel valuations, operator search and management contract negotiation, development strategies for new brands, asset management, research reports and investment advisory for hotels, resorts, serviced residences and branded residential development projects.

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