ASIA PACIFIC HOTEL WATCH 2015




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HVS SINGAPORE | 6 Temasek Boulevard #23-01A Suntec Tower Four Singapore 038986

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FOREWORD

The year 2014 has been a very interesting year for the hospitality industry in Asia, with various political and economic factors affecting countries across the region, which have in turn had varying levels of impact on the travel and hospitality sectors. A slowdown in economic growth in China and the government's crackdown on corruption has led to declines in spending on travel and hotels both within the country and outside. Given that China is a key feeder market for many of the countries in the region, any drop in Chinese tourist numbers is bound to have a significant impact on the performance of hotels in those countries. India and Indonesia both saw high turnouts during their general elections and the ascendance of leaders with a strong focus on honest governance and business-friendly policies. Japan has just dipped into a recession again and heads to elections on December 14th.

Since the beginning of mankind, the urge to travel to learn more about the world around us and to experience new cultures has been strong, and has become only stronger with the ease of travel to new destinations. This dynamic is particularly true in Asia, where low cost carriers such as Air Asia, Tiger Air, IndiGo and Silk Air have been very successful and continue to expand aggressively. With one-third of the planet's population living in Asia and with increasing disposable income, the region has become the epicentre for tourism in the world. The majority of tourist arrivals in Asia originate from within the region and this trend will continue, making the countries here less dependent on tourists from the West and less susceptible to political and economic shifts in the Western countries.

We do however have concerns about the unplanned way in which our tourist destinations are being developed, leading to over-building that leads to logistical issues such as traffic congestion and overconsumption of natural resources, and economic ones such as a supply-demand imbalance, lower occupancy and average rates, and therefore lower returns for investors. There is additionally the risk that visitors will find the destinations too commercialised and move on to newer exotic ones. Unless we take a step back and learn from past mistakes, this cycle will continue and we will soon run out of destinations in Asia. And what a tragedy that would be!

Through the 2015 edition of the Asia Pacific Hotel Watch, we aim to provide hotel owners, investors and other stakeholders with relevant, unbiased intelligence on the dynamics that influence each market and help you determine how that should impact your investment behaviour going forward. We hope you find the report informative and useful and would love to hear from you if you have any questions or comments.

Thank you

Kaushik Vardharajan
Partner Managing Director – Asia Pacific
HVS

AUTHORS :

SHIRIN CAO
CONSULTING & VALUATION ANALYST
HVS SHANGHAI

VICTORIA CHAN
CONSULTING & VALUATION INTERN
HVS SINGAPORE

BRYAN CHEN
CONSULTING & VALUATION ANALYST
HVS SINGAPORE

SETTAWAT HETRAKUL
CONSULTING & VALUATION ANALYST
HVS BANGKOK

PUREANAE JANG
SENIOR CONSULTING & VALUATION ANALYST
HVS HONG KONG

YOSHIHIRO KANNO
SENIOR ASSOCIATE CONSULTING & VALUATION
HVS CHICAGO

LAURA LI
CONSULTING & VALUATION ANALYST
HVS BEIJING

CIAO LIU
CONSULTING & VALUATION ANALYST
HVS HONG KONG

CHRISTIAN O PUCHER
DIRECTOR
HVS BANGKOK

LARA M SARHEIM
VICE PRESIDENT
HVS SINGAPORE

FENY SINDARTA
CONSULTING & VALUATION ANALYST
HVS SINGAPORE

KAUSHIK VARDHARAJAN
PARTNER MANAGING DIRECTOR - ASIA PACIFIC
HVS SINGAPORE

DANIEL VOELIM
MANAGING PARTNER – ASIA PACIFIC
HVS HONG KONG

CASPER WONG
CONSULTING & VALUATION ANALYST
HVS SINGAPORE

LINDA YU
CONSULTING & VALUATION ANALYST
HVS BEIJING

NIE YUAN
CONSULTING & VALUATION ANALYST
HVS BEIJING

EMILY ZHANG
CONSULTING & VALUATION ANALYST
HVS BEIJING

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CHINA


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CHINA

Tourism’s contribution to GDP:
RMB-2.62 trillion (4.6%)

Source: National Bureau of Statistics of China

Nationwide Occupancy : 55%
Nationwide ADR : 333.1RMB
Nationwide RevPAR : 183.2RMB

Source: China National Tourism Administration

Highest recorded transaction of US $351.4m for Peninsula Shanghai took place in 2013.

Source: 2014 Real Capital Analytics, Inc.

ECONOMIC UPDATES

- Given the prolonged impact of the international financial crisis and the European debt crisis in 2013, the global economy continued to weaken, and China's economic growth rate declined for two consecutive quarters in the first half of 2013. The second half of the year showed improvement translating to a real GDP growth of 7.7% in 2013.

- Moreover, in 2013, China's tertiary industry surpassed its secondary industry for the first time in history in terms of the value added(by RMB1,252 billion higher). Fixed asset investment in the country was registered at approximately RMB44,707 billion in 2013, translating to an increase of 19% over the preceding year. In the same year, China's exports grew by 7.9% over 2012 to reach RMB13,717 billion, which was equivalent to US$2,209.6 billion. In 2013, the total retail sales of consumer goods reached RMB23,781 billion, representing a growth of 13% over the preceding year, or a real growth of 12% after deducting price factors.

- China's consumer price index grew 2.6% in 2013 over that recorded in 2012, lower than the expected price control target of around 3.5% set during the beginning of the year. Such a growth rate is considered mild in comparison to the 7.7% growth achieved for its GDP.

- The Decision on Major Issues Concerning Comprehensively Deepening Reforms was adopted in November 2013, laying out the strategic plan for deepening reforms over the next decade. The basis of this is to transition from the high-speed growth strategy to a medium- to high-growth pace, with a greater emphasis placed on the benefits and quality of economic development.

ECONOMIC INDICATORS (2009 - 2015F)

	2009	2010	2011	2012	2013	2014E	2015F
GDP Growth (%)	8.7	10.3	9.2	7.8	7.7	7.4	7.0
Inflation(%)	-0.7	3.3	5.4	2.6	2.6	2.3	2.9
Exchange Rate RMB : US$	6.8	6.8	6.5	6.3	6.2	6.1	6.2

Source: National Bureau of Statistics of China.

TOURISM MARKET OVERVIEW

- In 2013, total visitor arrivals to China registered a year-on-year growth of 10% to reach approximately 3.4 billion. Aggregate tourism receipts were recorded at RMB2.95 trillion in 2013, up 14% compared to the previous year.

- Arrivals from the domestic segment grew by 10% over the previous year to reach approximately 3.26 billion in 2013, generating tourism revenue of approximately RMB2.62 trillion corresponding to year-on-year growth of nearly 16%.

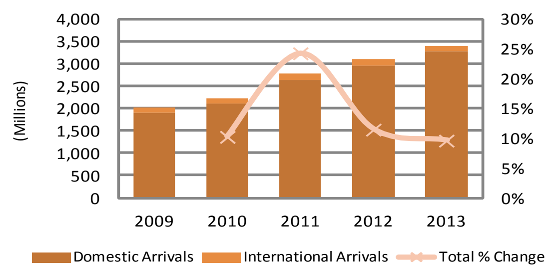
- The implementation of the Tourism Law in October 2013, which covers areas such as Tourism Planning and Promotion, Operations, Service Contracts, Safety, Administration and other aspects is expected to impact the growth of domestic tourism going forward.

- The Outline of National Tourism and Leisure was released in February 2012, this which was aimed at implementing a basic paid leave system for employees, raising the tourism and leisure consumption levels of urban and rural residents, improving the service quality of leisure and tourism products, and promoting the construction of tourism and leisure infrastructure so as to improve the overall quality of leisure and tourism by 2020. In 2013, the number of inbound travellers recorded a decrease of approximately 2.5% over the preceding year; however, a 3.3% increase in international tourism receipts was recorded. As well as fluctuating exchange rates between the RMB and other major currencies, the increasing number of high-end international leisure travellers to China have contributed to these higher receipts. There is a further expectation that tax reductions may be implemented for travel agencies targeting inbound travellers, in order to further stimulate international tourism growth.

- The top five inbound source markets for China are Hong Kong, Macau, Taiwan, Korea and Japan, accounting for 59.6%, 16.1%, 4.0%, 3.1% and 2.2% of the total international arrivals in 2013, respectively. Proximity of the country to Hong Kong, Macau and Taiwan, in addition to their relationship with the mainland, are the primary reasons for these regions serving as key feeder markets for China.

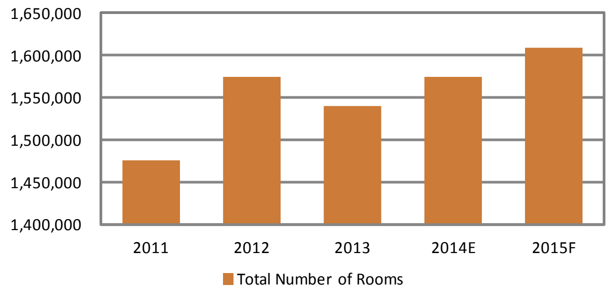
- In 2013, the number of outbound travellers from China recorded an increase of 18% over the previous year, to reach approximately 98 million arrivals. This indicates the growing travel demand of urban residents in China as national consciousness for leisure tourism rises. In addition the continuous appreciation of the RMB against the US dollar has been stimulating China's outbound travel; on the other hand, the drop of the Euro exchange rate arising from the stagnant Euro-zone economy has also sparked interest among Chinese tourists to travel and shop in Europe.

VISITOR ARRIVALS (2009 – 2013)



Source: China National Tourism Association (CNTA), HVS Research

INDICATIVE HOTEL SUPPLY (2011 – 2015F)



Source: China National Tourism Association (CNTA), HVS Research

- As of end 2013, there were approximately 11,700 star-rated hotels in China, totalling approximately 1.54 million rooms. Of the total hotel supply 26.5% is in the luxury and upscale segment, 48% in the midscale and with the remainder in the budget sector. Owing to the combined effect of increased competition as well as stricter service and product standards, the product and service quality of the overall star-rated hotel market have improved.

- Driven by the booming tourism industry in Zhejiang, Jiangsu and Shanghai, the number of rooms in East China accounted for the largest market share, registering approximately 33% of the total hotel supply in the country. Moreover, benefitting from the ongoing implementation of the Western China Development Strategy, both Northwest China and Southwest China have experienced rapid tourism development in recent years

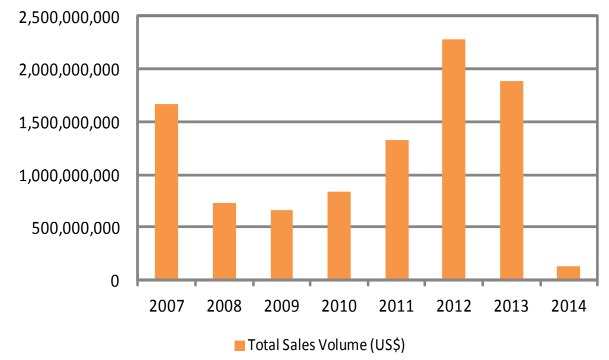
INVESTMENT MARKET OVERVIEW

- An estimated 32% of all hotel transactions recorded in China occurred in Shanghai as this is the country's prime hotel market, after Beijing.

- The largest recent transaction was the sale of the 231-key Marriott Executive Apartments for approximately US$388.3 million (US$1,680,811 per key) in March 2014, located in Shanghai.

- Hotel transactions in China reached a peak in 2013 due to several large state-owned enterprises as well as portfolio transactions including the 21 Smart hotels, which was sold for a reported RMB 710 million, and the Peninsula Shanghai, which was sold for a reported US$351.4 million(US$149,500 per key).

TOTAL INVESTMENT VOLUME (2007 – AUGUST 2014 YTD, US$)



Source: HVS Research

MARKET OUTLOOK

- According to the forecast of the China National Tourism Administration (CNTA), in 2014, the country's aggregate tourism revenue will reach RMB3.19 trillion, of which RMB2.85 trillion (89%) is expected to be generated by the domestic tourism market. Domestic visitor arrivals are expected to reach 3.58 billion and the number of outbound tourists will reach approximately 110 million.

- The changes in mainstream consumer demand, advancement in intelligence-oriented technology, accumulation of private capital, support of the local arts and culture, coupled with the young entrepreneurial drive, are expected to collectively spur independent brand innovation in the hotel industry.

CHINA
- BEIJING

BEIJING

CITY OVERVIEW

- As the historic capital city of China, Beijing is the political and cultural centre of China. It is also one of the country's most economically developed cities attracting a large inflow of people. As a result, the city houses a high proportion of fast-growing foreign population. By the end of 2013, 38% of its permanent residents were of foreign origin.

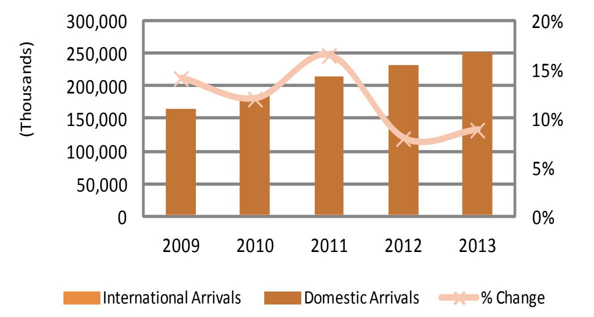
- In 2013, Beijing's GDP increased at a relatively lower rate of 9.5% than that recorded in past years, with its economy witnessing a transition from rapid growth towards stability. Meanwhile, Beijing completed its industrial restructuring to form an industrial framework focusing on the cultural and creative, high-tech, and producer service industries.

TOURISM MARKET OVERVIEW

- Beijing's tourism industry has been steadily developing over the years, mainly driven by domestic visitors, which accounted for approximately 98% of total visitor arrivals in 2013. Although international arrivals to Beijing decreased by 10.1% in the past year compared to that recorded in 2012, total arrivals still registered a growth of approximately 8.9% over the previous year, reaching a total of 251 million visitors in 2013.

- The global financial crisis in 2008, the European debt crisis in 2012, the RMB appreciation, and environmental pollution have resulted in a decrease in the total number of international arrivals to Beijing in recent years. However, according to the 12th Tourism Five-Year plan of Beijing, the government has scheduled 12 large tourism projects such as the Beijing Tradition & Culture Experience project, the Olympic Tourism Complex project, and several large theme parks, which are expected to attract more foreign visitors. Expectations of the Beijing government are for international arrivals to exceed 10 million by the end of 2015.

VISITOR ARRIVALS (2009 - 2013)



Source: Beijing Municipal Tourism Bureau

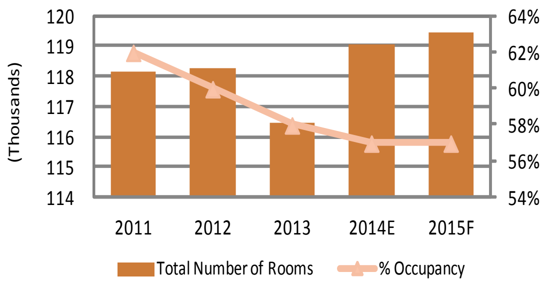
HOTEL MARKET OVERVIEW

- By the end of 2013, there were 577 star-rated hotels offering 116,456 rooms in Beijing. From 2012 to 2013, the total rooms' supply decreased by approximately 1.5%. The slight decline was mainly driven by the fact that a few star-rated hotels (mainly one- to four-star hotels) were delisted after the launch of the new rating standards in 2011, even as the new supply showed less interest in star-rating.

- In fact, between 2008 and 2013, a large number of mid-scale and lower-rated hotel properties were disqualified from being star-rated hotels, reducing the overall count of one- to three-star hotels in the city. On the other hand, backed by steady economic development, an accelerated urbanisation process, and the increasingly sophisticated high-end commercial and leisure demand, developers' interest in the upscale hotel market in Beijing remains strong, resulting in a boom in the five-star hotel supply in recent years. Over the past six years, five-star room numbers grew at a compound annual growth rate (CAGR) of 5.6%.

- The market-wide occupancy in Beijing recorded a decline in the past three years influenced by the strict government policy that encourages rationalism of expenditure on travel and hotels. While this policy will be in effect for the next two years, the market is anticipated to witness stable occupancy levels in 2014 and 2015 as hotels try to offer more value to their target customers. At the same time, the supply of star-rated hotel rooms in Beijing is expected to rise by over 11,900 rooms in the next couple of years.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Beijing Municipal Tourism Bureau, HVS Research

CITY PIPELINE

CITY PIPELINE (2014 - 2019)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	InterContinental Tongying, Beijing	320
	W Beijing - Chang'an	340
	Rosewood Hotels	279
	Mandarin Oriental, Beijing	241
	Renaissance Beijing Wangfujing Hotel	328
2015	Sheraton Beijing West Mountain Resort	360
	Hilton Beijing Tongzhou	310
2016	Bulgari Beijing	120
2017	Sheraton Beijing Lize Hotel	360
2019	Holiday Inn Express Beijing Zhongguancun	360
Total Proposed Room Supply (Indicative)		**3,018**

Source: HVS Research

- Restricted by the increasingly scarce land supply in the city, upscale hotels scheduled to open in the core areas of Beijing are expected to be mostly renovation or expansion projects, such as the Gloria Plaza Hotel Beijing, which will be rebranded as a W Hotel, and the New World Hotel Beijing, which will be upgraded to a Rosewood hotel. Renovation or upgradation of existing supply will be a future trend in the development of upscale hotels around Beijing’s core areas. In terms of geographical distribution, the supply of new hotels will continue to be concentrated in the mature business districts of the city, characterised by mainly upscale office buildings, robust business activities and strong international atmosphere, such as the Wangfujing, CBD and the Lufthansa Centre.

- Furthermore, supported by the continuous efforts to integrate the urban and rural areas of the city. Some of the new supply such as Hilton Beijing Tongzhou and Sheraton Beijing West Mountain Resort will provide the basic infrastructure necessary in the respective new suburban areas they open in.

- In terms of brand distribution, Beijing's hotel market is expected to welcome a series of international luxury brands including Mandarin Oriental, Bvlgari and Rosewood. Furthermore, boutique hotel brands such as Diaoyutai, Taj and Banyan Tree are scheduled to open in the cultural and leisure areas of Beijing, such as Yonghe Temple, Temple of Heaven and Miyun International Leisure Resort Area, promoting a healthy mix of brands in the city.

- Additionally, the eastern expansion of the CBD has been launched, with a total land area of approximately three square kilometres and a planned construction area of approximately seven million square metres (which is equivalent to 75% of the site area and 67% of the building size of the core area). This move is expected to further boost the aimed upgradation of the CBD into a global business centre while also providing greater opportunities for the expansion of Beijing's upscale hotel market.

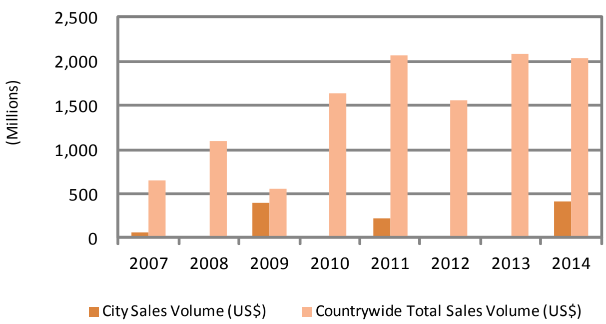
INVESTMENT MARKET OVERVIEW

- As the capital and the largest city in China, Beijing has attracted a large flow of investments during the past seven years. Going forward, 2014 is expected to be another record year with the city anticipated to account for 20% of the total investment volume in the country.

- The largest transaction in Beijing was the sale of the 200-key Pacific Century Place Apartments to Gaw Capital at the price of US$116,428,233 in April 2014. Other noteworthy transactions that took place in recent months include the sale of the 51-key Aman Hotel at Summer Palace and the 343-key Holiday Inn Downtown Beijing.

- With the Chinese government issuing a series of restrictions on house purchasing, investment in hotel real estate is gaining ground. Moreover, as the commercial real estate market in Beijing diversifies, hotel transactions are expected to increase.

TOTAL INVESTMENT VOLUME (2007 - AUG 2014 YTD, US$)



Source: RCA, HVS Research

- Investment in Beijing is mainly driven by four kinds of capital owners: large real estate developers; state-owned airlines; capital abundant investment companies; and international hotel operators (brands). The first two kinds are primarily domestic investors accounting for the larger part of the total investment in the city; whereas, the other two mainly represent foreign capital.

MARKET OUTLOOK

- The implementation of the Eight Provisions by the Chinese central government in end-2012, which included thorough investigations in corrupt spending of public funds, still continues to affect the upscale hotel market in the city. Moreover, the severe air pollution in recent years has also dampened tourist interest in Beijing, especially among foreign visitors. As a result, the next few years are expected to show very moderate growth in Beijing's upscale and luxury hotel segments, while the upper mid-scale segment (four-star) may utilise this opportunity to achieve a large step growth.

KEY HOTEL TRANSACTIONS (AUG 2014 YTD, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
Feb-14	Aman Hotel at Summer Palace	51	18,517,241	363,083
Apr-14	Pacific Century Place Apartments	200	116,428,233	582,141
Aug-14	Holiday Inn Downtown Beijing	343	89,746,180	261,651

Source: RCA, HVS Research

CHINA
- SHANGHAI

SHANGHAI

CITY OVERVIEW

- As the centre of economic and financial of China, Shanghai serves as a key driver for the region's development. The city's GDP grew at a compound annual growth rate (CAGR) of 12.6% between 2010 and 2013, representing the transition from rapid economic growth to a steady upward progression. Meanwhile, industrial restructuring in Shanghai has nearly been completed, establishing an industrial system focusing on information, finance, trade and automotive industries.

- Currently, the key areas of focus for the city's economy are the development of the greater Hongqiao business district, Post-Expo site, Disneyland in Pudong, and China (Shanghai) Pilot Free Trade Zone. These areas, especially the China (Shanghai) Pilot Free Trade Zone, are anticipated to emerge as the next investment hot spots in Shanghai.

TOURISM MARKET OVERVIEW

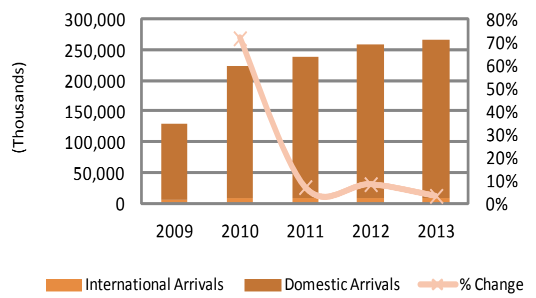
- Since the opening of the Shanghai port in the 19th century, the city has attracted a variety of business activities from around the world. As a critical financial and shipping hub of East China, Shanghai has witnessed the creation of a unique local culture called Haipai. This, coupled with the availability of affluent tourism resources, has resulted in the city becoming a world-famous tourist destination.

- Primarily driven by domestic visitors, Shanghai's tourism industry has been steadily developing over the years. In 2013, there were 260 million domestic arrivals, which accounted for approximately 97% of the total visitor arrivals to the city. On the other hand, international arrivals decreased by 5.4% in 2013 compared to the year before, due to the European debt crisis, the RMB appreciation and environmental pollution in China. However, the total arrivals to the city still achieved a growth rate of approximately 3.3%, reaching a total of 268 million visitors in 2013.

- According to the 12th Five-Year Plan for the Development of Tourism in Shanghai, 20 key municipal tourism projects are officially scheduled.

- With the total investment expected to exceed RMB100 billion, six of these projects have commenced construction. These are: the Disneyland theme park and its supporting facilities; Wuyue River Cultural Tourism Area; Littoral Tourist Resort; Fish of Shanghai (Jinhai Lake); Xujiahui Central Integrated Tourism Project; and Sheshan National Tourism Resort. Recently, the opening of China (Shanghai) Pilot Free Trade Zone in 2013 has created a more open trade environment for Shanghai and provided a new platform for the future development of tourism and economy in the city.

VISITOR ARRIVALS (2009 - 2013)

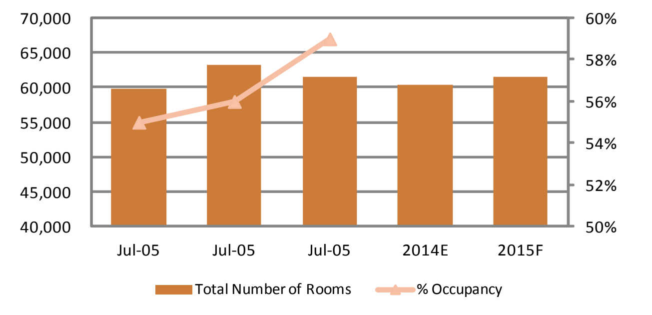


Source: CNTA, HVS Research

- The top five feeder markets for Shanghai are Japan, the United States, Taiwan, South Korea and Hong Kong, accounting for 11.5%, 8.3%, 7.9%, 7.1% and 5.5% of the total international arrivals to the city in 2013, respectively. Although, Japan currently maintains its position as the top feeder market for Shanghai, fluctuations in the Sino-Japan relations and the recent RMB appreciation have led to a dramatic drop of 22% in arrivals from this country in 2013. Among other international source markets, arrivals from New Zealand and the Philippines have ascended notably, with a growth rate of 10.6% and 15.5% in 2013, respectively. This is because of new business opportunities, leisure attractions and labour demand in Shanghai.

In 2013, average length of stay of domestic visitors in the city was recorded to be 4.1 nights, while that of international visitors was found to be 3.24 nights. With regards to the average expenditure, domestic visitors and international visitors spent RMB2,714 (or US$442) and RMB5,241 (or US$854) per person, respectively in 2013. Total room supply decreased by approximately 2.5%. The slight decline was mainly owing to the fact that a few star-rated hotels were delisted (mainly one- to four-star) post the launch of the new hotel star rating standards in 2011, while the new supply showed less interest in star-rating. In fact, between 2008 and 2013, a large number of mid-scale and lower-rated hotel properties were disqualified from being star-rated hotels, reducing the count of one- to three-star hotels in the city. On the other hand, backed by steady economic development, accelerated urbanisation process, and the increasingly sophisticated high-end commercial and leisure demand, developers' interest in the upscale hotel market in Shanghai has remained strong, driving a boom in the five-star supply in recent years; over the past six years, five-star room numbers grew at CAGR of 9%, with a total room count of 24,824 in 2013.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: China National Tourism Administration HVS Research

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
Jul-05	HUALUXE Shanghai Qinshui Bay	Feb-01
	Pullman Hotel Zhangjiang	Oct-00
	Hyatt Place Jiading	Mar-00
Jul-05	Bvlgari Shanghai	Apr-00
	W Shanghai	Aug-01
	Conrad Shanghai	Oct-00
	Ahn Luh Zhujiajiao	Feb-00
	Hyatt Place Xinjiangwan	May-00
Jul-05	Le Meridien Jiading	Sep-00
	Hyatt Regency Shanghai Expo	Oct-01
Jul-05	Movenpick Hotel Shanghai	Oct-00
Total Proposed Room Supply (Indicative)		**3,195**

Source: HVS Research

- Around 3,195 rooms are planned to open in the city by the end of 2017. Presently, most of the existing hotels in Shanghai are clustered within the critical business districts. However, this distribution pattern will witness a shift in the short-to-medium term.

- Half of the new hotels listed above that are scheduled to open in the next two years will come up in the suburbs of Shanghai such as, Jiading New City, Qingpu and Pudong New District. The continual extension of Shanghai's metro lines, as well as the introduction and development of new business districts represent the main drivers of the aforementioned shift in hotel supply.

- In terms of brand distribution, Shanghai's hotel market is expected to welcome a series of international luxury brands including Bvlgari, Conrad and HUALUXE. Furthermore, boutique hotel brand such as Ahn Luh is scheduled to open in the cultural and historical area of the city – Zhujiajiao, a well-preserved water town in Shanghai.

- Additionally, the recently launched China (Shanghai) Pilot Free Trade Zone is anticipated to attract significant investment both from domestic and international investors. With a total land area of approximately 28 square kilometres, we expect the Free Trade Zone to witness a new wave of upscale hotel brands in the future.

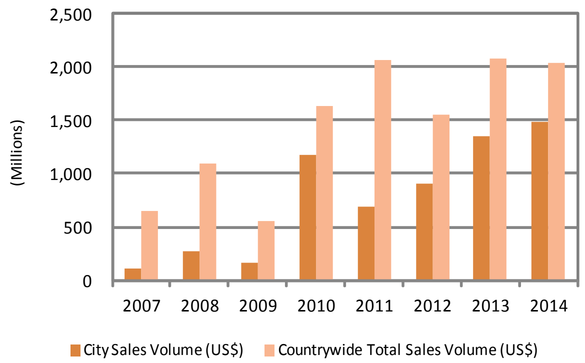
INVESTMENT MARKET OVERVIEW

- In 2010, 2012 and 2013, an estimated 50% of all hotel transactions in China were recorded in Shanghai. The largest recent transaction was the sale of the 231-key Marriott Executive Apartment Tomorrow Square for approximately US$388.3 million (or US$1,680,811 per key) in 2014.

- Volume of hotel transactions in Shanghai has fluctuated in the past years. After the downturn in 2009, transaction volume in the city saw a significant increase in 2010. Although this was followed by a notable decrease in the subsequent year, the volume of hotel transactions in Shanghai has since then recorded stable growth. Individual large hotel transactions, such as the sale of the Langham Xintiandi Shanghai and Peninsula Shanghai, have specifically contributed towards this growth. The former was sold for a reported US$317 million (or US$887,826 per key) in 2012, while the latter was sold for a reported US$351 million (or US$1,495,447 per key) in 2013.

- The profile of buyers in the Shanghai hotel investment market is diverse, ranging from domestic investors to international investors and sovereign wealth funds.

TOTAL INVESTMENT VOLUME (2007 - JUN 2014 YTD, US$)



Source: RCA, HVS Research

HOTEL TRANSACTIONS (JUN 2014 YTD, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
Jun-14	Motel 168	83	4,481,585	53,995
Apr-14	Golden City Garden	120	94,796,880	789,974
Mar-14	Marriott Executive Apartment	231	388,267,341	1,680,811
Feb-14	The HUB Hotel	403	234,417,846	581,682
Jan-14	Shanghai JC Mandarin Hotel	514	349,783,682	680,513

Source: RCA, HVS Research

MARKET OUTLOOK

- The implementation of the Eight Provisions by the Chinese central government will continue to affect the upscale hotel market in the city to a certain degree. However, the development within the city will continue to further strengthen Shanghai's position as a financial, trade and tourist centre, and lead the city to be a critical growth engine for the economic development of the whole of Yangtze River Delta. Moreover, the accelerated development of the suburban areas of the city such as Jiading, Songjiang, Minhang and Southern Pudong is anticipated to lead to a more geographically-distributed supply of upscale hotels in the future.

CHINA
- GUANGZHOU

GUANGZHOU

CITY OVERVIEW

- Located near the Pearl River Delta, Guangzhou is one of the three gateway cities to China, in addition to being a world-famous port city.

- In October 1982, White Swan Hotel opened in Guangzhou as the first international five-star hotel in China, initiating the development of the country's upscale hotel market .

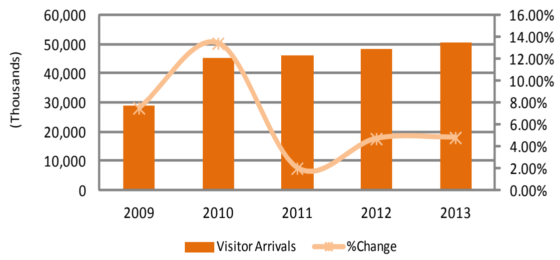
- Over the past 10 years, Guangzhou's hotel market has experienced ups and downs. For example, in 2003, the revenues generated by Guangzhou's tourism and hotel industries declined sharply due to the outbreak of SARS, and in 2008, Guangzhou's marketwide hotel occupancy and ADR decreased due to the global financial crisis. However, in 2009, the Guangzhou International Convention and Exhibition Centre opened in Pazhou, attracting a large number of domestic and international commercial and MICE guests to the city. This laid a foundation for the recovery of the city's hotel market. In 2010, the number of star-rated hotels in Guangzhou reached 255, which was attributed to the successful hosting of the Guangzhou Asian Games that year. Between 2011 and 2013, the opening of several internationally branded five-star hotels in Guangzhou led to the city's hotel supply growing rapidly in this segment.

TOURISM MARKET OVERVIEW

- Guangzhou's tourism industry has been growing steadily over the years, mainly driven by domestic visitors, which accounted for approximately 85% of the total visitor arrivals to the city in 2013.

- In 2010, visitor arrivals to the city grew by 13.4%, a historic high, owing to the Guangzhou Asian Games held that year.

VISITOR ARRIVALS (2009 - 2013)



Source: CNTA, HVS Research

HOTEL MARKET OVERVIEW

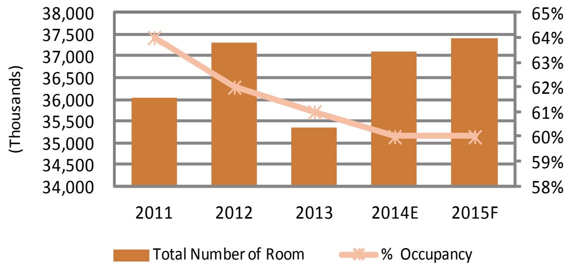
- While the tightening of spending control by the central government has had some impact on Guangzhou's marketwide hotel occupancy, given the well-balanced market mix of the star-rated hotel market which is dominated by Commercial, MICE and Leisure demand, the impact of the fall in Government demand on overall hotel occupancy was insignificant. In 2013, Guangzhou's five-star occupancy remained unchanged at 68% as compared to 2012, while the four-star occupancy declined by three percentage points during the same period. This was mainly because the five-star segment attracted a number of guests from the four-star segment by lowering room rates to maintain its occupancy. Additionally, dominated by price-sensitive commercial guests, the three-star occupancy remained consistent at 65% in 2013 as in the year before. Going forward, with the five-star hotel supply expected to significantly increase over the next two years, we forecast the occupancy of this segment to decline in 2014 and 2015. On the other hand, the three-star and four-star hotels are expected to experience an increase in occupancy owing to limited supply entering the market across these two segments, and their value-for-money advantage.

- Due to the significant impact of the relevant policies, the five-star ADR decreased sharply from RMB861 in 2012 to RMB829 in 2013E, and is expected to continue to drop to RMB804 in 2014F. On the other hand, the three-star and four-star ADRs experienced little impact and continued to show a stable increasing trend in 2013. We, thereby, forecast the ADRs of the three-star, four-star and five-star segments in Guangzhou to be approximately RMB365, RMB489 and RMB812, respectively, in 2015F.

- Influenced by a declining average rate, Guangzhou's five-star segment experienced the most significant drop in RevPAR among the star-rated segments in 2013. In the short-to-medium term, the sluggish performance of the city's five-star hotels is expected to create favourable conditions for the upper midscale hotels (four-star segment) to some extent. Therefore, the three-star and four-star RevPAR levels are expected to slightly increase in the following two years to reach RMB254 and RMB336, respectively, in 2015F. On the other hand, we forecast the RevPAR of the five-star segment in Guangzhou to be approximately RMB520 in 2015F .

- By the end of 2013, there were 202 star-rated hotels operating in Guangzhou, offering a total inventory of 35,343 rooms. In the past year, the one- and two-star hotel supply showed a downward trend, owing to stricter star-rating standards introduced in 2011. This, however, resulted in an overall improvement in the quality of accommodation in Guangzhou's hotel market. In 2013, the total supply of star-rated hotels in Guangzhou reached a historic low due to more one-star, two-star and three-star hotels exiting the market. Meanwhile, owing to the strong interest from developers in Guangzhou's upscale hotel segment, the prospects of the four-star and five-star hotels in the city were greatly improved. Going forward, more and more upscale hotels are expected to enter this market with Guangzhou's further opening to overseas trade, its rapid economic development, and the expansion of international hotel brands in first-tier cities across China.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: CNTA, HVS Research

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2018)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Park Hyatt Guangzhou	177
2015	Jumeirah Guangzhou Hotel	207
	Aloft Guangzhou Tianhe	357
2016	Conrad Guangzhou	306
	CTF Hotel	687
2018	Sheraton Guangzhou Nansha Hotel	300
TBC	Langham Place EDZ, Guangzhou	320
Total Proposed Room Supply (Indicative)		**2,354**

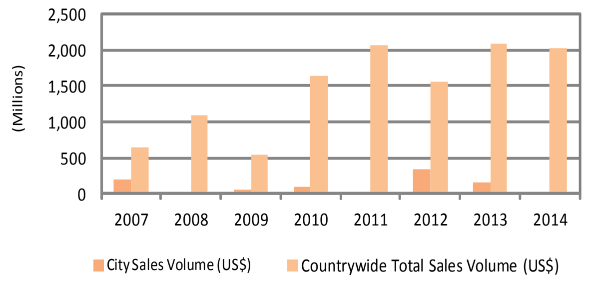
Source: HVS Research

- By the end of 2013, there were 202 star-rated hotels operating in Guangzhou, offering a total inventory of 35,343 rooms. In the past year, the one- and two-star hotel supply showed a downward trend, owing to stricter star-rating standards introduced in 2011. This, however, resulted in an overall improvement in the quality of accommodation in Guangzhou's hotel market. In 2013, the total supply of star-rated hotels in Guangzhou reached a historic low due to more one-star, two-star and three-star hotels exiting the market. Meanwhile, owing to the strong interest from developers in Guangzhou's upscale hotel segment, the prospects of the four-star and five-star hotels in the city were greatly improved. Going forward, more and more upscale hotels are expected to enter this market with Guangzhou's further opening to overseas trade, its rapid economic development, and the expansion of international hotel brands in first-tier cities across China.

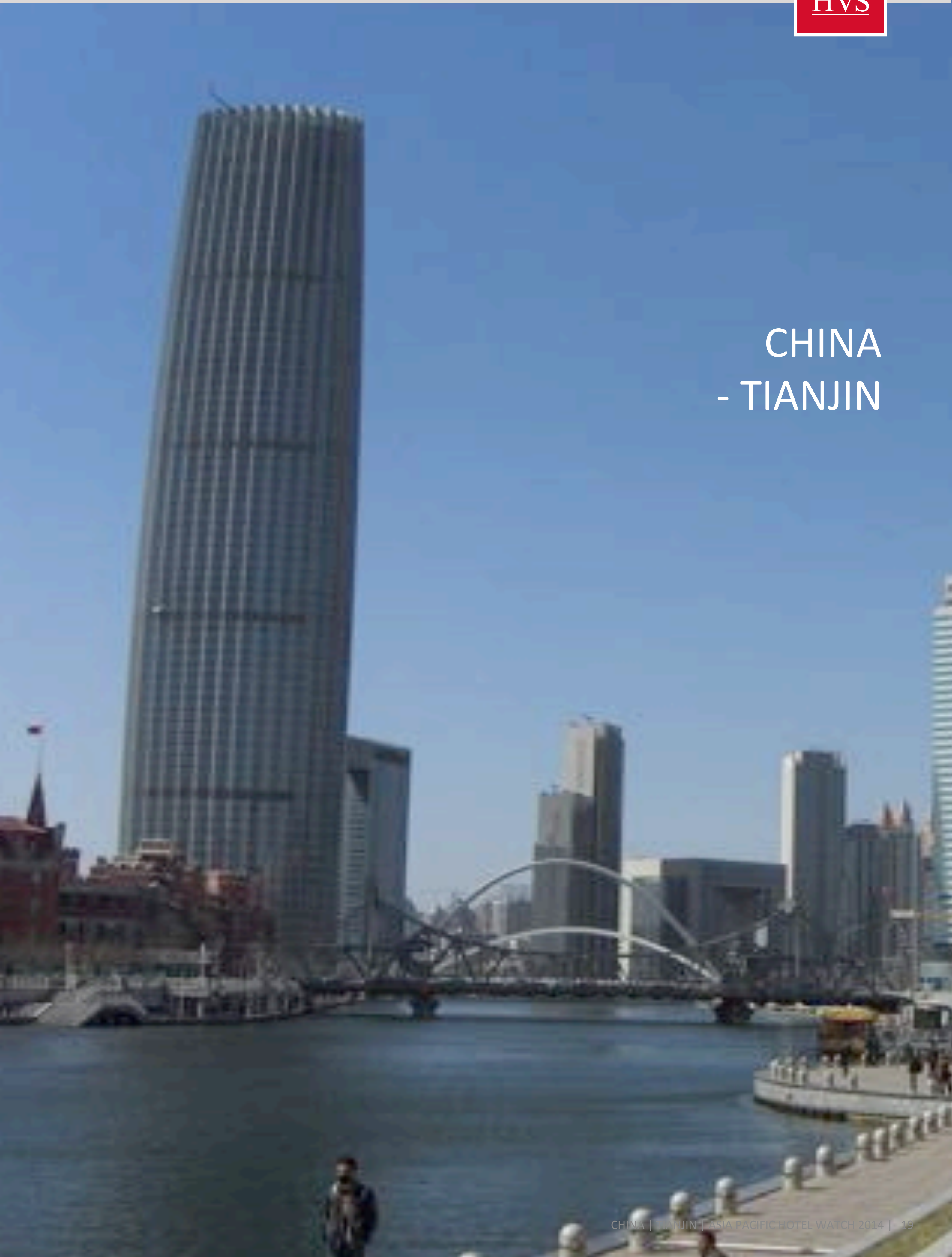
INVESTMENT MARKET OVERVIEW

- An estimated 7% of all hotel transactions in China take place in Guangzhou.
- The largest recent transaction was the sale of the 448-key Westin Guangzhou for approximately US $157.8 million ($352,153 per key) in 2007.
- No hotel transactions have been recorded so far in 2014.

TOTAL INVESTMENT VOLUME (2007 - 2014 YTD, US$)



Source: RCA, HVS Research



CHINA
- TIANJIN

TIANJIN

CITY OVERVIEW

- Located along the Haihe River, bordered by Bohai Sea to the East and Yanshan Mountain to the North, Tianjin serves as an economic centre and an international shipping hub in North China. In recent years, the city has continually improved its influence in the region by hosting international conferences and major events such as the Summer Davos Forum and the Sixth East Asian Games.

- Besides Beijing, Tianjin is another core city in the Beijing–Tianjin–Hebei city cluster. Tianjin also represents the second-largest municipality and city in North China. Driven by the development of Binhai New Area, Tianjin's economy has recorded tremendous growth in recent years garnering worldwide attention. From 2008 to 2013, its GDP grew at a compound annual growth rate (CAGR) of 18% and in 2013, its GDP reached RMB1,437 billion reflecting a year-on-year growth of 12.5%. . The city's fixed asset investments ranked first in North China in 2013, and its foreign direct investment reached US$16.8 billion that year.

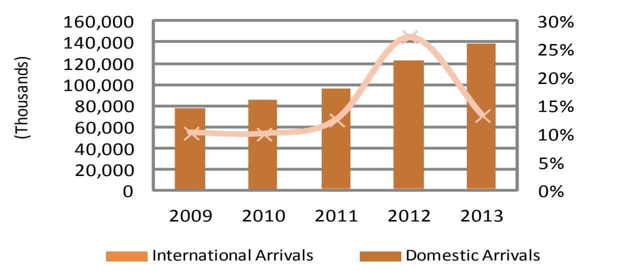
TOURISM MARKET OVERVIEW

- Located in the centre of the Bohai Economic Rim, Tianjin is positioned as the economic centre as well as an important tourism destination of northern China. In 2013, total arrivals to Tianjin grew at 13.4% compared with 2012, reaching 138.7 million visitors.

- The increase in business activities within the Bohai Sea Rim area and the northern regions was the main catalyst for the recent surge in domestic visitor arrivals to Tianjin, which registered a CAGR of 12.3% between 2009 and 2013 to reach 136 million arrivals last year. With the development and construction of large-scale tourism projects such as the Tianjin International Cruise Home Port, National Maritime Museum and OCT Happy Valley, the local government expects domestic arrivals to touch 170 million by 2015.

- Although international arrivals currently account for only 2% of the total arrivals to Tianjin, this is expected to rise significantly, going forward, as many foreign companies are increasingly locating their headquarters in Binhai New Area, encouraged by the preferential policies on foreign investment.

VISITOR ARRIVALS (2009 – 2013)



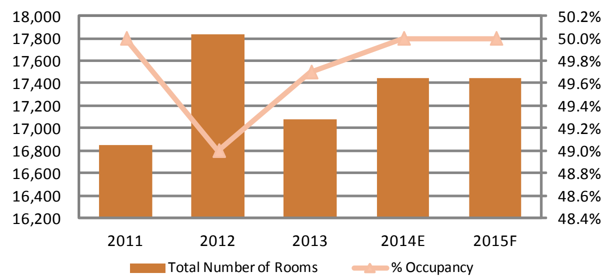
Source : Beijing Municipal Tourism Bureau

HOTEL MARKET OVERVIEW

- By the end of 2013, there were 93 star-rated hotels in Tianjin, offering a total of 17,078 rooms. Encouraged by the favourable planning policies of the city's emerging business districts such as Binhai New Area, Haihe Business District and Tianjin Financial City, the four-star and five-star hotels displayed a burgeoning development trend over the last six years. From 2008 to 2013, the four-star and five-star rooms' supply grew at a CAGR of 13% and 6.7%, respectively. Particularly, in 2009, the opening of hotels such as the Radisson Blu Plaza Hotel Tianjin, Crowne Plaza Tianjin Binhai, and the Holiday Inn Express Tianjin Dongli led the significant growth (26%) in rooms' supply across these segments that year. Upscale and luxury branded hotels such as The Ritz-Carlton Tianjin, Hotel Indigo Tianjin Haihe, The Astor Hotel (A Luxury Collection Hotel) and the Banyan Tree Tianjin Riverside Hotel have become the new landmarks of the major business districts in the city.

- Going forward, the star-rated rooms' supply in Tianjin is projected to reach around 17,450 in 2015F.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Beijing Municipal Tourism Bureau, HVS Research

- Tianjin's five-star occupancy has remained below 50% since 2008. Besides a drop in demand , a sizeable amount of new supply has entered this segment during the period under consideration. In 2013, the addition of two five-star hotels, namely The Ritz-Carlton and Wanda Vista, resulted in the occupancy of this segment lowering to 45% that year. In the next couple of years, the supply is expected to continue increasing, with the advent of brands such as Shangri-La, Hilton, Marriott and Hyatt Regency. Consequently, the occupancy trend is unlikely to improve in the near future. On the other hand, with the government policies restricting consumption, four-star hotels will in all probability absorb some displaced demand from the five-star hotels, while the three-star segment will face stiff competition from more personalised and affordable budget hotels. We, thereby, expect occupancy levels of the three-star, four-star and five-star segments in Tianjin to reach approximately 52%, 66% and 46%, respectively, in 2015F.

- The five-star ADR dropped slightly to RMB605 in 2013. Meanwhile, the flexible pricing strategy adopted by most upscale hotels owing to sluggish demand put a downward pressure on the four-star and three-star hotels, causing their ADRs to drop marginally as well. However, going forward, the five-star ADR is expected to record some growth owing to the entry of upscale brands that would typically differentiate themselves with a higher rate positioning than the market average. We, thereby, forecast ADRs of the three-star, four-star and five-star segments in Tianjin to be approximately RMB312, RMB412 and RMB642, respectively, in 2015F.

- Influenced by the combination of occupancy and average rate projections, the RevPAR of Tianjin's star-rated segments is expected to grow in the short term, albeit with fluctuations. We expect the RevPAR levels of the three-star, four-star and five-star segments in Tianjin to be approximately RMB163, RMB270 and RMB298 , respectively, in 2015F.

- Currently, most of Tianjin's upscale hotels are concentrated in the city's business districts and economic development zones. However, the following areas are expected to become the key destinations for hotel development in the upcoming years.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Crowne Plaza Tianjin Mei Jiang Nan	493
2015	Fuli Marriott Hotel	400
	Hilton Tianjin Shengtaicheng	310
	Four Seasons Tianjin	248
	Double Tree By Hilton Tianjin Binhai	250
2016	Hyatt Place Tianjin	220
2017	Grand Hyatt Tianjin	335
Total Proposed Room Supply (Indicative)		**2,256**

Source: HVS Research

- Suburban areas such as Jixian and Baodi: Due to the heavy urban air pollution and high work pressure in big cities, the demand for weekend breaks is increasing in Beijing and Tianjin. Tourism projects such as the Mount Panshan Scenic Area and hot springs will become the main attractions in the Beijing-Tianjin region in the near future. Jixian Marriott Hotel, which is scheduled to open in 2014 will benefit from its close proximity to Mount Panshan.

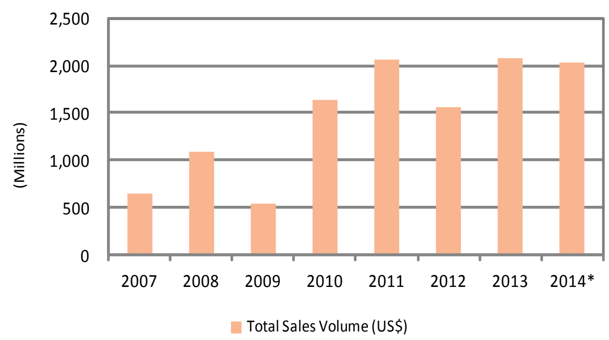
- Binhai New Area: With its planning and industrial advantages, this area is expected to witness the opening of several five-star hotels in the short-to-medium term.

- The International Convention and Exhibition Area: Since its opening in 2010, Meijiang Convention and Exhibition Centre has hosted major international and state-level events such as the Summer Davos Forum, which is held once in every two years, in addition to numerous high-end industrial conferences in Tianjin. As this facility was built in recent years and is located approximately 10 kilometres away from the city centre, there are very few upscale hotels located in the vicinity catering to the demand generated from this area. Most MICE attendees generally stay at the Time Aocheng International Apartment Hotel or hotels located along expressways. Therefore, this area holds huge potential for the development of new hotels. The Crowne Plaza Tianjin Meijiang Nan, which is scheduled to open in September 2014 will kick-start the development of upscale hotels in this area.

- The Haihe Riverbank: Due to its good accessibility and superior location, the Haihe Riverbank will continue to remain the hot spot for upscale hotel investments in Tianjin. The Shangri-La and Hyatt Regency hotels, both of which opened in 2014, have further enhanced the upscale hotel supply in this area.

INVESTMENT MARKET OVERVIEW

TOTAL INVESTMENT VOLUME (2007 - AUG 2014 YTD, US$)



Source: RCA,HVS Research

MARKET OUTLOOK

- Yujiapu Station of Beijing–Tianjin Intercity High-Speed Rail and Terminal 2 of Tianjin Binhai International Airport are scheduled to be completed in 2014. Resultantly, the synergies between Beijing and Tianjin, as well as the latter's international connectivity, are expected to be further enhanced. With the anticipated increase in the number of visitors to the city owing to improved connectivity, Tianjin's hotel market performance is expected to pick up in the long term.

CHINA - SHENZHEN

SHENZHEN

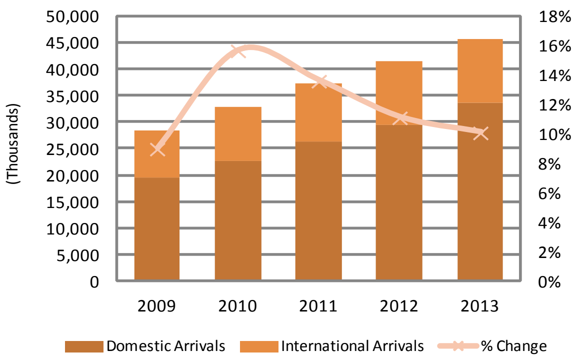
CITY OVERVIEW

- Shenzhen is a deputy city of Guangdong Province. Located adjacent to Hong Kong, Shenzhen is one of the most important foreign trade ports nationally. In 2013, Shenzhen was China's fourth-strongest economic city, with its GDP ranking surpassed only by Beijing, Shanghai and Guangzhou. The city's main industries are high-tech industries, financial services, trade and maritime transport.

- The tourism industry in Shenzhen accounted for 1.86% of the city's total GDP in 2013. The fixed assets of the tourism industry were over RMB35 billion, with more than 180,000 employees. By the end of 2013, Shenzhen registered a total of 144 star hotels, including 18 five-star and 31 four-star hotels. The number of inbound overnight visitors in Shenzhen is the highest among mainland cities and it has consistently ranked fourth in terms of foreign tourism currency income for several years. Additionally, Shenzhen featured as one of the top five cities in Forbes 2013 'China's most developed tourism cities' ranking. At the province level, Shenzhen's tourism income and tourism foreign currency income, account for about 23% and 30% of the province's total income, respectively.

TOURISM MARKET OVERVIEW

VISITOR ARRIVALS (2009 – 2013)



Source: Shenzhen Statistics Bureau

- As a tourist destination Shenzhen has obvious advantages attributable to its geographical proximity to Hong Kong. Shenzhen enjoys convenient accessibility by air, sea, rail and road. In 2013, Shenzhen recorded 45.67million overnight visitor arrivals, recording a 10% YOY growth.

- As reported by Shenzhen Tourism Bureau, during the 2014 Spring Festival, the city welcomed 5.63 million visitors, an increase of 9% year-on-year. During May Day holidays, Meisha area recorded more than 720,000 tourists, a 20% year-on-year growth. Window of the World saw over 100,000 visitors pass through its gates during the same time, translating to a 15% increase over the previous year. Most of the scenic hotels registered an average occupancy of above 90%. Going forward, with movement within the city anticipated to further improve (Shenzhen Metro will reach 10 lines in 2016), Shenzhen is expected to attract more tourists.

- As a result of the stable domestic economic growth and a positive holiday effect, domestic tourism in China is projected to continue rising in 2014. In the meantime, despite a modest recovery in the global economy, inbound tourism is anticipated to remain under pressure. Domestic factors such as currency appreciation, increased pollution and security issues in Xinjiang and Kunming also may have negatively influenced the inbound market. In fact, the impact of these events overshadowed the newly introduced visa free transit policy by the Chinese government. Moreover, as tourism is not the main source of foreign currency receipts, attracting inbound tourism ranks lower on the government's agenda. However, we are hopeful that the High-end Private Tourism Trade Fair, the International Pharmaceutical Industry Exhibition, and the 2014 Asian International Golf Expo in the second half of 2014 to be hosted in Shenzhen will support the city's tourism market.

- In 2013, domestic overnight visitor arrivals registered a steady growth of 14% due to the gradual recovery of the national economy. However, international overnight visitor arrivals only grew by 0.7% mainly because of the deterioration of Sino-Japanese relations. Additionally, by virtue of Japan being the top foreign feeder market for Shenzhen, the withdrawal of some Japanese companies from the city had a significant adverse effect on the international overnight visitor arrivals to Shenzhen.

- In terms of seasonality, the peak season in Shenzhen is during the summer months when most domestic schools are on a holiday and during the Golden Week in October. December also experiences heightened tourist activity owing to the mainland shopping excursions to Hong Kong via Shenzhen during the sales season. March and October are the peak exhibition months, when international exhibitions are held in Shenzhen.

- According to the Shenzhen Statistics Bureau, the largest segment of visitor arrivals to the city is represented by Leisure Tours which accounted for45.4% of the total visitor arrivals in 2013, followed by Visiting Family and Friends at about 23.1%. Since Shenzhen is a migrant city, there is a large floating population. Furthermore, the city is famous for its developed high-tech industries, financial services, trade and maritime transport, so business travel ranks third in terms of visitor arrivals, contributing 20.9% to the total in 2013. Recently, benefiting from the modern and fully-equipped Convention and Exhibition Centre, Shenzhen has become yet another major exhibition city in China after Beijing and Shanghai, with this segment accounting for 5.2% of the visitor arrivals in 2013.

- The largest source market to Shenzhen is Japan, which represented 23% of the total international arrivals to the city (excluding Hong Kong, Macau and Taiwan) in 2013. The reason being, most of Japan's well-know companies have their production based in Shenzhen, such as Sumitomo Electric, Hitachi, Sanyo Electric, Fuji Xerox, Canon and EPSON.

- Hence, there is a large amount of business travel and visits to family and friends. In addition to this, since 2005, there have been charter flights from Hokkaido and Aomori to Shenzhen, as the latter has pleasant winter weather becoming an attractive golf destination for the Japanese. US is the second major international source market for Shenzhen owing to the hundreds of US companies registered in the city, and the abundant visitation from the country during the China International Medical Equipment Fair (spring) and the International Pharmaceutical Industry Exhibition & Seminar every year. The other major source markets for the city are South Korea contributing 8%, and Malaysia and Singapore with each contributing 6% of the total arrivals in 2013.

HOTEL MARKET OVERVIEW

- Of last three years, Shenzhen's hotel market recorded its best year in 2011, due to the Universiade event held that year. Also, in December 2011, St. Regis Shenzhen, which is the highest hotel in the city and the world's second-highest, opened in Luohu CBD.

- However, since the tight regulation and control policy of real estate in 2011, the number of new hotels entering the market dropped substantially in 2012. Only one internationally branded hotel opened that year, namely the Langham Shenzhen with 352 rooms.

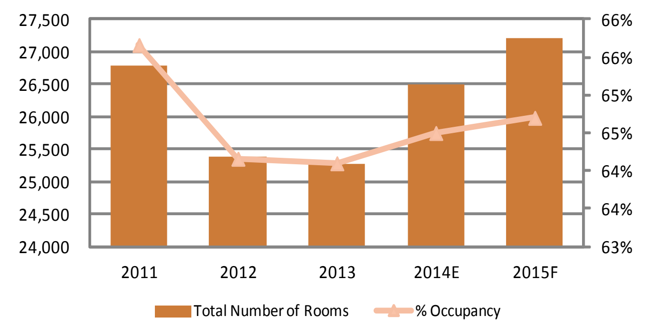
- Thereafter, as a result of the normalization of the investment environment in the second half of 2012 and in2013, the Shenzhen hotel market recovered witnessing the opening of China's eighth Four Seasons Hotel with 266 rooms in September 2013 in Futian CBD.

- In 2013 five-star hotels accounted for 12.5% of the total hotel supply in the city, whereas four-star hotels constituted 21.5% of the total supply, with the largest share still being represented by the city's three-star hotels at 48.6%. Influenced by the government's austerity policy, business travel spending across both government and corporate sectors dropped in 2013.

- This coupled with a rising demand for affordable accommodation by price-sensitive travellers has resulted in the increasing popularity of three-star hotels.

- Only the Star hotels recognised by the CNTA can be entered into star hotel statistics every year. Also, the newly opened hotels can apply for star rating only after one year from opening, which explains why the number of five-star hotels in Shenzhen did not change between 2011 and 2013 (see the table above). In fact, a total of eight five-star hotels opened in Shenzhen in 2011, adding 2,735 new rooms to the existing supply in the city - the highest since the SEZ was first established in Shenzhen. This leads us to believe that the Universiade event held in the city was the primary driver for new hotel openings that year. Among these eight five-star hotels, three were internationally branded –St. Regis, Crowne Plaza and Ramada Plaza - while two were flagged by famous national brands – Tangla and LVGEM.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 – 2015F)



Source: Shenzhen Statistics Bureau HVS Research

- In 2012, however, only one internationally branded hotel opened in the city, which was Langham Shenzhen with 352 rooms and suites, the first Langham Hotel to open in the Southern China.

- In 2013, Four Seasons Hotel with 266 rooms and Hilton Shenzhen Shekou Nanhai (first Hilton hotel in the city) with 323 rooms opened in December. Although, the five-star hotel supply growth has moderated since then, its pace remains healthy. Conversely, we are not as optimistic about the four-star hotel market. Only two international brands – Novotel Watergate Shenzhen and Four Points by Sheraton Shenzhen operate in this category.

- Novotel was opened in 2000 and renovated in 2011, while Four Points was opened in 2004, with no other internationally branded four-star hotel entering the market since then. This can be largely attributed to the changes in the real estate investment policies, which gave rise to a cash flow shortage situation for some small and medium-sized developers. Consequently, the number of four-star hotels reduced from 32 to 27 in 2012. However, with the economy recovering in 2013, the four-star hotel supply also revived by increased 4 hotels from 2012.

- The occupancy of five-star hotels in Shenzhen declined from 71% in 2010 to 61% in 2013, owing to the new supply entering the market in 2011. Nevertheless, the newly opened five-star hotels drove average rate by almost RMB50 for Shenzhen market, which is significant.

- In terms of occupancy, the performance of the four-star hotels was relatively stable at around 64%. However, the inevitable impact of the economic environment and new government policies led to the ADR of four-star hotels in the city to record a marginal decline from RMB412 to RMB400 between 2010 and 2013.

- After a big drop in 2011 and 2012, three-star hotel supply stood at 70 properties in 2013. This category has regularly registered the highest proportion of star hotels in the Shenzhen hotel market. As mentioned earlier, the leisure segment is especially price sensitive and with the restrained government spending on travel seen recently, demand for this segment is rising.. Having said that, there is only one internationally branded hotel operating in this segment in Shenzhen, which is the Holiday Inn Express.

- Similar to four-star hotels, the occupancy of three-star hotels in Shenzhen remained over 60%, with 2013 recording a category wide occupancy of 62%. However, the ADR declined by RMB8 from 2012 to 2013, mainly due to the supply impact caused by the opening of six new hotels in this segment in 2013.

- However, going forward, our outlook for the three-star hotel market in Shenzhen remains positive as the rise in demand is anticipated to keep pace with the increase in supply.

- The economy/budget hotel numbers have diminished since 2008; the number of hotels had decreased by 42% by 2012. The reason is that the economy/budget hotels in the city face stiff competition from the three-star hotels, which have similar room rates but with better and more systematic service.

- As a result of the supply reduction, the occupancy of the economy/budget hotels in 2011 and 2012 rose to 69% and 72%, respectively. Nonetheless, in face of the increasing competition from three-star hotels and the addition of three new budget hotels, category wide occupancy declined to 68% in 2013. And the ADR pull up by these three new supplies from RMB200 in 2012 to RMB203 in 2013

- Four internationally branded serviced apartments – Somerset, Ascott, Fraser and Marriott Executive Apartment (MEA) – with a total 733 rooms currently operate in Shenzhen. Together with other locally branded serviced apartments, the estimated occupancy of this category was around 64.5% in 2013, remaining steady since 2011. The ADR increased from RMB695 to RMB730 in 2013 owing to the opening of the high-end The OCT Harbour MEA with 155 rooms this year.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2019)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Hilton Garden Inn Shenzhen Baoan	213
	Hyatt Place Shenzhen Dongmen	144
	Hilton Shenzhen Futian	365
	OCT JW Marriott Shenzhen Baoan	353
2015	Marriott Great Wall Centre Shenzhen	180
	Marriott Jinsha Bay Shenzhen	320
	Marriott Zhengshun Shenzhen	220
2016	Aloft Shenzhen Longgang	180
	Renaissance Shenzhen Bay	319
	Courtyard Shenzhen Bay	240
	Renaissance Shenzhen Longgang	260
2017	Mandarin Oriental Shenzhen	190
	Hyatt Regency Shenzhen Yatian	299
2018	Solis Shenzhen	204
2019	Park Hyatt Shenzhen	200
Total Proposed Room Supply (Indicative)		**3,687**

Source: HVS Research

- Hotel supply growth is expected to continue in 2014. In2014, Hilton Garden Inn Shenzhen Baoan opened with 213 rooms, which is the first Hilton Garden Inn Hotel in China. Thereafter, in May the Hyatt Place Shenzhen Dongmen opened with 144 rooms, marking the debut for Hyatt Place in Asia Pacific and in the China market. Consequently, both the Baoan district and Luohu Dongmen area, which historically had no internationally branded hotels, are now better equipped to cater to the rising demand for hotel accommodation in these areas going forward.

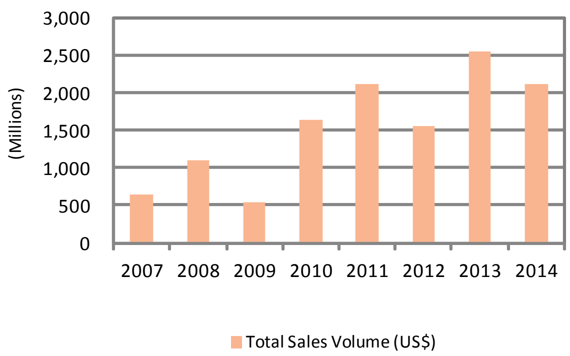
- Shenzhen has a broad geographic region, and therefore, each of the seven districts operates as a micromarket with its own supply of hotels to cater to the demand originating in each area. As new supply enters the Shenzhen market over the next six years, each district will have at least one four-star hotel and one five-star hotel, except Futian, which will have three five-star hotels.

INVESTMENT MARKET OVERVIEW

- According to RCA, the most recent hotel transaction in Shenzhen was the sale of Lushan Hotel with 235 rooms. The owner, Jiangxi Province Provincial Enterprise Assets (Holdings) Limited transferred its 55% equity at the price of about US$43 million (or US$182,979 per room).

- Shenzhen has developed as a Special Economic Zone since the last 31 years. The hotels built in the earlier time in line with economic development in Shenzhen now are no longer competitive in terms of buildings or facilities in the hotel transaction. Meanwhile, apart from Luohu and Futian, other districts still have land available for hotel development. Therefore, the transaction of existing hotels is not lucrative in the Shenzhen market. On the contrary, in recent years, on account of restriction on the real estate development, developers encounter difficulties in raising capital from the bank. Asset translates into capital could help the hotel transaction gradually commence in Shenzhen market.

TOTAL INVESTMENT VOLUME (2007 – JUL 2014 YTD, US$)



Source: RCA, HVS Research

MARKET OUTLOOK

- Qianhai Shenzhen-Hong Kong Industry Cooperation Zone has land area of about 15 square kilometres, which has been under planning and construction since 2010. It is positioned as the "Manhattan" of the whole Pearl River Delta. The planning of Qianhai Zone will focus on developing a high-end service industry, the headquarters economy, creating a regional centre, as well as deepening the Shenzhen-Hong Kong cooperation. The GDP of the Qianhai area is anticipated to reach RMB50 billion in 2015. So far, more than 10,000 companies have been registered in Qianhai. The development of this zone is expected to bring more business travellers to the Shenzhen market.

- Additionally, the promotion of the Prince's Bay cruise port base by the government, the planning of OCT Dapeng Peninsula development projects, as well as the upgrading of Xiao Meisha area, will aid future tourism growth in Shenzhen.

- As mentioned previously, each district of Shenzhen, such as Qianhai (Nanshan), Luohu, Dapeng Peninsula (Yantian), will have strong intrinsic demand generators. Homogenously, each district will experience a steady growth of international hotel brands.

- However, in the near future, due to the increase in supply Shenzhen's hotel market is expected to experience a drop in occupancy. On the other hand, the average rate is projected to increase owing to the improvement in the performance of the four-star and five-star hotel categories.

HOTEL TRANSACTIONS (JUL 2013, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
Jan 2008	Part of Overseas Service Center Building	159	19,200,000	120,755
Nov 2011	Century Plaza Hotel Shenzhen	428	150,000,000	350,467
July 2013	Lushan Hotel	235	43,000,000	182,979

Source: RCA, HVS Research

CHINA
- CHENGDU

CHENGDU

CITY OVERVIEW

- Chengdu is the political, economic and cultural centre of Sichuan Province, as well as an important science and technology, business and trade, transportation, and communications hub in Southwest China. The city's GDP grew at a compound annual growth rate (CAGR) of 17.2% between 2010 and 2013, representing a steady macroeconomic growth. There are several multinational companies operating in Chengdu, with the main focus of investment being largely concentrated on advanced manufacturing and modern services.

- Tianfu New City is the core area of Tianfu New District in Sichuan Province that has been receiving much attention in recent years. This new area is expected to serve as an important corporate headquarters; a commercial centre; as well as a convention and exhibition centre in the western region of China. Resultantly, it is envisaged to be a major growth driver for the investment market in Chengdu.

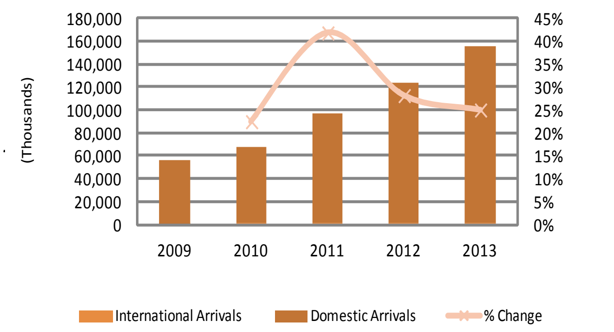
TOURISM MARKET OVERVIEW

- As the capital of Sichuan Province, Chengdu harbours rich history and culture. There are also abundant tourism resources. Boasting a total of 25 national-, provincial- and municipal-level scenic spots, nature reserves and forest parks. Moreover, Chengdu enjoys numerous numbers of intangible cultural heritages. Meanwhile, the tourism environment in Chengdu is constantly being optimised, with a significant improvement witnessed in its service quality and visitor satisfaction. Food culture and lifestyle in Chengdu is also an attractive aspect for tourism.

- Chengdu's tourism industry has seen a significant development over the past years. The city's domestic and international visitor arrival grew at a compound annual growth rate (CAGR) of 29.2% and 31.6% between 2009 and 2013. In 2013, there were 153 million domestic arrivals, which accounted for approximately 99% of the total visitor arrivals to the city.

- On the other hand, although there are aspects, such as European debt crisis, the RMB appreciation and the environmental pollution, international arrivals still increased by 11.5% in 2013 compared to the year before.

VISITOR ARRIVALS (2009 – 2013)



Source: Chengdu Airport, HVS Research

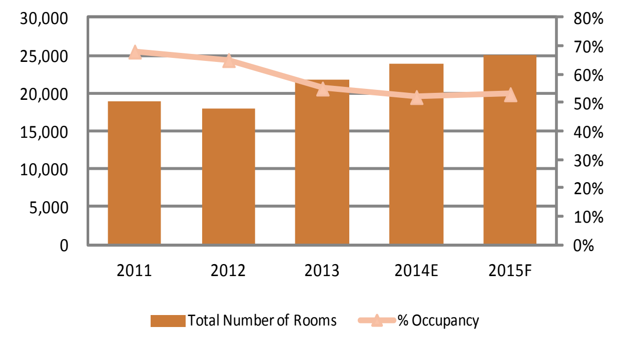
HOTEL MARKET OVERVIEW

- By the end of 2013, there were 119 star-rated hotels offering 21,719 rooms in Chengdu. From 2012 to 2013, total rooms' supply increased by approximately 21.2%. The five-star segment experienced rapid growth between 2000 and 2010, with several international hotel brands entering the Chengdu market during this period. Over the past six years, five-star room numbers grew at a CAGR of 11.7%.

- The Luomashi, Chunxi Road and Yanshikou business districts currently represent the three most densely concentrated areas in terms of hotels in Chengdu, housing brands such as Crowne Plaza, Sheraton, Sofitel and Shangri-La. Prior to 2013, hotel properties in these three urban business districts were mainly represented as independent properties. However, in 2013, the Ritz-Carlton Chengdu opened as part of an upscale mixed-use facility in the Luomashi business district, setting of a trend of mixed-use developments in the region. Going forward, a large amount of new supply is expected to enter the Chunxi Road, Yanshikou and Tianfu New City business districts.

- Between 2008 and 2013, the number of one- to three-star hotels was seen declining, especially after the launch of new hotel star rating standards in 2011. This disqualified a large number of midscale and lower-rated hotel properties from being star-rated hotels.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 – 2015F)



Source: China National Tourism Administration HVS Research

CITY PIPELINE

NEW HOTEL OPENINGS (2014 – 2019)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	The St. Regis Chengdu	268
	Grand Hyatt Chengdu	300
	Hilton Chengdu	515
	Four Seasons Hotel Chengdu	280
2015	Fairmont Chengdu and Residences	382
	Mandarin Oriental Hotel Chengdu	320
	JW Marriott Hotel Chengdu	300
2016	Conrad Chengdu	250
	Waldorf Astoria Chengdu	300
2017	New World Chengdu Hotel	311
2019	Aloft Chengdu East Railway Station	250
Total Proposed Room Supply (Indicative)		**3,476**

Source: HVS Research

- There are 3,476 rooms planned to open by the end of 2019 in Chengdu. Over the next two years, the distribution of new supply is still expected to be mainly concentrated in the business districts within the downtown area. All the new additions to supply will be constructed as hotel components within mixed-use complexes. In line with the increased government support for Tianfu New City, a sizeable portion of the new supply is expected to be developed in this area. The new hotels are envisaged to be connected to the downtown area and the high-tech zone to leverage the steady stream of guests from both regions, especially when MICE events are hosted in these areas.

- In terms of brand distribution, Chengdu's hotel market is expected to welcome a series of international luxury brands including St. Regis, Four Seasons and JW Marriott.

MARKET OUTLOOK

- The implementation of the Eight Provisions by the Chinese central government including a publicized frugality and anti-corruption campaign will continue to affect the upscale hotel market to a certain degree. However, the economic development and tourism promotion of Chengdu will likely ensure that the city continues to be one of the most popular tourism and MICE destinations of the country.

- Tianfu New City is currently a critical business district focusing on commercial development in Chengdu. Supported by demand generated by its financial headquarters and the government, the business district has embarked on many influential commercial projects, establishing a wide impact and a high degree of clustering. According to its current development trend, Tianfu New City is expected to witness a higher degree of clustering in its commercial projects as compared to the other traditional urban districts. Ongoing projects are mainly shopping malls, and their diversified shopping offering has enabled this district to gradually expand its influence. With new commercial supply envisaged to be developed as one-stop mixed-use complexes, the Tianfu New City business district is expected to provide intense competition to the other three business districts in the city centre of Chengdu.

CHINA
- DALIAN

DALIAN

CITY OVERVIEW

- Listed as one of the country's 14 coastal cities opened to overseas investment by the State Council in 1984, Dalian is officially recognised as a “port city”, “industrial city” and “tourist city” by the Urban Planning and Construction Committee. Over the following 30 years since 1984, Dalian's tourism industry has undergone rapid changes and risen in prominence to become one of the city’s primary sectors. The development of its tourism industry is closely connected with the government's international marketing efforts and its measures to attract investment.

- In 1998, Dalian was among the first cities to be awarded China's Excellent Tourist City by the China National Tourism Administration (CNTA), and subsequently in 2007, the city was named China's Best Tourist City by the CNTA and World Tourism Organization.

TOURISM MARKET OVERVIEW

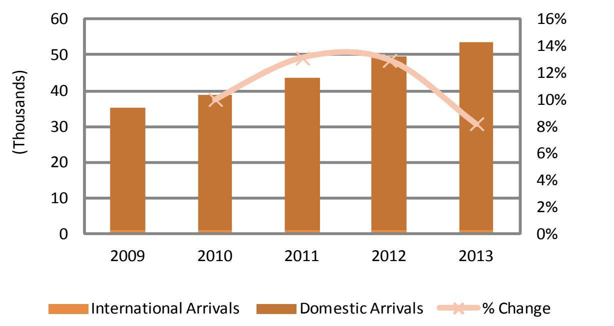
- In 2013, Dalian received approximately 53.49 million domestic and international arrivals, with the former contributing over 98% of the total visitation. Between 2009 and 2013, domestic visitor arrivals to Dalian increased rapidly at a compound annual growth rate (CAGR) of 11.3%.

- Going forward, this growth trend is anticipated to continue primarily driven by the constantly improving tourism offerings of the city. During the 12th Five-Year Plan period, Dalian is envisaged to establish 18 national A-level scenic spots and further develop its tourism products, including three hot spring tourism resort areas and seven hot spring towns. Specifically, it is likely to attract high demand from the three provinces of northeast China.

- Additionally, during the five-year plan period, Dalian is anticipated to promote the exhibition and leisure industries in the city, hosting a series of high-end conferences and large-scale exhibitions by leveraging the location advantages of Xinghai Bay and Donggang District. The city's conference and exhibition revenue is forecast to reach RMB80 billion by the end of 2015.

- Moreover, the recent improvement in transportation infrastructure has also enhanced Dalian's economic ties, positively affecting business travel to the city. The Harbin–Dalian High-Speed Railway, which is 904 kilometres in length and has successfully reduced the travel time between the two destinations to only three hours, was put into operation on 1 December 2012 .

VISITOR ARRIVALS (2009 – 2013)



Source: China National Tourism Administration, HVS Research

- International arrivals to Dalian maintained steady growth between 2009 and 2013 at a CAGR of 3.2%, reaching 1.19 million arrivals in 2013. Large-scale annual events such as Dalian International Automotive Industry Exhibition, Dalian Import and Export Commodities Fair, China International Software and Information Service Fair, China International Beer Festival, as well as an increase in the variety of tourism products, are seen as growth catalysts for Dalian's international visitation. Japan, South Korea and Russia are the most important international feeder markets for the city. It is expected that by the end of the 12th Five-Year Plan period, international arrivals to Dalian will reach over 2.5 million.

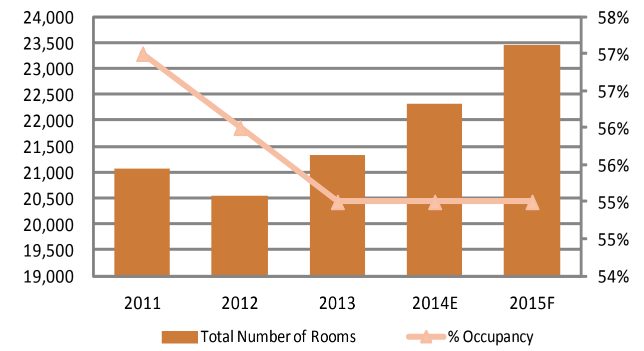
- Domestic and international arrivals, combined, are expected to touch 59 million by 2015, with tourism revenue projected to be in the tune of RMB129 billion by that time. Looking ahead, Dalian's existing airport is expected to receive a passenger throughput of 20 million by 2020. Additionally, Dalian Jinzhou Bay International Airport, which is currently under construction on an artificial island through land reclamation, is expected to handle up to 36 million passenger movements annually upon completion, fulfilling its function as a gateway airport by 2050 .

HOTEL MARKET OVERVIEW

- As of 2013, 144 star-rated hotels were operating in Dalian, offering approximately 21,328 rooms. The number of star-rated hotel establishments in the city experienced a general upward trend between 2006 and 2010, reaching a peak of 22,392 rooms in 2010. However, since the beginning of 2011, the number of star-rated hotels was seen declining, mainly due to the implementation of newer and stricter rating standards. Notably, the three-star segment suffered the highest reduction in supply; although, this change has led to an improvement and consistency of standards in Dalian's hotel industry.

- Thereafter, four-star and five-star hotel supply was seen rising in 2013, which is directly attributed to the city's efforts to drive investment in the upscale segment in recent years. From 2006 to 2013, the four-star and five-star room supply increased at CAGR of 2.9% and 4.0%, respectively.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: China National Tourism Administration ,HVS Research

CITY PIPELINE

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- Notably, the three-star segment suffered the highest reduction in supply; although, this change has led to an improvement and consistency of standards in Dalian's hotel industry.

NEW HOTEL OPENINGS (2014 – 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Wyndham Grand Plaza Royale Sino-Ocean Dalian	340
	Grand Hyatt Dalian	340
	JW Marriott Hotel Dalian	320
	The Castle Hotel Dalian	301
	Wanshan Golf Proposed Hotel Dalian	150
2015	Phase II of Shangri-La Hotel Dalian	110
	Sheraton Dalian Xinghai Hotel	333
2016	Langham Place	361
	Park Hyatt Qingdao	247
2017	The Ritz-Carlton Dalian	300
Total Proposed Room Supply (Indicative)		**1,802**

Source: HVS Research

- A vast majority of Dalian's new five-star supply will be located within two main districts of the city over the next few years. One is the Donggang area, which has been receiving strong government focus and support in recent years. The construction of The Ritz-Carlton Dalian, Langham Dalian and Phase II of Shangri-La Hotel Dalian are planned within the area, and these hotels are expected to open in consecutive years from 2015. Shahekou is another major area with a high concentration of new supply; one-third of the new supply in Dalian will be housed within this area over the next two years. Most of the new hotels will have similar room count represented mainly by international brands, such as Grand Hyatt, JW Marriott, Sheraton and Luxury Collection, indicating a future boom in the upscale hotel market in the Shahekou area. Meanwhile, the significant addition of new hotel brands will also expand consumer choices resulting in increased competition, and the area is anticipated to take some time to absorb the new supply. Additionally, Wyndham Grand Plaza Royale Sino-Ocean Dalian is slated to open in 2014, to fill the current void in Ganjingzi's five-star hotel market.

MARKET OUTLOOK

- A large number of tourism projects have been established in Dalian in recent years, such as the annual Cherry Blossom Festival in April; the International Beer Festival in July; the International Art Fair in August; the International Fashion Festival in September; the International Hot Spring and Skiing Festival in November; and so on and so forth.
- When observed longitudinally, 2014 to 2015 will be the peak period for the entry of new supply into Dalian's hotel market, with an average room count of 300 rooms per hotel. International hotel brands such as Marriott, Hyatt, Langham and Wyndham, among others, are slated to enter Dalian within the next two years, giving impetus to the internationalisation of the city's star-rated hotel market.

CHINA
- SANYA

SANYA

CITY OVERVIEW

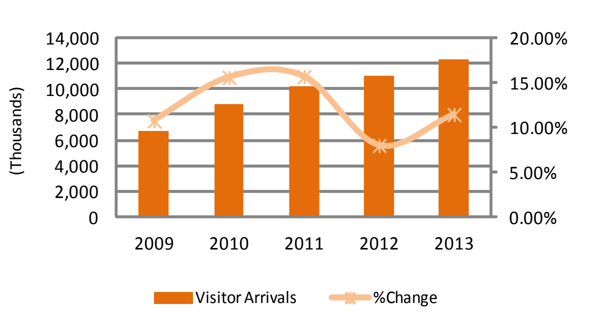
- Located on the southernmost tip of Hainan Island, Sanya is the most famous tropical seaside tourist city in China. Over the past decade, it has evolved to become the most developed tourist destination for the domestic segment, with a very high concentration of hotels.

- In 1987, Sanya was upgraded to a prefecture-level city, an opportunity it successfully leveraged to achieve rapid development in a short span of time while improving its urban infrastructure and function. This laid a foundation for the subsequent development of the city's tourism and hotel industries. In 1998, Cactus Resort Sanya opened in Yalong Bay as its first five-star hotel, which kick-started the development boom in Sanya's tourism and hotel market. Year 2003 witnessed the opening of Sheraton Sanya Resort, marking the city's first step towards introducing international brands .

TOURISM MARKET OVERVIEW

- Sanya's tourism industry has been steadily developing over the years, mainly driven by domestic visitors, which accounted for approximately 96% of the total visitor arrivals in 2013. Although the number of international arrivals to Sanya remained stable in 2013, compared to the previous year, total arrivals to the city grew at approximately 11.97%, reaching 118 million owing to the increase in the number of domestic visitors.

VISITOR ARRIVALS (2009 – 2013)

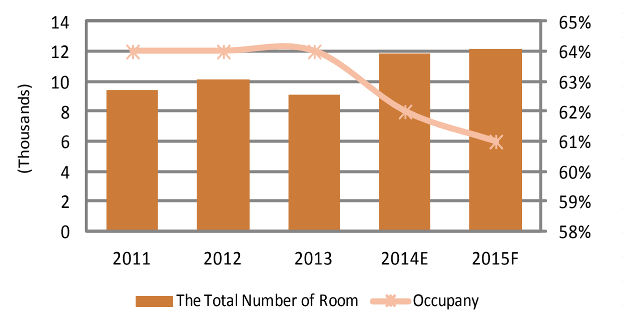


Source: HVS Research

HOTEL MARKET OVERVIEW

- By the end of 2013, there were nine five-star, 16 four-star and 14 three-star hotels in Sanya, offering a combined total of 9,073 rooms. From 2011 onwards, the three-star and four-star hotel supply in the city showed a noticeable decline owing to the stricter standards for star-rated hotels imposed by the China National Tourism Administration (CNTA). However, the city has witnessed quite a few upscale and luxury international brands entering the market in the past few years. Overall, Sanya's tourism market appears to be nearing saturation with both the demand and supply growth slowing in recent years.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source : HVS Research

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2019)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Mövenpick Sanya, Phoenix Island	380
	Shangri-La Sanya Hainan Resort	850
	Fairmont Sanya	702
	Sofitel Sanya Leeman Resort	470
2015	Wyndham Grand Sanya Haitang Ba	210
2016	The St. Regis Qingshui Bay Resort	227
2017	Rosewood Sanya	275
2019	Waldorf Astoria Sanya	600
TBC	Park Hyatt Sunny Bay, Sanya	191
Total Proposed Room Supply (Indicative)		**3,905**

Source: HVS Research

- Haitang Bay and Phoenix Island in Sanya, as well as Clearwater Bay in Lingshui County will be the main focus areas of hotel development in the region in the following three to four years. With eight upscale hotels scheduled to open in Haitang Bay between 2014 and 2016, this region will have the most densely distributed upscale hotels in China. Meanwhile, with the Sanya International Shopping Centre and South China Sea Movie City completed and placed into operations, the tourism reception facilities in Haitang Bay are taking shape.

- Phoenix Island is an artificial island located outside the coast of Sanya. The government has attempted to develop it into China's version of the 'Jumeirah Islands' in Dubai by embarking on a series of tourism projects such as building a number of upscale resorts, a business street in tropical style, an international yacht club, an Olympic theme park and an international cruise port. The development of Phoenix Island is expected to significantly boost Sanya's tourism and hotel industries and enhance the city's international attractiveness.

MARKET OUTLOOK

- In recent years, real estate in the greater Sanya area has developed from the west to the east. Clearwater Bay, which connects Haitang Bay, Xiangshui Bay, Shimei Bay and Shenzhou Peninsular Tourist Resort, is the hub for properties in the East Coast of the bay area in Hainan Province. Boasting of a superior location, good water and sand quality, and overall potential to become an international tourism destination, Clearwater Bay offers numerous investment opportunities for hotel development. However, Sanya's hotel industry also faces challenges such as excessive hotel development, unclear tourist segmentation and a distinct seasonality pattern of tourism demand .

CHINA - QINGDAO

QINGDAO

CITY OVERVIEW

- Located in the middle of China's northern coastline, Qingdao, the largest city in Shandong Province, is an important economic and cultural centre in the eastern coast of the country, in addition to being a popular beach destination.

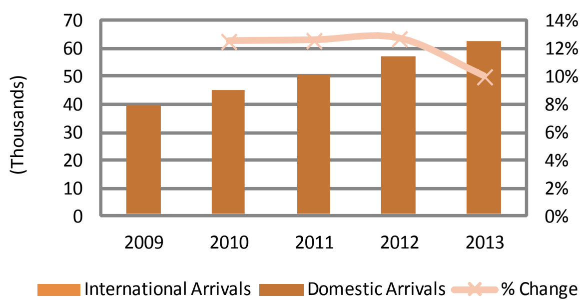
- Since it was listed as one of the 14 coastal cities opened to overseas investment in China in 1984, Qingdao has been recognised as a popular domestic MICE tourism and leisure destination. Shangri-La Hotel Qingdao was the first internationally branded five-star hotel to open in the city in 1997. From the time the city hosted the sailing regatta of the Beijing Olympic Games in 2008, Qingdao has significantly enhanced its international presence .

TOURISM MARKET OVERVIEW

- Visitation to the city recorded a rapid growth rate of 12% from 2009 to 2013, with arrivals reaching approximately 62.89 million in 2013. As the main driving force of the Qingdao tourism industry, domestic arrivals grew at a compound annual growth rate (CAGR) of 12.1% during the period under consideration to reach 61.61 million in 2013, accounting for approximately 98% of the total visitation. Moreover, the conference and exhibition industry in Qingdao has been growing at a fast pace. Events such as the China Domestic Travel Mart and China International Consumer Electronics Show have attracted a large number of travellers to Qingdao.

- Enjoying the reputation as being one of the most beautiful cities in China and the most beautiful bays in the world , Qingdao has one 5A-level, 18 4A-level and 30 3A-level scenic spots. By the end of the 12th Five-Year Plan period, more than two 5A-level tourism zones are anticipated to be built, and over 80 tourist attractions in the city are expected to achieve at least an A rating.

VISITOR ARRIVALS (2009 – 2013)



Source: China National Tourism Administration

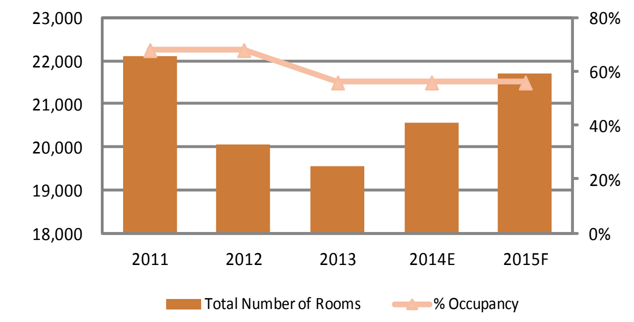
- International arrivals accounted for only 2% of the total visitors to Qingdao, reaching approximately 1.28 million in 2013. However, it experienced stable growth at a CAGR of 6.4% between 2003 and 2013, with the exception of 2008, when the city witnessed a sharp decline in international arrivals due to the global financial crisis. Hong Kong, Macau and Taiwan are the main international feeder markets for the city, followed by Southeast Asia, the USA and Germany.

- Going forward, Qingdao will mainly focus on developing an international coastal tourism resort city during the 12th Five-Year Plan period. Total visitor arrivals to Qingdao are expected to exceed 65 million by 2015 at a CAGR of above 15 %, generating a tourism revenue of RMB116 billion. During this plan period, Qingdao is expected to enhance its position in the international tourism market through a series of activities such as promotional film-making and improvements to the city's infrastructure. Additionally, efforts to develop the inbound tourism market and incentives for visitors are also expected to increase international arrivals to Qingdao.

HOTEL MARKET OVERVIEW

- Qingdao's star-rated hotel room supply declined by approximately 2.4% to reach 19,560 rooms in 2013, from 20,042 rooms in 2012. The three-star segment suffered the greatest impact of the new and stricter hotel star rating standards, with the number of rooms decreasing by 5% from the preceding year to reach 7,585 rooms in 2013. Only the four-star segment recorded an increase in supply, which could be partially attributed to the downgrading of a number of hotels that were originally five-star rated. The room inventory of this category reached 7,193 rooms in 2013, recording an increase of 7% over the preceding year.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011- 2015F)



Source: China National Tourism Administration, HVS Research

CITY PIPELINE

NEW HOTEL OPENINGS (2014 – 2016)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Sheraton Huangdao Hotel	319
	Pullman Qingdao	243
2015	Four Seasons Qingdao	225
	Hilton Qingdao Golden Beach	431
	Langham Place, Rio Carnival, Qingdao	200
	Le MéridienJiaonan Resort	250
2016	Park Hyatt Qingdao	247
Total Proposed Room Supply (Indicative)		**1,915**

Source: HVS Research

- In line with the ongoing urbanisation process, the geographical distribution of Qingdao's new hotel developments will extend beyond the existing critical business districts.

MARKET OUTLOOK

- As outlined in the Development Plan for the Blue Economic Zone of the Shandong Peninsula issued by the State Council in 2011, Qingdao is positioned as the leading city of the core of the high-end marine industrial cluster area in the Jiaodong Peninsula. Therefore, the city's plan to become a regional international trade centre has been accelerated.

- With the progressive urbanisation of the area, particularly driven by the completion of large infrastructure projects such as the Bay Bridge and Jiaozhou Bay Subsea Tunnel, districts such as Huangdao and Hongdao, which have long been considered to be remote, are gradually capturing the attention of investors. These two projects are expected to boost the investments in Qingdao significantly. Going forward, the city's hotel market is anticipated to witness development spread across the Huangdao District and Licang District (that benefitted from the development of commercial properties), and along Xianggang Road, Zhongshan Road and the Shibei CBD in the city's core areas.

HONG KONG


HONG KONG

HONG KONG

Tourism's contribution to GDP : HK$79.1 billion (4.7%)

Source: World Travel and Tourism

Nationwide Occupancy : 88.8%

Nationwide ADR : HK$1,484

Nationwide RevPAR : HK$1,318

Source: Hong Kong Tourism Bureau

Highest recorded transaction (implied) of US$574m for a stake in Four Seasons Hong Kong took place in 2010

Source: RCA

ECONOMIC UPDATES

- Hong Kong is a global financial hub and special administrative region (SAR) of the People's Republic of China located at the mouth of the Pearl River, bordering Shenzhen in populous and affluent Guangdong Province. It is one of the most densely populated areas in the world. With hundreds of small islands, a hilly and mountainous terrain where only 25% of the 1,104 square kilometres of land mass is developed, and a population of 7.11 million (2014 estimates), the demand for dense, high-rise commercial and residential buildings is high.

- It is the lack of space that has allowed Hong Kong to develop a world-renowned skyline that is now one of its most popular tourist attractions. Together with a famous cuisine, duty-free shopping and a strong business community, travel and tourism to the city is it an all-time high.

- The European debt crisis and the slowdown in the US economy triggered concerns over the state of the global economy, roiling the world's equity market since July 2011. In subsequent years, the performance of the global economy has affected Hong Kong more than it did during the global financial crisis in 2009. This has been mainly attributed to a softer Chinese economy, given the slowdown that followed the transfer of central government leadership in the second half of 2012. Ensuing austerity measures and lacklustre international demand have continued to challenge mainland China's economy, directly impacting Hong Kong.

- The EIU estimates 2014 to be a better year for the local economy, while forecasts for 2015 and 2016 are more conservative. Inflation is under control and the peg to the United States dollar creates a very strong link to the US monetary policy.

- The services sector remains dominant at more than 90% of GDP creation in 2013. The import/export, wholesale and retail trades, and the public administration, social and personal services were the largest sectors among the services sectors in the past year. About 50% of the GDP is generated from services exports, where travel (which includes accommodation) and transportation are among the top three categories.

- The tourism industry is one (albeit smallest) of the four pillar industries of Hong Kong's economy with trading and logistics, financial services and professional services, and other producer services comprising the remaining three.

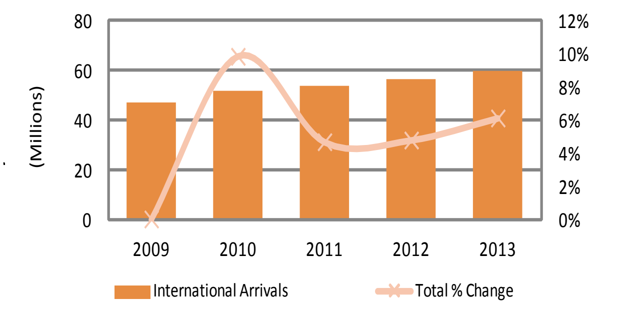
ECONOMIC INDICATORS (2010 - 2016F)

	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	6.8	4.8	1.6	2.9	3.2	2.4	2.2
Inflation (%)	2.3	5.3	4.1	4.3	3.6	3.6	3.4
Exchange Rate HK$:US$	7.77	7.78	7.76	7.76	7.76	7.78	7.80
Lending Interest Rate	5.0	5.0	5.0	5.0	5.0	5.3	6.1

Source: Economist Intelligence Unit, June 2014

TOURISM MARKET OVERVIEW

VISITOR ARRIVALS (2009 - 2013)



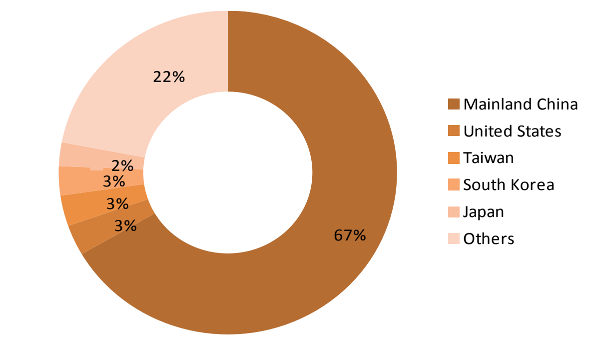
Source: Hong Kong Airport Authority, HVS Research

- Since opening up to mainland Chinese visitors in 2003 through the Individual Visitation Scheme, Hong Kong has seen a surge in visitor arrivals. Tour groups remain a strong source of demand, and the share of mainland visitors is unlikely to decline in the near future.

- South Korea has become another important source market for Hong Kong, which has helped to offset declines in arrivals from Japan as a result of strained Sino-Japanese relations.

- Growth in visitor arrivals (overnight and same-day) in 2013 and that recorded till year-to-date through June 2014 highlight a slowing trend. The austerity measures and graft crackdown on the mainland, coupled with new regulation on tour operators, negative publicity on the Hong Kong tourism experience, and several anniversaries of politically sensitive events have resulted in an overall slowdown.

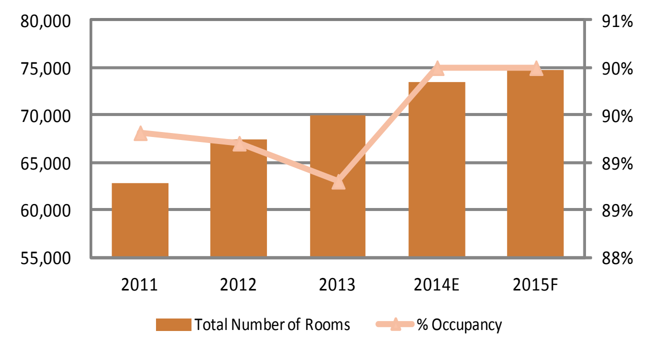
TOP SOURCE MARKETS (2013)



Source: Hong Kong Tourism Board, HVS Research

HOTEL MARKET OVERVIEW

TOTAL HOTEL SUPPLY (2011 - 2015F)



Source: Hong Kong Tourism Board, HVS Research

- Hong Kong has one of the strongest hotel markets in the world. The high barriers to entry due to restricted land supply and prohibitive land costs, in addition to the strong demand from mainland China help drive high hotel occupancy levels in the region.

- Luxury hotels have a high concentration along Victoria Harbour, the most recent opening being the Ritz-Carlton Hong Kong in March 2011. Future hotel openings at the top end of the market include the Rosewood Hong Kong hotel on Tsim Sha Tsui's harbourfront.

- The Hong Kong Tourism Board classifies hotels into three principle categories: High Tariff A for high-end hotels in core locations, High Tariff B for upmarket hotels in urban areas and Medium Tariff for mid-market hotels.

The High Tariff A Market

- The high barriers to entry and the large investment needed to access key locations in Hong Kong, limit the number of high-end hotels entering the market. Recent openings include the W, Upper House, Crowne Plaza, Hyatt Regency, Indigo and The Ritz-Carlton. Future additions to supply include the Rosewood hotel and conversion of the Murray Building.

- Given the limited supply growth in this segment, occupancy levels have been trending relatively higher in recent years than in the past. However, the global economy and public offerings have not shown sufficient momentum to drive the average rate performance of this segment.

- Hotels, such as the Marco Polo, Grand Hyatt, and Renaissance Harbourview have implemented renovation programs to enhance their competitiveness and improve their average rate positioning.

High Tariff B hotels

- The majority of High Tariff B hotels are located in or nearby the popular shopping districts of Causeway Bay, Tsim Sha Tsui, and Mongkok. Given the more flexible requirements for location and building size, a higher number of hotels have opened in this tier of the market. While a majority of these hotels are independent and/or boutique, a few are larger hotels owned by local tycoons.

- This segment enjoys very high occupancy levels – above 85%, or at times even over 90%. However, these hotels are limited in their average rate performance by higher category hotels (Tariff A) and, deliberately price themselves very competitively, to avoid any decline in occupancy.

Medium Tariff Hotels

- Medium Tariff hotels can be found throughout Hong Kong, not only in core in-fill locations but also less developed submarkets. Many boutique hotels are in this category, featuring an average room count of about 220 rooms.

- Mainly catering to tourists and tour groups, the pricing bandwidth of Medium Tariff Hotels is very limited, particularly since High Tariff B Hotels have the ability to target and absorb such demand during slower periods. However, the occupancy levels of this segment tend to be the highest in the market with several properties running at 99% on an annual basis.

CITY PIPELINE

- Ritz-Carlton, Macau together with JW Marriott, Macau will open in 2015 as the key projects in "Galaxy Macau" development phase 2. Ritz-Carlton, Macau will be located in the upper floors of "Galaxy Macau" building with 250 one-bedroom and two-bedroom suites, whereas JW Marriott will feature approximately 1,100 rooms.

HOTEL OPENINGS (2014 - 2016)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	iclub Sheung Wan Hotel	248
	iclub Tin Hau Hotel	338
	Somerset Victoria Park Hong Kong	68
2015	iclub Soho Hotel	98
	Silka Tsuen Wan, Hong Kong	410
	Holiday Inn Express Mongkok	148
2016	iclub To Kwa Wan Hotel	300
TBC	Shangri-La Hotel, Hunghom Bay	572
TBC	Rosewood Hong Kong	TBD
TBC	Murray Building	TBD
Total Proposed Room Supply (Indicative)		**2,182**

Source: Hong Kong Tourism Board, HVS Research

- The addition of boutique and limited-service hotels in core in-fill locations, as well as new neighbourhoods, in anticipation of the MTR line expansions, is driving the supply growth in the Hong Kong hotel market.

- Given the dynamic real estate market of the region and the trend of owning and opening hotels among real estate investors, supply growth is forecast to remain steady until demand softens. Cost aside, Hong Kong remains the most sought-after market in Asia (and globally) among hotel investors.

INVESTMENT MARKET OVERVIEW

- According to RCA, Hong Kong has witnessed close to 100 hotel transactions since 2007.

- Hong Kong is likely the only market in the world where a luxury hotel of 15 years is bought and then demolished to be replaced by an office building. This shows that hotels are only viewed as one type of real estate asset class that temporarily generates favourable returns. There is, thus, a constant flux of hotels entering the market and older ones being redeveloped.

- Given the robust performance of the market and Hong Kong's rule of law, it remains one of the most popular destinations for hotel investors. This highly competitive environment results in some of the lowest capitalization rates in the world.

- Policies discussed by the government to control the number of visitors arriving from mainland China coupled with moderate market performance and high asking prices have led investors to be more cautious.

- A number of high profile transactions have occurred in the recent past, including The Ascott taking over an asset in Sheung Wan and China Resources offloading part of a resort in the New Territories.

- Notably, the larger assets that are less suitable for conversion or too large for smaller investors, trade on markedly lower valuations in Hong Kong as compared to smaller assets where wider range of investors compete.

HOTEL TRANSACTIONS (2007 – 2013, US$)

Transaction Date	Asset	Location	Rooms	Estimated Sales Price	Estimated Price per Room
Feb-14	Mercer by Kosmopolito	Sheung Wan	55	74,700,000	1,358,000
Nov-13	Shama Causeway Bay	Causeway Bay	110	219,270,493	1,993,000
Jul-13	Harbour Plaza Resort City Tower 01 & 02	New Territories	1,102	142,091,368	129,000
Jan-13	Butterfly On Morrison Boutique Hotel	Wanchai	93	87,736,458	943,000
Mar-12	Dorsett Regency Hotel Hong Kong	Western	209	103,153,447	494,000

Source: RCA, HVS Research

MARKET OUTLOOK

- Hong Kong will continue to see new supply entering the market, particularly in fringe locations along new MTR lines and Kowloon Bay.

- With a very deep pool of visitors from mainland China's secondary provinces yet to discover travel abroad, Hong Kong is well poised to welcome more tourists in the near future. However, the city's infrastructure is strained for the time being until new projects are completed.

- The expected opening of the high-speed rail terminus and completion of the Hong Kong-Zhuhai-Macau Bridge are likely the two largest individual infrastructure projects under way. Additionally, new MTR lines, potentially a third-runway at the airport, the West Kowloon Cultural District and the Kai Tak redevelopment, plus numerous smaller projects are set to help Hong Kong step up its game and become even more attractive to locals and tourists alike.

MACAU


MACAU

MACAU

Tourism's contribution to GDP : MOP$375.9billion (90.9%)
Source: World Travel and Tourism

Nationwide Occupancy : 70.2%
Nationwide ADR : MOP$1,251.7
Nationwide RevPAR : MOP$1,107.5
Source: Macau Yearbook

Highest recorded transaction of US $419.1m for Grand Waldo Hotel took place in 2013.
Source: RCA

ECONOMIC UPDATES

- Macau is a Special Administrative Region of China, which is located adjacent to the south of Zhuhai, and 60 kilometres west of Hong Kong, across the Pearl River Delta. Since 1999, the Chinese government resumed exercising sovereignty over Macau; prior to that Macau was influenced by European civilisation for 400 years. Thus the city has a unique blend of Eastern and Western cultures, in addition to housing several historical and cultural monuments. Moreover, Macau is an international free port, one of the world's most densely populated areas, and importantly, by far the largest gaming market in the world. The most developed industries in Macau are the light industry, tourism, hospitality and casinos.

- Macau's tourism industry began to develop in the 1960s and today it is one the major pillars of the city's economy. One third of the local population is employed in the tourism, gaming and related industries. Although the tourism industry in Macau originated from the gaming sector, it has become increasingly diversified over the years to include catering and tourism training industries, supplemented by the hotel industry, jewellery industry, nightclubs and a video games segment.

- By the end of 2013, there were 66 star-rated hotels in Macau, including 28 five-star and 14 four-star hotels, plus 33 guest houses.

- As the global economy recovers, a number of major projects in Macau are taking shape resulting in a second wave of large-scale construction in the area. Meanwhile, the exhibition industry has expanded notably, and is anticipated to become a major driver for the region's economy going forward.

ECONOMIC INDICATORS (2010 - 2015F)

	2010	2011	2012	2013	2014E	2015F
GDP Growth (%)	9.2	20.7	9.9	10.0	13.5	11.0
Inflation (%)	2.8	5.8	6.1	5.5	6.0	6.3
Exchange Rate MOP:US$	8.0	8.0	8.0	8.0	8.0	8.0
Lending Interest Rate	5.3	5.3	5.3	5.3	5.3	5.5

Source: Economist Intelligence Unit, June 2014

- Gaming and tourism continue to be major contributors of economic growth in Macau. However, since the single industrial structure has exacerbated the economy's vulnerability, the government is expected to focus on industrial diversification in the medium-to-long term. At the same time, the region's cooperation with China and Portuguese-speaking countries is expected to strengthen, enhancing Macau's long-term trade competitiveness. Bearing these in mind, in addition to the region's participation in instituting free trade zones in Guangdong-Hong Kong-Macau the momentum of economic growth in the region is projected to be maintained in the short-to-medium term.

- The GDP growth in Macau has ranged from between 9-10% in recent years, except in 2011, which saw the economy grow by 20.7%. This unusually high growth rate was attributed to a 41.9% increase in gross gaming revenue, a 20% increase in the total consumption of visitors, an appreciable rise in public investment by 79.4%, and a 41.7% growth in retail sales.

- The inflation rate has hovered around 6% since 2011.

- Gaming is a major industry in Macau, accounting for 87.25% of the total GDP in 2013. The region's gross gaming revenue in 2013 was MOP361.9 billion, up 18.6% from 2012. The compound annual growth rate (CAGR) of Macau's gaming revenue between 2004 and 2013 was 26.5%. In the first quarter of 2014, the industry recorded revenue of MOP102.5 billion, increasing by 19.7% YOY. Baccarat is the most popular game played in the region, accounting for 91.5% of the total gaming revenue.

TOURISM MARKET OVERVIEW

- Macau's airport arrivals rebounded strongly, recording an 11% growth in 2012. The growth was mainly attributable to the launch of five new air connections to Changsha, Taichung, Chiang Mai, Danang and Busan.

- At the same time, the airport terminal renovation was completed in 2012, with an expanded duty-free shopping area, optimising the overall travel experience. In 2013, airport arrivals increased by 12.6%.

- Air Macau added scheduled service to Wenzhou in February and launched another service to Jinjiang in April, while the frequency of flights to Beijing was increased to three per day. In addition, Jin Air also increased flights from Seoul to five per week in the second half of 2013, driving airport arrivals.

- Land arrivals in Macau grew by 9.5% to constitute about 50% of all arrivals to the city in 2013. Owing to an improved economy in mainland China, arrivals by land (mostly from mainland China) to Macau reached 16 million in 2013. Visitor arrivals by sea, increased by 12.2% in the past year.

- After a period of moderate growth during 2011 and 2012, visitor arrivals to Macau grew substantially to reach 15 million, growing by 11% from the previous year. International arrivals, in particular, performed surprisingly well, registering a 9% increase in 2013, after two consecutive years of decline. Number of visitors from South Korea kept growing, while that from Japan showed a gradual improvement in the last quarter. Visitor arrivals from mainland China increased by 12.6%, and accounted for 61.6% of total visitor arrivals to Macau in 2013.

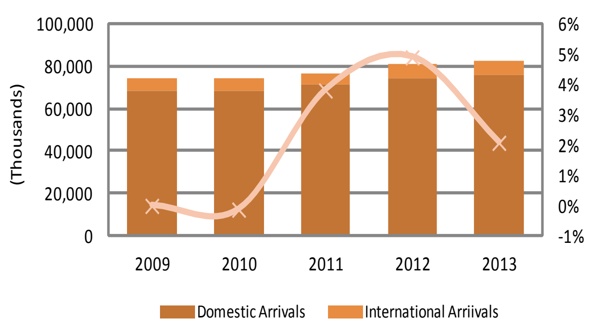
- In the first quarter of 2014, 7.7 million visitor arrivals were registered in Macau, an increase of 8.7% over the same period last year. Mainland China continued to be the main source market, recording a 17.2% growth and accounting for 67.3% of total visitor arrivals to the city during this period. However, the second and third largest source markets for Macau - Hong Kong and Taiwan - registered a YOY decline of 9.1% and 4.3%, respectively. As mainland China has replaced HK as the largest feeder market. Macau's government has directed tourism promotion to mainland China now. Previously, Taiwanese need to transfer their flight to mainland China through Macau, and now no longer needed

- Also, business travellers will visit Zhuhai rather than Macau, because the cost is half of that in Macau.

- Since the key source market for Macau's tourism industry is mainland China, seasonality is mainly impacted by the mainland visitors' travel pattern, excluding special events. Peak season in Macau is generally witnessed in July and August, during the summer holidays, as well as in December, which marks the shopping season for mainland visitors.

- The mainland tourists travel to Macau mostly for leisure, shopping and gaming, especially since gaming is illegal in mainland China. In fact, traditional demand from Guangdong province, Beijing and Shanghai, which is characterised by "higher-spend" and "longer stay", has increased in recent years.

VISITOR ARRIVALS (2009 - 2013)



Source: HVS Research

HOTEL MARKET OVERVIEW

- The number of hotel rooms in Macau increased by 15%, with almost 3,500 rooms entering the hotel market in 2012. Additionally, over 1,000 rooms were added to the market in 2013. Significant hotel openings include the Galaxy Hotel, which opened in 2011 with 1,500 rooms, the Banyan Tree, the Okura, and the Sheraton Macau Hotel, Cotai Central, which opened in 2012 and is the largest Sheraton worldwide (and the largest hotel in Macau), comprising 3,896 rooms.

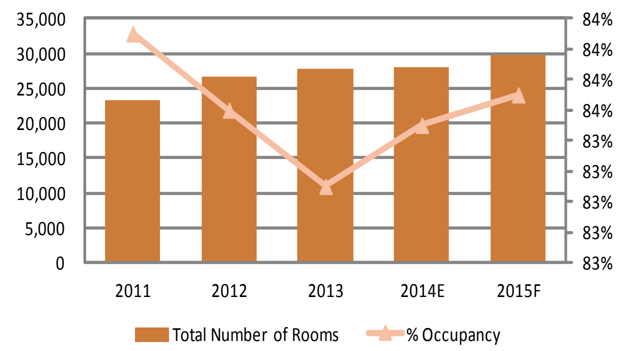
- In 2013, the five-star segment accounted for 28.6% of the total hotel supply in Macau, while the share of four-star and three-star hotels stood at 14.3% and 12.2%, respectively. Moreover, guest houses, which are very popular in Macau, accounted for 33.7% of the total supply in the city's lodging market.

- Marketwide occupancy is expected to grow by 0.4 percentage points in 2014, and by another 0.2 percentage points in 2015, owing to the economic recovery of mainland China, which is the major market source for Macau.

- Average rate is anticipated to grow from MOP1,503 in 2013 to MOP1,550 in 2014, and MOP1,620 in 2015. As three new luxury hotels are expected to open in 2014, the marketwide average rate is projected to get an upward push over the next couple of years.

- Accordingly, the RevPAR of Macau's hotel market is projected to increase from MOP1,249 in 2013 to MOP1,294 and MOP1,356 in 2014 and 2015, respectively.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Macau Yearbook HVS Research

- Per the record from Macau Statistic Bureau, the total number of hotel rooms (including guest houses) in the city stood at 27,764 in 2013, of which 18,371 rooms corresponded to the five-star segment. The Banyan Tree resort opened in 2011 with 246 suites as part of the Galaxy Casino complex, marking the entry of the first resort-type hotel in Macau.

- Additionally, in 2012, Macau's latest landmark - Asia's largest hotel cluster, with a total investment of nearly US$8 billion, opened in Cotai Central. It comprises the world's largest Conrad hotel with 636 rooms, as well as the world's largest Sheraton with 3,896 rooms.

- The occupancy of five-star hotels in Macau has grown annually from 84% in 2010 to 89% in 2013, supported by an increase in visitor arrivals. Furthermore, hotels in the five-star segment conducted road shows in the mainland in June 2013, like the Venetian Macau held a grand promotion ceremony in Beijing Great Hall, which favourably impacted the performance of this segment.

- The four-star hotels' supply in Macau has been relatively constant over the past five years, with only one hotel opening in 2012. However, this was the Holiday Inn in the Cotai Central hotel cluster, with 1,224 rooms, making it the world's largest Holiday Inn.

- Occupancy of four-star hotels remained stable at 88% in 2012 and 2013. Though the topic hotels opened in 2011 and 2012 brought abundant quantity of room numbers, the occupancy rate of four-star hotels market remained steady. also The three-star hotel market.

- There has been limited change in supply of the mid-scale hotels in Macau since 2009, with this segment having the lowest market share in the city's hotel supply. This is mainly due to the fact that three-star hotels in the neighbouring Zhuhai region operate at a much lower average room rate than those located in Macau resulting in price-sensitive travellers preferring to use the hotels in Zhuhai than in Macau. Therefore, mid-scale hotels in the city are less common.

- The average occupancy of mid-scale hotels generally remained above 87% during 2010 to 2013 The Mainland and Macau Tourism Consultative Meeting held in Beijing in 2011 encouraged more group tourists to travel to Macau, significantly supporting mid-scale hotels. The occupancy in 2011 was 92%.

- Moreover, the average rate of this sector has also been impressive (over MOP1,000 in both 2012 and 2013) as a result of the economic revival in the mainland.

- The average hotel occupancies of the different star-categories in Macau were seen trending similarly in past years. Marketwide occupancies were seen peaking in 2011, particularly in the case of three-star hotels. The strong performance was attributed to the Macau Tower, owned by Shun Tak Holdings Limited, adding more convention and retail facilities, and opening of Macau Fisherman's Wharf facilities in 2011, resulting in a diversification of tourist attractions and demand generators in the city. Moreover, while both the five-star and four-star segments witnessed new supply entering that year, the three-star hotel supply remained stable, causing the latter to record the highest occupancy growth.

- Marketwide average rate increased since 2010. While the average rate of the five-star segment remained over MOP1,500 since 2011, that of The four-star hotels varied from MOP654 to MOP944 from 2010 to 2013. Remarkably, the average rate of the three-star hotels in Macau has been higher than that of the four-star hotels, as the latter four-star hotels usually are independent of casinos.

- Since 2011, five-star hotels' RevPAR remained above MOP1,400, while the four-star hotels' RevPAR exceeded MOP700, with the spread between the two being nearly maintained over the years. Also, as in the case of hotel average rates, the RevPAR of three-star hotels in Macau was higher than that of the four-star hotels between 2010 and 2013, touching MOP1,000 in the past year.

CITY PIPELINE

- Ritz-Carlton, Macau together with JW Marriott, Macau will open in 2015 as the key projects in "Galaxy Macau" development phase 2. Ritz-Carlton, Macau will be located in the upper floors of "Galaxy Macau" building with 250 one-bedroom and two-bedroom suites, wherea JW Marriott will feature approximately 1,100 rooms.

NEW HOTEL OPENINGS (2015 - 2017)

Anticipated Opening	Proposed Hotel	Location	No. of Rooms (Est.)
2015	Ritz-Carlton, Macau	City Centre	250
	JW Marriott, Macau	City Centre	1,100
	The St. Regis Macau Hotel, Cotai Strip	City Centre	400
2016	Jumeirah Macau	City Centre	250
2017	W Macau - Studio City	City Centre	563
	Palazzo Versace	City Centre	270
Total Proposed Room Supply (Indicative)			**2,833**

Source: HVS Research

MARKET OUTLOOK

- The construction of the proposed Hong Kong – Zhuhai – Macau Bridge, at a length of 50 kilometres, is expected to be completed in 2016. Once opened, visitors will be able to access the Hong Kong International Airport in merely 30 minutes from Macau. Improved accessibility to a major international airport is anticipated to attract tourists from Europe and other international destinations, bringing in more diversified demand and boosting arrivals in Macau.

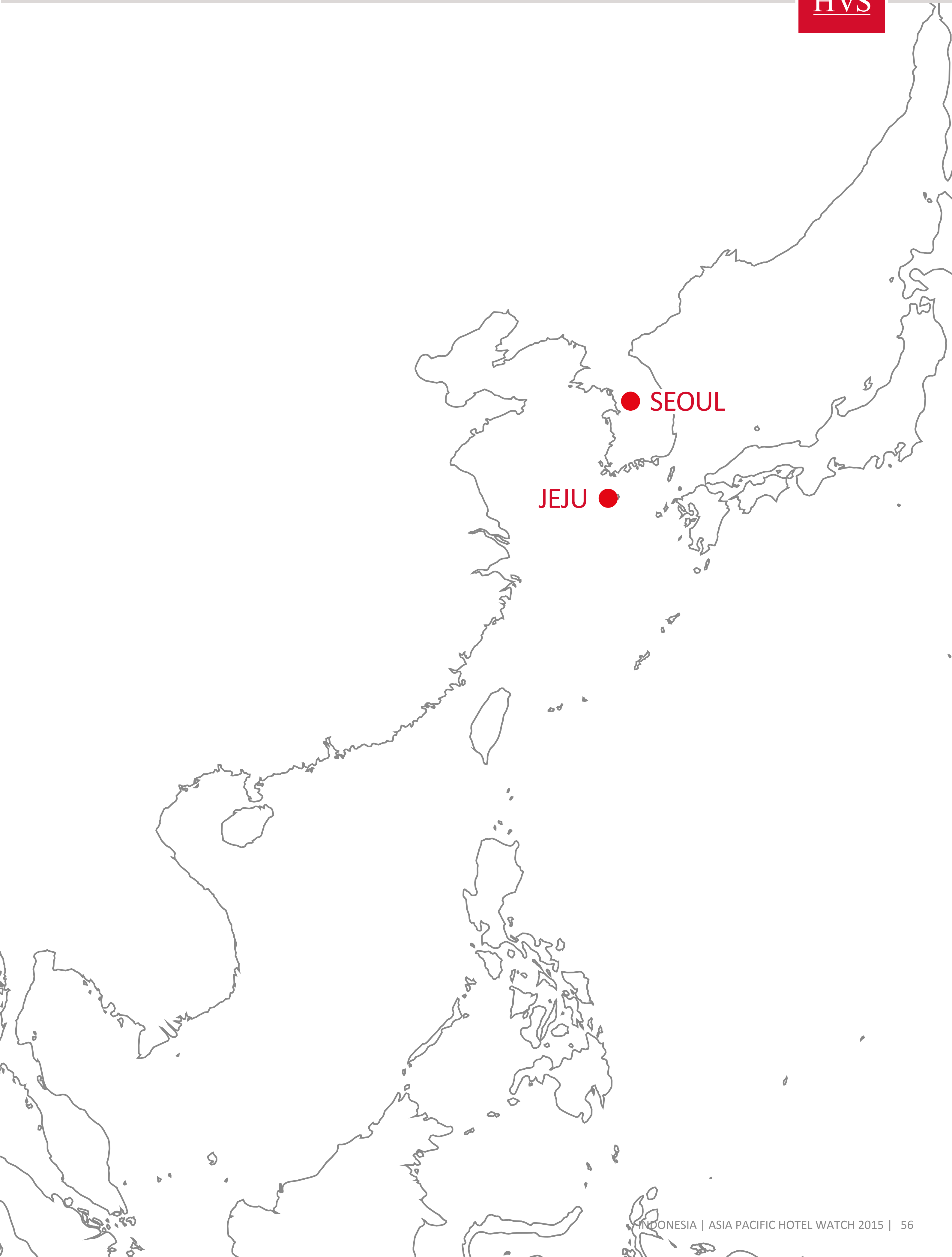
- A new border checkpoint will also open in 2016 (as Guangdong and Macau new channel) for 24 hours all year round. The Zhuhai-Macau inspection agencies will share the data to implement "Cooperative inspection, once released", reducing both time and cost for travellers passing the border. Expectedly, more mainland tourists will be able to visit Macau.

- Looking back at the historical performance trend of the five-star hotel market, it appears that the occupancy and average rate have not been severely affected with strong additions to supply. This bodes well for the segment and leads us to believe that the upcoming supply will be quickly absorbed in the market in the near future. Additionally, the proposed Hong Kong – Zhuhai – Macau Bridge will be completed in 2016, increasing visitors to Macau.

- On the contrary, Hengqin Island's development as a free-trade-zone in Zhuhai, might limit the demand for costly overnight accommodation in Macau. The occupancy rate, especially of mid-scale hotels in Macau might be dropped then.

- The austerity measures on the mainland and graft crackdown have shown some impact on Macau's gaming market performance, which could cascade into hotels as well, particularly when coupled with significant increases in supply. The opening of the Hong Kong – Zhuhai – Macau Bridge and continued diversification of Macau tourism, plus interlinkage with Hengqin Island can bode well for the market in the future.

SOUTH KOREA


SEOUL
JEJU

KOREA

Tourism's contribution to GDP :
KRW 27,127 billion (2.1%)

Source: World Travel & Tourism Council (2014)

Nationwide Occupancy : 64.7% (2012)

Nationwide ADR : KRW130,683

Nationwide RevPAR : KRW84,552

Source: Korea Culture & Institute

Highest recorded transaction of US $211.8m for Landmark Yongsan Dream Hub took place in 2011.

Source: RCA

ECONOMIC UPDATES

- The Republic of Korea is located in East Asia, on the southern half of the Korean peninsula, bordered by the East Sea and the Yellow Sea. Seoul, the capital of South Korea, is the largest urban centre, with over 10 million residents, while Busan is the second largest city, with a population of over three million. Daegu, Incheon, Gwangju, Daejeon and Ulsan are other major cities in South Korea, each home to over a million residents.

- As a result of the fallout in the global credit market and the slowdown of the global economy, the country's GDP growth reduced from the second half of 2008 to the first half of 2009. However, benefiting from the gradually improving global economic sentiment since the second half of 2009, South Korea's economy started showing signs of recovery.

- Strong growth in exports led to South Korea recording a GDP growth of approximately 6.5% in 2010. Thereafter, the nation's economy was seen stabilising in 2011, before dipping once again to 2.3% in 2012, owing to contraction of investments and slowdown in exports. However, the economy regained momentum in 2013 with 3.0% growth. The Economist Intelligence Unit (EIU) forecasts South Korea's GDP growth to further accelerate by 3.7% in 2014 and 3.9% in 2015, remaining in the 4% range until 2018 with the aid of increased exports.

- The largest contributing industry to the country's GDP performance in 2013 was electronics (radio, television and communication equipment) with 9.1% share, followed by real estate (5.8%) and social security (5.7%). Additionally, the construction and education industries accounted for 5.3% and 5.2% of the GDP, respectively.

- In 2013, the total contribution of travel and tourism to the nation's GDP was KRW27,127 billion, accounting for 2.1% of the total. In terms of ranking, travel and tourism industry is the 17th largest industry in South Korea.

ECONOMIC INDICATORS (2010 - 2016F)

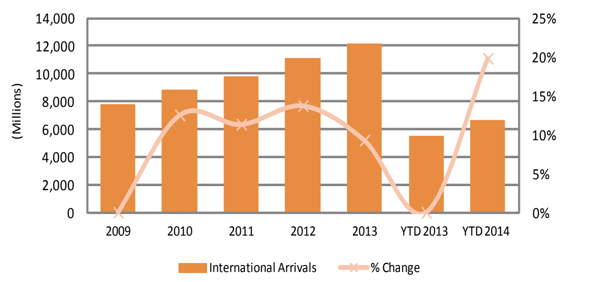
	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	6.5	3.7	2.3	3.0	3.7	3.9	4.1
Inflation (%)	2.9	4.0	2.2	1.3	1.6	2.9	2.5
Exchange Rate KR₩:US$	1,156.1	1,108.3	1,126.5	1,094.9	1,044.5	1026.2	1048.3
Lending Interest Rate	5.5	5.8	5.4	4.6	5.3	5.8	6.3

Source: Economist Intelligence Unit, June 2014

TOURISM MARKET OVERVIEW

- As of year-to-date through June 2014, international visitor arrivals in South Korea increased by 20%. The strong increase is mainly attributable to the rise in the number of tourists from China, which compensated for the declining visitation from Japan.

VISITOR ARRIVALS (2009 - 2014 JUNE YTD)

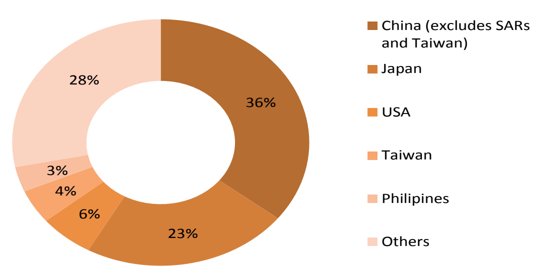


Source: HVS Research

- For many years, South Korea was predominantly a destination for long-haul passengers, Japanese business travellers, as well as Japanese tourists. However, the government's efforts to expand the Meetings, Incentives, Conventions and Exhibitions (MICE) industry in the country, a visa waiver program for Chinese citizens, and the increasing popularity of modern Korean culture, have enabled the visitation to the country to become more diversified and grow in volume in recent years.

- Nonetheless, the leisure segment continues to remain the main driver of visitor arrivals to South Korea owing to its well-known shopping attractions and food and beverage experience. In 2013, this segment accounted for up to 75% of all visitor arrivals to South Korea.

TOP SOURCE MARKETS (2013)



Source: Korea Culture & Tourism Institute, HVS Research

- The two biggest source markets for South Korea are China and Japan, which accounted for nearly 60% of the total visitor arrivals to the country in 2013.

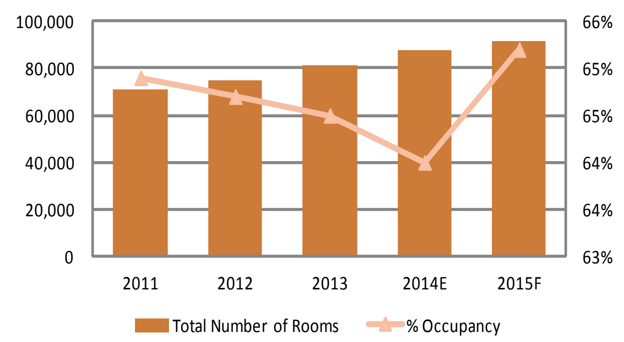
- Previously, Japan was the most important feeder market for South Korea owing to its proximity. However, in recent years, visitor arrivals from the country have been continuously falling – from 40% market share in 2005 to 23% market share in 2013 – due to the depreciation of the Japanese Yen and political conflicts between the two countries.

- On the contrary, mainland China has quickly become the largest source market for the country after the introduction of the visa waiver program (VWP) of Jeju Island in 2006 - the country's largest island and a significant tourism demand generator. Together with the easing of regulations to acquire a travel visa and the introduction of a double-entry visa, the number of mainland Chinese visitors to South Korea is expected to increase consistently in the near future.

- China was not the only inbound market depicting a strong performance in 2013; Taiwan and Southeast Asian countries also registered very strong growth rates, reflecting positively on the development of the Korean tourism industry.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Korea Culture & Tourism Institute, HVS Research

- Although, historically, the majority of new supply in South Korea was concentrated in Seoul city, hotel operators have now begun to explore opportunities in neighbouring provinces, including Incheon, Busan and Gyeonggi-do. Opened in July 2014, the 423-room Oakwood Premier Incheon, is the largest residence hotel in South Korea, and is expected to cater to the upcoming Asian Games visitors. Furthermore, with the expansion of 500 additional rooms, Hyatt Regency Incheon was recently renovated and rebranded to the largest Grand Hyatt in Asia.

- Seoul's hotel market remains attractive for international luxury brands with the 317-room Four Seasons scheduled to open in 2015, and a 138-room Luxury Collection (Starwood) hotel anticipated to open in 2016. These hotels are expected to increase the demand from international visitors in Seoul, going forward.

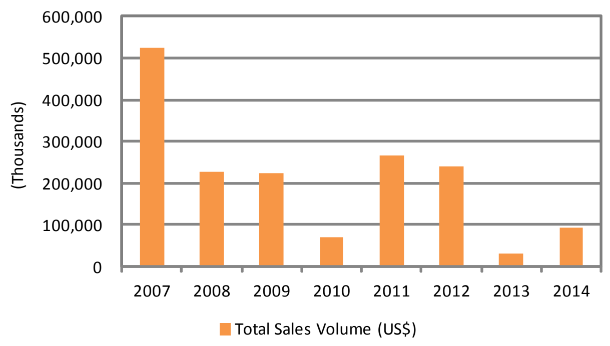
- Jeju Island, the country's largest island and a significant tourism demand generator, is also seeing an influx of new supply in the market. Several large-scale foreign investment projects such as Berjaya's Jeju Airest City, Genting-Landing Gaming Resort and Greenland Group's mixed-used projects are expected to provide a strong impetus to the nation's tourism industry once completed.

INVESTMENT MARKET OVERVIEW

- According to RCA, South Korea has witnessed close to 50 hotel transactions since 2007.

- As international investors are often opportunistic in the South Korean market due to stiff competition from the domestic investors, the latter are seen as being more active; from 2007 to 2014, all hotel transactions were completed by domestic investors.

TOTAL INVESTMENT VOLUME (2007 – 2014, US$)



Source: RCA, HVS Research

MARKET OUTLOOK

- South Korea is expected to witness substantial amount of new supply entering the market in the short-to-medium term, particularly in Seoul and Jeju Island. With internationally branded luxury hotels opening in Seoul and large-scale foreign investment projects underway in Jeju, South Korea is poised to welcome more tourists in the future.

- The strong influence of the Korean culture and the country's extensive shopping options are the main factors attracting visitors from Asian countries. However, South Korea's heavy reliance on the China and Japan markets, make its tourism industry vulnerable to any change in demand from these two source countries, such as the recent decline in demand seen from Japan.

- In order to continue to attract more visitor arrivals from China, the Korean government is planning to further ease visa restrictions for mainland Chinese travellers.

- Furthermore, medical tourism in South Korea is on the rise, and is highly supported as well as promoted by the local government. The government is currently working to set up systematic support for the medical tourism network, sufficient overseas promotions, standardisation of services, as well as medical tourism packages affiliated with renowned hospitals.

SOUTH KOREA - SEOUL

SEOUL

CITY OVERVIEW

- Seoul is the capital and largest city of South Korea. Having a population of more than 10 million, the city is home to over one-fifth of the total South Korean population. Seoul is the heart of the country's economy, politics and culture with a rich history spanning 600 years.

- The recent popularity of the Korean pop culture, also known as the "Korean wave" in Asia-Pacific, has increased tourist arrivals to South Korea. Being the principal tourist destination for visitors, Seoul welcomes the most number of tourists to the country.

TOURISM MARKET OVERVIEW

- Seoul does not track international visitor arrivals to the city separately from the total visitor arrivals to the country, as it is the international hub of South Korea.

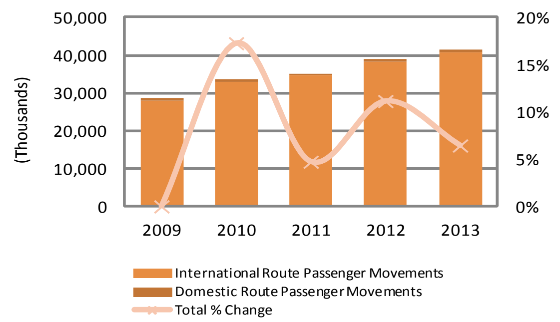
- The city is served by two main airports, Incheon International Airport and Gimpo Airport.

- Located 52 kilometres west of Seoul, Incheon International Airport opened in early 2001, replacing the international function of the old Gimpo Airport. The Incheon International Airport serves as the national hub for international arrivals, currently serviced by 69 airlines, offering connectivity to more than 160 destinations worldwide with annual capacity of 44 million passengers. The ongoing Airport Development Phase 3 and 4 is expected to be completed by 2020; upon completion of this phase, the airport will be able to handle approximately 100 million passengers annually.

- Located at the western end of Seoul, Gimpo Airport connects the city to mostly domestic destinations and five major cities in East Asia that are located within 2,000 kilometres - Beijing, Shanghai, Taipei, Osaka and Tokyo. The airport is currently served by five domestic airlines and six international airlines, namely All Nippon Airways, Japan Airlines, China Eastern, China Southern Airlines, Shanghai Airlines and Eva Air, with annual capacity of 34.7 million passengers.

- As of year-to-date through June 2014, the total passenger movements including both arrivals and departures increased YOY by 9.8%. As Gimpo Airport handles the majority of the domestic routes within South Korea, over 98% of the total passengers at the Incheon International Airport are international route passengers.

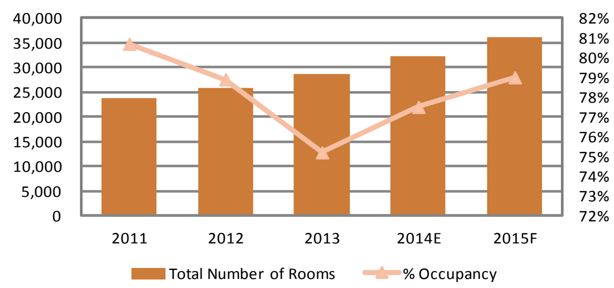
VISITOR ARRIVALS (2009 - 2013)



Source: Incheon International Airport Corporation, HVS Research

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 -2015F)



Source: Korea Culture & Tourism Institute, HVS Research

- In 2014, the influx of new supply in Seoul city has been concentrated in Jung-gu, especially within the Myeongdong area. The establishment of "Tourism Accommodation Support Centre" in 2012 allowed 'one-stop' approval process for hotel development projects. As a result, projects that were approved two years ago are now ready to open.

- In line with the increase in the number of price-sensitive Chinese visitor arrivals in the city, small- to mid-scale budget hotels are now aggressively expanding in the Seoul hotel market. Additionally, not only the independent hotels, but the luxury brand hotel operators such as Lotte, Shilla and Chosun Westin are expanding into the business segment of the city's hotel market.

- Seoul is anticipated to witness the entry of new international luxury brand operators in the city; the 317-room Four Seasons is scheduled to open in 2015, and the 138-room Luxury Collection hotel is expected to open in 2016.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2016)

Anticipated Opening	Proposed Hotel	Location	No. of Rooms (Est.)
2014	J BIZ Hotel (Jinjiang Inn)	Myeongdong	172
	Days Hotel Myeongdong	Myeongdong	64
	Mayplace Seoul Dongdaemun	Dongdaemun	107
	Lotte City Hotel Guro	Guro Digital Com	283
	Euljiro Hotel	Myeongdong	224
	Sutton Myeongdong Hotel	Myeongdong	150
	Hotel Bestay Seoul	Myeongdong	109
	Proposed Myeongdong Hotel	Myeongdong	175
	Myeongdong Hotel 53	Myeongdong	41
	Devinsi Hotel	Myeongdong	54
	Bukchang-dong Hotel	Myeongdong	343
	Co-op Dongseong Hotel	Myeongdong	60
	Ibis Ambassador Chungmu-ro	Myeongdong	160
	Han Suite	Myeongdong	116
	Hotel Bella Suite	Myeongdong	51
	Shilla Stay Yeoksam	Gangnam	306
	Proposed Chosun Business Hotel	Yongsan	350
2015	Four Seasons Seoul	Gwanghwamun	317
	Shilla Stay Shindaebang	Shindaebang	313
	Proposed KT&G Namdaemun Hote	Namdaemun	390
	Lotte City Hotel Janggyo	Junggu	435
	Lotte Lifestyle Hotel Myeongdong	Myeongdong	255
	Dormy Inn Landmark Seoul	Mapo	594
	Toyoko Inn Mapo	Mapo	295
2016	Luxury Collection	Gangnam	138
	Lotte World Hotel	Gangnam	250
Total Proposed Room Supply (Indicative)			**5,752**

Source: HVS Research

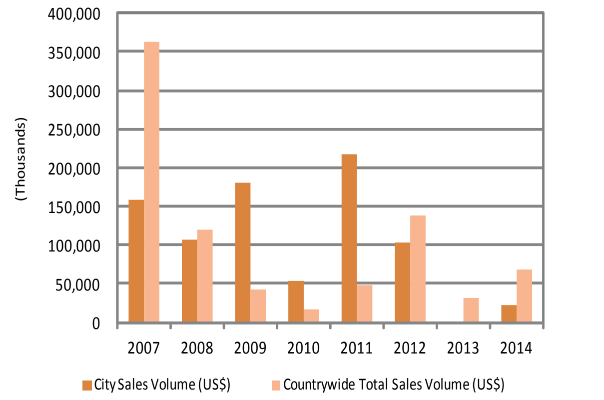
- While the majority of the new hotel openings in Seoul are concentrated in Myeongdong, the new supply is mostly represented by small- to mid-scale hotels with independent brands targeting value-oriented tourists, especially the Chinese.

- Business hotels in deluxe-hotel category and the budget hotel segment are aggressively expanding within the city. In addition to the domestic business hotel brands such as Lotte City Hotels and Shilla Stays, Japanese brands such as Dormy Inn and Toyoko Inn are also entering the market to cater to value-based Japanese leisure travellers to Seoul.

INVESTMENT MARKET OVERVIEW

- According to RCA, Seoul witnessed 14 hotel transactions since 2007.

TOTAL INVESTMENT VOLUME (2007 – JUN 2014 YTD, US$)



Source: RCA, HVS Research

HOTEL TRANSACTIONS (2007 – 2013, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
Jun-14	Sutton Hotel	150	22,680,000	151,000
Jul-12	Banyan Tree Club & Spa Seoul	50	70,980,000	1,420,000
Feb-12	Ramada Seoul Dongdaemun	154	32,570,000	212,000
Nov-11	Landmark Hotel - Yongsan Dream Hub	400	211,770,000	529,000
Aug-11	Sadang Motel	30	5,700,000	190,000
Oct-10	Yeouido Park Tower Marriott Exec Apts	103	49,000,000	476,000
Aug-10	Life Hotel	56	5,100,000	91,000
Dec-09	Lotte Castle President	284	88,060,000	310,000
Jun-09	New Samwha Tourist Hotel	58	15,990,000	276,000
May-09	Fraser Suites Insadong	213	75,880,000	356,000
Oct-08	Yeouido Park Tower Marriott Exec Apts	103	83,960,000	815,000
Apr-08	Ramada Seoul Dongdaemun	154	23,330,000	151,000
Feb-07	M Hotel	70	15,690,000	224,000
Jan-07	Banyan Tree Club & Spa (fmr Tower Hotel)	218	143,370,000	658,000

Source: RCA, HVS Research

MARKET OUTLOOK

- There has been a significant increase in hotel supply in the market in recent years. Yet, Seoul is expected to witness an additional robust growth in room supply. According to the Korea Ministry of Culture, Sports and Tourism (2013), there are a total of 71 hotel development projects with total of 12,169 rooms in the pipeline. However, majority of the hotel projects are believed to be delayed, pending or cancelled due to the recent sluggish market.
- While concerns over the fluctuations in exchange rate and the substantial amount of new supply entering the market remain, tourism in Seoul is projected to continue growing in the short-to-medium term on the back of increasing Chinese visitor arrivals. Also, upcoming international events, such as the Incheon Asian Games in 2014 and the Pyeongchang Winter Olympic Games in 2018 are expected to enhance awareness of Korea as an international tourism destination.

SOUTH KOREA - JEJU

JEJU ISLAND

CITY OVERVIEW

- Located southeast of the peninsula, Jeju is the largest island in Korea with a total area of approximately 1,848 square kilometres. South Korea's tallest mountain (1,950 metres above sea level), Mountain Halla, is situated right in the centre of the island.

- Jeju is governed as a special autonomous province, and it is divided into two cities ("Si"), namely Jeju-Si and Seogwipo-Si. Supported by the central government, the Jeju Free International City Development Centre (JDC) was established in 2002 to develop the region as an international tourist resort city.

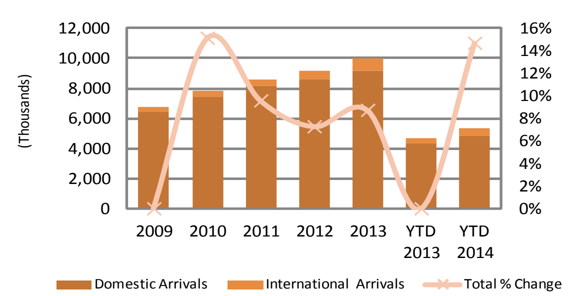
- Along with the Jeju Provincial Government and the Korea Tourism Promotion Corporation, the JDC has proposed seven projects for the development of the island. Of these, one project − Jeju Science Park − was successfully completed in 2011, and six more projects are planned to be completed by 2020.

TOURISM MARKET OVERVIEW

- Opened in 1942, Jeju International Airport serves the maximum number of domestic airline passengers and domestic flights in South Korea, and is the fourth-largest international airport in the country after Incheon, Gimpo and Gimhae airports.

- At the Jeju International Airport, a total of 21 airlines, consisting of six domestic and 15 international airlines, provide connectivity to 13 destinations within Korea and 59 cities across nine countries/regions overseas, respectively.

VISITOR ARRIVALS (2009 - JUN 2014 YTD)



Source: Korea Airports Corporation, HVS Research

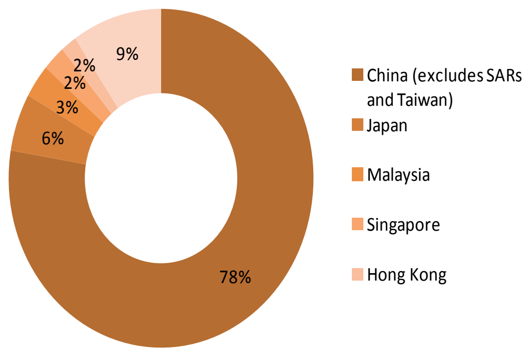
- Total visitor arrivals to Jeju Island in 2012, 2013 and year-to-date through June 2014 recorded double-digit increases. This growth was predominantly supported by a significant increase in mainland Chinese travellers. On the other hand, the year-to-date domestic arrivals registered a 6% growth, in line with the annual year-on-year increase recorded in recent years.

- Majority of the travellers to Jeju Island are domestic visitors, accounting for 78% of the total visitor arrivals in 2013. On the contrary, international visitors accounted for only 12% of the total visitor arrivals to the region that year, mainly due to the fairly limited connectivity of the island to international source markets other than Japan, China, Hong Kong and Taiwan.

- Domestic visitation to Jeju Island is mainly driven by holiday/tour travellers, who accounted for approximately 64.1% of the total domestic visitor arrivals in 2013. Additionally, leisure sports segment accounted for up to 15.6% of the total domestic arrivals, reaching over 1.3 million visitors in 2013, largely owing to the increasing number of golf courses on the island. Moreover, Jeju attracted a sizeable number of MICE travellers, constituting 10.8% of the total domestic arrivals, as a result of its excellent meeting facilities and leisure attractions. The remaining 9.5% included crews, education and other purposes.

- Like the domestic segment, international visitors to the island also mainly comprised of leisure travellers, who accounted for approximately 73.2% of the total international visitor arrivals in 2013. On the other hand, commercial travel only accounted for 1.0% of total international visitor arrivals. The remaining 25.8% included public officials, crews, education and other purposes.

TOP SOURCE MARKETS (2013)



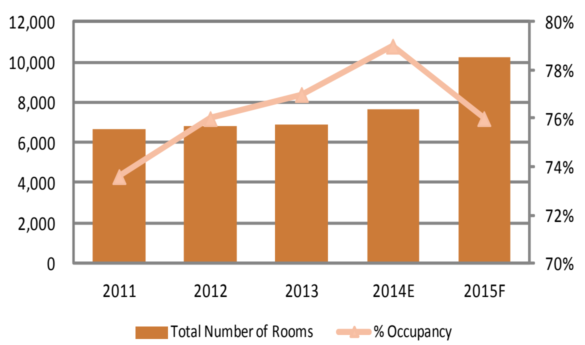
Source: Jeju Special Self-Governing Provincial Tourism Association, HVS Research

- The mainland China region is the largest source market for Jeju Island, contributing 77.6% of the total international visitor arrivals in 2013, given its proximity to the island, improved direct accessibility, the visa waiver programme and the popularity of the Korean culture. In particular, Jeju government's policy of granting permanent residency visas to foreigners who have invested US$500,000 or higher in recreational resorts on Jeju Island since February 2010, has aided the increase in the number of Chinese investors in the region.

- The demand from the island's second largest source market, Japan, has fluctuated within a narrow range based on changes in the exchange rate in recent years. However in 2013, the Japanese market declined by 28.5% due to the depreciation of the Japanese yen. Over time and as the yen strengthens, visitation levels from Japan are anticipated to recover.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Korea Culture & Tourism Institute, HVS Research

- Traditionally a holiday destination for South Korean domestic travellers, a majority of the hotels are branded by domestic super-deluxe hotel chains such as Shilla and Lotte Hotel.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 – 2016)

Anticipated Opening	Proposed Hotel	Location	No. of Rooms (Est.)
2014	The Island Marina Hotel	Seongsanpo	215
2015	Jeju Hamdeok Ramada	Hamdeok-ri	311
	Seogwipo Ramada Hotel	Seoho-dong	243
	Seogwipo Ramada Encore East	Seoho-dong	205
	Shilla Stay Jeju	Yeon-dong	304
	Hotel Regent Marine Jeju	Tap-dong	680
	Co-op City Hotel Jeju Beach	Hamdeok-ri	269
	M Stay Hotel Jeju	Seogwi-dong	330
	ICC Jeju Encore Hotel	Jungmun	282
2016	JK Ramada Encore Jeju Hotel	Yeon-dong	225
	Jeju Central City Hotel	Yeon-dong	240
	Value Hotel The Island	Yeon-dong	357
	Proposed Berjaya Five-Star Hotel	Yerae-dong	230
	Berjaya Casino Town	Yerae-dong	505
	Berjaya Landmark Tower	Yerae-dong	358
Total Proposed Room Supply (Indicative)			**4,754**

Source: HVS Research

- In line with the rising visitation levels to the island, Jeju is expected to witness a significant increase in new supply in the short-to-medium term. Most of the new hotels are expected to open in Yeon-dong, targeting Chinese visitors.

INVESTMENT MARKET OVERVIEW

- According to RCA, Jeju Island witnessed six hotel transactions since 2007. The transaction of the 56-room Paradise Jeju in Seogwipo (2008) was the largest transaction within Jeju Island, purchased by Korean Air, at approximately US$983,000 per key. The majority of the hotel transactions that took place between 2007 and 2013 on Jeju Island were small- to medium-scale transactions, with independent hotels having less than 100 units. Notably, assets in Seogwipo city achieved a higher price per room as compared to the Jeju City assets.

- Given the fact that Jeju Island is primarily driven by domestic demand, it accommodates only a few internationally branded hotels; majority of the hotels in the market are small-scale independent hotels. As a result, these aforementioned transactions also took place between domestic investors.

- Going forward, with the popularity of the island gaining momentum among tourists, international investors, especially mainland chinese visitors, are seeking opportunities for investment on the island. However, these investments are being made in the development of new hotels on the island rather than transacting on existing ones.

- The Jeju local government has proposed several favourable incentive systems in order to attract international investors, such as reduced/ exemption of tax for seven years. With the government's aggressive policies to promote Jeju Island as an "International Free City," the region is anticipated to welcome more hotel investors in the future.

HOTEL TRANSACTIONS (2007 - 2013, US$)

Transaction Date	Asset	Location	Rooms	Estimated Sales Price (US$)	Estimated Price per Room (US$)
Pending	Majestar Hotel	Seogwipo	51	8,650,000	170,000
May-13	White Beach Hotel	Cheju	63	10,910,000	173,000
Apr-12	Robero Jeju	Cheju	113	7,510,000	66,000
Jul-09	Casa del Agua, Jeju	Seogwipo	40	29,190,000	730,000
Feb-08	Paradise Jeju	Seogwipo	56	55,070,000	983,000
Jun-07	Kumho Resort Jeju	Seogwipo	50	27,430,000	549,000

Source: RCA, HVS Research

MARKET OUTLOOK

- The Jeju Special Self-Governing Province is promoting Jeju Island as a core resort destination in northeast Asia, supported by the improvement of infrastructure and the development of leisure attractions.

- The Visa Waiver Program (VWP) for Chinese travellers has attracted more Chinese visitors to Jeju Island in recent years than ever before, with travellers from China now accounting for up to 77.6% of total international visitors. However, the tourism on Jeju Island is still mainly driven by domestic travellers, due to the island's limited accessibility from international destinations and relatively low recognition as a resort destination.

- With a number of infrastructure and tourism projects scheduled for completion by the end of 2020, Jeju is likely to transform into an international tourist destination. With the low barriers to entry for real-estate investment , the big foreign investment projects including Berjaya Group's "Jeju Airest City", Landing-Genting project and Greenland's Health Care Town Condominium project (Hotel Project in Jeju City), all scheduled to be completed by 2018 will have a favourable impact on the region's tourism and hotel markets.

TAIWAN


TAIPEI

TAIWAN

Tourism's contribution to GDP : NT$297.8 billion (2.1%)

Source: WTTC

Nationwide Occupancy : 51%

Nationwide ADR : NT$2,044

Nationwide RevPAR : NT$1,044

Source: HVS Research

Highest recorded transaction of US $366m for Ching-Cheng Building took place in 2014.

Source: RCAnalytics

ECONOMIC UPDATES

- Taiwan's real GDP is expected to grow by 3.2% in 2014 as its export-oriented economy is set to enjoy a cyclical upturn. However, multiple factors are weighing down on its long term prospects. They include an aging population, rising competition in the electronic sector from regional counterparts, as well as the lack of Free Trade Area on the island. Moreover, Taiwan still remains vulnerable to the volatility of the export market, as this industry account over 70% of its GDP. Also, exports to China alone account for about 40% of the total, making the island's economy dependent on the demand from China.

- Inflation is expected to accelerate from 0.8% in 2013 to 1.6% in 2014, triggered by a viral epidemic that is pushing up pork prices, an item which is weighted heavy in the Taiwanese consumer price index. Furthermore, the increase in electricity tariff in October 2013, pursuant to the government's plan to reduce subsidies for power, and a tightening labour market, are likely to place further upward pressure on inflation. However, factors such as the excess capacity due to the recent slow rate of domestic growth and a sedated outlook for global commodity prices will prevent Taiwan from witnessing unusually high inflation.

- The New Taiwan dollar is projected to appreciate slightly between 2014 and 2018 from NT$30.08:US$1 to an average of NT$29.39:US$1, respectively. This forecast is supported by a stronger growth estimate for the Taiwanese economy in addition to its substantial current-account surplus.

- In 2013, tourism had a direct contribution of NT$297.8 billion, or 2.1% of Taiwan's GDP. This is forecasted to rise by 2.8% to NT$306.3 billion in 2014. The total contribution of tourism to Taiwan's GDP was NT$767.1 billion, or 5.3% of GDP in 2013, which is expected to grow by 3.6% to NT$794.4 billion in 2014. In the long term, the direct and total contributions of tourism to Taiwan's GDP are forecasted to be stable at 2.1% and 5.3% of GDP, respectively.

ECONOMIC INDICATORS (2013 - 2018F)

	2013	2014F	2015F	2016F	2017F	2018F
GDP Growth (%)	2.1	3.2	3.1	2.5	2.5	2.7
Inflation (%)	0.8	1.6	2.1	1.4	1.2	1.6
Exchange Rate NT$:US$	29.77	30.08	29.73	29.62	29.43	29.39
Lending Interest Rate	2.9	2.9	3.1	3.8	4.2	4.2

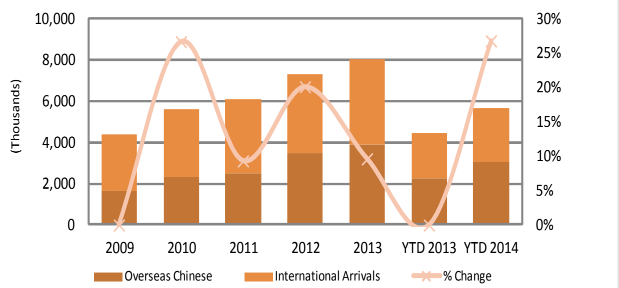
Source: Economist Intelligence Unit, June 2014

TOURISM MARKET OVERVIEW

- Between 2009 and 2013, the number of visitor arrivals to Taiwan increased from roughly 4.4 million to eight million arrivals, representing a compound annual growth rate (CAGR) of 16.2%. This growth has been primarily driven by the increase in the number of Chinese visitors that witnessed a 24.6% CAGR between 2009 and 2013, even as the international arrivals (excluding those from China) grew by 10.3% CAGR during this period.

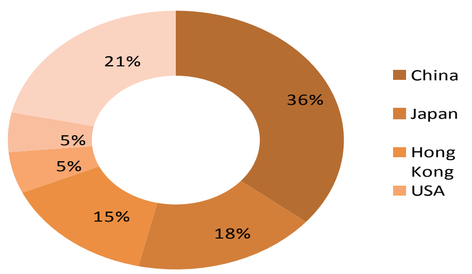
- Historically, international arrivals (excluding China) have accounted for more than half of the visitor arrivals into Taiwan. Although in both year-to-date figures (2013 and 2014), the proportion of overseas Chinese arrivals is slightly greater than those from other international source markets, it remains to be seen if 2014 will be the first full year to witness the number of overseas Chinese arrivals surpassing international arrivals.

VISITOR ARRIVALS (2009 - JUL 2014 YTD)



Source: Tourism Bureau, HVS Research

TOP SOURCE MARKETS (2013)



Source: Tourism Bureau, HVS Research

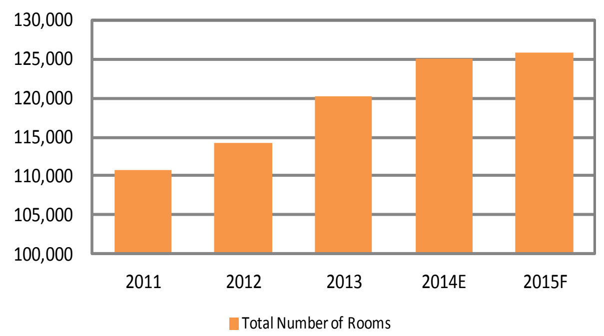
- Based on the country of origin, the largest source markets for Taiwan are China, Japan, Hong Kong & Macao, USA and Malaysia. Notably, Taiwan is dependent on these countries for roughly 80% of all its visitor arrivals.

- Given the geographical proximity and the similarities of language and culture between Taiwan and China, it is not surprising that China is the largest as well as the fastest growing source market for Taiwan. Between 2011 and 2013, number of visitors from this source market grew by 26.9% per annum.

- Moreover, from 2011 to 2013, Taiwan has seen a growth of 20.3% in the total number of visitor arrivals from Hong Kong and Korea (although the latter is not among the top five source markets for the island), while it has recorded a decline in arrivals from a few other markets such as Austria, South Africa, India and the United Kingdom.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2011 – 2015F)



Source: Tourism Bureau, HOG, HVS Research

- According to Taiwan's Tourism Bureau, as of July 2014, the island had 2,857 hotels with 125,056 rooms. Between 2011 and July 2014, the supply of hotel rooms in Taiwan increased by 4.1% per annum.

- Taipei city is the largest hotel market on the island, representing 15.1% of Taiwan's total rooms' supply. Other major hotel markets are Kaohsiung City, Taichung City and New Taipei City. Together with Taipei, these four areas house 48.6% of the total rooms' supply in Taiwan.

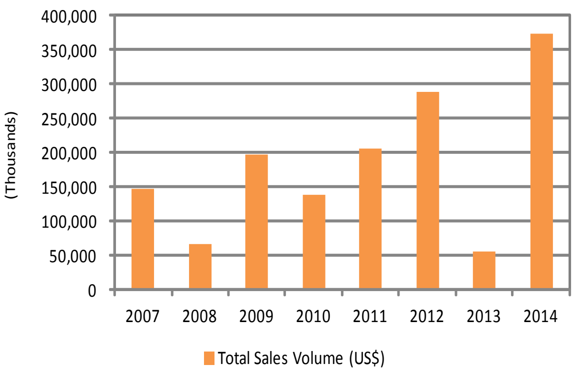
- In terms of proposed development, Taiwan may witness the opening of its first casino in the distant archipelago of Matsu in 2019.

INVESTMENT MARKET OVERVIEW

- The total value of hotel transactions in Taiwan in 2013 was US$55 million, lowest since 2007. However, the transaction level reached a new high in 2014, with a total value of approximately US $373 million.

- The largest transaction to date occurred in 2014, when the Ching-Cheng Building was purchased for US$366 million, or approximately US$1.84 million per key.

TOTAL INVESTMENT VOLUME (2007 – 2014, US$)



Source: RCAnalytics, HVS Research

MARKET OUTLOOK

- The casino development on the archipelago of Matsu is slated to be completed by 2019. However, it is still awaiting the parliamentary approval of the Casino Management Act. Once completed, Taiwan will be competing against Singapore, the Philippines and Macau for the gaming business in Asia, which is estimated to be worth around US$45-50 billion annually.

- Tourism demand from China is expected to grow further, and Taiwan may for the first time witness the number of overseas Chinese arrivals exceeding international arrivals in 2014.

TAIWAN - TAIPEI

TAIPEI

CITY OVERVIEW

- Taipei City, the capital of Taiwan, has a population of approximately 2.6 million people and is regarded as the political, economic and cultural centre of Taiwan.

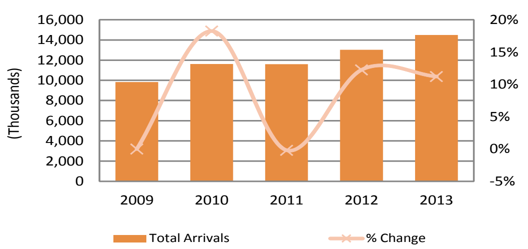
- It is surrounded by another metropolitan area called New Taipei City. These two cities together with the city of Keelung form the Taipei-Keelung metropolitan area, which has a total population of around 6.9 million people.

TOURISM MARKET OVERVIEW

- Taipei city is served by two airports – Taipei Songshan Airport and Taiwan Taoyuan International Airport (TTIA). The former is located in Taipei City, whereas the latter is located in Taoyuan County and serves the vast majority of the international flights from the city. Currently, the Taipei Songshan Airport caters to all domestic flights, in addition to offering international connections only to China, Japan and South Korea.

- Taipei Songshan Airport has a capacity of 6.6 million passengers annually. On the other hand, TTIA can handle 32 million passengers annually, owing to the recent renovation and expansion it underwent in 2013.

VISITOR ARRIVALS (2009 – 2013 YTD)



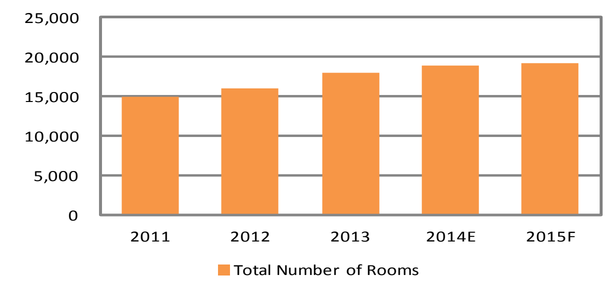
Source: Taoyuan Airport Corporatoin, HVS Research

- Arrivals to TTIA increased from approximately 9.8 million arrivals in 2009 to almost 14.5 million arrivals in 2013, representing a compound annual growth rate (CAGR) of 10.2%.

- Moreover, TTIA registered a growth of 12.7% in arrivals year-to-date July 2014 from the same period last year.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2011 – 2015F)



Source: Tourism Bureau, HOG, HVS Research

- Between 2011 and 2013, the number of hotel rooms in Taiwan grew from approximately 15,000 to 18,000, representing a growth of 6.2% per annum.

- Notable additions to Taipei's hotel supply include the Mandarin Oriental Taipei, which opened in May 2014, the Humble House Taipei in 2013 and the Okura Prestige Taipei in 2012.

CITY PIPELINE

NEW HOTEL OPENINGS (2015 – 2018)

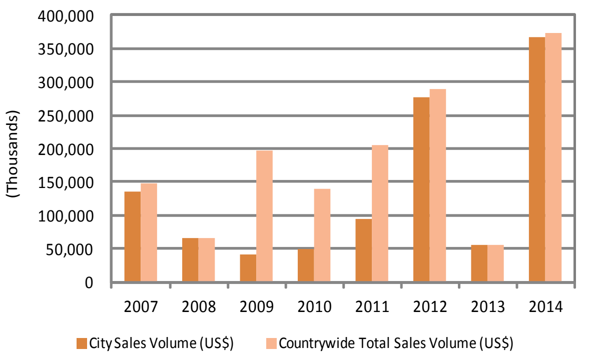
Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2015	Marriott Taipei Yihwa	400
	Courtyard by Marriott Taipei	465
2016	Courtyard by Marriott Nangang	465
	citizenM Hotel Ximending	260
	InterContinental Hotel	350
2018	Renaissance Taipei Hotel	307
	Renaissance Taipei Shilin Hotel	125
	aloft Taipei Beitou	TBC
	Crowne Plaza	220
	Hotel Indigo	150
Total Proposed Room Supply (Indicative)		**2,372**

Source: HVS Research

INVESTMENT MARKET OVERVIEW

- The majority of hotel transactions in Taiwan, over the years, have involved properties in Taipei.

TOTAL INVESTMENT VOLUME (2007 - JUL 2014 YTD, US$)



Source: RCAnalytics, HVS Research

- Between 2007 and year-to-date July 2014, the value of hotel transactions in Taiwan stood at US $1,471 million. During the same period, the value of hotel transactions in Taipei was recorded to be US$1,083 million, representing slightly more than 73% of the country's transaction volume.

HOTEL TRANSACTIONS (2011– 2014, US$)

Transaction Date	Asset	Location	Rooms	Estimated Sales Price (US$)	Estimated Price per Room (US$)
2014	Ching-Cheng Building	Taipei	199	366,100,000	1,840,000
2013	Chia-Li Hotel	Taipei	41	15,770,000	385,000
2013	Fushin Hotel	Taipei	214	40,030,000	187,000
2012	Look Hotel	Taipei	94	55,280,000	588,000
2012	Holiday Inn	Taipei	259	64,490,000	249,000
2012	Imperial Hotel	Taipei	288	157,800,000	548,000
2011	Tashee Resort	Dasi	208	50,110,000	241,000
2011	Onestar Hotel	Taipei	45	25,900,000	576,000

Source: RCAnalytics, HVS Research

MARKET OUTLOOK

- Taipei, being Taiwan's gateway city, will benefit from the overall growth in tourism in the country, majorly driven by the increasing propensity of the Chinese to travel abroad.

- Given the supply and demand dynamics, we expect that the performance of Taipei's hotel market will remain relatively stable in the near future.

THAILAND


BANGKOK
PHUKET

THAILAND

Direct Contribution to GDP will grow by 6.7% per annum until 2024.

Total Contribution to GDP will grow by 6.4% per annum until 2024.

Source: WTTC

Highest recorded transaction of 2014:

Hilton Huahin was sold for US$ 99 million or approximately US$334,000 per key.

Source: RCAnalytics

ECONOMIC UPDATES

- Following months of demonstrations, the May 2014 military coup that took place in Thailand is expected to improve the political stability of the country in the short term, but it does little to diffuse Thailand's deep political divisions. Consequently, a number of countries have issued travel advisories against Thailand, which has deterred tourists from visiting the country.

- Economic revival is the top priority of the new government - the National Council for Peace and Order (NCPO). NCPO has expedited the process to pay farmers the amount owed to them under the previous government's rice-purchase scheme, and has approved public investment in infrastructure. It is expected that the Thai economy will recover in the latter half of 2014; however, due to the weak performance in the first half of the year, the real GDP is forecasted to grow only by 1.9% in 2014.

- The weak economic performance in 2013 slowed the pace of inflation in Thailand to 2.2% that year, however, a slight increase is anticipated in 2014. Going forward, although the government has capped the prices of several categories of household expenditure, the economic growth projected from 2015 onwards will increase the demand for the currently tightened labour market, exerting an upward pressure on wages, and resultantly the inflation.

- The Thai Baht weakened in 2013 due to the demonstrations and political instability in the country. Nonetheless, it is expected that the baht will appreciate slightly against the US dollar on the back of an overall economic recovery in Thailand over the forecast period. It should be noted that the baht and currencies in other emerging markets remain vulnerable to the sudden changes in investor sentiment as the US Federal Reserve reduces quantitative easing.

- Tourism is a major industry in Thailand. However, the country's martial law has had a negative impact on the industry in recent years, as tourists are no longer protected under their insurance policy. In an effort to attract visitors from the traditional source markets for the upcoming tourist season, and in order to revive the national economy, there are rumours that the Thai government is planning to lift the martial law soon. Some progress in this direction has been made on the political front.

ECONOMIC INDICATORS (2010 - 2016F)

	2010	2011	2012	2013	2014F	2015F	2016F
Real GDP Growth (%)	7.8	0.1	6.5	2.9	1.9	4.5	5.3
Inflation (%)	3.3	3.8	3.0	2.2	2.5	3.9	4.0
Exchange Rate THB:US$	31.7	30.5	31.1	30.7	32.3	32.4	32.3
Lending Interest Rate	5.9	6.9	7.1	7.0	6.8	7.4	8.0

Source: Economist Intelligence Unit, June 2014

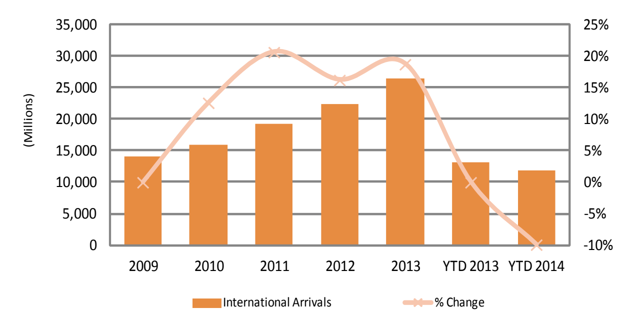
- The direct contribution of tourism to Thailand's GDP was 1,074.0 billion Thai Baht or 9.0% of GDP in 2013. The total contribution of tourism was 2,401.1 billion Thai Baht or 20.2% of GDP. Tourism's direct and total contribution to the country's GDP is estimated to grow to 2,046.7 billion Thai Baht and 4,472.5 billion Thai Baht, respectively, in 2024.

TOURISM MARKET OVERVIEW

- Previous projections indicate a target of 28 million visitor arrivals to Thailand in 2014. However, with weak results from the first half of the year, it is unlikely that the target for 2014 will be achieved. There were 11.7 million tourist arrivals recorded in year-to-date June 2014, representing a decrease of approximately 10% from the previous year.

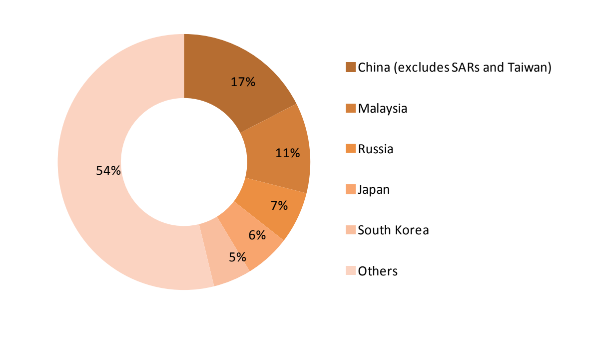
- Historically, Thailand's tourism industry has shown high resilience, bouncing back from multiple setbacks such as the 2010 redshirt demonstrations and the floods of 2011. Therefore, this time too, we expect the tourism industry to recover, gaining momentum when the abrogation of the Martial Law occurs. Hopefully, the annulment of this law will come into effect sooner than later so that Thailand's tourism industry can make the most of the upcoming peak season.

VISITOR ARRIVALS (2009 - JUN 2014 YTD)



Source: Department of Tourism, HVS Research

TOP SOURCE MARKETS (2013)



Source: Department of Tourism, HVS Research

- Between 2008 and 2013, China was the fastest growing source market for Thailand with visitor arrivals increasing at a compound annual growth rate (CAGR) of 41%. China became the leading source market for Thailand in 2012, toppling Malaysia. Arrivals from China grew by 66% in 2013 over the previous year.

- The second fastest growing source market for Thailand is Russia. This source market has grown by 40% per annum between 2008 and 2013. Currently, Russia accounts for 7% of the total international arrivals to Thailand.

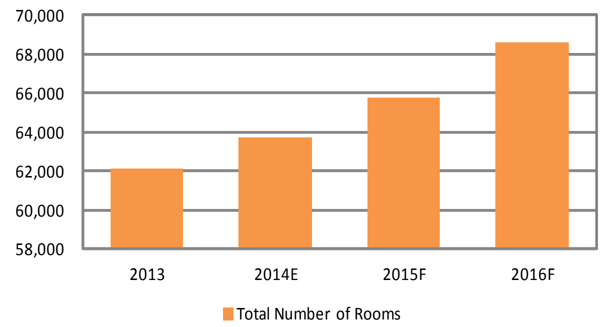
- Europe is the traditional source market for Thailand. However, in recent years, the proportion of European arrivals to the country has seen a decline from 27% of total arrivals in 2008 to 23% of total arrivals in 2013. It is worth noting, however, that this source market has been growing consistently at a rate of 10% per annum during this period. The decreasing share of Europe in the total arrivals to Thailand is a result of the astonishing growth recorded by other source markets such as China and Russia. Additionally, we observe a displacement of demand from this traditional source market to other destinations within the country, such as from Phuket to Phang Nga and Khao Lak for instance.

HOTEL MARKET OVERVIEW

- According to our research, we expect Thailand to witness a fairly consistent growth in hotel supply over the next few years.

- Majority of the new developments are proposed in Bangkok, Phuket, Pattaya and Hua Hin. In terms of room count, these four destinations together account for 90% of the total pipeline of internationally branded hotels, while Bangkok alone accounts for almost 40% of the total proposed supply.

INDICATIVE HOTEL SUPPLY (2013 - 2016F)



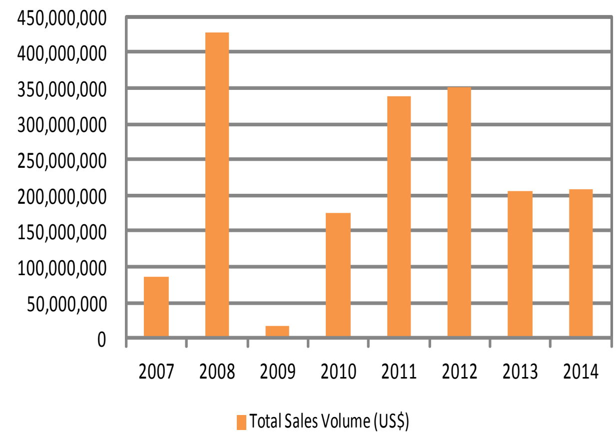
Source: HVS Research

INVESTMENT MARKET OVERVIEW

- The total hotel transaction volume in Thailand till year-to-date June 2014 was US$204 million, with an average transaction price of US$240,000 per key. Interestingly, the transaction volume in the first half of 2014 has exceeded the volume recorded for the full-year 2013.

- The largest transaction year-to-date June 2014 was the sale of the Hilton Hua Hin, valued at approximately US$99 million or US$334,000 per key.

TOTAL INVESTMENT VOLUME (2007 – JUN 2014 YTD, US$)



Source: Real Capital Analytics, HVS Research

- For many years now, there have been political discussions with regards to the introduction of property tax in Thailand. Although past initiatives have been shelved, the current government is reviving the discussions on this subject. However, the main target of the property tax discussion appears to be vacant land as opposed to income generating real estate assets, such as hotels.

MARKET OUTLOOK

- The political demonstrations that began at the end of November 2013, leading to a political deadlock, and culminated in a military coup in May 2014, have deterred some tourists from visiting Thailand. However, given the resilience of Thailand as a tourism destination, we expect tourist arrivals to the country to revive and continue on their previous growth trajectory once the political situation normalises.

THAILAND - BANGKOK

BANGKOK

CITY OVERVIEW

- Bangkok is the economic and administrative centre of Thailand with a registered population of more than 10 million people in Greater Bangkok.

- It is the capital city and acts as the gateway to Thailand. There are two airports in Bangkok. The Suvarnabhumi Airport serves as the primary airport, while the Don Muang Airport functions as the secondary airport. The Don Muang airport mostly serves the short haul and domestic flights of low-cost carriers, while the Suvarnabhumi Airport provides access to long-haul flights.

TOURISM MARKET OVERVIEW

- The construction of the Suvarnabhumi Airport was completed in September 2006, replacing Don Muang as Bangkok's primary airport. The Suvarnabhumi Airport has a capacity of 45 million passengers per year. In 2010, the Thai Cabinet in principal approved the 62.5 billion baht expansion plan for the airport's second phase in order to increase its capacity by an additional 15 million passengers. However, the National Council for Peace and Order (NCPO) asked Airports of Thailand (AOT) to review its investment plan. Resultantly, the AOT has postponed the plan for the Suvarnabhumi Airport Phase 2 to 2024 and proposed a new investment plan of 24 billion baht instead, which will include the construction of a new passenger terminal and a monorail. This will increase the capacity of the Suvarnabhumi airport by approximately 15 to 20 million passengers. The construction of the new terminal and the monorail is expected to begin in 2015 and be completed by 2018.

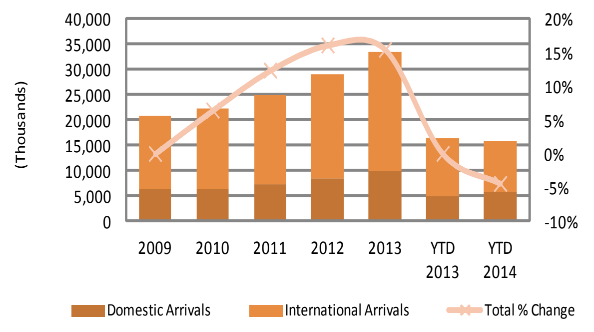
- Currently, Don Muang Airport has a capacity of 18.5 million passengers per year. The AOT has plans to renovate the Passenger Terminal 2 and other facilities by the end of 2014. This will see the airport's capacity increase to 30 million passengers per year.

- Based on the data from the Ministry of Tourism, in 2012, there were approximately 22.3 million international arrivals in Thailand, with approximately 16.9 million foreign visitors entering the country via Bangkok.

- Thailand is a major tourist destination, and as such it is not surprising that the majority of the arrivals to Bangkok, the country's main port of entry, is dominated by international arrivals. International arrivals account for approximately 70% of all arrivals in Bangkok; however, the recent political turmoil has had a noticeable adverse impact with the share of international arrivals declining to 63% of the total arrivals in the city for year-to-date June 2014. The main deterrence for international tourists visiting Thailand is the lack of insurance coverage due to the martial law. However, there has been political progress, which could eventually lead to the annulment of the martial law.

- It is important to note that in the graph below, international and domestic arrivals correspond to the origin of the passenger's flight and not the nationality of the passenger.

VISITOR ARRIVALS (2009 - JUN 2014 YTD)



Source: Airports of Thailand, HVS Research

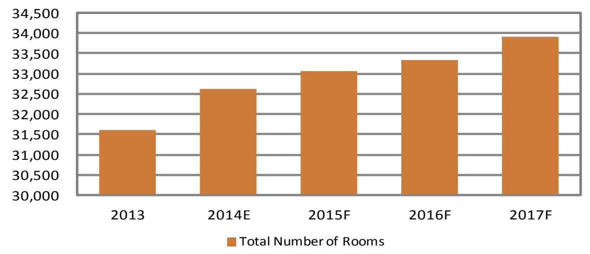
- Tourist arrivals to Bangkok declined significantly during the recent political turmoil as Bangkok witnessed many months of protests with sporadic violence, which began in November 2013, and ultimately led to the military coup in May 2014. Although the coup has reduced the potential of further violence occurring in Bangkok and Thailand, tourist arrivals have not rebounded fully as the country is still under the martial law.

- It is expected that, once the martial law is lifted, tourist arrivals to the country, and Bangkok, will pick up again. This forecast is based on the fact that Bangkok (and Thailand) has proven to be resilient as a destination, recovering quickly from historical setbacks such as the 2010 Red Shirt demonstrations as well as the flood in 2011.

- Bangkok experiences less seasonality compared to other destinations in Thailand, with the city recording minor drops in passenger arrivals in May, June and September.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2013 – 2017F)



Source: HVS Research

- The supply of internationally branded hotels in Bangkok is expected to grow. Luxury brands such as Park Hyatt, Rosewood, Ritz-Carlton and Waldorf Astoria are seeking to establish their presence in the city. Moreover, Bangkok is likely to see more mixed-use developments such as the Okura Prestige at the Park Ventures and the Park Hyatt which will be at the Central Embassy.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 – 2016)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	BW PREMIER River View	145
	BW Wanda	180
	Holiday Inn Express Bangkok Sathorn	183
	Holiday Inn Express Bangkok Sukhumvit 11	161
	Le Méridien Suvarnabhumi Golf Resort & Spa	223
	Park Hyatt Bangkok Central	222
	Ramada Plaza Bangkok Sukhumvit	294
2015	Avani Riverside Bangkok Resort & Spa	249
	Hyatt Regency Bangkok Sukhumvit	271
	The Ritz-Carlton Residences, Bangkok Sathorn	194
	Hotel Indigo	182
2016	Bangkok Edition Hotel	155
	Bangkok Marriott Hotel Queen's Park	1260
	Marrott Executive Apartments Bangkok, Surawong	280
	Hyatt Place Bangkok Sukhumvit	200
	Mövenpick Hotel & Residence Bangkok, Thailand	366
	Rosewood Bangkok	155
	The Ritz-Carlton, Bangkok	286
	Waldorf Astoria Bangkok	171
TBC	Bangkok Marco Polo	321
Total Proposed Room Supply (Indicative)		**5,498**

Source: HVS Research

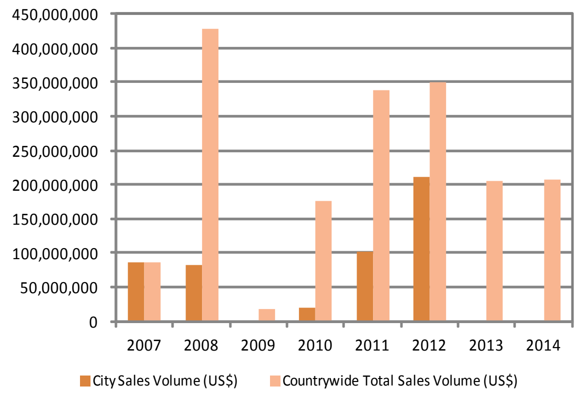
- The majority of the new developments in Bangkok are coming up in the west towards the Chao Praya River. These developments will mostly be mixed-use projects with multiple components, such as the Icon Siam and the Landmark Waterfront. The Icon Siam will house a hotel, residential and retail spaces, while the Landmark Waterfront project will comprise hotel and residential components. It is worth noting that historically, hotels located on the eastern side of the Chao Phaya River outperformed those on the western side.

INVESTMENT MARKET OVERVIEW

- The political instability that started in November 2013 has dampened the appetite for investment in hotel assets in Bangkok.

- All hotel transactions in 2013 and 2014 have occurred in other parts of Thailand.

TOTAL INVESTMENT VOLUME (2007 - JUL 2014 YTD, US$)



Source: HVS Research

- Although the introduction of a property tax has been on the political agenda for many years, it has never materialised. While the current government is reviving talks about it, it seems that the main target of the property tax discussion is vacant land, as opposed to income generating real estate assets, such as hotels.

HOTEL TRANSACTIONS (2011 - 2012, US$)

Transaction Date	Asset	Rooms	Estimate Sales Price	Estimate Price per Room
2012	Natural Ville Executive Residences	150	12,400,000	83,000
2012	Centre Point Hotel & Residence Petchburi	266	36,200,000	136,000
2012	Centre Point Hotel & Residence Sukhumvit	162	46,600,000	288,000
2012	Centre Point Hotel & Residence Langsuan	178	23,100,000	130,000
2012	Centre Point Sukhumvit-Thonglo	156	45,300,000	290,000
2012	8 Thonglor (8-15F)	133	46,900,000	353,000
2011	White Orchid	315	16,700,000	53,000
2011	Sofitel Bangkok Silom	469	66,500,000	142,000

Source: RCAnalytics, HVS Research

MARKET OUTLOOK

- Bangkok is seeing new developments, mostly mixed-use, towards the west of the city, namely on the banks of the Chao Praya River. Historically, the performance of hotels in the east and the west bank of the Chao Praya River have varied widely, with the hotels on the eastern side commanding a premium over those on the west.

- Going forward, we believe that despite the infrastructure challenges regarding accessibility to the west bank, new demand generators such as Icon development's shopping mall, as well as the rumoured TCC Land's retail development, Asiatique 2, will help drive demand to this side of the river, likely leading to increases in ADR.

- Bangkok has proven to be a resilient tourist destination. The occupancy and overall performance of Bangkok's hotel market is expected to recover fairly quickly once the martial law is lifted. Thailand's geographic location within the heart of the ASEAN Economic Community, will likely lead to increases in corporate and business transient demand over the coming years. Furthermore, political stability within the country will offer Bangkok the opportunity to position itself as a major destination for Meetings, Incentive, Conferencing, Exhibitions (MICE) within Asia Pacific. Overall, while the city will continue to thrive as a leisure destination, the aforementioned segments will provide an opportunity for growth in the medium term.

THAILAND - PHUKET

PHUKET

CITY OVERVIEW

- Thailand's largest island, Phuket, is one of the country's most iconic and popular resort destinations. Understandably, tourism is a major industry of the island. Interestingly, as Phuket gets intensely developed, newer source markets are beginning to displace the traditional demand from European countries which is now moving towards other destinations in Thailand such as Phang Nga and Khao Lak.

- Shortly after the coup, in a bid to improve the attractiveness of Phuket as a destination, the Thai government clamped down on illegal taxis, which overcharged tourists across the island. The government also removed all vendors, restaurants and beach clubs that previously were found encroaching on prime beach front land.

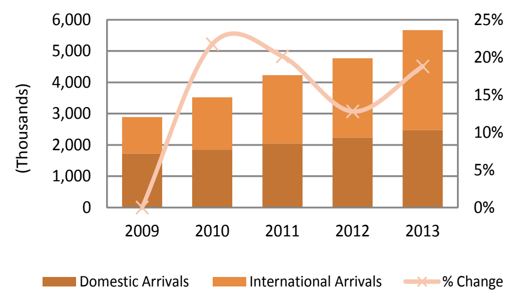
TOURISM MARKET OVERVIEW

- The political crisis in Thailand has had a varied impact on different tourist destinations in the country. In contrast to Bangkok, Phuket still experienced a slight growth in arrivals at the Phuket International Airport.

- Even though it is impossible to ascertain how much demand has been displaced due to the political situation, once the martial law is lifted, tourist arrivals to Phuket are expected to grow at a faster pace than that recorded in the previous years.

- The completion of Phuket International Airport's X-Terminal in February 2014 has increased the airport's capacity from 6.5 million passengers per year to approximately 7.2 million passengers per year. This will alleviate some of the passenger congestion until the expansion of the Phuket International Airport is completed, which will ultimately see the airport's capacity increase to 12.5 million passengers.

VISITOR ARRIVALS (2009 - 2013)

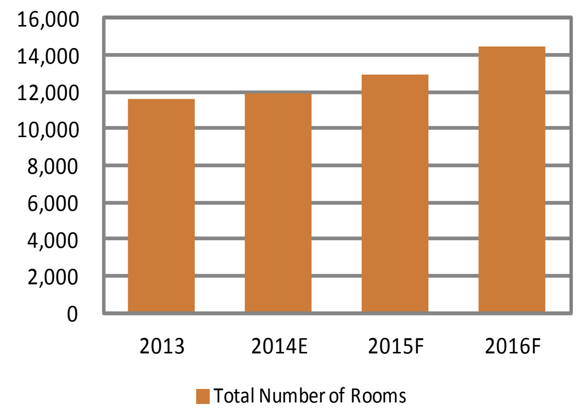


Source: Airports of Thailand, HVS Research

- Compared to other resort destinations such as Krabi, Phuket, due to the diverse composition of its source markets, experiences only minor seasonality with a slight dip in passenger arrivals in May and September. The influx of short-haul Asian visitors, mainly from China and South Korea, helps to effectively smooth the troughs of visitor arrivals during the low season.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2013 – 2016F)



Source: HVS Research

- Factors such as the increase in airport capacity, improvements in infrastructure and continued growth in demand, have increased the interest in hotel development on the island.

- Upscale and luxury brands, such as Four Seasons, Rosewood and Park Hyatt, will be establishing their presence in Phuket in the near future.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2018)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Aloft Phuket Patong	300
	BW Patong Beach	220
	Days Hotel Phuket Town	120
2015	Amari Residences Phuket	148
	Rosewood Phuket	112
	Holiday Inn	283
	Novotel Phuket Karon Resort & Spa	210
	ibis styles Phuket Town	120
	Novotel Phuket Town	180
	InterContinental	240
2016	BW PLUS The Beachfront Hotel	192
	Centara Grand Moringa Resort & Spa Phuket	350
	Centra Bangtao Resort Phuket	150
	Fisherman Harbour Hotel & Spa Patong by Centar	364
	Four Points by Sheraton Phuket, Patong	300
	Park Hyatt Phuket	105
	Phuket Marriott Resort & Spa, Nai Yang Beach	197
	Hotel Indigo	135
2018	W Retreat Phuket	79
	Four Seasons Resort Phuket	130
Total Proposed Room Supply (Indicative)		**3,935**

Source: HVS Research

- Central Group has plans to develop three locations across the island. A site on the northern part of the island is planned to be a massive, ultra-modern shopping mall. In the central part of the island, the Group is planning to develop the third phase of Central Festival. Lastly, for a site on the western part of the island, Central plans to develop a massive resort town with hotel, mall, high-end residential, modern offices and entertainment facilities.

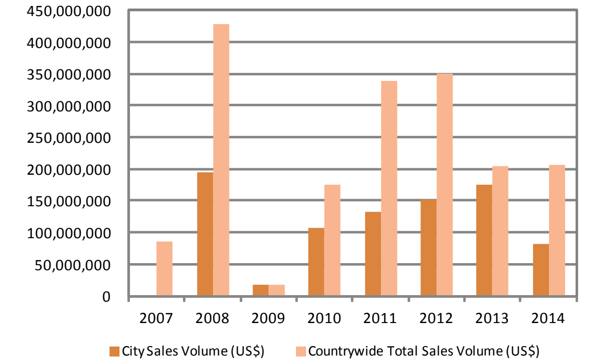
- Additionally, the Mall Group plans to develop "Blu Pearl", with an aim to make it the Siam Paragon of Phuket. The project is expected to be completed in 2017, and is rumored to consist of retail space, as well as a theme park and a convention centre.

INVESTMENT MARKET OVERVIEW

- Compared to Bangkok, Phuket's transaction market is much more active with the majority of transactions in 2013 in the country involving properties in Phuket.

- Out of the four properties that were purchased year-to-date August 2014 in Thailand, two are located in Phuket, namely the Amanpuri and the Burasari. The combined value of these two transactions was approximately US$82 million or US$270,000 per key.

TOTAL INVESTMENT VOLUME (2007 - AUG 2014 YTD, US$)



Source: RCA, HVS Research

HOTEL TRANSACTIONS (2012 – 2014, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
2014	Burasari Resort Patong	186	40,120,000	216,000
2014	Amanpuri	115	41,750,000	363,000
2013	Hyatt Regency Phuket Resort	211	59,220,000	281,000
2013	Laguna Beach Resort	252	117,000,000	464,000
2012	The Evason Phuket Resort	260	43,990,000	169,000
2012	Bundarika Villas & Suites	47	5,970,000	127,000
2012	Movenpick Resort & Spa Karon Beach Phuket	362	90,210,000	249,000
2012	Woraburi Phuket Resort & Spa	207	12,400,000	60,000

Source: RCA, HVS Research

MARKET OUTLOOK

- The influx of Asian and Russian travellers to Phuket has led to some displacement of demand from its traditional source markets. As the European demand moves northwards in search of unadulterated and nascent destinations, developers are following suit with projects underway to the north of Phuket in order to fulfil this demand.

- Layan and Mai Khao still receive a lot of attention from developers. In Layan, developers are looking to construct luxury villa products while in Mai Khao, upscale and luxury properties are being considered. Moreover, the recent opening of Point Yamu by COMO indicates that we may start seeing more developments on the east coast of the island.

- Furthermore, we anticipate the retail developments from the Mall Group and Central Group to add new demands generators in Phuket.
- Compared to Bangkok, Phuket has been relatively unscathed by the recent political turmoil. When the martial law is lifted, especially if it is lifted before the start of the high season booking window, we expect the Phuket hotel market to recover from the slight setback it has faced, relatively quickly.

MYANMAR


YANGON

MYANMAR

Tourism's contribution to GDP in 2013 : MMK 930.4 billion (1.6%)

Source: World Travel & Tourism Council

Hotel Supply : 923 Hotels with 34,834 Rooms

Source: Ministry of Hotels and Tourism

Airport Statistics:

Yangon International Airport accounts for 90.8% of all air arrivals.

Source: Ministry of Hotels and Tourism

ECONOMIC UPDATES

- Myanmar's GDP growth is mostly driven by foreign investments in a large number of sectors such as power, petroleum, infrastructure and telecommunications, mainly from China, South Korea and Thailand. Investments in Myanmar are forecasted to grow at an average of 14.8% from fiscal year 2015 to 2019 (April-March), resulting in an estimated GDP growth of approximately 7.1% per annum during this period.

- Consumer prices are estimated to rise at 6.3%-6.7% per annum from 2014 to 2016. The increase in electricity prices from 1 April 2014 has accelerated the inflation for this year to 6.4%, from 5.5% recorded in 2013. Going forward, an increasing domestic credit and strengthening of local demand will place further upward pressure on consumer prices in 2015.

- Moreover, it is expected that the Kyat will depreciate over the forecast period with development of large infrastructure and energy-related projects driving demand for the import of capital goods and industrial raw materials.

- Travel and Tourism had a direct contribution of 1.6% towards Myanmar's GDP in 2013, representing MMK 930.4 billion. This is forecast to rise to 1.8% of GDP by 2024, representing a growth of 6.9% per annum. In terms of total contribution, Travel and Tourism accounted for 3.7% of the country's GDP in 2013, and is expected to grow by 7.0% per annum to 4.1% of GDP in 2024.

- The continuation of Myanmar's reintegration into the global economy will be dependent on the highly anticipated results of the 2015 election. It is expected that the National League for Democracy (NLD) will gain a large representation in the legislature, which could possibly allow Aung San Suu Kyi to become the President.

ECONOMIC INDICATORS (2010 - 2016F)

	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	4.5	4.8	5.0	5.5	6.4	6.7	7.1
Inflation (%)	7.7	5.0	1.5	5.5	6.4	6.7	6.3
Exchange Rate MMK:US$	970.0	815.0	853.5	929.8	976.5	1,006.7	1,018.2
Lending Interest Rate	17.0	16.3	13.0	13.0	13.0	14.0	14.0

Source: Economist Intelligence Unit, June 2014

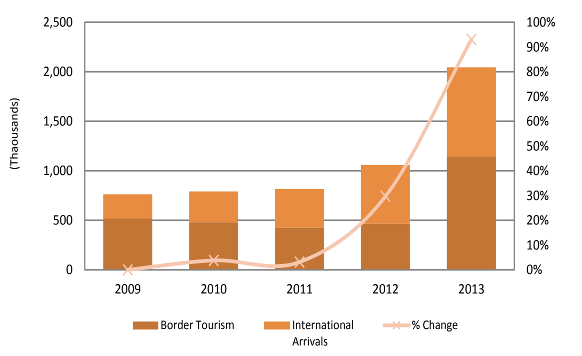
TOURISM MARKET OVERVIEW

- Following Myanmar's transition to a civilian government and subsequent political reforms, the West has eased its sanctions against the country. This has contributed to an increase in the number of visitors coming to Myanmar to explore this 'last frontier'.

- Between 2011 and 2013, the total number of visitors to Myanmar increased from approximately 815,000 to over two million, representing a compound annual growth rate (CAGR) of 58.2%.

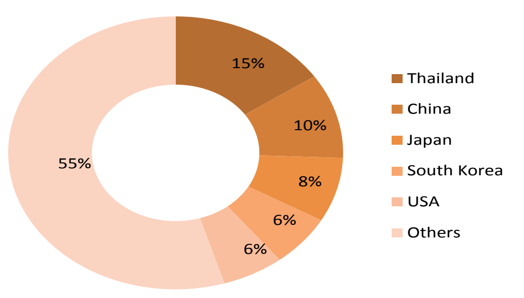
- Approximately, 55% of all visitors to Myanmar access the country via its land border, while the rest arrive at one of its four main airports: Yangon, Mandalay, Nay Pyi Taw and Mawlamyine. Of these, Yangon International Airport accounts for 90.8% of all arrivals by air to the country.

VISITOR ARRIVALS (2009 - 2013)



Source: Ministry of Hotels and Tourism, HVS Research

TOP SOURCE MARKETS (2013)



Source: Ministry of Hotels and Tourism, HVS Research

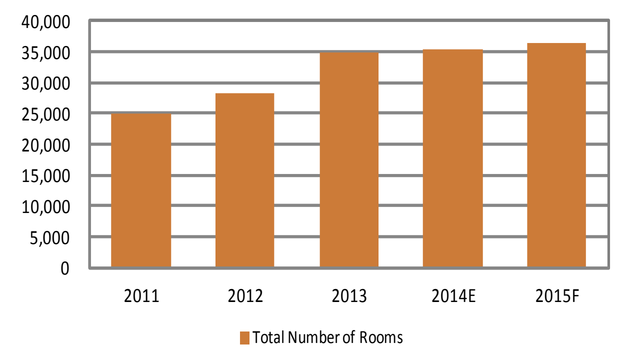
- The largest source markets for Myanmar are Thailand, China, Japan, South Korea and the USA. As Thailand, China and South Korea have significant investments in Myanmar, it is not surprising that they are among the largest source markets for the country. It is also important to note that Thailand and China figures are understated in the chart above as it excludes border tourism and these two countries share large borders with Myanmar.

- Japan has been the fastest growing source market for Myanmar in recent years, registering a compound annual growth of 44.6% between 2008 and 2013. This is largely attributed to Japanese companies scouting for business opportunities in Myanmar.

- Additionally, from 2008 to 2013, the number of visitors from the United Kingdom has increased at a CAGR of 43.8%. Furthermore, Myanmar has also seen large growth in the arrivals from other European countries. This is primarily driven by the demand from the leisure segment.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2011 – 2015F)



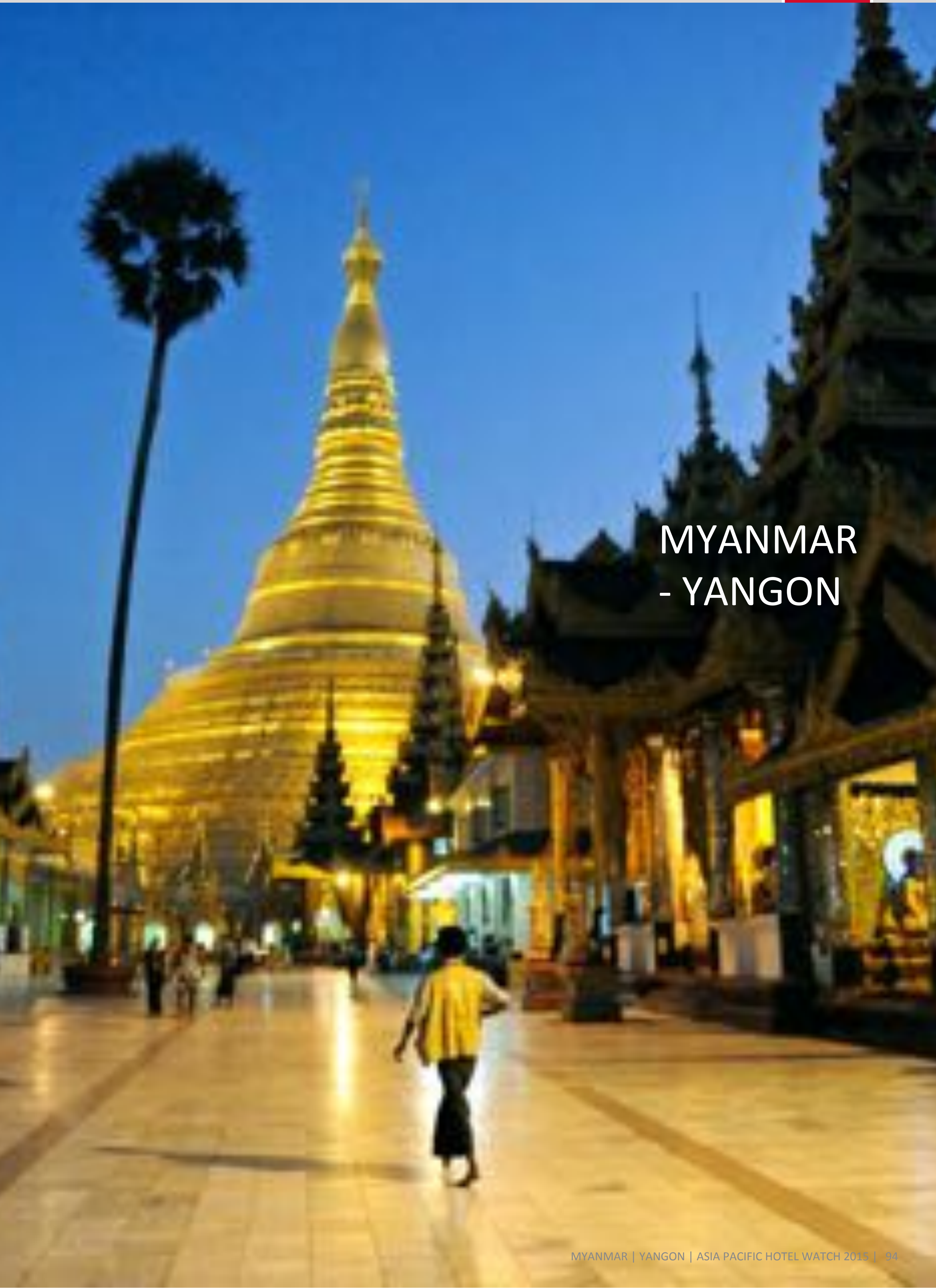
Source: Ministry of Hotels and Tourism HVS Research

- According to the Ministry of Hotels and Tourism, as of December 2013, Myanmar had 34,834 rooms across 923 hotels. Of these, six hotels are considered five-star and 17 are considered four-star.

- The majority of the hotel supply is located in key destinations such as Yangon, Mandalay, Nay Pyi Taw and Bagan. These destinations account for 60% of total hotel rooms in the country, with Yangon alone accounting for almost 30% of the total rooms' supply.

MARKET OUTLOOK

- The success of Myanmar's tourism industry will depend on the development of the required infrastructure within each major destination in the country, including improving their connectivity and accessibility. Currently, the majority of leisure demand to Myanmar uses Yangon as a gateway city to travel to other destinations within the country.
- Following the recent surge in tourism demand, room rates in Myanmar have risen dramatically in the past few years. Consequently, investment activity in the hotel market of the country has risen, with several new hotels being constructed. We expect that the future increase in rooms' supply will place a downward pressure on the average rate, bringing it more in line with other markets within the region.



MYANMAR - YANGON

YANGON

CITY OVERVIEW

- Yangon is the commercial centre and the largest city in Myanmar with more than 4 million inhabitants. Furthermore, Yangon is the country's gateway city where international visitors stop en route to exploring other regions of the country.

- Yangon, similar to other regions in Myanmar, suffers from a prolonged low season, starting from April until October. The low season starts when business travellers subside as a result of the extended public holidays in April, for the water festival, Thingyan. This is then followed by the decline in leisure travellers as the monsoon season begins at the end of April.

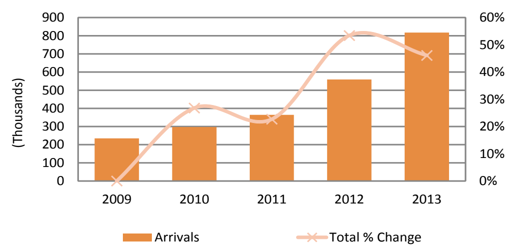
- Yangon benefits from both the leisure segment as well as the business segment as it is the commercial centre of Yangon and Myanmar's gateway city.

TOURISM MARKET OVERVIEW

- Yangon International Airport is the gateway airport of Myanmar accommodating approximately 90% of total air arrivals into Myanmar. In 2007, the airport's runway was expanded to 11,200 feet which allows it to accommodate both narrow and wide-bodied aircrafts.

- The expansion of the Yangon International Airport is expected to be completed in 2015. This would allow the airport to accommodate up to 5.5 million passengers. Furthermore, President Thein Sein has approved the construction of a new airport, located 60 kilometres north of Yangon. The new airport is expected to be completed in 2018 and will be able to handle 12 million passengers.

AIRPORT ARRIVALS (2009-2013)



Source: Ministry of Hotels and Tourism, HVS Research

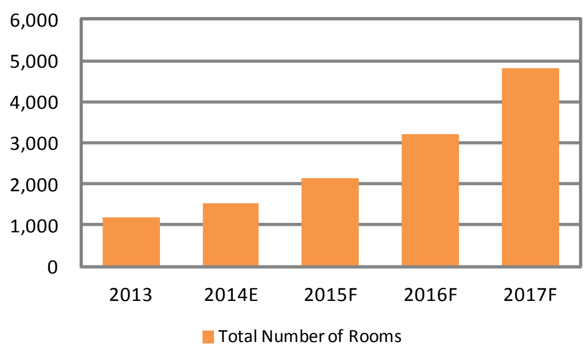
- Yangon, the gateway city of Myanmar, benefits from the large growth in tourism demand that Myanmar experiences as a result of its transition to a civilian government.

- Arrivals at Yangon International Airport have grown by an average of 49.7% per annum from 2011 to 2013, reaching approximately 820,000 visitors.

- Although there are no half-year 2014 statistics for Yangon International Airport available yet, the large growth seen in year-to-date June 2014 Myanmar's visitor arrivals is a positive indication that the arrivals to Yangon International Airport have experienced fairly large growth thus far.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2013 – 2017F)



Source: HVS Research

- According to the Ministry of Hotels and Tourism, there are 10,175 hotel rooms in Yangon. Out of the 10,175 hotel rooms, there are approximately 1,175 hotel rooms that are internationally branded. We expect that the number of internationally branded hotel rooms in Yangon will increase to approximately 4,800 by year-end 2017, representing a compound annual growth rate of more than 42%.

- International brands are seeking a presence in Yangon in order to benefit from the increase in demand for accommodations in the city. The Peninsula, Pullman, Novotel, Pan Pacific, Hotel Lotte and Kempinski are a few of the brands that will establish a presence in Yangon in the near future.

- The increase in visitor arrivals to Yangon have had little impact on occupancy of internationally branded hotels in Yangon which has been relatively stable at approximately 70% between 2010 and 2013. This is due to the result of two factors. Firstly, in order to cope with a lack of demand in years leading up to 2012, hotels leased some of its room inventory as office space. The increase in demand for accommodations has led hotels to terminate these contracts by 2012 and add these rooms back to their inventory. Secondly, despite running at close to 100% occupancy during the high seasons due to insufficient supply, Yangon still suffers from a prolonged low season.

- The increase in visitor arrivals have allowed internationally branded hotels to raise their rates substantially over the past few years. The Average Daily Rate (ADR) of internationally branded hotels in Yangon was approximately US$ 50 in 2010. This has risen to an ADR of approximately US$ 200 in 2013, representing an increase of 300% or approximately 60% per annum.

CITY PIPELINE

NEW HOTEL OPENINGS (2015-2018)

Anticipated Opening	Proposed Hotel	Location	No. of Rooms (Est.)
2015	Novotel	Pyay Road	366
	Pullman		300
	Hilton	Sule Pagoda Road	300
2016	Sedona (New Tower)	Inya Lake	400
	Hotel Lotte	Kandawgi Lake	663
2017	Kempinski	Strand Road	239
	Pan Pacific	Shwedagon Pagoda Road	348
	Shangri-La	Kandawgi Lake	350
2018	Melia		350
TBC	The Peninsula	Former Myanmar Railway HC	300
Total Proposed Room Supply (Indicative)			**3,616**

Source: HVS Research

- It is very likely that Yangon will continue to develop towards the north as it is bounded by a river on all other directions.

- We expect that there will be an addition of approximately 3,600 internationally branded hotel rooms to the Yangon market. Assuming that all these properties are developed by year-end 2018, this would represent a growth of approximately 42% per annum.

MARKET OUTLOOK

- Given a positive result from the upcoming 2015 election, we expect that the tourists arrivals to Myanmar will experience further growth from both leisure and business segments. Over the next few years, we expect a significant increase in the supply of hotel rooms that are of international standards which will place downward pressures on the average rates of hotels in Yangon. Over the long run, the performance of the Yangon Hotel market will be competitive with other markets in the Mekong region.

- In order for Myanmar's tourism demand to maintain its high growth, large improvements are still needed to be made to the country's infrastructure.

JAPAN


KYOTO
OSAKA
TOKYO

JAPAN

Tourism's contribution to GDP in 2013 : JPY 16.7 billion (3.5%)

Source: Mitsubishi UFJ Morgan Stanley Securities Co

Highest recorded transaction of US $296 m for Tokyo Bay Maihama Club and resort took place in July 2014.

Source: Real Capital Analytics

ECONOMIC UPDATES

- Japan is located in Northeast Asia and consists of four main islands. Honshu, being the largest island, is home to Japan's major cities, and is a centre of economic activity. On the other hand, Hokkaido and Kyushu, the northernmost and southernmost of the large islands, respectively, are both known for their great natural beauty, culture, and cuisine. The archipelago of Okinawa is the southernmost point of Japan, enjoying a semi-tropical climate; it is an important resort destination for the domestic tourism market.

- The manufacturing sector in Japan is dominated by the automobile industry as well as electronics. Despite slipping to being the third largest economy in the world behind the United States and China, Japan is one of the global leading manufacturers of electronics, with a particular emphasis on robotics. However, in light of the slump in exports experienced over the past three years, tourism is now being viewed by the current government as a key economic driver for the nation's future.

- The Japanese economy greatly suffered the adverse effects of the March 2011 Tohoku Pacific Earthquake, posting negative GDP growth by year end. However, the economy rebounded in 2012 and 2013, and is expected to continue to grow in light of the stimulus provided by the current government's monetary policy ("Abenomics"); albeit at a slow pace.

- One of the reasons for a slow pace of economic growth being projected is the introduction of sales tax in April 2014, with a round of increase expected in 2015. This is likely to impact hotels in particular, as this tax is levied on the room rate, adding to an already high tariff compared to other regional destinations.

- Japan is finally moving out of its deflationary cycle, and inflation of just below 2% has been forecasted till 2016 by the EIU, which is in line with that of developed economies, such as Singapore.

ECONOMIC INDICATORS (2010 – 2016F)

	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	4.7	-0.4	1.5	1.6	2	1.6	1.4
Inflation (%)	-0.7	-0.3	0.0	0.4	2.3	1.8	1.7
Exchange Rate JPY$:US$	87.78	79.81	79.79	97.60	102.00	102.3	102
Lending Interest Rate	1.5	1.5	1.5	1.5	1.5	1.6	2.1

Source: Economist Intelligence Unit, June 2014

TOURISM MARKET OVERVIEW

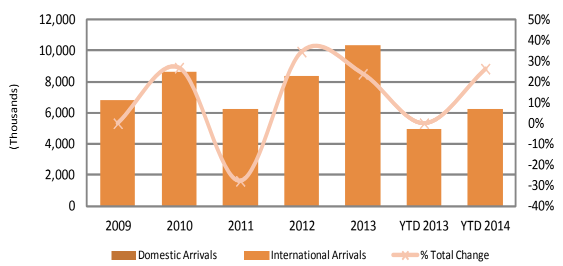
- Since 2009, the number of international visitors to Japan has increased by a compound annual growth rate (CAGR) of 11.2%. Following the earthquake and tsunami, which hit the country in March 2011, and ensuing fears over radiations from the damaged nuclear plants, the country experienced a sharp decrease in international visitation in 2011.

- Nonetheless, by 2012 the number of international visitors to Japan recovered to previous levels, and in 2013, it actually increased 20.4% over the previous historical high achieved in 2010. One of the goals of the current government is to increase foreign visitor arrivals to 20 million by 2020; this would mean almost double of the 10.3 million arrivals recorded in 2013.

- Year-to-date June 2014 figures show that this upward trend is continuing, with international visitation growing by 26% over the same period last year. The summer months have reportedly been particularly popular, with record breaking monthly arrivals noted in June and July 2014.

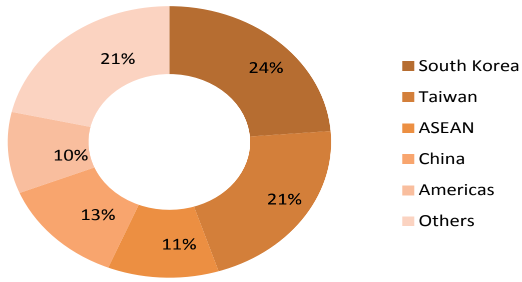
- Over the recent years, Japan has relaxed its visa requirements for many neighbouring countries to further stimulate visitor arrivals and to support its tourism economy. In July 2013, Japan cancelled visa requests for travellers from Malaysia and Thailand, and relaxed entry requirements for those from Vietnam and the Philippines, and more recently, for those from India since July 2014. Along with the devaluation of the Japanese Yen, which has made Japan more affordable and attractive for international visitors, ease of entry into the country has underpinned the recovery of foreign tourist arrivals.

VISITOR ARRIVALS (2009 - MAY 2014 YTD)



Source: Japan National Tourism Organisation (JNTO), HVS Research

TOP SOURCE MARKETS (2013)



Source: JNTO, HVS Research

- Historically, the top five feeder markets for Japan have remained stable, with neighbouring countries, South Korea and Taiwan being the two largest source markets. Since 2010, owing to the relaxation of entry visa requirements for visitors from China, arrivals from this market have shown an increase; although, there was a slight drop witnessed following the controversy over the Senkaku/Diaoyu Islands, which Japan nationalised in late 2012 and China continues to dispute. Current JNTO data (year-to-date July 2014) shows that arrivals from China grew by over 90% from the same period in 2013.

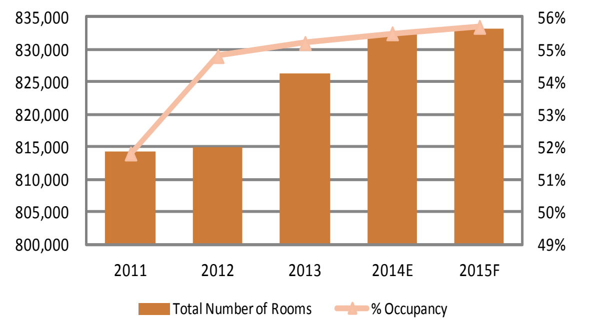
- Overseas leisure travellers to Japan constituted on an average between 70-73% of the total international visitors in the recent past, with business travellers representing another 16-18%, with the remainder travelling for other reasons. In 2013, however, the contribution from inbound leisure travel increased to 77%, growing at a faster rate than business travel.

- Overall, outbound travel from the country decreased in 2014, owing to the currency devaluation, which has made overseas travel more costly for the Japanese. However, this has stimulated domestic demand for holiday destinations, such as Hokkaido, which recorded increases in visitation in 2014. Japanese travel agencies reported increases in demand for domestic tourism packages.

- The top three destinations visited by international tourists in Japan are Tokyo, Osaka and Kyoto. Together, these three destinations account for nearly 50% of the international overnights in the country. Hokkaido, home to Asia Pacific's most well known ski resorts, accounts for a further 10-12% of international overnights in Japan.

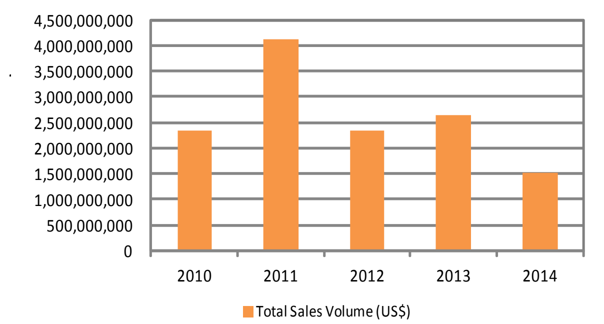
HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Japan Ministry of Health, Labour and Welfare, JNTO, HVS Research

TOTAL INVESTMENT VOLUME (2010 - JUL 2014 YTD, US$)



Source: RCA, HVS Research

- Internationally branded hotel supply is still heavily concentrated in the urban markets of Tokyo, including Tokyo Bay's Disneyland, Osaka and Kyoto. These three cities are connected via the high speed Shinkansen, which further encourages cross-visitation from international tourists thanks to relative proximity and easy access.

- Moreover, other large cities such as Nagoya and Fukuoka, as well the prime ski resort destination, Niseko (Hokkaido), have some internationally branded hotels. However, outside of these destinations hotel supply consists of mainly small, locally branded hotels or traditional Japanese inns (Ryokans).

INVESTMENT MARKET OVERVIEW

- Interest in the Japanese hotel real estate has gained momentum due to the favourable currency exchange rates for overseas investors. Increased inbound travel has further supported the hotel industry's performance, particularly in Tokyo, Osaka and surrounding areas.

- The largest transaction in the market in recent years was the sale of the Tokyo Bay Maihama Hotel Club Resort, located in Disneyland at Tokyo Bay. The 703-room hotel was purchased by Hulic Corporation for an estimated US$296 million (US $420,000 per key) in July 2014.

MARKET OUTLOOK

- The Japanese tourism market recovered quickly following the 2011 earthquake and tsunami that raised global safety concerns over travelling to Japan. However, the aggressive promotion campaigns by the Japan Tourism Agency, leisure travel recovered subsequently, and continues to increase, with 2014 expected to be a record year for international visitation to the country.

- The recent devaluation of the Yen against many international currencies has further spurred international travel to Japan while at the same time as encouraging domestic visitation to destinations within the country that are typically not visited by foreign tourists.

- Going forward, the second wave of sale tax increase is expected in 2015 which may dampen hotel performance slightly; however this effect is expected to be short-lived as seen with the April 2014 tax changes.

- The 2020 Olympics to be held in Tokyo has given further momentum to the hotel market, putting the spotlight on Tokyo's hotel market and the supply of accommodation in the greater Tokyo region.

- The much-discussed impending legalisation of gambling in Japan will impact the hotel market favourably once passed, with a number of large gaming companies such as Las Vegas Sands, Wynn Resorts and MGM already considering Tokyo and Osaka as potential locations per market reports.
- Integrated destination resorts in Japan, such as the Marina Bay Sands or Resorts World Sentosa in Singapore, if and when they come up, would not only spur growth in international tourism but also stimulate the domestic construction industry, services sector, and other areas of the Japanese national economy.

JAPAN
- TOKYO

TOKYO

CITY OVERVIEW

- With a population of just over 13 million, Tokyo is the largest metropolitan and the most densely populated area of Japan. As the financial and economic capital of the country, Tokyo is a world city and often regarded to be a model of modernity and technological advancement. Tokyo contributes an estimated 17.9% of the national GDP.

- Tokyo is the main gateway to Japan and a key national tourism destination, singlehandedly contributing up to 35% of the total international overnights and 14% of the total domestic overnights in the country.

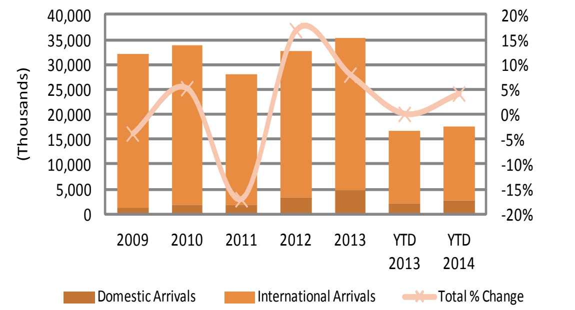
TOURISM MARKET OVERVIEW

- There are two airports serving Tokyo. Haneda Airport, which until recently served most of the domestic routes, and Narita International Airport, the main gateway for international travellers to Japan. Though flights to/from regional destinations (as well as select European and North American destinations) to Haneda have increased in the past 18 months, Narita remains the key access point for both Tokyo and Japan. This is reflected in the opposing patterns of domestic vis-a-vis international arrivals at both airports. Over 86% of the arrivals to Narita are international in origin, whereas at Haneda, over 88% of the arrivals are via domestic flights. Five years ago this pattern was even more pronounced with 96% of the arrivals to Haneda being domestic. Since then, the efforts to expand and improve this airport have more than doubled the volume of international traffic passing through Haneda.

- In 2013, the volume of arrivals at Narita International Airport reached a peak of just over 35 million, nearly an 8% increase over 2012. Year-to-June 2014 arrivals are already up 4% compared to the same period in 2013, spurred by a rise in demand from international visitors to the country, as well as increased domestic travel. Domestic arrivals at Narita have shown an increase of over 25% compared to 2013.

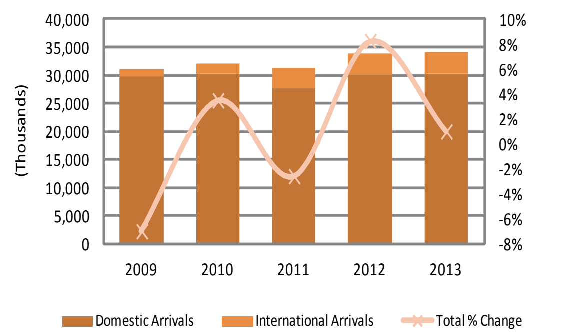
- In preparation for the 2020 Olympics, plans have been laid out to increase the number of routes served from Tokyo's two airports by up to 60%, and to transform the city into a regional hub on par with award-winning airport hubs such as Singapore's Changi Airport or Hong Kong International.

AIRPORT ARRIVALS - NARITA INTERNATIONAL AIRPORT (2009 - JUN 2014 YTD)



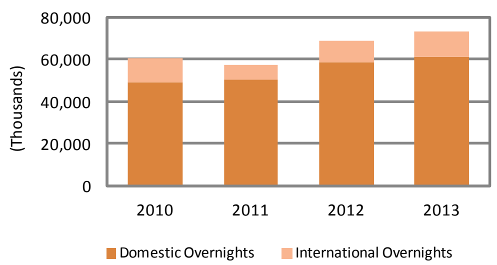
Source: Narita International Airport Corporate, HVS Research

AIRPORT ARRIVALS - HANEDA AIRPORT (2009 - 2013)



Source: Haneda Airport, HVS Research

VISITOR OVERNIGHTS (2010 - 2013)



Source: JNTO, HVS Research

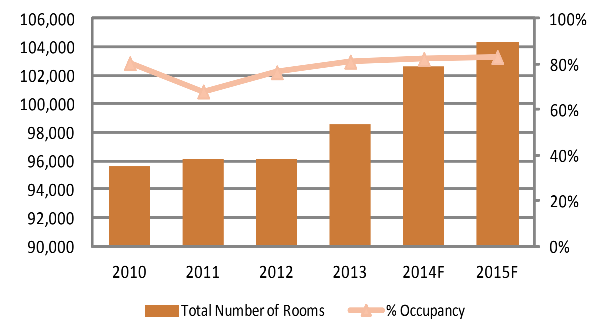
- Following the Tohoku tsunami and earthquake in 2011, Tokyo experienced a sharper decline in international visitors than the rest of Japan - 35% vs 28%, respectively. Due to its proximity to the damaged nuclear facility at Fukushima (located 380 kilometres outside the greater Tokyo area) concerns of radiation leakage lingered for many months, raising questions about contaminated water and food supply.

- However, by 2012 the city recovered with a strong increase in domestic visitors – which it should be noted had not declined the previous year – and international visitors rebounding close to pre-2011 levels. Owing to the pivotal role that Tokyo plays for Japan's national economy, as well as its image in the global tourism market, the Japan National Tourism Board spent over US$60 million on promotional campaigns at trade shows in Europe as well as major regional cities such as Singapore, to dispel concerns over the after effects of the 2011 earthquake.

- In 2013, the city continued to show growth in arrivals, with a record-breaking 11.8 million international visitors. Notably, despite its international appeal as a tourist destination, domestic visitors continue to dominate the Tokyo market, constituting over 80% of the visitors to the city. Although this includes Tokyo Disney, located at Tokyo Bay in Chiba, which is a major local attraction, it is indisputable that Tokyo, along with the rest of Japan, remains a largely domestic tourist destination.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2010 - 2015F)



Source: Ministry of Health, Labor and Welfare, HVS Research

- While hotels are dispersed throughout the sprawling Metropolitan Tokyo area, the central wards of Chiyoda, Chuo, Minato, Shibuya and Shinjuku host the highest density of both local and internationally branded hotels. These wards represent a large variety of high profile Tokyo neighbourhoods such as Ginza (high-end shopping), Marunouchi (corporate headquarters), Akihabara (electronics), Roppongi (nightlife and entertainment), Akasaka and Shinbashi (business centres), Shinjuku (corporate, entertainment, dining), and so forth.

- According to JNTO, from 2011 to 2013, Tokyo hotels showed an increase in occupancy from 68% to 81%, respectively. This increase was led by city-centre hotels, which recorded average occupancy growing from 69% in 2011 to 85% in 2013. Additionally, Tokyo hosted a number of events such as the World Travel and Tourism Council Global Summit, and the International Monetary Fund and World Bank annual meetings in 2012 that further supported rise in occupancy.

- Ryokans have shown a decline in occupancy performance over the last three years, from 54% in 2010 to 34% in 2013; this trend is in line with demand for traditional ryokans being replaced by hotel-style accommodation.

- Marketwide occupancy for Tokyo is expected to increase 1.5% by year end 2014, and a further 1% in 2015, on the back of continued growth in both domestic and international visitations, which will help offset the impact of new supply increases.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2016)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Aman Tokyo	84
	Millennium Mitsui Garden Hotel	245
	APA Hotel Shinjuku Kabukicho	620
	Royal Park Hotel The Haneda	315
	APA Hotel Kanda Ogawamachi	187
2015	Hotel Unizo Ginza	306
	Hotel Unizo Ginza Nanachome	226
	Gracery Hotel Shinjuku	970
	APA Higashi Shinjuku Kabukicho	165
	APA Kanda Ogawa Station	187
	APA Asakusa Station North	160
	APA Roppongi Station	121
	APA Shinjuku Kabukicho Tower	620
	APA Shinagawa Station Sengakuji	557
2016	Hoshinoya Tokyo	84
Total Proposed Room Supply (Indicative)		**4,847**

Source: HVS Research

- Hotel supply in Tokyo is set to increase rapidly over the years leading up to the 2020 Olympics, with domestic operators such as APA Hotels anticipated to open six properties in the city in 2015 (total of approximately 1,810 rooms), with more to come in the future.

- The much anticipated Aman Tokyo is expected to open in late 2014, atop a new office development in Otemachi, near the Imperial Gardens. As Aman's first truly urban property, this should be an interesting development both for the city and the brand. Nearby, Hoshino Hotels and Resorts are bringing the first luxury ryokan establishment to central Tokyo with the Hoshinoya Tokyo set to open in 2016. Comprising 84 rooms (45 to 80 square metres in size) outfitted in a traditional Japanese style with tatami mats, and a unique urban onsen (hot spring), the property seeks to offer the ryokan experience to its targeted international clientele.

- Due to the lack of available sites for hotel development in central Tokyo, new hotel projects are focused on redeveloping smaller sites in areas such as Ginza, as well as larger sites in more peripheral locations to the south and northwest of the central core. Shinjuku is seeing ample development activity, including the 970-room Gracery Hotel set to open in April 2015, and the 620- room APA Hotel expected to open by end of 2014. The waterfront area, which will host the Olympic Village, is anticipated to see increased development activity in the immediate future.

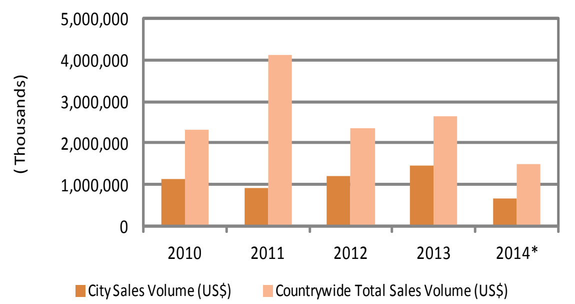
- With the expansion of the Haneda Airport that now caters to more regional and some long-haul flights, the hotel supply surrounding the airport is expected to increase, initially with the Royal Park Hotel The Haneda opening towards the end September 2014.

- Mitsui Garden Hotels, owned by Mitsui Fudosan, and Millenium Hotels have joined hands to open their first co-branded property in Ginza, by year end 2014. The 245-room property will be operated by Mitsui Garden Hotels and will be featured on both companies' websites and distribution channels.

INVESTMENT MARKET OVERVIEW

- Japan, and in particular Tokyo, is seeing significant investor interest from both domestic and international players. The lack of assets available on the market in central Tokyo has pushed investor interest to areas such as Tokyo Bay, which features large investment-grade hotels.

TOTAL INVESTMENT VOLUME (2010 - JUL 2014 YTD, US$)



Source: Real Capital Analytics, HVS Research

- In 2012 and 2013, Tokyo accounted for over 55% of the transaction volume in Japan. So far in 2014, Tokyo's share has declined to 45% of the total, indicating that other regional destinations or metropolitan peripheral locations are becoming increasingly attractive to investors.

- Three of the largest single transactions for Greater Tokyo since summer 2013 involved the sale of hotels located at Tokyo Bay in Chiba Prefecture, well outside the city centre of Tokyo.

- Fortress Investment sold a portfolio of 15 budget properties around Japan (six of which are located in Tokyo) to Invincible Investment Corp in July 2014; these were recently rebranded as 'MyStays' and 'FlexStays' by the operator.

- The B Roppongi was acquired by United Urban Investment, reportedly at a yield of just below 5% in May 2014, indicating the strong investor interest in Tokyo's hotel real estate.

HOTEL TRANSACTIONS (2013 – JULY 2014 YTD, US$)

Transaction Date	Asset	Location	Rooms	Estimated Sales Price	Estimated Price per Room
Jul-14	Portfolio of 6 hotels	Tokyo, various	512	82,100,000	160,400
Jul-14	Tokyo Bay Maihama	Tokyo Bay	703	295,600,000	420,500
May-14	The B Roppongi	Roppongi	76	32,607,000	429,000
Mar-14	Mercure Ginza	Ginza	208	98,256,000	472,400
Jul-13	Sheraton Grande	Tokyo Bay	802	423,921,000	528,600
Apr-13	Yaesu Fujiya Hotel	Ginza/Tokyo Station	377	318,811,000	845,700

Source: RCA, HVS Research

MARKET OUTLOOK

- The 2020 Olympics have placed the spotlight on Tokyo. As the gateway to Japan, Tokyo has tremendous potential to increase its share of international visitor overnights when compared to other global cities in Asia Pacific, such as Bangkok and Singapore.

- With the improving economic fundamentals of Japan (and Tokyo being the economic centre of the country) investor interest in the capital city is expected to remain very strong.

- Suitable sites for new hotel development are scarce. However, developers are increasingly considering the option of including a hotel in mixed use developments, as the hotel market and underlying trading performance is stable and on the rise, particularly in the city centre.

- Adaptive reuse and redevelopment of smaller sites for hotel use is expected to result in an increase in small hotel developments, similar to what has been experienced in other gateway cities with space limitations such as New York.

JAPAN
- OSAKA

OSAKA

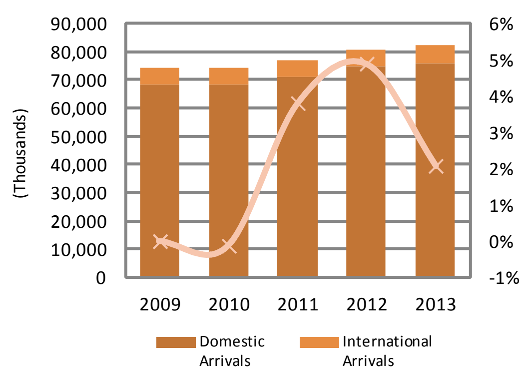
CITY OVERVIEW

- Osaka has been an economic and cultural centre of Japan since ancient times. In addition to being developed as the seat of the nation's oldest capital and a hub of marine transportation, Osaka showcases many historical and cultural properties, as well as highly-skilled performing arts such as Bunraku and Rakugo. Moreover, known as the "nation's kitchen" during the Edo period, Osaka offers a unique and wide culinary experience.

- The city is a very active commercial hub and home to many businesses operating in a wide range of fields. Designated as part of "International Strategic Comprehensive Special Zone" by the national government, local authorities in Osaka are working on urban redevelopment to create environments favourable for domestic and foreign businesses.

TOURISM MARKET OVERVIEW

VISITOR ARRIVALS (2009 - 2013)



Source: HVS Research

- Since the aftermath of the 2011 Tokai earthquakes, the number of arrivals to the Kansai International Airport rapidly rebounded in 2012 and 2013, primarily owing to the opening of Japan's first air terminal dedicated to low-cost carriers (LCCs) in October 2012.

- New Kansai International Airport Company, the operator of the Kansai International Airport, has announced its plan to build a third terminal by 2016. The expansion is anticipated to double the airport's current passenger capacity.

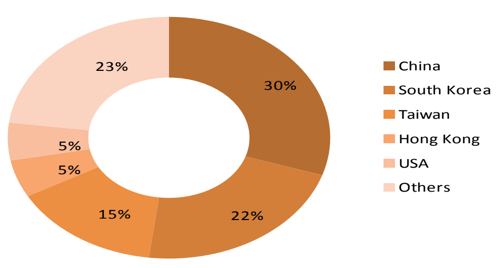
- Aiming to increase international visitors to the Kansai region, New Kansai International Airport Company has established partnerships with airport operators, including Mitteldeutsche Airport Holding (Germany); Queensland Airport Limited (Australia); Thailand Public (Thailand); and Vancouver Airport Authority (Canada).

- The lodging demand in Osaka has been increasing over the past few years. Although the 2011 Tokai earthquakes temporarily dampened the demand from international visitors, it is noteworthy that the total lodging demand in the area registered an increase that year.

- The number of international overnight visitors rose significantly in 2013 as the yen's value sank and the cost of traveling to Japan decreased. Going forward, the planned relaxation of visa rules for Southeast Asian countries such as Indonesia, Philippines, and Vietnam, is anticipated to further increase demand.

- The first integrated-resort with a casino in Japan is expected to open in Osaka if a bill to legalize casinos is approved by the Japanese parliament this year. Osaka officials have aggressively marketed the city to operators and have already approved Yumeshima as a potential development site for this project. If approved, the casino would be open in time for the Tokyo Olympics in 2020 to capture demand from the huge influx of visitors.

TOP SOURCE MARKETS (2012)

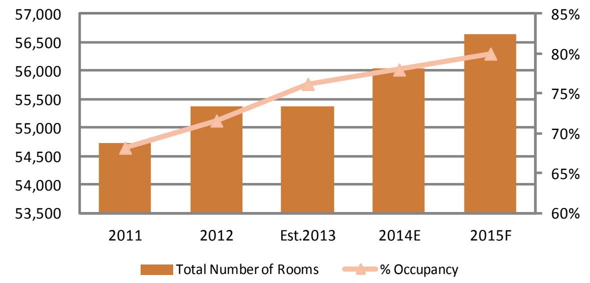


Source: Osaka Government Tourism Bureau, HVS Research

- According to the latest data from the Osaka Government Tourism Bureau, visitors from China, South Korea, and Taiwan exceeded 65% of total foreign visitors to Osaka in 2012. In addition to sightseeing and seeking a unique culinary experience, shopping is another activity, which draws tourists from these East Asian countries to Osaka.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 -2015F)



Source: Japanese Ministry of Health, Labour and Welfare, JNTO, HVS Research

- According to the Japanese Ministry of Health, Labour and Welfare, over 55,000 rooms are currently in the Osaka market. The wards of Kita and Chuo are considered as the centre of commercial, entertainment, and shopping districts in Osaka, and a high concentration of both domestic and international hotels is observed in the area.

- As travel from the Asia Pacific region increases and international arrivals continues to grow, the outlook remains positive.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Osaka Marriott Miyako Hotel	360
	Courtyard by Marriott Shin-Osaka Station	318
2015	Hotel Universal Grand Tower Tokyu	600
2017	Rihga Royal Hotel Nakanoshima	170
Total Proposed Room Supply (Indicative)		**1,448**

Source: HVS Research

- Most recently, the Osaka Marriott Miyako Hotel opened, which is the second Marriott affiliated hotel to open in Osaka after The Ritz-Carlton. Another Marriott affiliated hotel, the Courtyard by Marriott Shin-Osaka Station, is slated to open in 2014, converting from the Hotel Laforet Shin-Osaka.

- Additionally, the Hotel Universal Grand Tower Tokyu is proposed to be the fifth hotel adjacent to the Universal City Station, which is the nearest station to Universal Studios Japan.

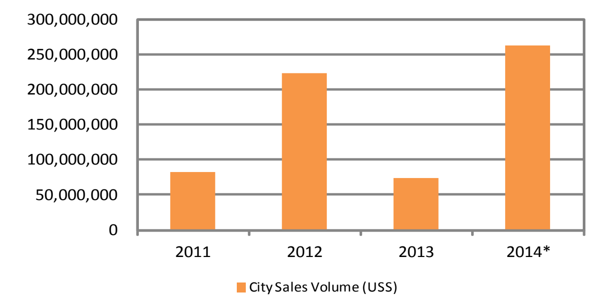
- While the 170-room Rihga Royal Hotel Nakanoshima is slated to open in 2017, the existing 972-room Rihga Royal Hotel Osaka will be rebuilt and is anticipated to reopen in 2021.

INVESTMENT MARKET OVERVIEW

- As economic conditions improve and hotel market performance remains strong, Osaka is attracting interest from domestic and international investors.

- Examples of large transactions in recent years include the sale of the Osaka Namba Washington Hotel (for US$86.1 million or US$123,000 per room) in April, 2014, and the Hotel Keihan Universal City (for US$76.5 million or US$232,000 per room) in September 2012.

TOTAL INVESTMENT VOLUME (2010 - AUG 2014 YTD, US$)



Source: Real Capital Analytics, HVS Research

MARKET OUTLOOK

- Osaka is evolving as a modern commercial hub in West Japan. As the local government and private entities work together to make the city more attractive to international businesses and travellers, the lodging demand in the area is expected to increase. Resultantly, our outlook for Osaka is generally positive.


JAPAN
- KYOTO

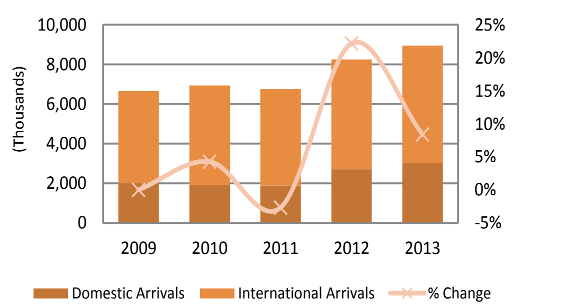
KYOTO

CITY OVERVIEW

- Kyoto, the old capital of Japan and the recipient of the Travel + Leisure award for the "Best Travel City in 2014", is one of the most popular tourist destinations in the world. Famed for an array of ancient temples and shrines, Kyoto annually attracts 50 million visitors who seek the experience of reminiscing old Japan. The city also hosts several renowned cultural events and festivals such as the Aoi Matsuri, the Gion Matsuri, and the Jidai Matsuri that celebrate traditions.

TOURISM MARKET OVERVIEW

VISITORS ARRIVAL (2009 - 2013)



Source: Ministry of Land, Infrastructure, Transportation and Tourism HVS Research

- In 2013, the number of visitors to Kyoto exceeded the pre-recession peak achieved in 2008, benefiting from improving domestic and global economic conditions, as well as events such as Kyoto Arashiyama Hanatouro that drew visitors during an otherwise low season.

- The total visitor expenditure in 2013 was ¥700 billion, increasing by roughly ¥100 billion from that recorded in 2009, as a result of the strong economic recovery post the recession.

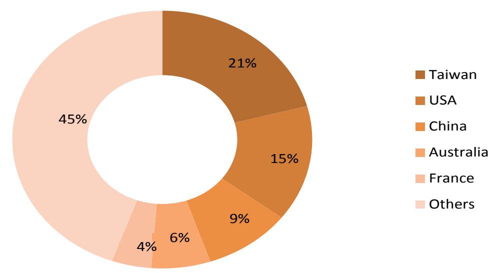
- Kyoto was home to the Imperial Household for a long period of time in Japanese history, and developed a distinctive culinary culture, which is frequently picked by the foreign media. In 2013, the largest proportion of visitor spending was on food, accounting for 30.8% of total expenditure. The second and third largest spending areas were on souvenirs and lodging, which accounted for 27.4% and 14.6% of the total visitor expenditure, respectively.

- About 25.3% of the total visitors to Kyoto stayed overnight; international visitors constituted 8.6% of the 25.3%, thereby showing an upside potential to increase foreign visitors to the city through more robust marketing efforts.

- Among the overnight visitors, 51.8% stayed for a night and 33.6% stayed for two nights. Due to Kyoto's proximity to other tourist destinations in Kansai such as Osaka and Nara, it is common for visitors to stay in different cities during their stay.

- Moreover, Kyoto houses 17 World Heritage Sites; as a result many visitors return to Kyoto seeking different experiences each time. For instance, close to 80.6% of the domestic visitors travelled to Kyoto more than five times, suggesting a high level of return travels.

TOP SOURCE MARKETS (2013)



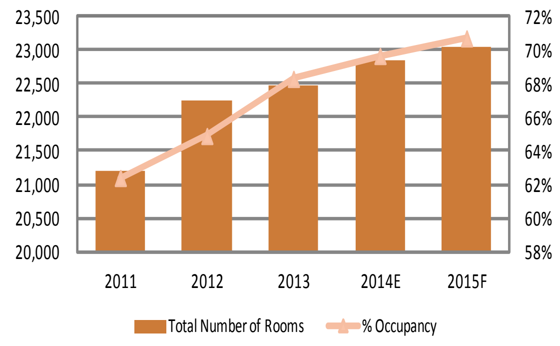
Source: Kyoto Convention & Visitors Bureau, HVS Research

- The number of overnight visitors from Taiwan rose significantly from 97,500 in 2011 to 234,800 in 2013, constituting 21% of total foreign guests staying overnight in Kyoto city. The increase is attributable to the commencement of aviation services between Osaka and Taipei by a low cost carrier, Peach Aviation, as well as the depreciation of the Japanese yen vs. Taiwan's local currency.

- Although USA lost a substantial share in 2011, visitors from the country represented a demand growth of 123% since then, reflecting subsiding concerns over the aftermath of the nuclear crisis.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Japan National Tourism Organization, HVS Research

- The 2011 Tokai earthquakes negatively affected both domestic and international lodging demand in Kyoto Prefecture. Demand from the U.S. plummeted from 281,400 visitors in 2010 to 73,700 visitors in 2011, which was the largest drop from a single source country that year. However, as the yen's value sank, the number of tourists from East and South Asian counties grew, which contributed to a rapid recovery in demand in 2012 and 2013.

- Kyoto city announced a 12.8% increase in its 2014 budget for the tourism industry over that allocated in 2013, in an effort to boost demand from foreign countries. Combined with the planned relaxation of visa rules for Southeast Asian countries such as Indonesia, Philippines, and Vietnam, further increases in demand in the area are anticipated.

- As Asian countries increase their travel demand and western countries resume their travel levels, the outlook for the lodging demand in the area is generally positive. We project moderate increases in occupancy in the near term.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2015)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	The Ritz-Carlton Kyoto	136
	Mitsui Garden Hotel Shinmachi	128
	Hotel Grand Bach Kyoto	120
2015	Four Seasons Kyoto	186
Total Proposed Room Supply (Indicative)		**570**

Source: HVS Research

- Kyoto witnessed the opening of three hotels in 2014, including the Ritz-Carlton Kyoto, Mitsui Garden Hotel Shinmachi, and Hotel Grand Bach Kyoto. These hotels represent juxtaposing of Japanese traditional ryokan and modern luxury hotel concepts. In 2015, another luxury hotel, Four Seasons Kyoto, is slated to open, making it the hotel chain's second property in Japan.

INVESTMENT MARKET OVERVIEW

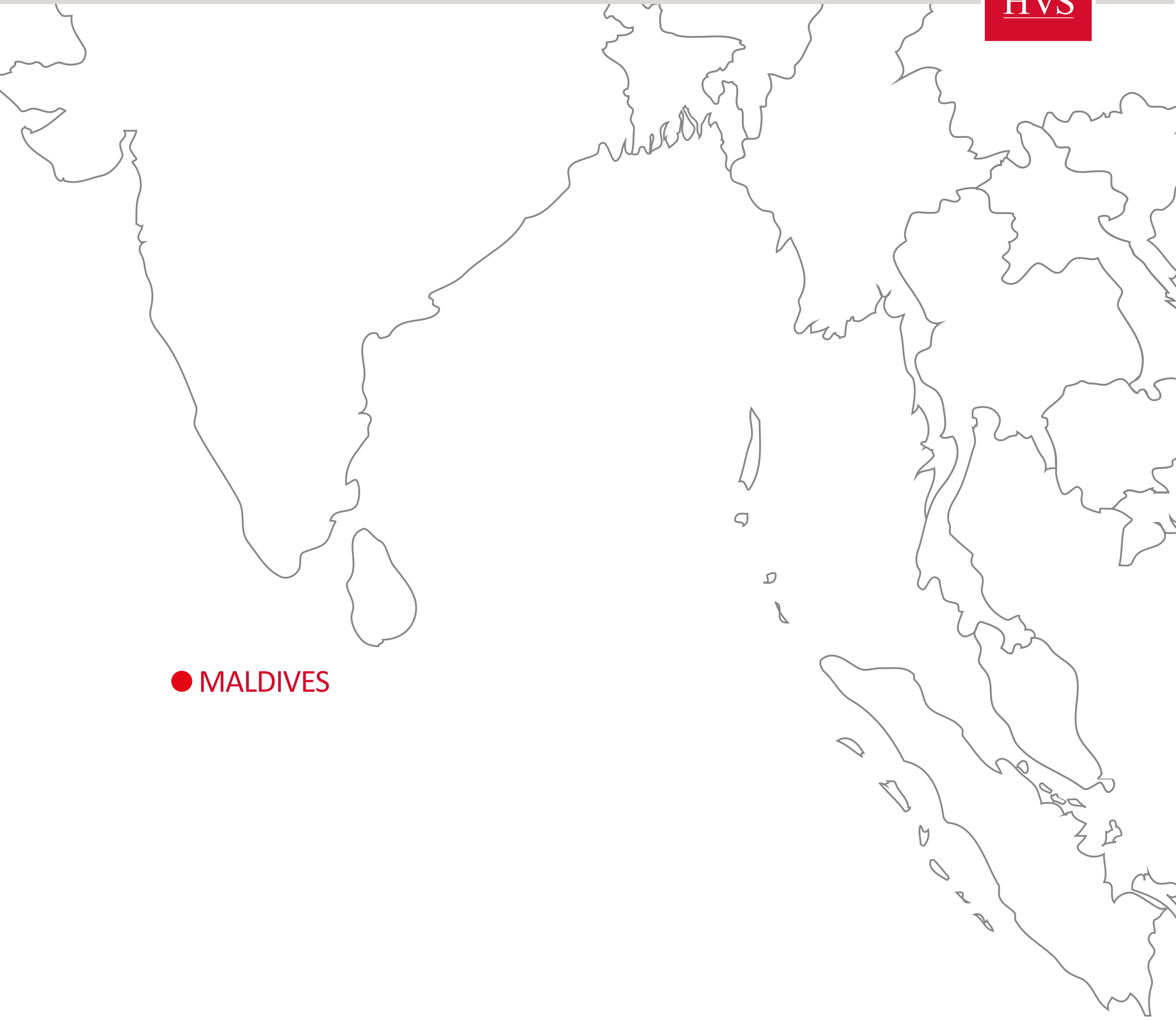
- As economic conditions improve and hotel market performance remains strong, Kyoto is attracting interest from domestic and international investors.

- The largest transactions in recent years included the sale of the Kyoto Brighton Hotel (for US$131 million or US$720,000 per room) in March 2013, followed by the sale of the Hotel MyStays Kyoto-Shijo (for US$59.3 million or US$265,000 per room) in July 2014.

MARKET OUTLOOK

- Kyoto continues to be a prime tourism destination for both domestic and international travellers. As the level of travel from emerging economies in Asia continues to rise, lodging demand in Kyoto is also anticipated to grow further. Additionally, the opening of hotels such as the Ritz-Carlton and the Four Seasons will appeal to guests who seek a luxury experience.

MALDIVES


MALDIVES

MALDIVES

Tourism's contribution to GDP in 2013 : MVR 18.125 billion (47.8%)

Source: WTTC, 2014

Nationwide Occupancy : 74% (2013)

Nationwide ADR : US$710

Nationwide RevPAR : US$525

Source: Ministry of Tourism (MoT), 2013

Highest recorded transaction of US $71m for Angsana Velayaru took place in 2013.

Source: Real Capital Analytics/HVS Research

ECONOMIC UPDATES

- The Republic of Maldives is located in the Indian Ocean, southwest of Sri Lanka and India with a population of approximately 395,000 inhabitants. The country is made up of 1,190 coral islands, which are divided into 26 major groups of islands also known as atolls. These atolls stretch 820 kilometres from north to south and 120 kilometres from east to west. The local population inhabits some 200 islands, with 89 of these operating exclusively as resort islands.

- The capital of the Maldives is Malé, the most densely populated island housing approximately a third of the Maldivian population.

- Like several other small island nations, development in the Maldives is constrained by the absence of land-based mineral resources, the limited scope for expansion of the agriculture sector and vulnerability to natural disasters and environmental hazards. The economy of the Maldives is primarily driven by tourism, fisheries and construction industries, which are the major sources of foreign exchange earnings and government revenue.

- According to the data from the Maldives Monetary Authority, following the December 2004 tsunami, tourism activity in the nation was adversely affected and GDP declined in 2005 by 8.7%. However, the post-tsunami reconstruction initiated by the government, coupled with development of new resorts and rebound in tourist arrivals, boosted GDP growth by 19.6% in 2006 and again by 10.6% in 2007. The Maldives were affected by the global financial crisis, showing a contraction in GDP in 2009, but again rebounded quickly with GDP rising by 7.1% and 6.5% in 2010 and 2011, respectively.

- The island nation's GDP in 2013 was US$2.28 billion. In 2013, its GDP grew by 3.74%. The total Maldivian GDP is expected to grow by 4.5% in 2014 from the previous year.

- The importance of tourism in the country's economy is evident in its contribution to the national gross domestic product (GDP). According to the revised outlook by the World Travel and Tourism Council, tourism activities directly contributed approximately 47.8% of the country's GDP in 2013.

ECONOMIC INDICATORS (2010 – 2015F)

	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	7.1	6.5	1.3	3.7	4.5	4.1	4.1
Inflation (%)	6.1	11.3	10.9	4.0	4.4	4.4	4.4
Exchange Rate MVR:USD	12.8	15.4	15.4	15.4	15.4	15.4	15.4
Lending Interest Rate	13.0	10.4	10.2	10.5	10.5	10.5	10.5

Source: CAPA, International Monetary Fund, Maldives Monetary Authority, HVS Research

TOURISM MARKET OVERVIEW

- The Maldives is famous for its natural beauty, which includes the blue ocean and unpolluted white beaches, accompanied by clean air and pleasant temperatures. The main tourist attractions of the Maldives are its well-preserved marine environment, pristine beaches and diving sites. The climate of the Maldives is ideal for visitors to get engaged in water sports such as swimming, fishing, scuba diving, snorkelling, water-skiing and windsurfing. Due to its extraordinary underwater scenery and clean water, the Maldives ranks among the best recreational diving destinations of the world. Furthermore, the Maldives distinguishes itself from other island resort destinations by its 'one island, one resort' concept.

- Following the December 2004 tsunami, international visitor arrivals to the Maldives decreased by a massive 35.9%. However, after the destruction of several island resorts triggered a massive initial slump, the Maldives made a strong recovery as the year progressed, with visitor arrivals growing 52.3% from 2005 to 2006.

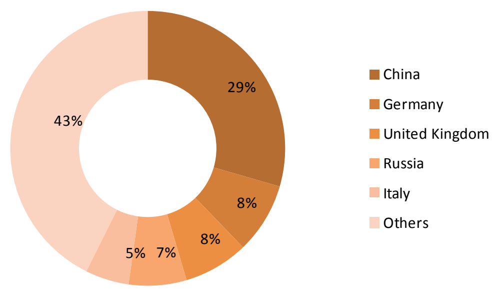
- In line with the recovery of the global economy following the 2008 financial crisis, the Maldives witnessed a surge in international visitor arrivals, recording an approximately 21% increase in 2010 as compared to 2009. The strong growth continued into 2011 before moderating in 2012, which recorded 958,027 international arrivals for the year.

- Year 2013 was a record-breaking year in the Maldives. Annual arrivals exceeded the one million-visitor mark for the first time. Registering approximately **1,125,000 visitors**, this was a **17.4%** increase from 2012. This growth was primarily supported by an increase in arrivals from the Asia Pacific market, specifically from China, that grew by **44.5%**, from 229,551 visitors in 2012 to 331,719 visitors in 2013. As of June 2014, international arrivals continue to increase year on year by 11.5% from 539.667 to 601,513.

VISITOR ARRIVALS (2010 - 2013)

Source: Ministry of Tourism (MoT), HVS Research

TOP SOURCE MARKETS (2013)



Source: Ministry of Tourism (MoT), HVS Research

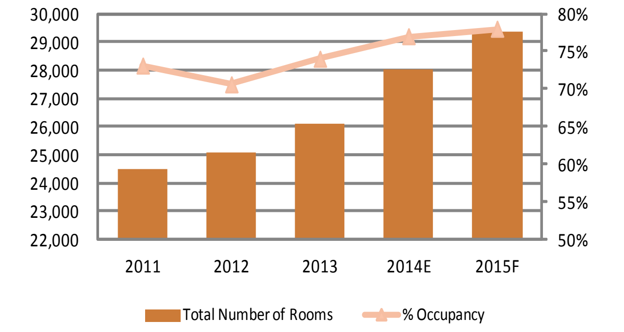
- In 2012, Europe was the key feeder market to the Maldives, accounting for 54.0% of the total visitor arrivals. In particular, visitors from Germany, the UK, Russia and Italy accounted for a significant proportion of visitor arrivals from Europe. In 2012, arrivals from these countries totalled 316,845 visitors or 33.1% of the total arrivals to the Maldives.

- However, as of 2013, countries from the Asia Pacific have caught up with Europe in terms of total market contribution. Arrivals from Europe dropped from 54.0% of total arrivals in 2012 to 46.9% in 2013. The arrivals from Asia Pacific, on the other hand, increased from 38.4% in 2012 to 45.0% in 2013. This inverse movement was largely due to the increasing price sensitivity of the traditionally strong European markets, as well as the rise in spending power of the Chinese market.

- Six markets from Europe and four markets from Asia have made up the top 10 feeder markets of the Maldives for the past three years, although the order varied slightly. The UK has consistently been one of the top five feeder markets to the Maldives, capturing a market share of more than 15% in previous years. However since 2010, with the strong emergence of China as a growing source market to the island nation, the UK's share has been dropping, eventually reaching just 7.6% of the market in 2013. Arrivals from China, meanwhile, grew by an approximately 29% between 2011 and 2013, increasing its market share of visitors to the Maldives from 21.3% to 29.5% during the same period.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Ministry of Tourism (MoT), HVS Research

- Hotel supply in the Maldives is tightly controlled by the government, which owns most of the country's territory. The Ministry of Tourism is in charge of leasing out islands, which have been earmarked for hotel development. Standard island lease terms range between 21 and 25 years.

- In 2010 and 2011, two major tourism bills were passed – the Second Amendment to the Maldives Tourism Act and the new Tourism Goods and Service Tax Bill. The former allows the total lease period to be extended to 50 years instead of the original 25 years, subject to a minimum initial investment of US$10 million, while the latter entails a tax levy of 3.5% on room rates, transportation, and all goods and services extended to tourists. The bed tax have been abolished.

- As of end-June 2014, there were 23,897 beds spread across 111 resorts and 1,542 beds from 18 hotels in the Maldives. Relative to end of 2013, resort supply has increased from 23,058 beds contributed by 109 resorts, whereas, the number of hotels decreased from 20 hotels with 1,708 beds. Over the period between June 2010 and 2014, total bed supply increased at a compound annual growth rate of 3.3% and 3.1% for resorts and hotels, respectively. During the same period, the number of registered resorts in the Maldives increased from 97 to 111 properties.

- Recent resort openings in the island nation include Cheval Blanc Randheli by LVMH Hotel Management at Noonu Atoll and Veela Private Island (Noonu Atoll, Dec 2013).

- According to the Ministry of Tourism, at the end of 2013, there were at least 74 resort and hotel projects underway, which are estimated to add 10,700 beds to the market. Amongst others, they are Centara Hudhufushi Resort & Spa and the Chedi Dhapparu under active development.

NEW HOTEL OPENINGS (2014 - 2016)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Maalifushi by COMO	66
	Centara Hudhufushi Resort & Spa Maldives	110
	Radisson Plaza Resort Maldives Naagoshi	281
2015	Radisson Hotel Maldives Hulhumale	250
	Resort on Berinmadhoo Island	200
2016	Chedi Dhapparu	130
Total Proposed Room Supply (Indicative)		**1,037**

Source: HVS Research

INVESTMENT MARKET OVERVIEW

- According to the World Travel and Tourism Council, investment in travel and tourism in the Maldives was MVR3,113.8 million in 2013, which made up 24.8% of the total investment in the island nation. The figure is expected to rise by 5.2% in 2014 and further increase by 3.9% annually to MVR4,814 million or about 26.0% of total investment into 2024.

- Foreign Direct Investments (FDI) have been increasing across all small island states. United Nations Conference on Trade and Development (UNCTAD) stated that Maldives had a total of US $325 million in FDI in 2013, which is an increase of 14% as compared to US$284 million in FDI in 2012.

- Real Capital Analytics registered US$60 million of investment sale in 2011, and none in 2012 before the number drastically changed to US$182 million in 2013. In 2014, a total transaction of US$103 million has been recorded in the Maldivian market so far.

- Large transactions include the sale of Angsana Velavaru in 2013 and Six Sense Laamu in 2014. Transaction price per room reached as high as US $1.7 million for 35 units when the Jumeirah Dhevanafushi was sold in 2013.

- The Maldives investment market is becoming more attractive to investors and this trend is anticipated to continue.

- In 2012, tourism in the Maldives was unfavourably affected by the unexpected change in the government administration, which led to political unrest within the country. Going forward, however, investment is expected to be steady.

- Investment sales in the Maldives are predominantly from Singapore and Thailand. CDL Hospitality Trusts (CDLHT) was an active investor in 2013 and owns two resorts in the Maldives, Angsana Velavaru and Jumeirah Dhevanafushi.

- CDLHT is managed by M&C REIT Management Limited and M&C Business Trust Management Limited, supported by the resources from Millennium & Copthorne Hotels Plc and its parent, City Developments Ltd.

- Another Singapore-based investor, HPL Hotels and Resorts, through its subsidiary Leisure Frontier Pte Ltd acquired Six Senses Laamu in 2014. Located in the southern Maldives' Laamu atoll, the 97-villa resort is planned to be further enhanced in the future by the new owner.

MARKET OUTLOOK

- The Maldives reached its target of one million international visitors for the first time when 1,125,202 tourists visited the country in 2013. With the increasing visitation from APAC and the Middle East, in addition to the proactive support of the Ministry of Tourism, the Maldives is geared towards welcoming a record-breaking number of tourists in the years to come.

- As an island-paradise destination, the Maldives hotel market continues to grow with new developments and brands being introduced into the market.

- With strong tourism fundamentals and growing visitations, we believe that the Maldives will continue to attract various interests from investors across the continents.

SINGAPORE


SINGAPORE

SINGAPORE

Tourism's contribution to GDP in 2013 : SG$2.3 billion (~6.3%)

Source: Singapore Tourism Board

Nationwide Occupancy : 84.7% (-1.3%)

Nationwide ADR : SG$257.70 (+1.2%)

Nationwide RevPAR : SG$218.40 (-0.2%)

Source: STB, YTD June 2014

Highest recorded transaction of US $376.8m (US$1.25m per key) for The Westin Singapore took place in Nov 2013.

Source: Real Capital Analytics, HVS Research

SINGAPORE

- As a city-state, Singapore is a global hub and financial centre. Possessing few natural resources and a strategic location at the meeting of many seaways, the Singapore economy depends heavily on trade and has the highest trade-to-GDP ratio in the world. The main industrial sector is high-tech manufacturing which contributes about one-third of the country's GDP.

ECONOMIC UPDATES

- Singapore's economy is based on a diversified economic policy that is constantly adapting to global economic developments. A strong high-tech manufacturing base and an expansion of the city's exposure to international financial markets are expected to keep Singapore's GDP growth in the 4.2% range in 2014. The other main GDP contributors are business and financial services, retail trade, and construction.

- Inflation witnessed a downward trend in 2013 due to the recent control measures implemented by the government to curb the increase in prices in the housing market that fuelled unusually high inflation rates in 2011 and 2012. However, core inflation, which excludes private transport and accommodation, is expected to rise in the future due to a tightening labour market.

- Moreover, as a result of a strong export sector, the local currency has appreciated against the US dollar in recent years. This is in line with the Monetary Authority of Singapore's long term policy to allow the gradual appreciation of the Singapore dollar, making the country one of the most expensive cities in the world.

ECONOMIC INDICATORS (2010 – 2016F)

	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	15.1	6.0	1.9	4.0	4.2	4.4	4.8
Inflation (%)	2.8	5.2	4.6	2.4	2.2	2.3	2.3
Exchange Rate SG$:US$	1.4	1.3	1.2	1.3	1.2	1.2	1.2
Lending Interest Rate	5.4	5.4	5.4	5.4	5.4	5.4	5.4

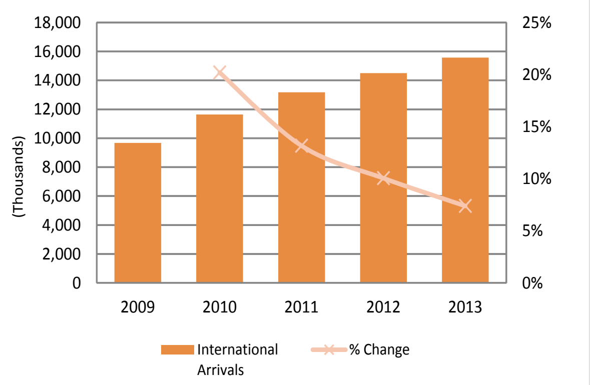
Source: Economist Intelligence Unit, June 2014

TOURISM MARKET OVERVIEW

- International visitor arrivals to Singapore reached a peak of 15.6 million arrivals in 2013. This is a 7.39% increase from 2012, and was largely fuelled by increased tourist arrivals from Asian countries, most particularly Indonesia, Hong Kong, China, Taiwan and Japan.

- Despite the continuous rise in international visitor arrivals over the past five years, the actual year-on-year growth has slowed. This is because the flurry of new visitors to Singapore's major attractions, such as the F1, Marina Bay Sands and Resorts World Sentosa (that opened between 2009 and 2011), has subsided. The trend is likely to continue as no other major attractions are being planned in the near future, and the city's tourism industry is in a stage of consolidation. Having said that, the Singapore Tourism Board is exploring new avenues to attract visitors to the city, such as developing the MICE segment.

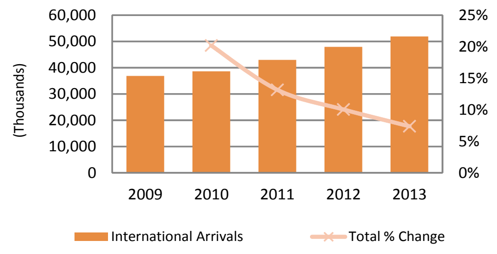
VISITOR ARRIVALS (2009 - 2013)



Source: STB, HVS Research

- YTD June 2014 arrivals were down 2.8% year-on-year largely due to a drop in tourist arrivals from four out of the five major source markets to Singapore. There was a 29.8% and 3.2%, drop in visitor arrivals from China and Australia, respectively, whilst arrivals from Malaysia and India experienced a 1.7% drop each. This could be partly due to the appreciating Singapore dollar that has resulted in neighbouring destinations to become more attractive to price-sensitive tourists.

AIRPORT ARRIVALS (2009 – 2013)

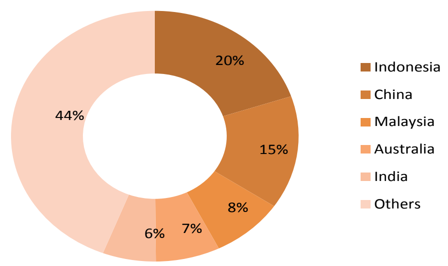


Source: Changi Airport Group

- 2013 was a historic milestone in terms of airport arrivals for Singapore Changi Airport as the airport crossed the 50 million passenger movement milestone in a year. 2014 year-to-date July passenger movements at the airport are up slightly by 1.3% from last year which reflects the slowing passenger growth rates in Singapore.

- 2014 year-to-date July passenger movements at the airport are up slightly by 1.3% from last year which reflects the slowing passenger growth rates in Singapore.

TOP SOURCE MARKETS (2013)



Source: STB, HVS Research

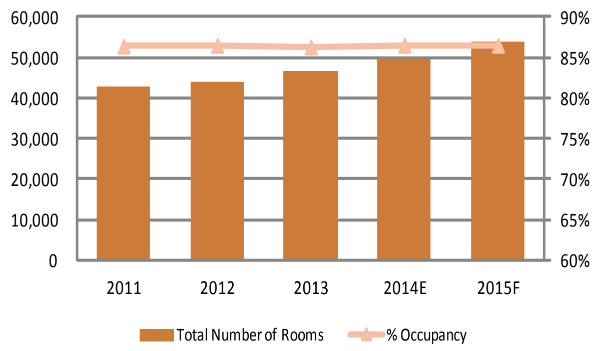
- The top five source markets contributed 56% of all visitor arrivals to the city in 2013. These source markets are the largest countries in the region that are also in close proximity to Singapore.

- Leisure tourists make up most of the visitors to the city, of which about 36-40% generally visit multiple countries in the region on the same trip or stopover in Singapore on long-haul routes.

- Business travel is the next largest contributor to the city's tourism market constituting about 22-25% of all visitors to Singapore.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Urban Redevelopment Authority (URA), HVS Research

- Singapore's hotel market has seen a constant growth of its rooms' supply in recent years across different positioning.

- This growth trend is expected to continue steadily until 2018, before tapering off owing to Singapore's stringent land use regulation and the fact that no new land sites for hotel development have been released.

- Notable brands that have entered the city's hotel market recently, include the Westin, Holiday Inn Express, Dorsett and Days Hotel.

- Hotels in Singapore are among the highest performers in the region that have managed to maintain high levels of occupancies, above 86%, from 2011 to 2013 despite a constantly increasing supply.

- Furthermore, in spite of some fluctuations in the marketwide average rate and RevPAR, total accommodation receipts has actually increased by 7% in 2013 to SG$1.37 billion. With more rooms available in the market, existing hotels are trying and adjusting their room rates to maintain market share.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2016)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Jen Orchard Gateway	502
	Hotel Grand Central Orchard	264
	Hotel Grand Chancellor Orchard	488
	Aqueen Paya Lebar	75
	One Farrer Hotel & Spa	250
2015	Park Hotel Singapore	442
	The Patina Capitol Singapore	157
	Genting Jurong Singapore	550
	Dusit Thani Golf Resort Singapore	200
	Sofitel Sentosa (Conversion)	215
	Crowne Plaza Hotel (Expansion)	243
	SouthBeach	700
	Macpherson Mall Hotel (Expansion)	75
	Oasia Downtown	314
2016	Clermont Singapore	202
	The Outpost	292
	M Social	300
Total Proposed Room Supply (Indicative)		**5,269**

Source: URA, HVS Research

- Over the next four years to 2018, more than 10,000 hotel rooms are expected to enter the market, which will increase Singapore's total hotel rooms' supply by an estimated 20-30% depending on the approvals and planning permissions issued.

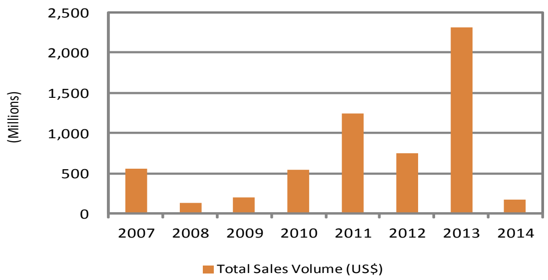
- This is the result of the almost exponential increase in tourist arrivals in the preceding years (2009 to 2011), which resulted in a flurry of development activity for new hotels that are now opening for operations.

INVESTMENT MARKET OVERVIEW

- The hotel investment market in Singapore is largely dominated by local REITs and public-listed companies that account for 51.9% of all hotel transactions taking place in the city. On the other hand, private companies account for 21.1% of all transaction volumes, while institutional funds account for 2.9% of the transactions.

- The remaining 23.9% of the transactions originate from cross-border funds. The top sources for foreign investment in the city's hotel market are represented by private funds from Japan, China and Qatar.

TOTAL INVESTMENT VOLUME (2007 - JUN 2014 YTD, US$)



Source: RCA, HVS Research

- The robust hotel market performance in the city has resulted in a high desirability of hotel assets in Singapore. Consequently, hotel owners usually demand a premium for their properties making them very expensive, which is perhaps why there are not many international investors in Singapore's hotel assets.

- The highest recorded transaction of US$376.8 m (US$1.25m per key) for The Westin Singapore took place in Nov 2013 and set a new benchmark for hotel properties in Singapore.

HOTEL TRANSACTIONS (2013– 2014, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
Jan-14	The Sentosa Singapore	215	166,900,000	775,000
Nov-13	Park Avenue Changi Hotel	251	111,100,000	440,000
Nov-13	The Westin Singapore	305	376,800,000	1,235,000
Aug-13	Grand Park Orchard	308	322,400,000	1,050,000
Aug-13	Gallery Hotel	223	182,800,000	820,000

Source: RCA, HVS Research

MARKET OUTLOOK

- With no new tourist attractions being developed in Singapore, tourism growth is likely to return to a more steady and sustainable pace of 5-7% in 2014 and 2015, with the growth likely to be powered by business and MICE travel.

- The expected increase in supply and slower growth in tourist arrivals is likely to coincide in a timely manner to keep hotel occupancies constant in the 80-90% range from 2014 to 2019.

- Due to the limited land supply in Singapore and strict land use controls, it is unlikely that more sites for hotel development will be released in the near future.

- One of the key challenges that hoteliers in Singapore are facing, is the shortage of labour, which is a common phenomenon across the service industry in the city. This is due to the local immigration policy and a skills mismatch between the indigenous population and the requirements of the service industry.

INDONESIA


BINTAN
JAKARTA
BANDUNG
BOGOR
SURABAYA
LOMBOK
BALI

INDONESIA

Tourism's contribution to GDP in 2013 : 9%

Source: Wttc, 2014

Nationwide Occupancy: 52.2%

Source: HVS Research

Highest recorded transaction of US $31,600,000 m for Hotel Aryaduta Manado 200 Keys.

Source: Real Capital Analytics/HVS Research

ECONOMIC UPDATES

- The Republic of Indonesia has approximately 17,508 islands, making the nation the largest archipelago in the world. It is also the 19th largest country globally in terms of land mass, which spans 1,919,317 square kilometres (741,052 square miles). The archipelago lies between the Indian Ocean and the Pacific Ocean, comprising five main islands - Sumatra, Kalimantan, Sulawesi, Irian Jaya and Java/Madura forming the 31 provinces and three special territories. Of these, eight have been created since 1999, with the latest province, North Kalimantan, being formed in 2012. Running along the equator for 5,000 kilometres, Indonesia is geographically positioned south of Singapore, Malaysia and Brunei.

- Indonesia has a population of approximately 254 million people, making it the fourth most populous country in the world. Its geographical distribution, however, is uneven with approximately 60% of the total population living in Java and Bali, the five most populous provinces being West Java, East Java, Central Java, North Sumatra and Banten.

- Current estimates place Indonesia's population at 366 millionby 2050, which will make it the fifth most populous country on earth.

- The Indonesian economy has grown from strength to strength in recent years. Currently, it ranks as the 16th largest economy in the world, up from its 28th rank in 2000.

- Although economic growth prospects for Indonesia are looking up in the mid-term, the country witnessed several challenges in the past year. Year 2013 saw a moderation in growth of the country's gross domestic product (GDP), which grew at 5.6% compared to 6.2% in 2012.

ECONOMIC INDICATORS (2010 - JUN 2016F)

	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	6.2	6.5	6.2	5.6	5.4	6.1	6.4
Inflation (%)	5.1	5.4	4.3	7.0	7.0	6.2	6.3
Exchange Rate IDR:US$	9,090	8,770	9,387	10,429	11,187	10,510	10,032
Lending Interest Rate	13.3	12.4	11.8	11.8	13.0	13.5	13.9
Current Account Balance (% of GDP)	0.7	0.2	-2.7	-3.9	-3.7	-3.4	-2.7

Source: Economist Intelligence Unit, June 2014

- Furthermore, after fuel-price hikes, resulting from reductions in the government fuel subsidy, inflation rose to 7% at the end of the year, marking a sharp increase compared to 4.3% recorded in 2012. Other factors contributing to the high inflation were currency depreciation and a jump in food prices.

- Additionally, the Indonesian Rupiah had a difficult year in 2013, and similar to other emerging markets in the region, it underwent a decline in value, from IDR9,387 to the US Dollar in 2012, to IDR10,429 in 2013. Per the EIU forecast, this trend is expected to continue with the Rupiah envisaged to depreciate further to IDR11,187 to the US Dollar in 2014.

- The general outlook for Indonesia's economy is positive, with its GDP expected to grow by 5.4% in 2014. The current account deficit is also anticipated to narrow as the trade balance recovers. Moreover, the country's inflationary levels are forecast to lower to comfortable levels on the back of expected absence of further fuel-price hikes over the course of 2014. However, one of the key areas of focus for Indonesia, going forward, will be to gain further control on its current account balance, which deteriorated from being surplus prior to 2012 to negative in recent times owing to the introduction of fuel subsidies.

- The effect of Indonesia's growing economy on its tourism industry has been profound. Between 2002 and 2012, the total contribution of travel and tourism toward the nation's GDP grew at a compound annual growth rate (CAGR) of 13.4%. According to the World Travel and Tourism Council, the direct contribution of travel and tourism to Indonesia's GDP in 2013 was IDR281,632 billion constituting 3.1% of the total GDP, and growing by 8.4% over the previous year; the largest growth recorded by any G20 country in 2013. This is estimated to rise by 8.1% in 2014, growing further by 5.3% per annum, touching IDR510,028 billion by 2024.

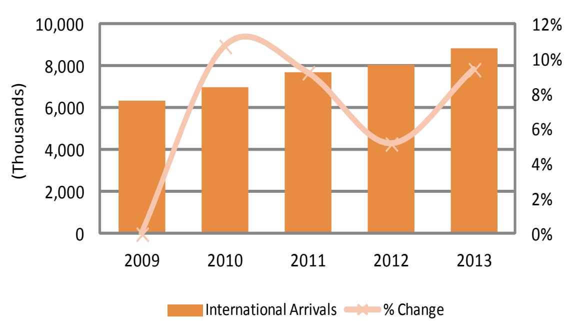
- The marked increase in visitation from countries in the ASEAN region, coupled with the domestic market's rising disposable income levels and the expanding air transport network, have been strong catalysts for growth of tourism in Indonesia.

- Rise in international arrivals is expected to continue as the Rupiah's exchange rate against the US Dollar is anticipated to stay attractive for these markets in the short-term. In the mid-term, Indonesia's burgeoning tourism industry may prove to be a valuable source of foreign exchange for the economy, enabling to curb the excessive depreciation of the Rupiah to some extent.

- Despite the fact that Indonesia has experienced commendable economic growth over the years, this growth, is not distributed equally across its seven economic corridors, namely Sumatra, Java, Bali, Nusa Tenggara, Sulawesi, Maluku and Papua. The contribution to the country's economy is primarily generated in the western provinces, with more than 60% of the GDP coming from Jakarta, Java and Riau alone.

- However, in recent years, economies of a large number of the eastern provinces have gained momentum posting record increases. Granted that these regions have a lower base, but double digit growths of over 15% in Maluku and South-East Sulawesi, and 32.8% in West Papua, over the five-year period between 2007 and 2012, are noteworthy. Such growth can predominantly be attributed to the mining industry, agricultural production and other commodity extractive industries, such as wood or rubber, operating in these areas. Having said that, in the short-to-medium term, eastern Indonesia's impressive growth rates are expected to taper off, on the back of dwindling exports and the ban on mineral ore export introduced in March 2014.

VISITOR ARRIVALS (2009 – 2013)



Source: BPS, HVS Research

- In the short-term, foreign tourist arrivals are estimated to reach 9.3 million by the end of 2014 and this number is anticipated to go up to 17.5 million over the medium term.

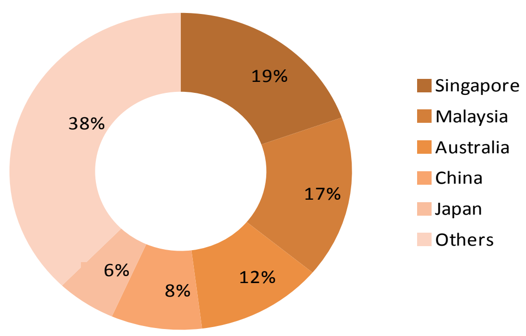
- International arrivals to Indonesia were mainly through Bali's Ngurah Rai International Airport and Jakarta's Soekarno-Hatta International Airport, both accounting for 62% of all international arrivals to the country. Juanda Airport in Surabaya witnessed the strongest growth in international arrivals in 2013 of the country's main six ports of entry (see table overleaf), recording a near 14% increase compared to 2012 levels.

- Lombok Airport, on the other hand, posted the strongest growth of all airports in Indonesia recording a 138% rise in international visitor arrivals in 2013 - from 17,032 arrivals in 2012 to 40,380 arrivals the following year. In terms of total arrivals, the island surged ahead with a 214.7% growth during the first quarter of 2014.

- Ongoing improvements in infrastructure by the government, such as opening of new airports in Lombok or Medan, and the expansion of airports in other areas such as Bali, are envisaged to provide a further impetus to the rise in international arrivals to Indonesia over the medium-to-long term.

- International arrivals to Indonesia are fairly consistent throughout the year. The top source markets for the country have remained the same over the years, with Association of Southeast Asian Nations (ASEAN) accounting for majority of the visitor arrivals. This is largely due to low intra-ASEAN flight fares and the ease of entry between ASEAN states. Of these, Singapore and Malaysia are the top two feeder countries accounting for 19% and 17% of total international arrivals into Indonesia in 2012, respectively. They are followed by the growing markets of Australia (12%), China (8%) and Japan (6%). Specifically, China has become one of the fastest growing feeder markets for Indonesia, with visitation from the country increasing at a CAGR of 34% between 2002 and 2012. More recently, from 2011 to 2012, the highest growth in visitations were recorded from Sri Lanka and New Zealand at 52% and 69%, respectively.

TOP SOURCE MARKETS (2012)



Source: HVS Research

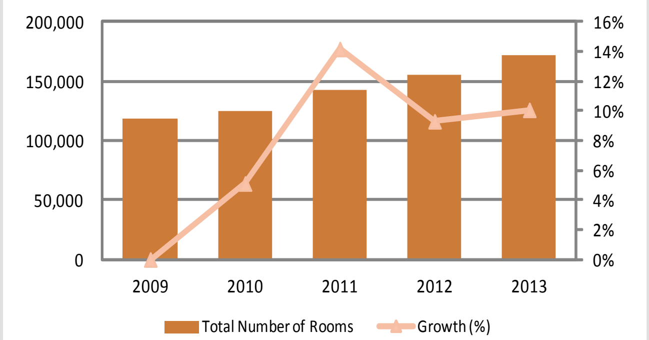
- Going forward, the Asia Pacific countries are expected to continue to dominate the country's inbound arrivals market with Singapore and Malaysia anticipated to account for more than 4.3 million visitors by 2018. Arrivals from China are also set to increase with Indonesia expanding its range of travel connections to this market.

- Even though the number of tourist visits to Indonesia has continued to increase over the past few years, the country lags behind other ASEAN members in sheer absolute number of annual international visits (see the chart overleaf). In 2013, Malaysia received 25.7 million foreign tourists, Thailand received 26.5 million, and Singapore witnessed 15.6 million inbound international travelers, compared to 8.8 million international arrivals recorded by Indonesia. Bearing in mind that Indonesia is a larger economy compared to the aforementioned nations, it has a lot of catching up to do in terms of international arrivals.

HOTEL MARKET OVERVIEW

- The growth in hotel room supply in Indonesia, as well as the number of hotels in recent years has been very impressive. Between 2009 and 2013, Indonesia witnessed the opening of 538 classified establishments with a cumulative room count of 52,716 rooms, corresponding to a CAGR of approximately 9.5% for both the number of establishments and the number of new rooms during the four-year period. The opening of new hotel developments surged in 2011, when both the number of establishments and rooms grew at approximately 14%, compared to the year before.

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2009 – 2013)



Source: HVS Research

- The following tables outline the growth in hotel supply in key areas of Indonesia between 2009 and 2013, in addition to providing an overview of the emerging hot spots. The most voluminous markets in terms existing rooms supply, Jakarta and Bali, have posted the slowest growth rates over the last five years (2009-2013), whereas Java has seen the strongest growth in terms of absolute number of rooms, with an average annual growth rate of 11% for the western, eastern and central Java markets combined.

- The vast majority of the hotel supply growth in recent years can be attributed to the development of budget and economy class hotels. The expanding middle class and growth of Indonesia's aviation industry (and subsequently increasing network) have encouraged more people to travel, bolstering investments in hotels and restaurants by more than 200% since 2011.

INVESTMENT MARKET OVERVIEW

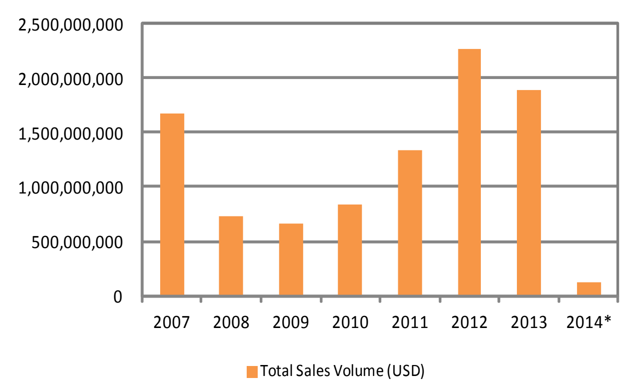
- Considering that Indonesia experienced a peak year in 2012 in terms of domestic and foreign direct tourism investment, the levels achieved by the country in 2013 are quite commendable (US $602.3 million). Going forward, domestic tourism investment is expected to continue rising in the near term owing to a robust market created by a rapidly growing middle class population, and the expansion of Indonesia's low-cost carrier segment resulting in travellers having the access to affordable flights.

- These statistics are a testament to the investor confidence in the county's tourism market, based on impressive historic economic growth and a stable outlook. Key areas of focus have traditionally been Bali and Jakarta, although Lombok is becoming increasingly popular after the opening its new airport in 2011.

- Besides Bali, Jakarta and Lombok, Indonesia has many other untapped tourist destinations that barely have any hotels. As a result, the Tourism and Creative Economy Ministry is aiming at the realisation of a better geographical diversification of tourism investment in the country. Improved accessibility and adequate tourism infrastructure are likely to be the key prerequisites to initiate tourism investment in certain areas of Indonesia, with potential investors closely monitoring the progress made by the government in this direction.

- Tourism is one of the "pillars" of Indonesia's economic growth strategies. Forecast for the tourism industry over the next 10 years looks favorable with a predicted annual growth rate of over 4% that continues to be higher than growth rates estimated for other industries in the country.

TOTAL INVESTMENT VOLUME (2007 -2014)



Source: HVS Research

MARKET OUTLOOK

- Indonesia's tourism sector holds great potential – both the travel industry as well as the tourism services industry. The country's economic growth, coupled with a fast-growing middle class population, is resulting in an increasing demand for hotels. For the domestic market, key opportunities will be identified mainly in the mid-scale and upscale sector, particularly in areas boasting of strong economic growth with enhanced infrastructure and good accessibility.

- Regarding Indonesia's lagging position vis-à-vis regional competitors such as Singapore, Malaysia and Thailand in terms of the number of international arrivals, destination diversification and development, as well as greater direct flight accessibility between key (regional) growth markets and the Indonesian archipelago, are paramount to make the country rise up the ranks. The island of Lombok, for example, has proven that better accessibility attracts a commendable amount of untapped demand from holiday makers seeking new experiences in destinations that are easier to reach. Consequently, a large number of developers and investors have put the island firmly on their radar, with a number of projects already in the early stages of planning and development.

- While creating global awareness about Indonesia as a tourist destination in general, and for select destinations in particular (through government sponsored programs) is critical, there are other intrinsic issues that need to be dealt with prior, such as improving the tourism infrastructure and bringing the country's labour pool up to speed with the industry's growth.

INDONESIA - JAKARTA

JAKARTA

CITY OVERVIEW

- Jakarta, officially recognised as the Special Capital Region of Jakarta, is both the capital as well as the largest city in Indonesia. Situated along the northern coast of the island of West Java, the city covers a land area of approximately 664 square kilometres. Jakarta is made up of six municipalities: South, East, Central, West and North Jakarta, in addition to the Thousand Islands.

- As of 2014, the estimated population of these combined areas is about 10.1 million, making it one of the most densely populated cities in the world. Jakarta is also the most populous city in Southeast Asia being the centre of Indonesia's commercial, economical, cultural and political scenes. Alongside four other regions, Jakarta has been granted a special status of having increased autonomy by the central government.

- The city's economy is strongly supported by the services sector, specifically in banking and finance, as well as the manufacturing and trade industries. In 2013, Jakarta accounted for approximately one-fifth of Indonesia's total GDP, making the city the single largest GDP contributing region in the country. The economy in Jakarta now ranks among the world's fastest growing.

TOURISM MARKET OVERVIEW

- As the primary port of entry to Indonesia, Jakarta is served by the Soekarno-Hatta International Airport and the Halim Perdana Kusuma International Airport. Located about 20 kilometres west of the city, Soekarno-Hatta is the major airport in the region for international and domestic visitors, while the Halim Perdana Kusuma International Airport largely provides aviation support to domestic and military flights. A third point of entry to the city also exists in the form of Tanjong Priok port, which is one of Indonesia's busiest harbours.

- The Soekarno-Hatta International Airport currently handles 44 million passengers a year as opposed to the current airport capacity of 22 million. There are several plans for expansion aimed at increasing the airport's capacity to 90 million by 2015, including the construction of a new terminal and the addition of new runways.

- In addition to being a major hub for government agencies and businesses, Jakarta is a popular destination for domestic tourists. Although, the city plays host to a large number of international visitors, majority of them travel to Jakarta for business purposes or use it as a transit point to travel to other popular Indonesian destinations such as Bali or Lombok.

VISITOR ARRIVALS (2009 – 2013)

Source: Badan Pusat Statistik

- International arrivals at Soekarno-Hatta International Airport have increased rapidly at a CAGR of 9.3% over the past decade, from 920,000 visitors in 2003 to 2.24 million in 2013. Arrivals hit a record growth rate of 27% in 2008, after which they declined in 2009 by 5% due to reduced travel during the global financial crisis. However, the market rebounded in 2010 with international arrivals exceeding pre-crisis levels.

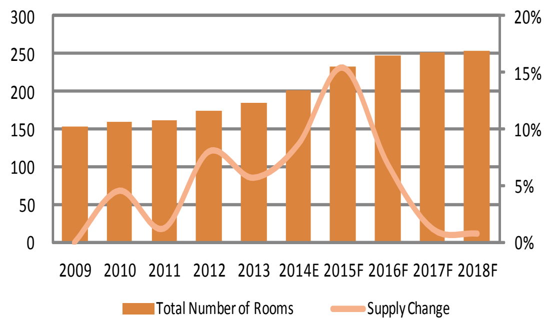
- The arrivals crossed the 2 million mark in 2012 for the first time with 2.05 million international visitors. It is anticipated that arrivals in 2014 will exceed that of 2013 by a fair margin, a forecast validated by the year-to-date data; arrivals from January through May 2014 were at 928,000, a 9.2% growth over the 870,000 visitors to Jakarta during the same period last year.

- Seasonality in Jakarta has remained relatively consistent through recent years with no severe fluctuations. Yearly arrivals in the first half of the year normally exceed that of the latter half, with noticeable drop-offs during the Ramadan period (which at the moment falls in July and August) as well as during the holiday season in December and January. The peak season in Jakarta usually comprises the months preceding Ramadan, with March, and the period from September through December also witnessing high number of arrivals.

- As in the past, the top five feeder markets for Jakarta in 2013 were all Asian countries with particularly strong representation from ASEAN nations such as Malaysia and Singapore accounting for 15% and 10% of total international arrivals, respectively. Travelers from China (11%) and Japan (10%) also constituted a significant part of international arrivals to the city. The strongest growing feeder markets for Jakarta in 2013 were Japan and China. Domestic air travel has also received a recent boost following the expansion of domestic carriers such as Lion Air, Indonesian AirAsia and Mandiri Airlines.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2009 – 2018F)



Source: HVS Research

- As a result of the rapidly recovering Indonesian economy, hotel development has picked up in the city with multiple projects planned ranging from budget positioning to the luxury end of the market. A fast-growing middle class population in Indonesia is fuelling demand for hotel accommodation alongside a rise in inbound travel to Jakarta. After years of limited RevPAR growth, the city of Jakarta has picked up tremendously from 2010 onwards in terms of both occupancy and average room rate, paving the way for more five-star hotel supply to enter the market.

- Total hotel market supply is expected to increase by 8%, 15% and 7% in 2014, 2015 and 2016, respectively. While the pipeline for new hotels in Jakarta already appears robust at this point in time, it is also likely that new hotel projects across all market positioning will continue to be announced in the near future.

- These new hotel projects, however, are likely to enter the market only in 2017 and beyond.

CITY PIPELINE

NEW HOTEL OPENINGS (2014-2018)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Ibis Styles Jakarta Mangga Dua Square	215
	Ibis Styles Jakarta International Airport	253
2015	YELLO Hotel Hayam Wuruk Jakarta	418
	Holiday Inn Express Jakarta Cikini	212
	Holiday Inn & Suites Jakarta Gajah Mada	447
	Zest Hotel Airport Cengkareng	196
	POP! Hotel Pasar Baru Jakarta	112
	POP! Hotel Wahid Hasyim Jakarta	150
	Harris Hotel Airport	168
	Ibis Budget Jakarta Daan Mogot	200
	Holiday Inn Express Jakarta Simatupang	200
	Holiday Inn Jakarta Simatupang	250
	Ibis Hotel Cawang	236
	YELLO Hotel Airport Jakarta	160
	YELLO Hotel Tendean Jakarta	108
	Harris Hotel Hayam Wuruk Jakarta	265
	Harris Hotel Cilandak Jakarta	122
	POP! Hotel Thamrin Jakarta	91
	Harris Hotel Gunung Sahari Jakarta	150
	Holiday Inn Express Jakarta International Exp	225
	Ibis Budget Jakarta Airport	138
	Zest Hotel Cirebon	180
2016	Ibis Jakarta Harmoni	210
	Ibis Styles Jakarta Sunter	150
	Ibis Styles Jakarta Pantai Indah Kapuk Sedayu	252
	Ibis Styles Jakarta Pulogadung	246
	Holiday Inn Express Jakarta Palmerah	280
	Ibis Jakarta Kemang	140
Total Proposed Room Supply (Indicative)		**5,774**

Source: HVS Research

- In the foreseeable future, the four-star and five-star hotel segments are expected to see 22 new hotels with approximately 5,450 rooms being added. This equates to an average of 248 rooms per property. Majority of the new developments will be coming into the market in 2015 and 2016, with a few properties scheduled to debut in 2017 and 2018. The largest new development will be the InterContinental Jakarta Pondok Indah with 470 rooms.

- A number of other international operators that are expected to open hotel properties in Jakarta include Starwood with Aloft, Sheraton, St. Regis, Westin and W Hotels, and FRHI with Raffles. Marriott is also set to enter the market with hotels under the JW Marriott and Courtyard flags, as is Accor with two Novotels, two Mercures, and the Sofitel So in the pipeline.

- At the two and three-star level, the market is expecting an increase of 5,774 rooms over 28 hotels resulting in an average room count of 206. Majority of the new hotels will be operated under various brands by three major hotel management companies. These are the POP!, Harris and YELLO brands by Tauzia Hotel Management; Ibis and Ibis Styles by Accor; and Holiday Inn and Holiday Inn Express by the InterContinental Hotels Group

INVESTMENT MARKET OVERVIEW

- As a result of the rapidly recovering Indonesian economy, hotel development has picked up in the city with multiple projects planned ranging from budget positioning to the luxury end of the market. A fast-growing middle class population in Indonesia is fuelling demand for hotel accommodation alongside a rise in inbound travel to Jakarta.

- After years of limited RevPAR growth, the city of Jakarta has picked up tremendously from 2010 onwards in terms of both occupancy and average room rate, paving the way for more five-star hotel supply to enter the market.

- However, in the short to midterm future of the Jakarta hotel market, it is likely that the city will experience strong levels of oversupply and dwindling hotel performance. As such, potential investors should consider this inevitable slump in making investment decisions in the already crowded city.

MARKET OUTLOOK

- On the back of Indonesia's rapid economic growth, Jakarta's hotel market is expected to continue to accommodate growing demand from local government bodies, and the domestic and international corporate sector.

- With a strong hotel pipeline across all tiers of the market, and existing infrastructure challenges, the Jakarta market is envisaged to see slowing average room rate levels and declining occupancies across all market segments.

- Given Jakarta's congested and strained transport network, advancements in infrastructure will need to go hand-in-hand with the rise in room night demand and hotel supply. Additionally, the unprecedented future growth in hotel rooms would necessitate careful assessment of upcoming hotel projects.


INDONESIA
- BALI

BALI

CITY OVERVIEW

- The Island of Bali is one of Indonesia's 34 provinces and is located amongst the Lesser Sunda Islands, between Java to the West and Lombok to the East. The capital city of Bali is Denpasar, which is situated in the southern part of the island. Bali is home to approximately 4.2 million inhabitants and covers a total area of 5,780 square kilometres making it one of the most densely populated provinces in Indonesia.

- The island is the most visited destination by international tourists in the country, and is replete with leisure, cultural and natural demand generators. The predominantly Hindu island has long been the focal point of tourism in Indonesia, and is likely to remain one of the more popular destinations in the country.

- While Bali is accessible by boat from neighbouring islands, almost all of Bali's visitors enter through Ngurah Rai International Airport. The airport, the third busiest in Indonesia, is approximately 2.5 kilometres south of the major tourist area of Kuta. It is also in close proximity to major tourist destinations such as Nusa Dua, Seminyak and Legian. Ngurah Rai International Airport hosts a range of international and domestic airliners.

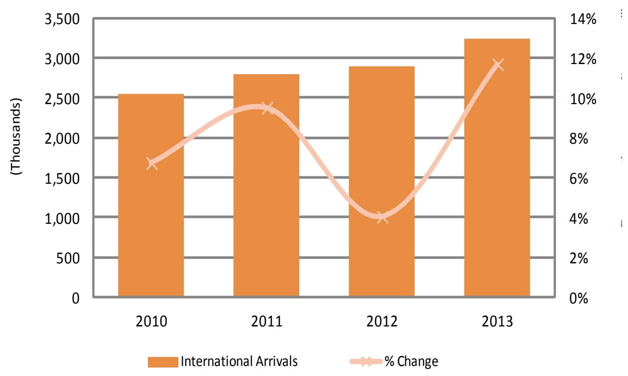
TOURISM MARKET OVERVIEW

- As one of Indonesia's most appealing tourist destinations, Bali's tourism arrivals have enjoyed continuous growth over the last 10 years. This period saw international arrivals surge from approximately 1.05 million visitors in 2003 to 3.24 million visitors in 2013; a compound annual growth rate (CAGR) of 11.9% making Bali one of Indonesia's fastest growing tourism markets.

- The Year 2013 was the first time international visitor arrivals surpassed the three million visitor mark, and 2014 seems to be on course to bettering this performance. Arrivals through May 2014 were registered at 1.38 million, a full 15% higher than the same period last year, which saw approximately 1.20 million visitors to Bali.

- Peak months in Bali are typically from November to January, and then again in June and July; this coincides with the year-end holidays and the summer season, respectively. March through May, as well as August through October are the shoulder months. The low season in Bali is in the months of February and November, which either precede or follow the shoulder months.

VISITOR ARRIVALS (2010- 2013)



Source: Badan Pusat Statistik

- Despite the remarkable rise in international visitation, domestic arrivals in Bali often surpass international arrivals. Domestic demand in Bali encompasses both leisure and MICE demand from a variety of regions in Indonesia.

- In 2012, domestic arrivals were slightly over 6 million, more than twice the number of international arrivals. In 2011, a similar pattern was monitored with 5.68 million domestic arrivals, as compared to 2.79 million international arrivals. The domestic arrivals market doubled in the five years between 2008 and 2012 accounting for a significant 20.3% CAGR.

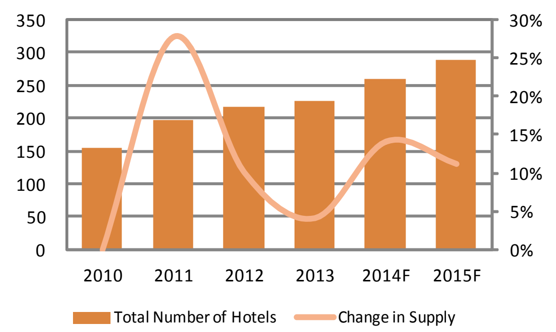
- The average length of stay for international guests in classified hotels in Bali was 3.2 days in 2012, recording a gradual decline from 3.7 days registered in 2004. Average length of stay of domestic guests has also slowly reduced from 3.2 days in 2004 to 2.7 days in 2012.

- Australia has traditionally been the strongest feeder market for international arrivals to Bali. This is supported by both the proximity of Bali to Australia, as well as the generally favourable currency exchange rates between the Australian Dollar and Indonesian Rupiah. However, rise in demand from the Australian market has been tapering off in recent years, with arrivals growing only by 3% from 2012 to 2013.

- The top growing international feeder market in 2013 was Taiwan with 27% increase in arrivals. This was followed closely by the traditionally strong markets of China, Singapore and Malaysia with 22%, 18% and 17% increase in arrivals from the year before.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2010 – 2015F)



Source: HVS Research

- The wave of expansion is supported not only by international hotel management chains, but domestic chains and independent developers as well. Proposed hotels cover a wide range of service and market positioning levels. Hotel supply is expected to increase by 14% in 2014 to approximately 260 hotels, 10% in 2015 to 290 hotels and by 5% in 2016 to 300 hotels.

- Almost two-thirds of the new supply is expected to enter the market at the upscale, upper upscale and luxury levels with 5,938 rooms across 31 new hotels. At these levels, a wide range of hotel brands and management companies are represented, with Accor, Hyatt, Starwood, Marriott FRHI Hotels and InterContinental opening several hotels within a time span of three years.

- At the mid-scale and economy level, 17 new hotels will come into the market with a total room count of 2,730 rooms. Tauzia Hotel Management dominates the supply pipe-line at this level, with eight new hotels being developed, branded under the YELLO, POP! and Harris brands. Following suit is Accor with four new hotels under the Ibis and Ibis Styles brand.

- The new hotel developments are not exclusive to a single area or zone, but encompass multiple destinations within Bali. Upcoming locations such as Badung are seeing numerous developments, as are traditional tourists' hotspots such as Seminyak, Jimbaran and Kuta.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2016)

Anticipated Opening	Proposed Hotel	Location	No. of Rooms (Est.)
2014	YELLO Hotel Benoa Bali	Tanjung Benoa	300
	Fairfield Inn Bali Legian	Legian	82
2015	YELLO Hotel 99 Echo Beach	Canggu	124
	POP! Hotel Dewi Sri Bali	Kuta	136
	POP! Hotel Singaraja Bali	Singaraja	120
	Harris Hotel Seminyak	Seminyak	220
	Premier Inn Denpasar Bali	Denpasar	80
	Harris Hotel Sanur Bali	Sanur	80
	Quincy Boutique Hotel Bali	Jimbaran	200
	POP! Hotel Drupadi Seminyak Bali	Seminyak	120
	Harris Resort Benoa Bali	Tanjung Benoa	180
	Harris Resort Beach Cove Jimbaran Bali	Jimbaran	300
	Ibis Styles Bali Jimbaran	Jimbaran	150
2016	Holiday Inn Express Baruna Bali	Tuban	200
	Ibis Styles Bali Petitenget	Seminyak	148
	Ibis Bali Legian	Legian	110
	Ibis Styles Bali Airport	Kuta	180
Total Proposed Room Supply (Indicative)			2,730

Source: HVS Research

HVS

INVESTMENT MARKET OVERVIEW

- With most major hotel operators and developers being represented on the resort island, Bali has been a hotspot for tourism investment. However, investors planning to build new hotels on Bali should consider the current oversupply situation and ensure there is not further degradation of resources, the environment and local culture.

- As land availability, in particular beach front land in the more populated areas of the island, continues to become scarcer, and as land prices continue to soar in these areas, new hotel developments will have the most likelihood of succeeding when a unique product and experience is offered, rather than a run of the mill resort that is merely dividing the existing demand pie further.

- There has also been a recent emergence of popular island resort destinations in Indonesia, such as Lombok or Belitung and these areas are beginning to offer investors an alternate site for resort investments.

MARKET OUTLOOK

- Bali has long enjoyed the benefit of growing demand from domestic and regional markets, across all market segments. However, the overwhelming new supply expected to enter the market across all positioning over the next few years, is likely to result in subdued RevPAR growth levels in the short to mid-term. In the long-term with the continuing rise in demand, the island is expected to recover.

- Nevertheless, as the island of Bali develops at such a rapid pace, the current improvements to infrastructure (both road and the availability of utilities) and the limited landing capacity of the airport may dampen growth expectations. It is essential that these infrastructural problems are addressed in order to sustain Bali’s growth as a premier tourist destination.

- That said, Bali still hold potential to accommodate demand from key growth markets in the region such as China and India. Ease of access to and from these markets are vital to capitalize on their potential.

INDONESIA - BINTAN

BINTAN

CITY OVERVIEW

- Bintan Island is the largest of 3,200 islands in the Riau Archipelago at approximately 2,400 square kilometres. The capital of Bintan, Tanjung Pinang, is located on the west coast of the island. With a national growth rate of 1.41% per annum, the island has a population of roughly 300,000 people.

- Bintan mainly offers attractive tourism, industrial, logistic and manufacturing platforms due to its strategic location on Indian and Pacific Oceans. Being a Free Trade Zone and Special Economic Zone, Bintan provides preferential tax benefits and remains popular among the investors.

TOURISM MARKET OVERVIEW

- Given its close proximity of about 48 kilometres southeast of Singapore, the economy of Bintan Island is focused on tourism. Indonesia is promoting Bintan as the next best tourist destination after Bali.

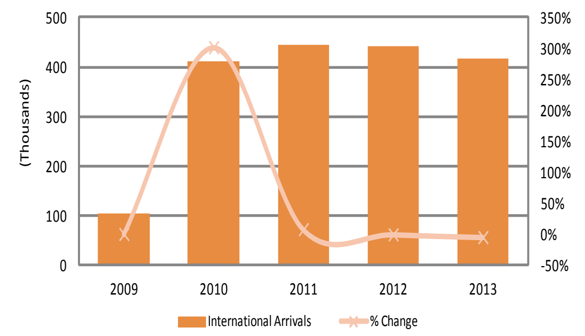
- In line with the Sijori Growth Triangle partnership arrangement between Singapore, Johor (Malaysia) and Riau Islands (Indonesia), Bintan, together with Batam, has evolved to offer resorts and recreational developments, mainly on the northern beach line. Bintan forested area, unique natural landscape and world class designer courses make it attractive to many golfers to visit the island in a regular basis.

- The major points of entry into Bintan are Bandar Bentan Telani ferry terminal and Tanjung Pinang terminal. Bintan is known mainly for its upscale hotels and resorts in the northern section of the island. They are easily accessible by ferry to and from Singapore or Batam in about 45 minutes.

- Raja Haji Fisabilillah Airport serves domestic routes, to and from Jakarta, Palembang, Jambi, Pekanbaru, and the remote Natuna Islands. Plans to build a new airport at Lobam industrial area are underway and targeted to complete in 2015; although construction is progressing, the airport is not expected to be ready for operation until 2016.

- The new airport would have a capacity of 3.5 million passengers per year. An adjoining ferry terminal will complement the airport with a seamless connectivity to Batam Island and Singapore.

VISITOR ARRIVALS (2010 – 2013)



Source: Badan Pusat Statistik Republik Indonesia, HVS Research

- Bintan main points of entry for international visitors are by ferry terminals. International arrivals at both Bandar Bentan Telani and Tanjung Pinang have been steady, hovering at 400,000 with a compound growth rate of approximately 0.47%.

- In 2013, 417,747 tourists visited Bintan by ferry and most of them came from Singapore, Korea and Japan. The total arrivals by ferry are split to 75% via Bandar Bentan Telani and 25% via Tanjung Pinang.

- Cumulatively from January to May 2014, total arrivals by ferry were recorded as 167,012, slightly up as compared to 165,505 in the same period in 2013.

- Domestic tourists generally visit Bintan by airplane, via Raja Haji Fisabilillah (RHF) Airport which was previously known as Kijang Airport. In 2012, the Indonesia Ministry of Transportation recorded 144,884 passengers visited Bintan through RHF Airport.

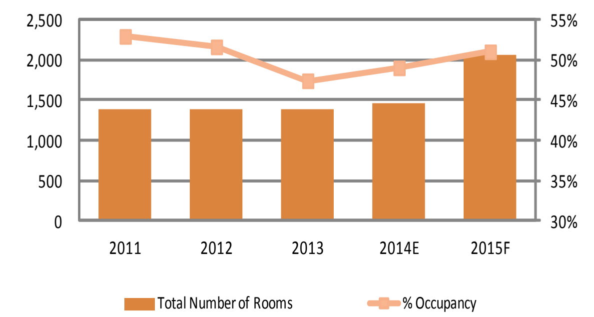
- In the past three years the Bintan market has witnessed a very gradual slowdown in arrivals due to several setbacks. These include the lack of introduction of new hospitality players and attractions in the area; and ongoing competition faced by the island with other destinations in Indonesia that benefit from direct low-cost air connectivity to Singapore, which is Bintan's main feeder market.

- International arrival is expected to further increase with the opening of the new international airport in 2016, which will be located 35 minutes away from most of Bintan resorts at the north side of the island.
- Bintan year-to-year performance is observed to be relatively constant and steady in recent years. Seasonality in Bintan follows a typical resort demand patterns where high season demand occurs from June through August and December.

- The market has a strong weekend seasonality pattern, mainly coming from tourists spending the weekends from Singapore.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 -2015F)



urce: HVS Research

- New development of hotels and resorts in Bintan has been considered stagnant in the past decade. Existing hotels and resorts have undergone various refurbishment and renovation to stay current and competitive in the market.

- Room supply had been generally concentrated along the northern coast of Bintan island. Brands familiar to Bintan visitors among others are Banyan Tree, Angsana, Club Med, Bintan Lagoon Resorts and Nirwana Gardens, that contribute to an estimate of 1,400 rooms in the island.

- Bintan's hotel and villa luxury market is represented by international brands such as Angsana and Banyan Tree Bintan, built in the 1990s. The luxury segment has not seen any significant new supply enter the market in the past decade. However, this is set to change as the planning and construction of large integrated resort developments are envisaged in the short-to-medium term.

- Brands set to be introduced into the luxury market in 2014 and 2015 include the Sanchaya and Alila, featuring luxury villas.

- Domestic brands such as Bintan Lagoon Resort and Nirwana Gardens contribute to midscale sector. Similar to luxury segment, this segment has not seen any drastic change in recent years.

- In the next few years, Quincy by Singapore based Far East, Swiss-Belhotel Grand Lagoi and Pantai Indah Collections are slated to be operational, bringing in more than 500 hotel rooms and villas.

- Other developments include North Star located at eastern beach of Bintan island and Bintan Hideout by Epikurean are planned to further increase Bintan hospitality supply.

- Accounting for the existing supply of rooms in the island, the pipeline of overall new hotels indicates a growth of approximately 50% by 2017.

- Numerous investment and development plans on serviced apartments such as Cassia by Banyan Tree are expected to offer more alternative to tourist accommodation and further boost popularity of Bintan as a leisure destination in South East Asia.

CITY PIPELINE

NEW HOTEL OPENINGS (2014-2015)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	The Sanchaya	30
	Bintan Treasure Bay	40
2015	Alila Villas Bintan	52
	Swiss-Belhotel Grand Lagoi	218
	Pantai Indah Collections	139
	Quincy Boutique Hotel Bintan Island	200
Total Proposed Room Supply (Indicative)		679

Source: HVS Research

- However, in anticipation of several new integrated resorts and development projects, as well as strong regional economic growth and the potential of tourism demand from emerging markets such as India and China, the investment community is optimistic about the island's future. Furthermore, Bintan's new airport will give the island an opportunity to compete for its own domestic leisure segment. Improved accessibility and adequate facilities to capture the growing MICE demand will allow the island's hotel market to effectively target a wide range of demand segments.

- Over the years, visitor arrivals to Bintan have been nearly stable, which is likely to trend positively in the future.

- With the aggressive marketing of Lagoi Bay, Treasure Bay and other integrated resort developments, Bintan's visibility is anticipated to improve. The facilities coming along with the developments include upscale residential clusters, a beach village mall and state-of-the-art recreational amenities. In a few years to come, The Sanchaya, Swiss Bel-hotel, Alila Villas Bintan, Air Adventures and Pantai Indah Villas among others, are names that will be associated to Bintan visits. These new supply of internationally branded resorts and boutique hotels will further increase the attractiveness of Bintan as a tourist destination.

- Moreover, the new residential developments in Bintan with marinas, entertainment facilities and retail enclaves will complement its resorts going forward.

- Opening of new hotels, resorts and villas are announced one after another in the past recent years. The introduction of hotels in Lagoi bay area, such as the Sanchaya, Treasure Bay, Alila, Swiss-Belhotel will bring an estimate of 700 more hotel rooms and villas.

- To complement the new developments, new serviced apartment and condo-hotels are also concurrently under construction, such as 49 serviced residences and 130 condo-hotels by Swiss-Belhotel.

INVESTMENT MARKET OVERVIEW

- Bintan in recent years has not seen any hotel or resort being transacted. Investors' interest in Bintan tourism market is apparent through the upcoming projects and developments such as Lagoi Bay and Treasure Bay.

- Other than on the northern part of Bintan, interests on other shorelines on the island such as Trikora Beach has become more intensified. Bintan North Star Resort is planned to be built at Berakit along with International Ferry Terminal Berakit.

MARKET OUTLOOK

- In recent years, the Bintan market has endured a number of setbacks, some of which are owing to of the typical cyclical nature of resort destinations. The advent of low-cost airlines and direct connectivity to other destinations within Indonesia has led to a decline in visitation from Bintan's primary feeder market – Singapore.

- Several changes in visa regulations to Indonesia in recent years have also had an adverse impact. Additionally, the absence of new resorts within Bintan has resulted in a decline in the destination's attractiveness compared to other island locations in Southeast Asia, augmented by the relatively poor accessibility to Bintan from other international locations, leaving Singapore.

- The development of new airport in Bintan will see a leap in tourist arrivals in 2016 as the island becomes more accessible. As it facilitates connectivity within Indonesia, regional and international, Bintan will become a more attractive investment location for investors looking to tap into the fast expanding travel and tourism market. The new airport is expected to be the key catalyst to Bintan tourism long term growth.

- Development of Bintan will continue to be highly geared towards growth in tourism as the main economic activity.

- Beyond tourism, numerous opportunities still exist in manufacturing, energy, fishing and agriculture as well as other sectors and services. These will ensure continuous sustainability of Bintan as a resort and leisure destinations.

INDONESIA - SURABAYA

SURABAYA

CITY OVERVIEW

- Surabaya is believed to have derived its name from the words "sura", meaning shark, and "baya", meaning crocodile, when both creatures engaged in a mythological battle of epic proportions to determine the stronger of the two. Mythology aside, Surabaya holds deep historical importance by virtue of being the site of the Battle of Surabaya, the turning point in Indonesia's fight for independence, as well as being the birthplace of the nation's first President, Sukarno. It is the second-largest city in the country with a population of 3.2 million over a total land area of 1,805 square kilometres.

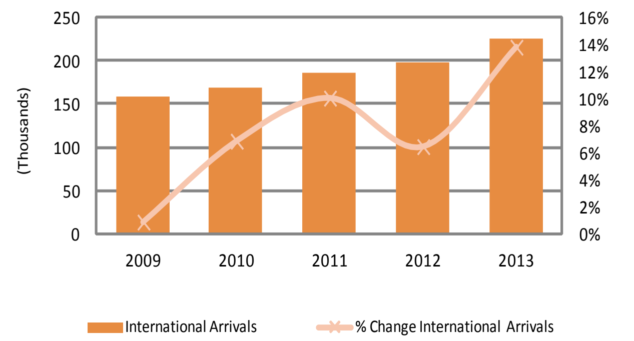
- Due to Surabaya's advantageous location along the coast of East Java, the city is home to numerous agricultural, industrial and commercial entities. The local port serves as a distribution point for export products produced in Surabaya and the surrounding regions. Principal exports from the city include sugar, tobacco, coffee, and other agricultural goods.

TOURISM MARKET OVERVIEW

- Even as most corporate headquarters are situated in Jakarta in West Java, Surabaya is an important business and government hub with many companies, organisations and government agencies having regional offices in the city. As such, there is a strong demand for rooms as well as for facilities accommodating small format meetings and conference groups

- Additionally, Surabaya has a domestic leisure market. The city is a major retail destination for Indonesians with a number of sprawling shopping complexes. Cultural and leisure demand generators are also available, albeit outside the city centre areas. In fact, Surabaya's Mount Bromo region has been recently featured at the top of the Indonesian tourism ministries' development list. Furthermore, Surabaya functions as a regional and international transport hub for other tourist destinations in East Java.

VISITOR ARRIVALS (2008 – 2013)



Source: Badan Pusat Statistik, HVS Research

- On the back of strong economic development, international arrivals to Surabaya, via Juanda International Airport, have grown steadily over the past five years. International arrivals in 2008 were registered at around 156,700 and this has inflated to approximately 225,000 as of 2013, a CAGR of 7.5%. May 2014 YTD data has shown a moderate increase of 3.5% with 91,600 arrivals as opposed to 88,500 arrivals during the same period last year.

- International arrivals to Surabaya have remained largely constant through recent years with no severe year-on-year fluctuations. Generally, international arrivals remain consistent throughout the year with slight dips noted in February and September/October, and peaks observed in March and November.

- Domestic visitation, on the other hand, has experienced a stronger growth rate than international arrivals. Number of domestic visitors arriving via the Juanda International Airport grew at an average yearly rate of 16% during 2009 (4.32 million visitors) to 2013 (7.91 million visitors). The strong increase in domestic arrivals is due to the rapid growth in Surabaya's businesses and economy, as well as the city's growing reputation as an emerging leisure destination. Seasonality patterns indicate that arrivals at the beginning of the year are typically the lowest, gradually building up towards the end of the year. Additionally, the fasting month of Ramadan, typically in July or August, records a significant dip in domestic arrivals, rapidly recovering in the following month.

- Source countries for international arrivals to Surabaya are quite varied with direct flights being offered from several international destinations such as Singapore, Malaysia, Hong Kong, Taiwan and Saudi Arabia. In 2012, the single largest contribution towards total arrivals was from Malaysia at 23%., followed by Singapore at 9%. The strong level of arrivals from these two nations was driven by the availability of direct air connections across several carriers.

- Surabaya's hotel market is mostly driven by individual business and corporate demand during the weekdays. Over the weekends, this dynamically changes to leisure demand travelling to Surabaya mainly for shopping. Despite the fact that the city is not as established a MICE market as Jakarta or Bali, limited demand from meeting groups is present within Surabaya. We believe that the rapidly improving infrastructure and economic growth will inflate future levels of MICE demand in the city.

- Surabaya's hotel market, particularly the upscale and five-star segment, has registered healthy performance levels in recent years. The average room rate in this market has grown consistently at 6% per annum from IDR593,000 in 2010 to IDR700,000 in 2013. Despite this strong growth rate, the marketwide occupancy has remained stable throughout this period. Average occupancy for the upscale and five-star segment ranged from66% in 2010 to 67% in 2012, dropping slightly again to 66% in 2013.

- Going forward, owing to the limited new supply in the upscale and five-star segment, we anticipate the occupancy to marginally improve or maintain 2013 levels over the next couple of years, whereas the average room rate is projected to record slight improvements during the same period.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 – 2016)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Grand Aston Tunjungan Hotel & Convention Center	320
	Tune Hotel Surabaya	156
	Harris Skyline	262
	POP! Hotel Gubeng Surabaya	162
	Ascott Waterplace Surabaya	181
	YELLO Hotel Embong Sawo Surabaya	160
	YELLO Hotel Jemur Sari Surabaya	150
	Harris Hotel Gubeng Surabaya	160
	Swiss-Belhotel Darmo Surabaya	239
2015	Holiday Inn Express Surabaya Atria	240
	Zest Hotel Jemur Sari Surabaya	130
	POP! Hotel Diponegoro Surabaya	120
	POP! Hotel Ambengan Surabaya	120
	POP! Hotel Pasar Atom Surabaya	150
	Citadines Marvell Surabaya	276
	Harris Hotel Karang Menjangan Surabaya	100
	POP! Hotel Karang Menjangan Surabaya	100
	Novotel Surabaya Rungkut	245
	Ibis Budget Surabaya Darmo	150
2016	Swiss-Belinn Tunjungan	190
	Four Points by Sheraton Surabaya	300
Total Proposed Room Supply (Indicative)		**3,911**

Source: HVS Research

- Going forward, a majority of the new hotels are being developed by domestic hotel chains operating in Indonesia in the budget and economy segments. Demand for this type of accommodation has grown tremendously in the past three-to-five years. A total of 21 branded hotels are expected to enter the market in 2014 through 2016, corresponding to an addition of 3,900 rooms.

- The surge in new hotels at this market level is reflective of the increasing demand for room nights by the growing middle class in the country, characterised by rising disposable incomes and consumer spending, coupled with the availability of affordable air travel. In particular, Indonesia-based Tauzia Hotel Management is set to dominate the pipeline in Surabaya with 1,484 rooms, almost half of the total new supply. Most of Tauzia's new developments will be flagged under the POP! and YELLO brands, with several others under the Harris brand.

- At the higher end of the market, a few upscale properties such as the Grand Aston, Swiss-Belhotel, Novotel and Swiss-Belinn are expected to open over the next two-to-three years. Combined, these new hotels represent approximately 25% of total new supply expected to enter Surabaya until 2016.

- Validating the strong growth of business demand in the city and the increasing trend of long-stay corporate travellers, the Ascott Group will expand within the market with two serviced apartments under the Citadines and Ascott brands.

INVESTMENT MARKET OVERVIEW

- The hotel development opportunities in Surabaya in the short- to mid-term will most likely be indentified in the budget to mid-scale sectors, and to a lesser extent, the upscale market. Despite the presence of international five-star hotel brands in the city, opportunities for luxury hotels will remain limited as long as rate levels in the market are growing marginally.

MARKET OUTLOOK

- The acceleration of Surabaya's economic growth, mostly due to the rapidly expanding industrial and business sectors, is set to transform the city's hotel landscape in the near future. Improved connectivity via the airport, ports and major highways will continue to result in increased demand for accommodation. We anticipate majority of short-term future demand to be for budget to mid-scale accommodation in Surabaya, evident in the pipeline of future developments.

- A temporary demand and supply imbalance could occur when the proposed supply hits the market. However, due to the city's impressive demand growth for budget/mid-scale accommodation, such imbalances are expected to iron out in the mid-term.

INDONESIA - BANDUNG

BANDUNG

CITY OVERVIEW

- Also known as the Paris of Java, Bandung is the provincial capital of the West Java province. With a population of approximately 2.58 million inhabitants over an area of 2,216 square kilometres, Bandung is Indonesia's third-largest city by population and the second-largest metropolitan city by surface area. Located relatively high above sea-level, Bandung enjoys a cooler and more moderate climate year-round in comparison to other major Indonesian cities.

- Since Indonesia's independence in 1945, Bandung has expanded rapidly, transforming from a small town into a thriving metropolis. During the Dutch colonial period, the city was full of tea plantations and served as a popular resort getaway for plantation owners.

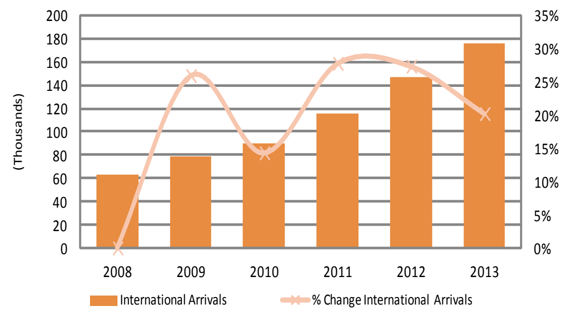
TOURISM MARKET OVERVIEW

- Bandung's main economic drivers are tourism, manufacturing, textiles, agriculture, retail and technology industries. Due to the large concentration of businesses as well as the ease of access from Jakarta, many Jakarta-based companies and government agencies hold meetings in the city and a large portion of hotel demand is generated from the MICE market .

- Bandung also serves as a weekend leisure destination, with many residents from Jakarta and West Java journeying out to the city over the weekends to enjoy the more hospitable climate as well as the many natural tourist attractions.

- Besides being a cultural and historic centre, Bandung is also home to several fashion factory outlets, which are popular with domestic travellers as well as international visitors from Malaysia and Singapore. The city is also one the most popular education destinations in Indonesia with over 50 higher education institutes based there.

VISITOR ARRIVALS (2009 – 2013)



Source: Badan Pusat Statistik

- International arrivals at Husein Sastranegara International Airport have been growing at a healthy pace recording a CAGR of 22.9% from 2008 to 2013. International arrivals in 2013 were registered at 176,300, a 20.2% increase over the previous year. May 2014 YTD statistics reveal that Bandung will witness growth in international arrivals this year with inbound passengers increasing by 9.2% from 74,400 in 2013 to 80,400 in 2014Compare to the trend for the country.

- On the other hand, total domestic visitors to Bandung have grown at an average rate of 9.3% per year from 2008 to 2012, although 2012 recorded 3.35 million domestic visitors, a 14% drop from the year before.

- As Bandung is heavily reliant on domestic travel, the city experiences some amount of seasonality with the Ramadan month marking the lean period. Peak demand tends to manifest in the months immediately prior to Ramadan (typically May and June), as well as towards the end of the year, in December.

- Bandung's international feeder market primarily comprises ASEAN countries that have direct air connectivity to the city, namely Malaysia and Singapore.

- In 2013, three quarters of the total foreign arrivals in Bandung were from Malaysia while another 18% was from Singapore. International visitors from the United States, India and Australia, accounted for 1% of the total arrivals each, with the balance 4% corresponding to all other countries.

HOTEL MARKET OVERVIEW

- Majority of Bandung's hotel market is composed of mid-tier hotels with several upscale hotels scattered throughout the city. Many of the city's hotels are heritage sites from the Dutch eras being preserved as national landmarks. Over the past several years, the Bandung hotel market has performed well with admirable increases in RevPAR across positioning.

- Bandung's main hotel market segments are Domestic Business and MICE, with over 90% of this demand stemming from Jakarta. Business demand is generated by the many factories and industrial sites situated in and around the city, while MICE demand stems from both corporate as well as government sectors operating in Bandung. . Although there are many upcoming meeting areas surrounding Jakarta, such as Bogor and Sentul, Bandung remains popular due its relatively optimal location from Jakarta offering easy accessibility, yet providing a sense of a getaway.

- Despite the steady increase in hotel supply during this period, existing hotels have managed to maintain healthy levels of occupancy while still growing at a commendable pace from 2010 to 2013. Such remarkable performance was evident not only in the upscale and five-star segment, but across all market positioning.

- Strong economic growth, rising demand from the MICE and government segments, and the improvement in accessibility from Jakarta have been identified as the main drivers of this performance. With rapid economic growth continuing in Java and the increasing reputation of Bandung as a leisure, business and meeting destination, the city's hotel market is slated to record favorable performance in the short-to-medium term.

- However, going forward, in light of the considerable amount of new supply entering the market, occupancy growth for the upscale and five-star hotels is expected to be muted and growing only a few percentage points per year, while average rate for the segment is anticipated to grow moderately in 2014 and 2015 (in comparison to the previous years), picking up pace thereafter.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2016)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Panghegar Dago Resort & Spa	170
	Ibis Styles Bandung Braga	192
	InterContinental Bandung Dago Pakar	223
	Mercure Bandung Setiabudi	202
2015	Crowne Plaza Bandung	266
	Ibis Bandung Pasteur	150
	Zest Hotel Bandung	195
	ibis Budget Bandung Jalan Asia Afrika	159
	Best Western La Grande Condotel Bandung	200
2016	Pullman Bandung City Centre	200
	Golden Tulip Hotel Bandung	120
Total Proposed Room Supply (Indicative)		**2,077**

Source: HVS Research

- Bandung is experiencing healthy growth in hotel performance owing to rising demand from the international and domestic markets, generating investor interest. There are several hotels anticipated to open in the city over the next three years, adding approximately 2,100 rooms across 11 major branded hotels. These include budget as well as upscale hotels catering to the weekend leisure market plus meeting groups.

- Accor's pipeline includes a total of 903 rooms under the Ibis, Mercure and Pullman brands, roughly accounting for 43% of the total new supply. InterContinental Hotels Group ranks second, with two upcoming hotels: the InterContinental Bandung Dago Pakar and Crowne Plaza Bandung. The other branded hotels represented in the city's supply pipeline include Best Western and Louvre Hotels (with their Golden Tulip brand).

INVESTMENT MARKET OVERVIEW

- While the city already has a substantial base of existing room inventory with both international and domestic hotel chains represented, the marketwide occupancy and average room rate have experienced significant growth in recent years. As domestic leisure, business and meeting demand continue to surge, in addition to the rise in international arrivals, Bandung will require more rooms to cater to this demand in the medium–to-long term.

- The new supply entering the market over the course of 2014 and beyond is not likely to create and oversupply situation, although it may result in marketwide occupancy remaining stable and average rate growing at a moderate pace till 2016. Going forward, we believe that the market can absorb more hotels across all positioning, specifically targeting the meeting and leisure segments.

- Investment opportunities still exist in Bandung particularly in the midscale and upscale segments and this is driven by the growth of demand in the city. Hotels with international or national branding will see a competitive advantage over non-branded properties due to the added prestige factor valued by many meeting groups.

MARKET OUTLOOK

- Similar to other major cities in Indonesia, Bandung is experiencing robust economic growth fuelled by strong performance of its tourism, manufacturing and industrial sectors. This, alongside the economic development in the neighbouring Jakarta, in particular, and Java in general, is driving a strong hotel market in the city.

- While there are several upcoming meeting destinations around Bandung, such as Sentul, Bogor and Puncak, the city remains popular among corporate firms and government institutions in Jakarta owing to its location and improved accessibility. Additionally, Bandung's diverse attractions provide the city a unique edge as a leisure and meeting destination over other locations.

INDONESIA - BOGOR

BOGOR

CITY OVERVIEW

- Bogor is a city on the island of Java, situated in West Java province approximately 60 kilometres south of Indonesia's capital, Jakarta. Bogor has had a long and rich history, serving as the capital city of the historical Sunda Kingdom during the middle-ages before being appointed as the summer-residence and administrative centre of the Governor-General of the Dutch East Indies. The city also hosts several historical and culturally important sites such as the Presidential Palace and the Botanical Gardens, one of the oldest and largest in the world.

- Bogor covers an area of approximately 119 square kilometres and has an estimated population of one million as of 2014. However, majority of the city's population resides in the central part of Bogor. Here, several hundred thousand people live in a small area of only 20 square kilometres making it one of the most densely populated places in the world. The geographical boundaries of Bogor also encompass the satellite cities of Sentul, Puncak and Ciawi.

TOURISM MARKET OVERVIEW

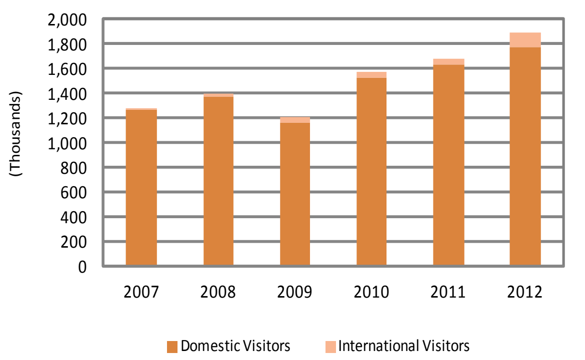
- Bogor is a popular leisure destination for residents in Jakarta. Leisure demand generators including cultural and heritage sites alongside modern water parks and theme parks attract visitors during weekends and public holidays. Business travellers also form a significant part of visitation to Bogor due to the presence of numerous industrial and commercial estates in the city's direct catchment area.

- Bogor also serves as a popular alternate meeting destination for Jakarta-based government and corporate demand. Weekday demand in the city is almost exclusively composed of these meeting groups that see Bogor as an attractive off-site leisure-oriented meeting venue. These meeting groups encompass a wide variety of government ministries and corporate entities in the banking, manufacturing, commodities, ICT and trade industries.

- The city of Bogor is not served directly by its own international or domestic airport. It is instead served by the Soekarno-Hatta International Airport in Jakarta, which is approximately a 90-minute drive during good traffic conditions.

- However, as mentioned earlier, a vast majority of the visitors to Bogor are from Jakarta itself. Primary access to Bogor from Jakarta is offered by the Jagorawi Toll Road, the first toll road in Indonesia.

VISITOR ARRIVALS (2007 – 2012)



Source: BPS, HVS Research

- Visitation to Bogor is predominantly domestic. While the number of domestic visitors have traditionally eclipsed that of international visitors, the gap is narrowing, although slowly. In 2007, domestic visitors accounted for 99% of the total visitation to the city. However, in 2012, the share stood at 94%. The growth in domestic visitors to Bogor has been consistent in recent historical years with the exception of 2009 during the global financial crisis. Domestic visitors increased from approximately 1.27 million in 2007 to 1.78 million in 2012, corresponding to a 7% compound annual growth rate (CAGR) for the period.

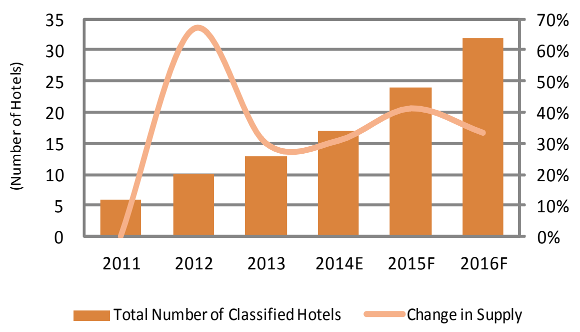
- On the other hand, international visitation levels rose from 13,700 in 2007 to 111,000 in 2012, translating to a staggering 52% CAGR over the five-year period, primarily due to the strong industrialisation in Bogor, in particular, and in Java to a lesser extent. If the seasonality pattern is meaningful display in this in a chart; if not one bullet point will suffice.

- Travellers from Jakarta and its outskirts represent 90% of the total arrivals in Bogor. This is followed by internal domestic visitation from Bogor city and the Bogor regency itself, at 4%. As far as international feeder markets are concerned, Singapore, Japan, China and the Netherlands are the largest individual source markets contributing a combined total of 4% of the arrivals to the city, whereas international arrivals from all other countries constitute the remaining 2%.

- While Bogor has seen an increase in international arrivals over the past couple of years, we foresee the market to continue being driven by domestic demand in the short-to-medium term.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 – 2016F)



Source: HVS Research

- In 2011, there were six classified hotels and this is expected to increase to 17 by the end of 2014. This number is set to nearly double to 32 by 2016, representative of a 40% CAGR in the number of hotels over the six-year period from 2011 to 2016. The largest influx of new hotels is likely to be in 2016 with supply starting to taper off 2017 onwards.

- Total hotel supply is expected to increase significantly in 2014, 2015 and 2016 at the rate of 31%, 41% and 33%, respectively. The forecasted average annual growth rate from 2011 to 2016 is 40%.

- The Bogor hotel market has enjoyed consistently high occupancy and average rate performance over the last few years despite the addition of new supply. Such performance has been generally driven by the weekday government and corporate meeting demand alongside weekend domestic leisure demand.

- With the exponential increase in new hotels expected in 2014 through 2016, it is unlikely that the corresponding growth in demand will be able to maintain previous levels of occupancy in the market. As a result, marketwide occupancy is expected to drop several percentage points once this new supply becomes operational. Additionally, due to the large influx of new supply in 2015, rate growth for that year is forecast to be negligible, if any.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 – 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Harris Puncak Bogor	138
	Best Western Bogor Icon	287
2015	Aston Sentul Resort and Conference Centre	220
	Holiday Inn Express Bogor	170
	ibis Bogor	120
	Swiss-Belhotel Pakuan Suites & Residences	180
	Novotel Resort Sentul City	230
	ParkRoyal Rainbow Hills Bogor	225
2016	The Alana Sentul City	271
	Royal Tulip Gunung Geulis Bogor	200
	Golden Tulip Essential Sentul	150
	Harper Puncak Gate Bogor	303
	Pullman Vimala Hills	250
2017	Hyatt Regency Sentul	225
Total Proposed Room Supply (Indicative)		**2,969**

Source: HVS Research

- Hotel development in Bogor has, in recent times, seen a boom largely in response to increased meeting and leisure demand from the key catchment area of Jakarta, and the fact that the city's hotel market has basically operated at capacity for the last three to four years.

- The majority of the new hotels that are coming on stream have a mid-scale, upper mid-scale or upscale positioning that are expected to add approximately 3,000 rooms to area's current supply. Many international brands such as InterContinental Hotels Group, Best Western, Hyatt, Louvre Hotels Group and Pan Pacific, are looking to manage properties in the region over the next few years. Several home grown chains will be represented in the new supply as well. Archipelago will be adding another Aston property alongside the Alana, while Harris will be expanding into Puncak in the near future.

INVESTMENT MARKET OVERVIEW

- Bogor is increasingly becoming an important meeting, business and leisure destination for individuals and organisations based in Jakarta. Traditionally, the changes in demand for hotel products in Bogor have followed the change in hotel supply. Whilst the market demand is expected to continue recording healthy growth, we anticipate that there may be a temporary demand and supply imbalance on the back of many hotel openings between 2015 and 2017.

- The ongoing popularity of the market is encouraging developers and investors to roll-out additional hotels and resorts well beyond 2015, further diversifying demand and supply for the mid-term, with signed projects in place up to 2017. In the face of ever increasing demand in Bogor and the abundance of developable land, investment opportunities in the region continue to remain high with favourable returns.

MARKET OUTLOOK

- We consider the market fundamentals to be favourable and expect the city's hotel market to recover in the long term in view of the increasing demand for quality meeting facilities and leisure retreats that Bogor and its immediate surroundings offer. With healthy levels of economic growth forecasted in Jakarta and Indonesia as a whole, Bogor is in line to benefit heavily from this.

- As the public and private entities in Jakarta begin to see a heightened atmosphere for stability and progress, there will be a continuous demand for new and improved meeting facilities, for which Bogor is an ideal destination. Additionally, with rising investor confidence and disposable incomes, both business and leisure demand is anticipated to grow exponentially.

- Bogor's unique selling point is its proximity to Jakarta, a fundamental trait that provides it an intrinsic competitive advantage over other destinations in the region. Consequently, Bogor's hotel market will remain robust in the short-to-medium term, and the region will continue to be an attractive site for hotel investments across a variety of market positioning.

INDONESIA - LOMBOK

LOMBOK

CITY OVERVIEW

- Lombok is one of the two major islands that make up the West Nusa Tenggara province of Indonesia. It is part of the Lesser Sunda Islands chain, located to the east of Bali and to the west of Sumbawa, the other main island in the province of West Nusa Tenggara. The land area of Lombok measures approximately 4,739 square kilometres and has a population of about 3.2 million. The island is divided into four regencies: West Lombok, North Lombok, Central Lombok and East Lombok.

- Strategically located near the tourism epicenters, Bali and Komodo Island, Lombok is a rising tourism destination in Indonesia. The island possesses a wealth of attractive characteristics that are favourable for the development of tourism such as the island's distinctive cultural mosaic, which is a blend of the main Sasak culture alongside Balinese, Javanese and other minority cultures. Additionally, the beautiful natural landscapes and settings, especially the famous Mount Rinjani and its long stretches of pristine beaches have tremendous potential to be developed for special-interest tourism activities, such as diving, rafting, rock-climbing and caving.

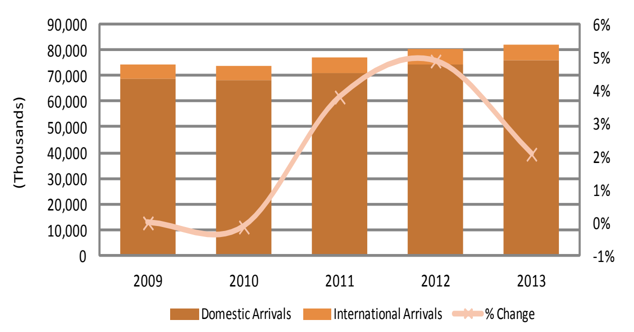
TOURISM MARKET OVERVIEW

- Tourism is an important source of income for Lombok. While most of the tourism activity is currently centered on the township of Senggigi, many unexplored and underdeveloped sites around the island remain untapped. Some of the major areas slated for development include the south and southwest of Lombok. The southern part of the island, in particular, is seeing a surge in development interest, further to the relocation of the international airport from Mataram to this place.

- Lombok is currently undergoing a wave of resort development activity and the new Lombok International Airport that opened in October 2011, can be considered as the primary driver of this development. The new airport was constructed to replace the old Selaparang Airport, and in doing so has effectively increased the annual passenger capacity from 850,000 to three million.

- The Lombok International Airport boasts of a modern arrival terminal and has facilities that are able to cater to the largest of aircrafts. Its opening will help facilitate the growth of tourism on the island.

VISITOR ARRIVALS (2007 –2013)



Source: Badan Pusat Statistik

- International arrivals to Lombok have remained fairly consistent prior to 2013. Years 2010, 2011 and 2012 registered 17,300, 17,900 and 17,000 international arrivals, respectively. Moreover, even during the global financial crisis in 2009, Lombok experienced only a marginal decline (3%) in international arrivals unlike other parts of Indonesia.

- However, 2013 witnessed the island achieving a milestone of sorts in terms of international visitors; arrivals stood at approximately 40,400, corresponding to an astounding 137% growth from the year before. However, if year-to-date (YTD) arrivals up to May 2014 are any indication, the current year is set to surpass the arrival numbers recorded in 2013. Till May 2014, 27,900 arrivals have been registered; nearly three times the recorded number of arrivals (9,800) during the same period last year. This highlights the rapidly increasing appeal of Lombok as an international tourist destination.

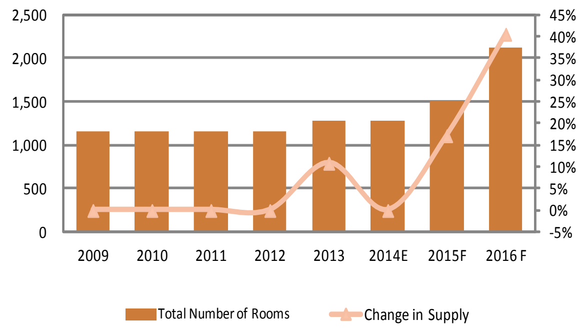
- The unprecedented level of growth is attributable to the island's increasing popularity as an alternative leisure destination to Bali, as well as the increasing availability of flights to Lombok from both domestic and international destinations. At present, the Lombok International Airport serves six domestic airlines, which includes Garuda Indonesia, Lion Air, Merpati Air, Trans Nusa Air, Wings Air and Citilink Indonesia.

- These domestic airlines travel to/from seven different cities within Indonesia, including Jakarta, Denpasar and Surabaya, accounting for about 224 inbound flights to Lombok per week. Based on past trends, it can be concluded that the top few international feeder markets for Lombok are typically countries with direct flight access to the island. Per the July 2013 YTD data, the top feeder market for Lombok was Malaysia contributing 20% of the total arrivals, followed closely by Singapore at 18%, and the United Kingdom accounting for 9% of all arrivals. While the top three countries remained the same, the contribution ranking changed from 2012, when the order was Singapore (19%), the UK (10%), followed by Malaysia (9%).

- The rapid growth of Malaysia as a feeder market is largely owing to the increasing number of flights between the two destinations as well as the increasing popularity of the island among leisure travellers. Moving forward, low-cost carrier Tiger Airways is expected to operate three weekly flights between Singapore and Lombok. The addition of this new flight route is likely to bring in more international tourists from Singapore, especially budget travellers. Furthermore, it is also gathered that Cathay Pacific is considering introducing direct flights between Hong Kong and Lombok. This could potentially connect the island to other medium-haul markets outside of the Southeast Asian region, particularly the massive China market.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2009 – 2016F)



Source: HVS Research

- Lombok's hotel and resort market currently comprises of approximately 47 hotel establishments, with the internationally branded segment comprising mainly upscale or luxury properties.

- Supply in Lombok has been generally increasing but majority of these hotels are domestically branded or have owner-operator models. There have been no significant additions to supply in the resort segment recently; however this is expected to substantially change in the mid-term.

- Total hotel supply is expected to increase substantially in 2015 and 2016 at the rate of 17% and 41%, respectively. As there are many expected projects and rumoured supply beyond 2016, it is likely that the market will see a swift and rapid rise in new developments after this period.

CITY PIPELINE

NEW HOTEL OPENINGS (2015 – 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2015	Sundancer Resort & Spa	146
	Royal Kamuela Lombok	75
2016	Renaissance Resort & Spa Lombok Gili Trawangan	200
	Aston Condotel Senggigi	411
2017	Club Med Mandalika	250
Total Proposed Room Supply (Total)		**1,082**

Source: HVS Research

- As of now, 1,082 rooms across upscale and luxury positioning are in the pipeline, which will be introduced into the market over the next few years leading up to 2017.

- While there is much ado about hotel developments in Lombok, the majority of these projects can still be considered speculative or in the very early planning stages. However, there are two major masterplan developments, the Sundancer Resort and the Mandalika Bay project that will add significant amount of rooms into the market when the later phases of these developments are realised. Following the opening of the Lombok International Airport, the previously delayed Sundancer Resort project in Sekotong resumed construction.

- The Sundancer development will be rolled out in six stages and will offer a mix of hotel, residential and commercial developments spread across 49.5 hectares.

- Another major project is the Mandalika Resort Development, which is a sprawling 1,175-hectare development to the south of Lombok governed by the Bali Tourism Development Corporation, the same company which successfully operates the Nusa Dua hotel complex. Plans for this integrated resort development include five luxury resorts and hotels, theme parks, a marina, golf courses, and a convention centre, all surrounded by a nature conservation zone.

INVESTMENT MARKET OVERVIEW

- Moving forward, new growth areas in the south coast of Lombok will witness the largest waves of tourism-related development, with the impending completion of the Sundancer Resort and the early phases of the Mandalika Resort, plus many other pristine sites earmarked for development within convenient proximity of the airport.

- The establishment of the Mandalika Resort project is a milestone in Lombok's development as a premier tourist destination in Indonesia. The project is anticipated to create a new wave of demand and will likely bring in high volumes of international visitors to the market. This substantial growth will be readily supported by the new Lombok International Airport. As Bali faces challenges of oversupply and soaring land costs, investors might turn to Lombok as an attractive alternate site for hotel investments.

- High average rate growth alongside consistent and relatively high occupancy levels in Lombok's upscale and five-star market is priming the island for development opportunities across a wider range of market positioning from mid-scale hotels and resorts, to luxury resorts.

MARKET OUTLOOK

- The tourism sector in Indonesia continues to expand, as evident from the constant year-on-year growth in international tourist arrivals over the past few years. In particular, there is a growing interest in emerging resort destinations, with many market players and travellers taking note of their massive potential.

- Specifically, in the case of Lombok, the central and provincial governments are actively promoting the destination, alongside the neighbouring island of Sumbawa, as Indonesia's next big tourism hot spot.

- Buoyed by the opening of the new airport and the sustained growth in tourist arrivals, Lombok is poised to enter the next phase of development, building on its growing reputation to become a top tourist destination in the medium-term. Lombok's international arrivals have seen a remarkable jump in the last two years. Arrivals in 2013 doubled from the year before and 2014 YTD data seems to indicate that this feat might be repeated. With a strong growth in regional travel and an optimistic domestic market, as well as Lombok's increased connectivity with national and regional ports of travel, the island's growth seems imminent.

VIETNAM


HANOI
HO CHI MINH

VIETNAM

Tourism's contribution to GDP in 2013 : VND3,11,117 billion (9.6%)

Source: World Travel & Tourism Council

Nationwide Occupancy 2012:58.8%

Nationwide ADR 2012: VND173.7

Nationwide RevPAR 2012:VND136

Source: Vietnam National Administration of Tourism (VNAT)

Highest recorded transaction of US $155.2 m for Vinpearl Luxury Ho Chi Minh took place in 2012.

Source: Real Capital Analytics

ECONOMIC UPDATES

- Vietnam, with an estimated 90 million inhabitants, is the world's 13th most populous country. Its economy is one of the fastest growing in Asia, especially after unification by the communist government.
- Vietnam is a developing country, whose economy is driven primarily by agriculture, fishing, sea products, and mining exports. A series of economic initiatives such as the Doi Moi policy in the 1980s and membership to the World Trade Organisation (WTO) in 1997 have enabled Vietnam to have access to foreign markets and capital. Additionally, home-grown companies have become stronger through increased competition.
- Per Economist Intelligence Unit (EIU) estimates, Vietnam's real GDP grew by 5.4% in 2013, and is forecasted to further accelerate by 6.1% in 2014 and 6.5% in 2015, sustained by growth in exports and faster increases in investments.
- Recent efforts to privatize the service and banking sectors are underway. These reforms have are already shown results with with GDP growth.

ECONOMIC INDICATORS (2010 - 2015F)

	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	6.4	6.2	5.2	5.4	6.1	6.5	6.3
Inflation (%)	9.2	18.7	9.1	6.6	6.7	7.1	7.9
Exchange Rate VN$:US$	19,130.50	20,649.00	20,858.92	21,016.54	21,226.60	21,808.40	22,492.50
Lending Interest Rate	13.1	17.0	13.5	10.5	10.0	11.0	10.5

Source: Economist Intelligence Unit, June 2014

TOURISM MARKET OVERVIEW

- Visitor arrivals in the country rebounded in 2010 after the global financial crisis, and continued growing in 2011; Vietnam recorded approximately 6 million international arrivals and earnings amounting to VND130 trillion overall that year. The strong recovery reinforces the country's attractiveness as a tourism destination, which is driven mainly by the support of the government. Successful tourism promotion campaigns include the *'Impressive Vietnam'* tourism stimulus program, which was launched in 2009 to revive the industry amid the global economic slump; the *'Return to Roots'* program launched in 2011; and the upcoming national tourism promotion programme, *'Vietnam – Timeless Charm'*, which will last until 2015.

- In the country's latest tourism development strategy, which maps out the blue print for the sector until 2030, the industry has further established a goal of attracting 10 to 10.5 million international tourists annually, and contributing up to 7% of the country's GDP. The government is prepared to make huge investments to realise this vision, which could require approximately US$42.5 billion over the next 10 years for infrastructure development.

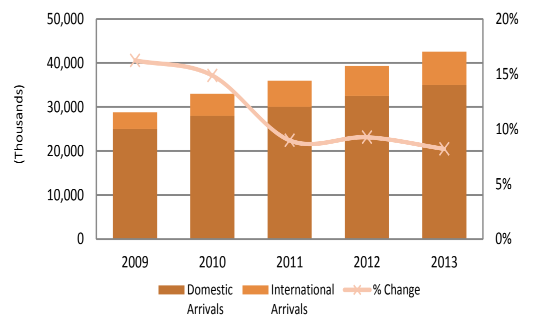
- The increasing number of budget airlines in recent years, including Tiger Airways, AirAsia, Nok Air, Jetstar Pacific, Indochina Airlines and Viet JetAir, have impacted the tourism industry in Vietnam favourably, promoting a rise in regional travel as these carriers fly to lesser known destinations, such as the island of Phu Quoc, off the southern coast of Vietnam.

- In 2013, Vietnam witnessed 7.57 million foreign visitors and 35 million local holiday-makers, achieving VND200 trillion (or US$9.5 billion) in tourism receipts.

- Domestic tourists dominate the visitation in the country, constituting about 82% of the total.

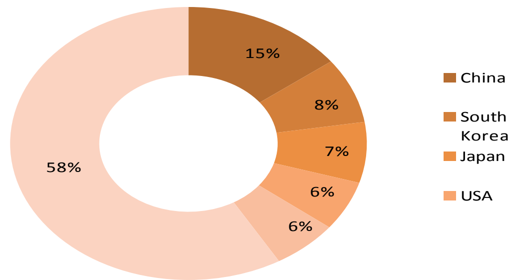
- Domestic demand is also expected to play an important role in the future of the country's tourism industry as the disposable income of the local population continues to rise.

VISITOR ARRIVALS (2009 – 2013)



Source: Vietnam National Association of Tourism, HVS Research

TOP SOURCE MARKETS (2013)



Source: Vietnam National Administration of Tourism (VNAT) HVS Research

- Cumulative international arrivals in the last eight months since January 2014, reached 5.47 million, an increase of 12.2 % over the same period last year.

- Asian countries are the main international feeder markets for Vietnam, constituting approximately 67% of the total international arrivals in 2013. China, South Korea, Japan and Taiwan alone accounted for around 36% of the total international arrivals in the past year.

- The Vietnam National Administration of Tourism (VNAT) has been actively promoting the country in the Southeast Asian region, in addition to its traditional feeder markets of Northeast Asia and Europe. These efforts have proven effective, with arrivals from Russia recording the highest growth (71%) over the previous year among all feeder markets in 2013. Moreover, tourist arrivals from China to Vietnam rose by 34%, those from Thailand increased by 19%, from Indonesia and New Zealand by 16%, while arrivals from Australia grew by 10% during the same period. However, the number of US visitors dropped by 2.6%.

- Relations between China and Vietnam have soured since May 2014 due to a maritime disagreement, which was triggered when a Chinese oil rig began its exploration in the disputed South China Sea waters. In August 2014, a meeting between Chinese President Xi Jinping and Vietnamese special envoy Le Hong Anh, sought to mend ties between the two communist neighbours. The dispute led to deadly anti-China riots in Vietnam, and many Chinese and other foreign businesses were attacked. Travel warning was subsequently issued, especially for Chinese and Taiwanese against travel to Vietnam, followed by numerous cancellations of inbound trips and bookings. In some cities, such as Ho Chi Minh, occupancy of hotels mainly serving Chinese tourists declined to as low as 20% in May and June 2014.

- Interestingly, the number of Russian arrivals to Vietnam grew to nearly 194,000 in the first half of 2014, an increase of 25.9% percent from a year earlier. The country is targeting 400,000 Russian tourists this year, and one million annually by 2017.

HOTEL MARKET OVERVIEW

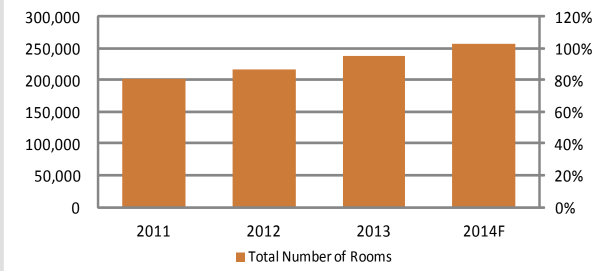
- In line with the long-term tourism blueprint that was mapped out for the sector until 2030, the Vietnamese government continues to lay a good foundation for the country's tourism industry by improving its existing infrastructure and investing heavily in marketing campaigns.

- With the opening of new airports and expansion of existing ones, such as Hanoi Noi Bai International Airport, Vietnam expects to see major developments in its current infrastructure which will boost the country's tourism activities. Resultantly, more hotels and resorts are expected to open in order to accommodate growth in tourist arrivals.

- Hotel supply in Vietnam has been growing at an estimate of 11% to 12% annually over the past few years, and this trend is likely to continue in the short-to-medium term. Increases in supply are concentrated along the central coast, as well as in Hanoi and Ho Chi Min City.

- Occupancy across the nation at around 59% to 60%, despite the increase in supply. Year 2014, however, is witnessing a decline in occupancy due to the travel warnings issued against Vietnam by a few key source countries, and hotel cancellations following the China-Vietnam dispute. Chinese make up the highest percentage of international visitors to Vietnam.

INDICATIVE HOTEL SUPPLY (2011-2014F)



Source: Vietnam National Administration of Tourism (VNAT), HVS Research

INVESTMENT MARKET OVERVIEW

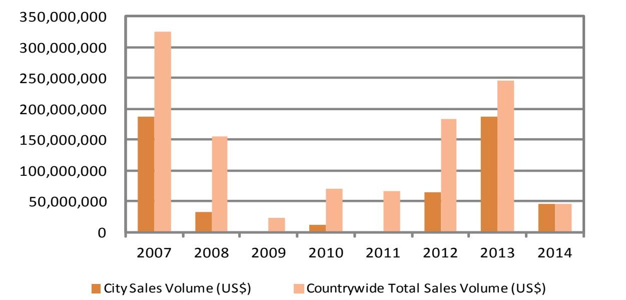
- Overall investment in travel and tourism in 2013 was VND81,987.1 billion, representing 7.9% of the total investment in the country according to World Travel and Tourism Council. This is expected to rise by 6.8% in 2014, growing by 6.5% anually over the next 10 years.

- Total investment in Vietnam plunged during the global financial crisis in 2009, gradually climbing up in 2010 and 2011, before rising substantially (almost tripling) in 2012 that witnessed the largest hotel transaction – the sale of the Vinpearl Luxury Ho Chi Minh for US$155.2 million (or US$0.5 million per room). In 2013, investment grew by 34%, which is expected to rise further in 2014.

- Risks in exchange rates, economic policies, limited availability of human resources, as well as poor transport and infrastructure have discouraged potential investors from investing in Vietnam's tourism market. In order to attract more investments, the Vietnam Property Association has urged the government to minimise regulations that increase business risks such as, visa restrictions; approvals from local governments to open new hotels; and ownership restrictions, among others.

- Local hospitality companies make up the majority of investors in Vietnam, followed by Korea, Hong Kong and Thailand. Previously, investors from Singapore and Malaysia were involved in major transactions in 2007 and 2008.

TOTAL INVESTMENT VOLUME (2007 - JUN 2014 YTD)



Source: Real Capital Analytics, HVS Research

HOTEL MARKET OVERVIEW

- Visitor arrivals in Vietnam are expected to continue rising as the nation's popularity in the global tourism market grows. The Civil Aviation Authority of Vietnam (CAAV) is anticipated to remain open to foreign carriers and maintain close connections with the regional and international aviation sectors.

- Key infrastructure projects including bridges, metro system, highways, and airport development, are expected to enhance the attractiveness of Vietnam as a key tourism destination.

- Economists remain confident that the macroeconomic fundamentals, which helped Vietnam to grow its economy in the past with a strong and diverse investment pipeline, and an expanding tourism sector, are still in place. However, the government needs to move quickly and transparently to shape the future growth of the Vietnamese economy.

MARKET OUTLOOK

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HO CHI MINH CITY

HO CHI MINH CITY

CITY OVERVIEW

- Ho Chi Minh City (HCMC), formerly known as Saigon, is located in the core of the Mekong Delta. It is the largest city in Vietnam followed by Hanoi. The city is characterised by many rivers, arroyos and canals, the biggest river being the Saigon River. The total area of the city is approximately 2,056 square kilometres, whereas the urban area is around 140 square kilometres including 19 districts and counties.

- HCMC is Vietnam's largest economic hub, significantly contributing to the country's growth, and accounting for over 20% of its annual GDP. There are more than 300,000 enterprises located in the city, which are mainly from the high-tech, electronics, machine processing, construction and agricultural product industries. Additionally, 15 industrial parks including Quang Trung Software Park and Saigon Hi-tech Park (SHTP) are located here, highlighting the city's importance as the country's economic centre. HCMC is expected to attain industrial city status as well as act as the key driver of the southern focal economic zone by 2015. By then, the GDP of the city should make up more than 29% of the total national GDP.

- Although GDP growth in the city over the past five years averaged approximately 10%, which is slightly lower than the government's target, the growth rate is still higher compared to the other cities in Vietnam. The government is targeting a 12% annual GDP growth and will focus on improving the transport infrastructure, enhancing service sector performance and investing in and developing entertainment facilities in order to achieve this goal.

- Benefitting also from its position as the centre of the southern region, HCMC has retained its role as a major tourism and business centre in Vietnam, receiving more than half of the total international visitor arrivals to the country over the past five years.

TOURISM MARKET OVERVIEW

- As a gateway city in Vietnam, HCMC is a popular destination in Asia. Visitor arrivals to the city increased steadily between 2003 and 2008, while arrival figures witnessed a decline in 2009, mainly due to the economic downturn and outbreak of Influenza A (H1N1). The city recorded approximately 2.6 million foreign visitors in 2009, representing a decrease of around 7% as compared to 2008, which fell short of the government's annual target of three million arrivals.

- However, in 2010, international arrivals registered a 19% growth rate, to reach 3.1 million foreign visitors, which was beyond the then government's target of 2.8 million arrivals.

- Then in 2011, the city attained its target of 3.5 million international arrivals, increasing by 13% compared to 2010. This translated to a revenue of VND49 trillion (US$2.33 billion) from the tourism sector, an improvement of 19.5% over the previous year.

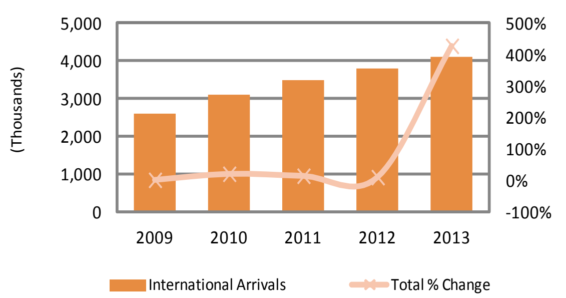
- Last year, HCMC welcomed 4.1 million international tourist arrivals increasing by 8.1% over 2012.

- In 2014, more tourists are expected to visit HCMC as the city diversifies its product offerings with creative links and cooperation with other localities with high tourism potential such as Tien Giang, Ben Tre, Can Tho and Phu Quoc. These are established destination for the domestic market and gaining attention among international visitors. Concurrently, the city has also intensified promotional efforts abroad.

- Moreover, the city also developed a plan to boost waterway tourism from 2013-2015, and a vision for 2020, in anticipation of increasing numbers of tourists. HCMC invested in the construction of five key routes for waterway tourism, whilst also upgrading and building ports and access roads to tourism sites.

- Tan Son Nhat Airport received 20 million passengers in 2013, much beyond its actual capacity. However, due to limited availability of land surrounding the airport site, expansion cannot be undertaken and a new airport needs to be built. Long Thanh International Airport is planned, which is expected to take 10 years to construct with approvals from various government bodies. Once completed, this new airport is anticipated to have a capacity to handle 100 million passengers annually. A new motorway will also be constructed to link Ho Chi Minh and the new airport, located around half an hour away.

VISITOR ARRIVALS (2009 - 2013)



Source: HVS Research

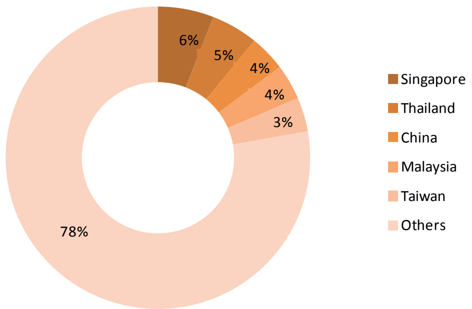
- Since 2009, international visitor arrivals have maintained an upward trend, with a year-on-year growth rate of 13.6% over the past three years and a CAGR of 8% since 2008. In 2012, the number of arrivals reached 3.8 million, an increase of 9% from the previous year. In the first five months of 2014, the city welcomed approximately 1.8 million international tourists, marking a 9.7% rise compared to the same period last year.

- Year 2014 saw authorities of Ho Chi Minh City implementing a range of measures to boost tourism, from improving the quality of services and increasing network linkages to offering attractive promotions.

- This year, the city's tourism sector estimates international arrivals to reach 4.4 million, up 7% from 2013, constituting about 55% of total international visitors to Vietnam.

- New air routes include VietJet Air and Jetstar's Ho Chi Minh-Bangkok; Jetstar Pacific's Ho Chi Minh-Thanh Hoa, Nha Trang and Phu Quoc; VietJet Air Ho Chi Minh-Singapore and Ho Chi Minh-Da Lat; and Hong Kong Airlines' Ho Chi Minh-Hong Kong.

TOP SOURCE MARKETS (2013)



Source: HVS Research

- Major feeder markets for the city have historically been the USA, followed by Japan, Taiwan, South Korea, Australia, China, Canada, France, Malaysia and Singapore.

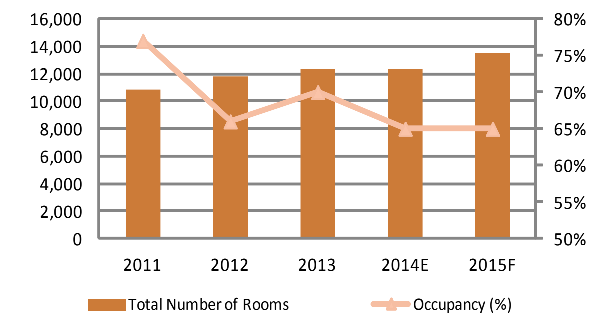
- The HCMC's Department of Culture, Sports and Tourism is planning to focus on varied services and products to boost tourism in the city such as resorts, facilities for the MICE segment, shopping and culinary-related developments.

- In 2014, Northeast and Southeast Asian nations, Western European nations, the US, Russia, India and the Middle East have been identified to be the target tourism markets for the city in the near future.

- The majority of international visitors to HCMC were from Japan, the Republic of Korea, Singapore, Malaysia, Indonesia, Thailand and European countries. The expected approval of visa waiver for countries such as France, Germany, the UK, Spain, Italy, Australia, New Zealand, India and Canada is expected to further boost the popularity of HCMC as a major tourist destination in the country.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: HVS Research

- The majority of international five-star hotels in the region are located in the city centre precinct. The Park Hyatt, Caravelle Hotel and Sheraton Saigon Hotel and Tower, as well as the locally managed Continental Hotel, are situated in Lam Son Square; Renaissance Riverside Hotel Saigon and Legend Hotel Saigon are located in Ton Duc Thang Street along the Saigon River; the historic hotels, Hotel Majestic, Hotel Rex and Hotel Grand, are located in the heart of District 1; and the Sofitel Plaza Saigon, is located on the outskirts of the shopping street of Le Duan Boulevard. This part of the city is able to attract both Commercial and Leisure demand, although leisure demand has started to move towards lodging options on the outskirts of District 1 as limited supply is driving hotel rates upwards.

- Going forward, HCMC's rooms' supply is expected to grow in the next few years with several hotels scheduled to open. Future openings include Le Meridien Saigon, Ritz Carlton Saigon, Ibis Saigon Airport, the Grand Ho Tram Strip and MGallery the Diplomat, among others. These together will add around 700 rooms between 2015 and 2017.

CITY PIPELINE

NEW HOTEL OPENINGS (2015 - 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2015	The Grand Ho Tram Strip	563
	Le Meridien Saigon	350
2016	MGallery The Diplomat	168
	ibis Saigon Airport	300
2017	Ritz Carlton Saigon	250
Total Proposed Room Supply (Indicative)		**718**

Source: HVS Research

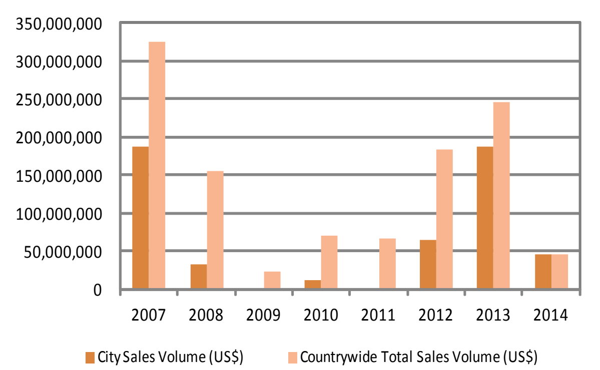
INVESTMENT MARKET OVERVIEW

- In recent years, a substantial number of hotel transactions in Vietnam were recorded in Ho Chi Minh as the city is Vietnam's largest economic hub.

- The largest recent transaction was the sale of Vinpearl Luxury Ho Chi Minh in 2013 for an estimated US$155 million (or US$0.5 million per room).

- The highest investment sales volume in HCMC was recorded in year 2013, almost triple of that in 2012. The increasing number of hotel transactions in the city is indicative of a growing positive sentiment towards tourism business in HCMC.

TOTAL INVESTMENT VOLUME (2007 - MAY 2014 YTD, US$)



Source: Real Capital Analytics, HVS Research

HOTEL TRANSACTIONS (2007 – 2014, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
2014 (pending)	Indochine Park Tower	55	14,285,700	259,740
Jan-14	Movenpick Saigon	278	30,377,358	109,271
Jun-13	Vinpearl Luxury Ho Chi Minh (5-8F)	292	155,242,387	531,652
Jan-13	Intercontinental Asiana Saigon	305	32,793,672	107,520
Oct-12	Lotte Legend Hotel Saigon	283	65,114,439	230,086
Jun-10	Saigon Mansion	72	10,714,286	148,810
Apr-08	Ramana Saigon	290	32,214,286	111,084
Dec-07	Sheraton Hanoi Hotel and Towers	299	97,450,000	325,920
Mar-07	Somerset Chancellor Court	172	45,024,876	261,773
Feb-07	Omni Saigon Hotel	248	43,952,864	177,229

Source: Real Capital Analytics, HVS Research

- In recent years, HCMC saw growing interest from investors in Hong Kong and Korea, besides rising attention from local investors. Other countries such as Malaysia and Singapore were also observed to be investing in this market.

MARKET OUTLOOK

- HCMC's tourism sector has registered strong performance in the past couple of years after the global financial crisis in 2009. The city is investing in future infrastructure development projects, including highway, subway and airport developments to enhance HCMC's attractiveness for both business and leisure travellers.

- Recent infrastructural developments include the opening of the Saigon River Tunnel, which provides an important link from the city's urban centre in District 1 to the Thu Thiem New Urban Area in District 2. The tourism industry of HCMC is benefitting from the increasing number of budget airlines in recent years, including Tiger Airways, AirAsia, Nok Air, Jetstar Pacific and Indochina Airlines and Viet JetAir, which have made regional travel more affordable.

- Additionally, the HCMC government is actively promoting growth of the MICE and health tourism segments with activities and road shows. Furthermore, the government is directing a substantial part of the foreign direct investments to the tourism industry to develop hotels and infrastructure. Domestic tourism demand is also expected to play an important role in the future of the city's tourism industry as the disposable income in Vietnam's largest cities continues to rise.

- As the country's commercial centre, HCMC is expected to benefit greatly from the future developments in Vietnam as a whole. The overall long-term tourism growth potential of the city remains strong thanks to aggressive marketing and promotion by the Vietnamese government, as favourable economic conditions.

DA NANG

- Da Nang is Vietnam's fourth largest city, housing one of its three major international airports. The city is as modern as HCMC, and is well-known for its tranquillity as it is surrounded by several natural areas popular with both international and domestic visitors.

- The city's authorities have embarked on various projects to boost Da Nang's services and to improve its local tourism infrastructure. Combined with the recent launch of new international flights to the city, this has led to a significant increase in the number of foreign visitors. According to the VNAT, the number of international tourist arrivals is expected to reach 800,000 in 2014 and one million in 2015, out of an overall of 3.6 million tourists are expected to visit Da Nang by the end of this year.

HOI AN

- Hoi An is located south of Da Nang. With the Thu Bon River passing through it, the city served as an important port in the past, regularly visited by European ships. However, today, Hoi An is a preserved old town with many historical monuments, UNESCO World Heritage Sites, old streets, museums, traditional houses, temples, bridges, and unspoilt beaches.

- According to the VNAT, Hoi An (Quang Nam province) received more than 1.3 million tourists in 2013.

- The city has altogether 105 hotels, comprising 4,350 rooms.

NHA TRANG

- Nha Trang, the capital of Khanh Hoa Province, offers some of the best beaches in Vietnam. It has more than 19 islands, with the most notable ones being Hon Tre, Hon Yen, Hon Rua and the Spratly islands.

- The economy of Nha Trang is largely supported by tourism, ship building and fishery industries. This laid-back city has been gaining popularity due to the rising number of luxury hotels and restaurants and water sports activities owing to clear water and shorelines for snorkelling, diving and fishing. Nha Trang is also witnessing growth in the number of shopping centres and entertainment complexes, projecting a vibrant image to the tourists.

- Air travel is the main mode of transport for visitors to Nha Trang. The city is served by the Cam Ranh Airport located 35 kilometres from the city centre on the Cam Ranh peninsula. The airport is expected to handle about two million arrivals in by 2020.

- Novotel, Sheraton, Marriott, Crowne Plaza and Best Western are the main international brands operating in Nha Trang.

HANOI

HANOI

CITY OVERVIEW

- Hanoi is located approximately 1,725 kilometres north of Ho Chi Minh City. The metropolitan area is surrounded by Thai Nguyen Province to the north, Vinh Phuc and Hay Tay provinces to the west and south, and Bac Giang, Bac Ninh and Hung Yen provinces to the east and southeast, respectively.

- The second largest city in Vietnam, Hanoi is also the capital of the country since 1954, in addition to being its political and commercial centre. Covering over 3,300 square kilometres, the city has a population of over seven million inhabitants.

- Benefiting from strong regional and domestic economic growth, Hanoi achieved an estimated 10.1% year-on-year GDP growth, contributed 17% of the national budget, and attracted 22% of the total investment capital in Vietnam in 2013. Hanoi was recently ranked by PricewaterhouseCoopers as the fastest growing city in the world in terms of GDP growth for a period from 2008 to 2025 taking into consideration both historical and future estimates.

- Hanoi's economic structure has shifted from agriculture towards tourism, real estate, finance and banking, which now play increasingly important roles.

TOURISM MARKET OVERVIEW

- Hanoi's tourism industry enjoyed a healthy performance in 2013. International visitor arrivals increased by 23% to reach 2.58 million, whereas domestic visitor arrivals increased by 12% reaching close to the 14 million mark. The high number of arrivals was achievable due to new tourism promotional programmes and the increase in the number of international flights linking the capital to major tourist feeder markets. The influx of low-cost carrier services within Asia also helped to broaden Hanoi's tourism base.

- For instance, a number of new and additional routes to Hanoi were launched by various domestic and international airlines. These include a new route between Hanoi and Tokyo by Japan's ANA and Japan's Airlines; Hanoi-Incheon, Hanoi-Seoul and Hanoi-Phu Quok flights by VietJetAir; Hanoi-Haneda by Vietnam Airlines; and Hanoi-Ha Long Bay by Seagull Airlines. In 2013, the low-cost airline VietJet Air also launched a new route between Hanoi and Bangkok, capitalising on the increasing travel demand between Vietnam and Thailand.

- The city's Department of Culture, Sports and Tourism also stepped up its efforts to promote Vietnam in the overseas markets such as Russia, Canada, China and South Korea in 2013. In addition to organising promotion programmes and travel fairs in these markets, the department is working with the government to improve the city's tourism products such as developing the Thang Long Citadel, the Dong Ngac Village, the Ba Vi tourism area, the Old Quarter and other existing tourism sites. Notably, Ha Long Bay was recognised as one of the Seven New Natural Wonders of the World in 2012. This is likely to attract more international tourists to the destination via Hanoi, going forward.

- In 2014, Hanoi further develop its tourism products, such as marionette shows and Vietnamese opera performances, to attract more visitors in addition to improving infrastructure and services at its various cultural heritage sites.

AIRPORT ARRIVALS (2009 - MAR 2014 YTD)

Source: Hanoi Tourism Department, VNAT, HVS Research

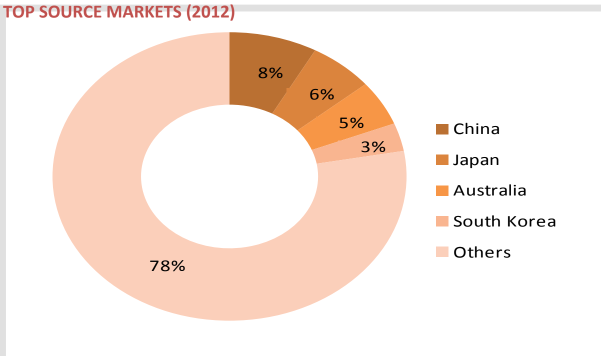
- In December 2013, Noi Bai Airport welcomed its 12th million passengers. Noi Bai airport provides services to 36 domestic and international airlines from 30 countries and territories around the world.

- Hanoi's efforts to promote its tourist attractions and to boost cooperation among tourism companies, resulted in more than 705,000 international arrivals and approximately 4.87 million domestic tourists in the first quarter of 2014, an increase of 15% and 8%, respectively from the same period last year (as indicated by the VNAT).

- International visitor arrivals to Hanoi reached the 2.5 million mark, accounting for one third of Vietnam's total number of international visitors last year. This year, the capital city strives to attract 2.8 million foreigners and 16 million tourists from other areas nationwide, and earn VND45 trillion (USD2.1 billion) in tourism revenues.

- Meanwhile, Hanoi-based travel agencies note that an increasing number of domestic travellers are shifting their attention to local destinations instead of choosing outbound tours as compared to previous years. Domestic tours increased by approximately 10% in 2014 relative to 2013, impacting the tourism market positively. Numerous travel agencies are now offering packages for new domestic destinations from Hanoi, owing to the opening of new air routes, over and above the traditional favourite destinations such as Ha Long Bay, Da Nang, Nha Trang and Phu Quoc.

TOP SOURCE MARKETS (2012)



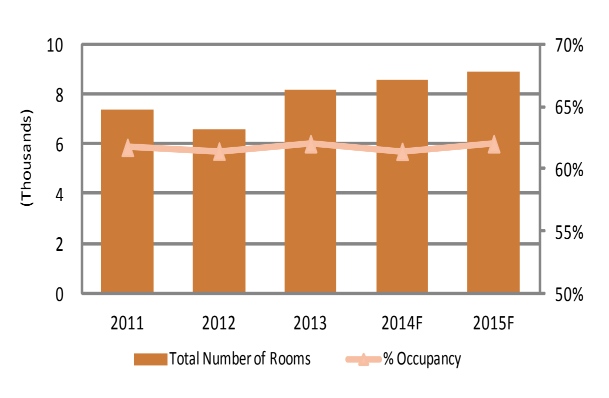
Source: Hanoi's municipal Department of Culture, Sports, and Tourism

- Most of the international arrivals to Hanoi are from Asian countries such as China, Japan and South Korea. Australia ranks third in terms of visitation to Hanoi, mainly due to aggressive tourism promotional activities targeted at this specific market.

- A number of Hanoi's key source markets recorded considerable increases in 2012, including China (208,000 arrivals, up 27% from 2011), Australia (130,500 arrivals, up 20%), Japan (152,500 arrivals, up 32%), and the Republic of Korea (81,000 arrivals, up 53%).

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Vietnam Tourism Authority, HVS Research

- According to VNAT, Hanoi's hotel supply currently includes 57 three-to-five star hotels, an increase of 5% from 2013. Lotte Hotel Hanoi and Novotel, among others, are anticipated to open in 2014. However, going forward, with a limited pipeline of new hotel developments (around 1,300 rooms from five planned projects), rooms' supply in the city is not expected to increase significantly over the next couple of years.

- Considering the increased demand from key feeder markets and limited new supply entering the city's hotel market in the near term, we expect occupancy levels to improve in the future.

- Led by increased demand and a lag in the pipeline of new developments, average rate is also anticipated to rise in the near term, by an estimated 7% by year end 2014, and by a further 5% in both 2015 and 2016.

- The overall Hanoi upscale market is expected to see a more moderate increase in room rates with limited new openings, while occupancy levels continue to grow.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2018)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Lotte Hanoi	318
	U GTC Hanoi	100
2015	Novotel Ciputra Hanoi	300
2016	Somerset West Central Hanoi (Serviced Apartment)	252
2018	Grand Hyatt Hanoi	326
Total Proposed Room Supply (Indicative)		**1,296**

Source: HVS Research

- Opening of the 320-room Lotte Hotel, a Korean luxury hotel chain, is one of the most anticipated openings in 2014 in the Hanoi luxury hotel market.

- Continuous growth in demand from middle-class domestic and regional travellers has led to the development of more mid-scale hotels. However, with Vietnam's regulations and restrictions, especially on foreign ownership, it is expected that the growth will be concentrated within the local brands.

- Ascott Group's Somerset West Central Hanoi with 252 serviced apartments is currently under construction and is slated to be completed by December 2016.

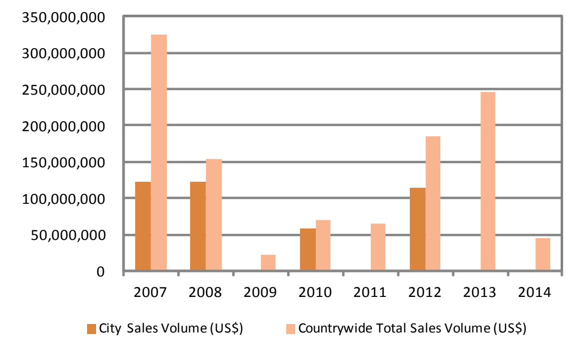
INVESTMENT MARKET OVERVIEW

- The hotel investment pattern in Hanoi follows the nationwide pattern - plunging in 2009, following the global financial crisis, and climbing up in the subsequent years. The city represented 60% to 80% of the overall transaction volume in Vietnam during the period from 2007 to 2013.

- As some foreign hotel owners in Hanoi struggled with the country's political and economic instability, domestic investors grabbed the opportunity to acquire hotels such as Hilton Hanoi Opera Hotel, Guoman Hotel and Hanoi Daewoo Hotel.

- The largest hotel transaction in Hanoi since 2007 was the sale of the 411-room Hanoi Daewoo Hotel in 2012 for US$114 million (an estimated US $277,000 per key).

TOTAL INVESTMENT VOLUME (2007 - 2014 YTD, US$)



Source: RCA, HVS Research

HOTEL TRANSACTIONS (2007 - 2012, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
Mar-12	Hilton Hanoi Opera Hotel	269	-	-
Mar-12	Hanoi Daewoo Hotel	411	114,000,000	277,000
Oct-10	Somerset Hoa Binh Hanoi	206	41,700,000	203,000
Jun-10	Sunway Hotel Hanoi	145	17,000,000	117,000
Sep-09	Hilton Hanoi Opera Hotel	271	-	-
Oct-08	Somerset West Lake	90	22,000,000	244,000
Apr-08	InterContinental Hanoi Westlake	359	100,000,000	279,000
Dec-07	Sheraton Hanoi	299	68,200,000	228,000
May-07	Guoman Hotel	149	34,500,000	231,000
Jan-07	Somerset Chancellor Court	172	19,400,000	113,000

Source: RCA, HVS Research

- As of 2013, Hanoi is home to eight high-end hotels. Domestic investors have become increasingly dominant in recent years, as compared to relatively more foreign ownership in the past. Many domestic companies are actively finding opportunities to partly or fully acquire Hanoi's high-end hotels.

- In 1901, Metropole Sofitel was built by two French companies as the first five-star hotel in Hanoi, which is now one of the oldest and most prestigious hotels. Today, the hotel is co-owned by VinaCapital and Hanoi Tourist. Hilton Hanoi Opera originated from a joint German-Austrian project and was partially acquired by VinaCapital in 2006 as part of a joint venture with domestic Thang Long Corporation. Thereafter, in 2009, VinaCapital announced that it sold its entire stake in the hotel to BRG, a domestic financial group.

- Exceptions to the trend are Sofitel Plaza West Lake and Melia, which continue to be owned dominantly by foreign joint ventures: Singapore UOL Group with the Hanoi Construction Corporation, and Thai Charoen Sirivadhanabhakdi, respectively.

MARKET OUTLOOK

- With rapid economic growth forecasted for Vietnam, Hanoi, the capital and the second largest city of the country, is expected to witness continuous development both as a destination and as a hotel market supported by improvements in infrastructure and growth in visitation.

- Many domestic and international hotel operators are keen to enter the Hanoi market, which currently operates at relatively low average room rates compared to other regional counterparts. Although, the majority of the hotels under development in the near future are mid-scale hotels, eventually, room rate levels will have to grow significantly, in order to pave the way for international luxury brands.

- Better domestic infrastructure and connectivity compared to other domestic cities, make Hanoi an important transit hub in Vietnam for international visitors. Coupled with strong demand from domestic travellers, we anticipate this inherent advantage to further reinforce the performance of tourism and hospitality sectors in Hanoi.

MALAYSIA


LANGKAWI
PENANG
KUALA LUMPUR
JOHOR BAHRU

MALAYSIA

Tourism's contribution to GDP : 12.0%

Source: Tourism and culture Ministry, 2013

Nationwide Occupancy : 62.6%

Source: Tourism Research Malaysia

Highest recorded transaction of US $275.7 million for a 77.5% interest in Sutera Harbour.

Source: RCA/HVS Research

ECONOMIC UPDATES

- The Malaysian economy is in the midst of transition as the country implements its strategic plans to become a knowledge and innovation-based economy by 2020. Whilst efforts are on track, the largest problem to tackle for the country is a skills mismatch between the existing and future workforce, and the projected economic requirements.

- Tourism is a significant part of Malaysia's economy, contributing 12% to the country's annual GDP in 2013 (~MYR 125 billion); this is expected to increase to 12.5% in 2014.

- In 2013, the country's GDP growth slowed slightly to 4.7% amidst a difficult year for emerging market economies. However, it is expected to pick-up pace over the forecasted years owing to increases in private consumption and spending on infrastructure projects.

- Inflation has remained relatively constant though it is anticipated to increase slightly going forward, as the government scales back its subsidy programs in an attempt to reduce the budget deficit.

ECONOMIC INDICATORS (2010 – 2016F)

	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	7.4	5.1	5.6	4.7	5.1	5.5	5.5
Inflation (%)	2.1	3.0	1.2	3.2	2.8	3.6	3.9
Exchange Rate MYR:US$	3.22	3.06	3.09	3.15	3.21	3.03	2.87
Lending Interest Rate	4.9	4.8	4.7	4.6	4.8	5.3	5.9

Source: Economist Intelligence Unit, June 2014

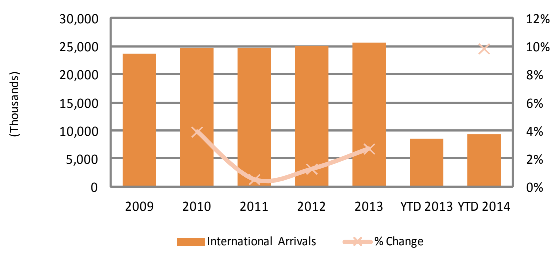
TOURISM MARKET OVERVIEW

- Tourist arrivals to Malaysia have recorded a stable growth rate averaging 2.1% for the past five years.

- Year-to-date April 2014 arrivals are up 9.9% on the back of increased visitation from Malaysia's major source markets – Singapore, Indonesia and Thailand.

- Moreover, the "Visit Malaysia Year 2014" campaign aims to attract MYR76 billion in revenue and 28 million international visitor arrivals in 2014 by promoting eco-tourism and its rich culture and heritage.

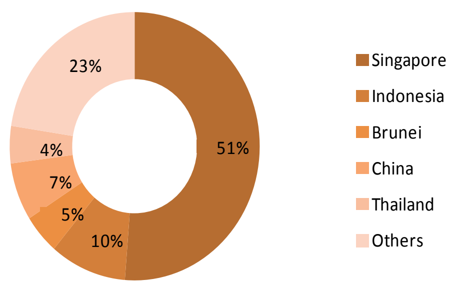
VISITOR ARRIVALS (2009 - APR 2014 YTD)



Source: Tourism Malaysia, HVS Research

- The key international feeder market for Malaysia is Singapore, with the visitors from this country consistently making up nearly 50% of all international tourist arrivals to Malaysia every year for the past five years. This is due to the shared history of the two countries, close proximity, and the low cost of goods in Malaysia. Many Singaporeans travel to the country multiple times in a year to visit relatives and to shop for daily necessities as these are cheaper in Malaysia compared to Singapore.

TOP SOURCE MARKETS (2013)



Source: Tourism Malaysia, HVS Research

- Visitors from Indonesia, Brunei and China account for more than half of the remaining visitors to Malaysia each year. Indonesia and Brunei are also predominantly Muslim countries like Malaysia, and their close proximity has helped in establishing ties between the residents of each country. Consequently, most of the inbound travel from these two source markets into Malaysia is for the purpose of visiting friends and relatives. On the other hand, outbound travel by the Chinese has been on the rise globally, and Malaysia too has benefitted from the same. Additionally, China is Malaysia's largest trading partner.

- International tourism in the country is mainly fuelled by business tourism and MICE activities as Malaysia has large primary and secondary industries that specialise in oil and petroleum products.

- Going forward, international tourist arrivals are expected to show only a slight increase in 2015 as Malaysia has implemented higher border crossing charges that could negatively impact the visitation from Singapore, which is its main source market

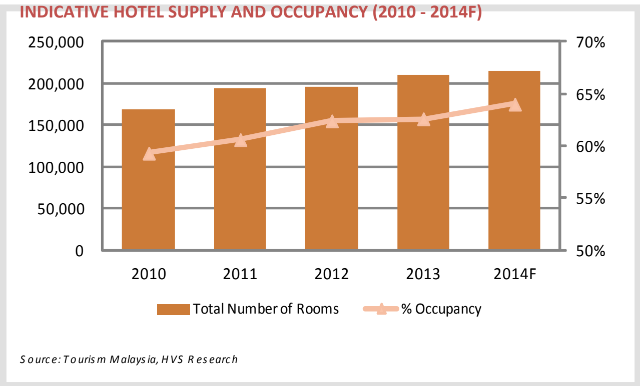
- Domestic tourism is a significant contributor to the Malaysian tourism economy, with the total tourist spending in 2013 amounting to MYR54 billion. This was an increase of 13.1% from 2012.

- The largest domestic tourism expenditure items in 2013 were shopping and transportation, which made up 29% and 25% of total expenditure, respectively.

- The main purpose of travel for domestic tourists was found to be visiting friends and relatives (44%), shopping (30.1%) and leisure (14.1%).

- The top five states visited by domestic tourists in 2013 were Perak, Johor, Selangor, Pahang and Kedah.

HOTEL MARKET OVERVIEW



- Malaysia's hotel supply has been growing by roughly 6% per year for the past three years from about 165,000 rooms in 2010 to 210,000 rooms in 2013. Despite this, occupancies have continued to rise on the back of increased international and domestic tourism in the country .

- Malaysia's hotel market has been developing for many years and the constant increase in supply is due to the government's consistent efforts to build and promote features of interest for both the international and domestic tourists. Malaysia places a particularly strong emphasis on ecotourism and markets itself as a champion of nature conservation.

- While the majority of the branded hotels in Malaysia are located in Kuala Lumpur, which is the capital of the country, the main tourist spots are along Peninsula Malaysia such as Malacca and Penang. Additionally, there are a few other popular destinations in East Malaysia such as Kota Kinabalu and Kuching

- Interestingly, although only 17.2% of the domestic visitors to the country were found using hotel accomodations in 2013, this contributed to over 60% of the overall room occupancy in Malaysia in the past year.

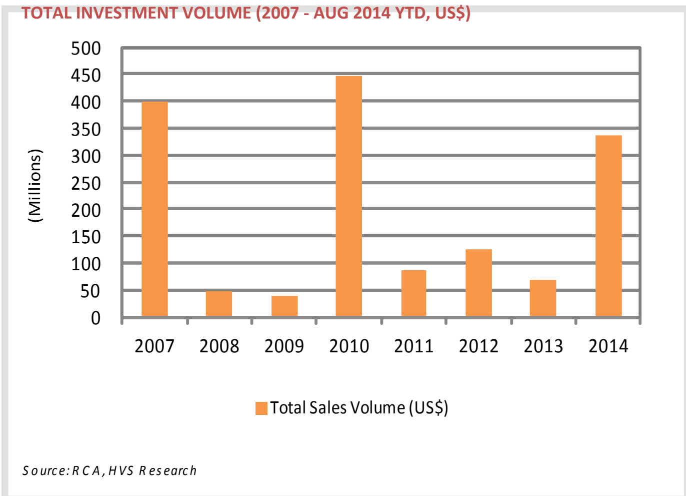
INVESTMENT MARKET OVERVIEW

- The transaction volume in Malaysia through August 2014 has already surpassed 2013 levels by five times. However, this follows the historical trend in Malaysia where a single year with a large transaction volume is followed by intermittent years of low transaction volumes. Going forward, 2014 is looking to be a peak year with a year-to-date transaction volume already over US$300 million. With five additional known deals still pending, the full year transaction volume is expected to be in the region of US$500 million.

- The largest recent transaction was the sale of a 77.5% stake in the entire Sutera Harbour development for US$275 million, which included two hotels, a marina and a country club.

- Most of the hotel transactions in Malaysia originate locally, or from Singapore, with 80% of them involving private investors and the other 20% being linked to public investors.

- Nonetheless, Malaysia is generally not considered as a prime destination for hotel investments compared to other key gateway cities in Asia for international investors such as Hong Kong, Tokyo or Shanghai. As such, most of the hotel transactions in the country originate from the Asia Pacific region only.



HOTEL TRANSACTIONS (2013 – AUG 2014 YTD)

Transaction Date	Asset	Location	Rooms	Estimated Sales Price	Estimated Price per Room
Aug-14	Somerset Ampang	Kuala Lumpur	208	52,800,000	250,000
Jul-14	Copthorne Hotel Cameron Highlands	Brinchang	169	9,350,000	55,000
Mar-14	Sutera Harbour	Kota Kinabalu	956	275,710,000	288,000
Jul-13	Grand Borneo Hotel Kota Kinabalu	Kota Kinabalu	325	27,100,000	83,500
Mar-13	Zon Regency Hotel By the Sea (5F-16F)	Johor Bahru	400	35,100,000	87,750

Source: RCA, HVS Research

MARKET OUTLOOK

- Being identified by the government as one of the key drivers for future economic growth, tourism is expected to play an increasingly important role in Malaysia's progress.
- The pipeline of hotel projects is healthy, and the countrywide hotel supply is expected to grow over the coming years. The increasing affluence of the local population and the growth in expenditure towards accommodation by domestic tourists is likely to have a favourable impact on the hotel market performance of Malaysia in the long term future.

MALAYSIA
- KUALA LUMPUR

KUALA LUMPUR

CITY OVERVIEW

- Kuala Lumpur is the federal capital of Malaysia and has a population of around 6.5 million inhabitants. This city is not only the financial and economic centre of Malaysia, but the cultural heart as well.

- Among the top 10 most-visited cities in the world given its culture and the wide variety of tourist attractions, Kuala Lumpur's tourism industry plays an important role in the city's service-driven economy.

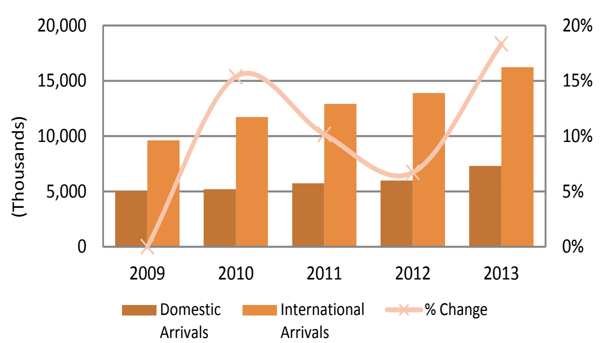
TOURISM MARKET OVERVIEW

- Kuala Lumpur's main attractions are its cultural festivals, traditional districts and MICE events.

- The city hosted 42.5% of all international visitors and 18.3% of all domestic visitors in Malaysia in 2013.

- The number of domestic visitors has continued to rise in recent times, growing at an average of 9.7% per annum over the past five years, whilst international visitors grew at a stronger pace, nearly 14%, over the same period.

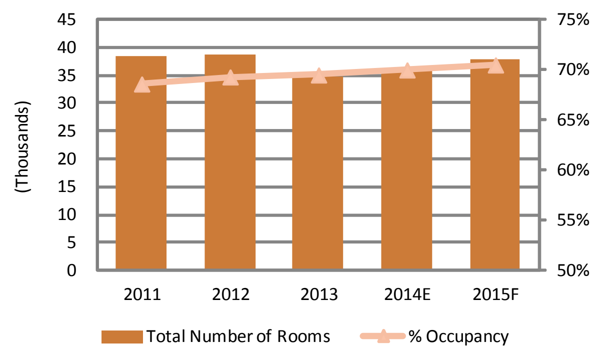
VISITOR ARRIVALS (2009 - 2013)



Source: Malaysia Airports, HVS Research

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Tourism Malaysia, HVS Research

- The market-wide occupancy in Kuala Lumpur has remained relatively stable despite some fluctuations in hotel rooms' supply in recent years. The market has been able to absorb increase in supply over the past five years thanks to strong growth in international arrivals. In 2014 the city experienced a drop in visitation from China following the disappearance of Malaysian Airlines 370, which vanished midway between Kuala Lumpur and Beijing carrying mostly Chinese passengers. This affected visitation to the city however it this is not expected to be a long term impact.

- In fact, the proportion of the number of international guests staying in hotels has decreased from 75.9% in 2010 to 52.5% in 2013. This is partly thanks to increased regional corporate travel to Kuala Lumpur.

- However, the proportion of domestic visitors using hotels has remained relatively unchanged at approximately 71.8% over the past four years. The number of domestic guests staying in hotel accommodations has been increasing steadily at a rate of 11.4% for the past three years on the back of increased domestic leisure travel as the Malaysian population grows more affluent.

- On the contrary, the number of international guests using hotels has remained relatively constant over the past three years, at around 8.5-9.0 million guests per annum, despite the growth in g international arrivals. This is because the volume of day-trips has increased; reducing the number of overnight stays, during this period.

- The dip in the total number of rooms in KL in 2013 was due largely to a drop in the number of unrated hotels in KL which have closed due to stricter enforcement of hotel guidelines as the city gears up to attract higher spending tourists. The number of star-rated hotels in KL actually rose during the period.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2018)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Ascott Sentral Kuala Lumpur	143
	Gardens Hotel & Residences St. Giles Luxury Hotel (Rebrand)	647
	Boulevard St. Giles Premier Hotel, Kuala Lumpur (Rebrand)	390
2015	The RuMa Hotel & Residences	263
	Mercure Kuala Lumpur Shaw Parade	207
	Regent Kuala Lumpur	236
	St Regis Resort & Residences Kuala Lumpur	200
2016	Moevenpick Hotel & Convention Centre KLIA	333
2017	Fairmont Kuala Lumpur	750
	ibis Kuala Lumpur City Centre	640
	Marriott Executive Apartments Kuala Lumpur	150
	Four Seasons Kuala Lumpur	204
	MEA Kuala Lumpur, Malaysia	150
	W Hotel Kuala Lumpur	150
2018	Harrods Hotel Kuala Lumpur	300
Total Proposed Room Supply (Indicative)		4,763

Source: HVS Research

- A significant pipeline of more than 4,500 hotel rooms is projected to open in Kuala Lumpur over the next few years. Luxury brands such as W, The St. Regis, Park Hyatt, Four Seasons and Banyan Tree are all expected to enter the Kuala Lumpur market in the short-to-medium term.

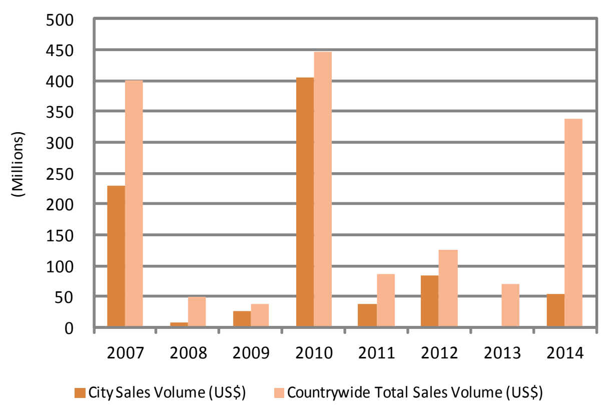
INVESTMENT MARKET OVERVIEW

- Most of the hotel investment in Malaysia takes place in Kuala Lumpur due to the relative stability of the city's economy and its tourist arrivals, in comparison to other destinations in the country. Besides being the capital city, the strong pro-tourism outlook of the local government also bodes well for the city's hotel investment market.

- However, most of the investors originate from Singapore, representing 80% of all buying activity in recent years, due to the uncertainty of the local political situation that is a major hindrance for international investors unfamiliar with the market.

- The largest recent transaction was the sale of the Somerset Ampang KL for an estimated US$52.8 million, which is about US$250,000 per key.

TOTAL INVESTMENT VOLUME (2007 - AUG 2014 YTD, US$)



Source: RCA, HVS Research

HOTEL TRANSACTIONS (2012 - AUG 2014 YTD, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
Aug-14	Somerset Ampang	208	52,800,000	250,000
Sep-12	Flamingo by The Lake	230	17,300,000	75,000
Mar-12	Renaissance Kuala Lumpur	910	67,588,506	74,000

Source: RCA, HVS Research

MARKET OUTLOOK

- The efforts of the government to boost Malaysia's prominence as a tourist destination is finally bearing fruit as more and more international interest is being generated in Kuala Lumpur. This is reflected in the entry of many luxury hotel brands in the city, shifting the focus of the market from the economy and budget traveller to the high-end travel segment.
- Occupancy in Kuala Lumpur is expected to remain relatively stable in the near future, despite the growth in tourism, as there is a large pipeline of hotel properties anticipated to enter the market in the short-to-medium term. Rates are expected to show only a slight appreciation year-on-year as most of the near term supply is represented by mid-scale hotels. However, once the internationally branded luxury hotels open, larger average rate growths are expected in the market.

MALAYSIA
- LANGKAWI

LANGKAWI

CITY OVERVIEW

- In 2007, Langkawi was classified as a World Geopark by UNESCO, and since then the island has grown in prominence as a tourism destination. Understandably, tourism, especially the leisure segment, is the single-most important sector of the city's economy.

- Langkawi is the top island destination in Malaysia for international and domestic visitors and has a whole host of attractions available for tourist such as natural beaches and pristine jungle as well as man-made attractions. The island is also duty-free and tourists do not have to pay taxes on purchased goods.

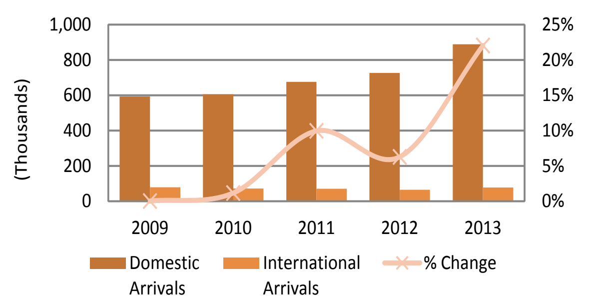
TOURISM MARKET OVERVIEW

- Over the years, Langkawi has matured as a tourist destination and has achieved a long term visitor growth rate of **3.6%.**

- Prior to 2013, the number of international tourist arrivals, their average spends, and the lengths-of-stay in Langkawi were low compared to other similar destinations such as Hawaii, Mauritius or the Seychelles. However, with the recent initiatives by the local government to publicise Langkawi, international tourist arrivals have picked up on the island.

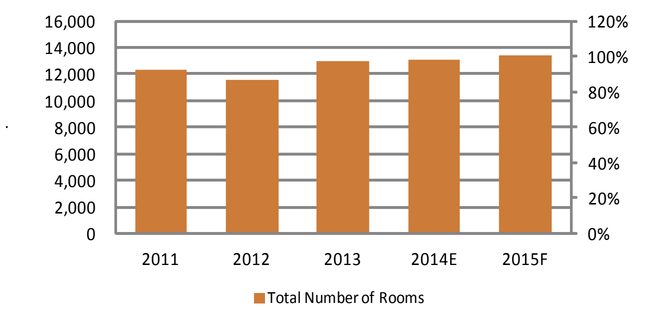
- More importantly, domestic arrival growth has also accelerated, increasing by 22.2% in 2013 compared to a five-year growth rate of 10.7%.

VISITOR ARRIVALS (2009 - 2013)



Source: Tourism Malaysia, HVS Research

INDICATIVE HOTEL SUPPLY (2011 - 2015F)



Source: Tourism Malaysia, HVS Research

- Hotel supply in Langkawi has remained relatively stable due to a stagnant performance of the hotel market in recent years, despite Langkawi having the highest average room rate in Malaysia.

- However, this dynamic is expected to change going forward, as the government has recently launched an initiative to boost tourism in Langkawi, which has resulted in renewed interest in the location from international brands. Per our research, the branded hotels anticipated to open in Langkawi include The Ritz-Carlton, St. Regis and Parkroyal .

CITY PIPELINE

NEW HOTEL OPENINGS (2015 - 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2015	Ritz Carlton Langkawi	150
	St. Regis Langkawi	95
2016	Eco Hotel @ Rahsia Estates Resort	116
2017	Parkroyal Langkawi	262
Total Proposed Room Supply (Indicative)		**623**

Source: HVS Research

- Despite rising occupancies, the performance of hotels in Langkawi declined slightly from 2011 to 2012 owing to a decrease in the average room rate. This was likely due to local hotels cutting rate in anticipation of the new increases in supply in the market. However, with recent tourism initiatives launched in 2013, the hotel market's performance in Langkawi is expected to improve in the future.

MARKET OUTLOOK

- The government recently launched a five-year tourism development master plan in 2013 to further develop the tourism industry of Langkawi. An estimated MYR420 million is expected to be spent, that shall in all likelihood boost tourist arrivals (reaching three million) and inject RM3.8 billion into the local economy.
- The lack of direct flights and accessibility from key feeder markets has constrained growth in arrivals when compared to other island destinations in the region however the government's renewed focus this is expected to change.

MALAYSIA
- PENANG & JOHOR BAHRU

HVS

PENANG

CITY OVERVIEW

- Penang is an island located in Northwest Malaysia, often referred to as the “food capital” of the country. The capital of the state of Penang, George Town, is also a UNESCO World Heritage site, which is famed for its unique architecture and rich history.

- Penang is the second-most popular international tourist destination in Malaysia after Kuala Lumpur, and its main industries are manufacturing and retail. With the rise in tourism initiatives throughout the country, tourism in Penang is also increasingly growing, albeit at a moderate pace.

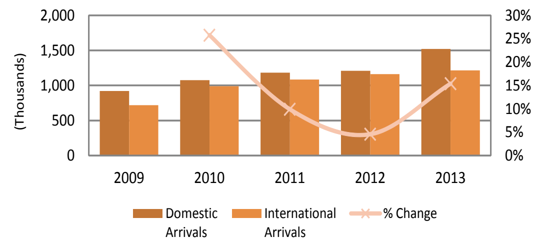
TOURISM MARKET OVERVIEW

- Total visitor arrivals to Penang increased gradually from 2009 to 2012. However, with the recent upswing in tourism promotion activities in Malaysia, 2013 witnessed a substantial growth of 15% in visitor arrivals, which is 1.4 percentage points higher than the long run average.

- The number of international tourist arrivals to Penang recorded a notable 38% growth in 2010, with the pace of growth slowing considerably in subsequent years, and 2013 registering just a 4% increase over 2012. This is due to a wider variety of international tourist destinations being available in Malaysia that are more in the spotlight than Penang.

- Despite the slowing growth in international arrivals, Penang’s hotel market has sustained healthy performance levels owing to the continued increase in domestic visitors, who are attracted to the region for its local food, shopping and culture.

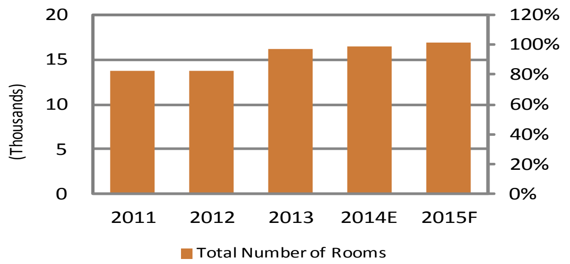
VISITOR ARRIVALS (2009 - 2013)



Source: Malaysia Airports BHD, HVS Research

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2011 - 2015F)



Source: Tourism Malaysia, HVS Research

- Over the years, Penang has had a stable pipeline of hotel rooms to accommodate the growth in tourist arrivals. The most notable upcoming hotels in Penang are Angsana Penang, and OZO Penang .

CITY PIPELINE

NEW HOTEL OPENINGS (2014-2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Rice Miller Hotel & Residences Lebuh	50
2016	ibis Styles Penang	400
	Ibis Styles Penang Resort	400
	Ibis Styles Penang George Town	270
	Angsana Teluk Bahang	170
	OZO Penang	132
2017	Courtyard by Marriott, Penang	208
Total Proposed Room Supply (Indicative)		**1,630**

Source: HVS Research

- Penang's hotel market has witnessed a consistent increase in performance over the past three years despite a steady increase in supply. This has been attributed to the improvements in infrastructure and the overall development of the state to cope with increases in traffic, which ensures that the leisure experience is not compromised by an over-utilised local transport network.

MARKET OUTLOOK

- Penang's hotel performance is likely to continue remaining strong in the near future with both demand and supply growths complementing each other.

- However, it is crucial to note that the historical growth for hotel accommodation in the region has been fuelled largely by domestic tourism, and Penang is now increasingly facing competition from other international destinations to capture demand from this segment. Therefore, through better promotion activities and infrastructure improvements, Penang has to ensure that it continues to offer itself as a major tourist destination in Malaysia.

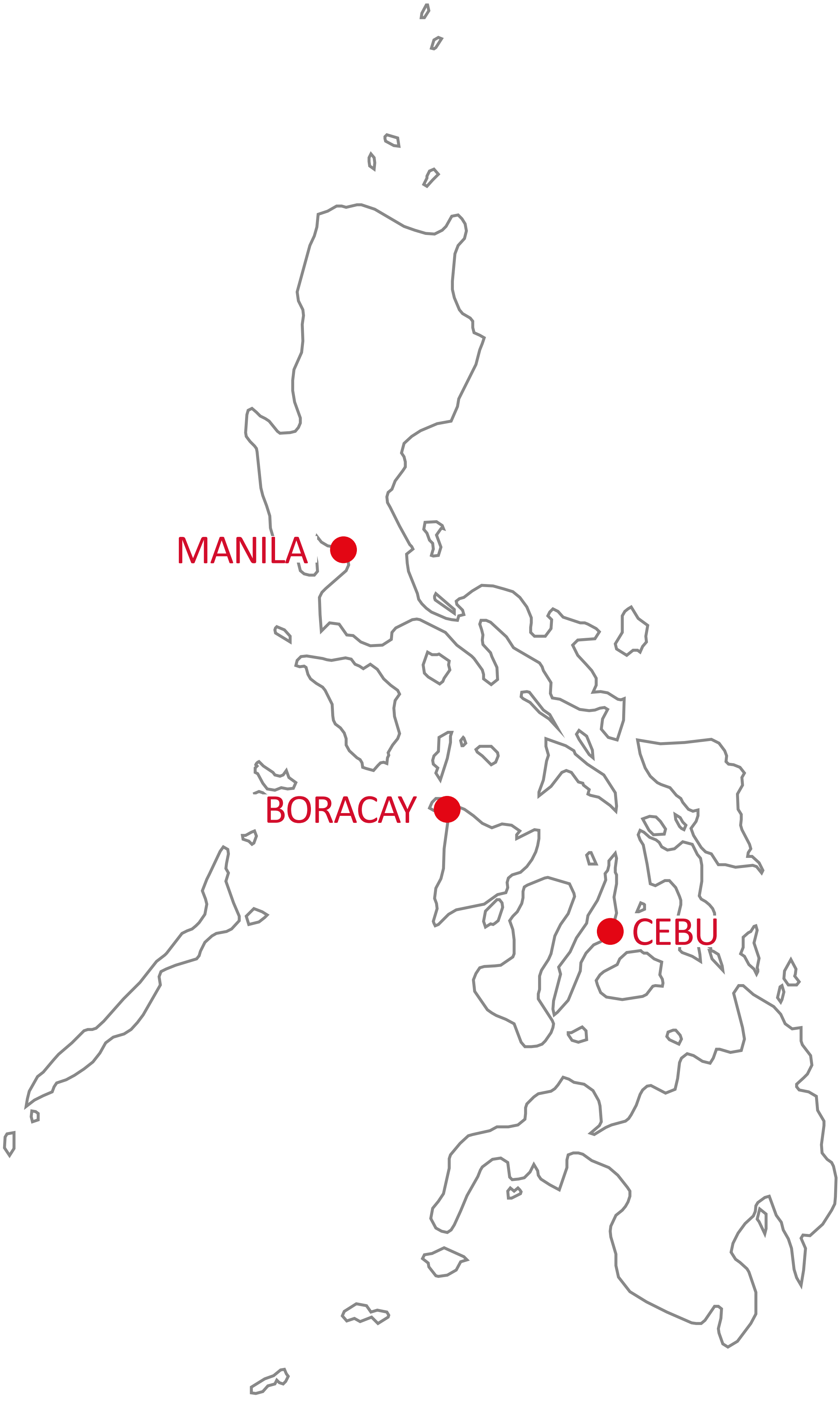
JOHOR BAHRU

- Johor Banru is not usually associated with tourism or a vibrant hospitality scene. However, with the development of the Iskandar region within the state, Johor Bahru has recently attracted the attention of international investors who are looking to capitalise on this development which is likely to generate significant regional economic activity which will boost the local businesses and hospitality market. Brands such as Amari, Doubletree and Somerset have all made commitments to develop hotels in the Iskandar region of Johor Bahru.

- Due to its proximity to Singapore, JB has the potential to further expand its tourism market by targeting the foreign visitors to Singapore and the local Singaporeans as part of a travel package. In addition, plans have been put into place to improve the infrastructure in the Desaru Coast region to further support tourism growth in the state. A number of nearby offshore islands such as Tioman have also gained popularity among tourists to the region.

- In fact, despite large double digit jumps in hotel room supply in recent years, the region has managed to maintain or slightly increase the occupancies of their hotels which shows the potential for future development in the area.

PHILIPPINES


MANILA
BORACAY
CEBU

PHILIPPINES

Tourism's contribution to GDP in 2013 : PHP 472 billion (4.2%)
Source: WTTC, 2014

Highest recorded transaction of US $190 m for Shangri-La at the Fort, Taguig took placein 2014.
Source: Real Capital Analytics/HVS Research

ECONOMIC UPDATES

- The tourism industry only accounted for approximately 4% of the country's GDP in 2013 as the Philippines is still a newly industrialised nation with agriculture currently representing the bulk of its economy. However, services and manufacturing sectors are showing the fastest growth ever, and are expected to dominate the nation's economy in the medium-to-long term.

- After being hit severely by the economic crisis in 2009, the Philippines economy recorded a stellar recovery with a 7.6% GDP growth in 2010. However, the following year, GDP growth slowed to 3.6% owing to weakened demand in the manufactured exports sector.

- Subsequently, 2012 and 2013 saw a rise in GDP growth to 6.8% and 7.2%, respectively, driven by the strong expansion of private consumption and urbanisation, resulting in more demand for housing and transport services. Going forward, 2014 is expected to witness the GDP expanding by 6.8%, albeit a slower pace compared to 2013 due to the base effects of inflation. Thereafter, the country's GDP is projected to grow at 6.4% and 5.8% in 2015 and 2016, respectively.

- Inflation is expected to average around 4% in 2014, notably higher than the previous year, reflecting the impact of Typhoon Yolanda on food prices. Additionally, the annual increases of taxes on alcohol and tobacco products are anticipated to exert further upward pressure on prices.

- The local currency (Peso) has strengthened since 2009, backed by capital inflows. However, the Peso is forecasted to depreciate slightly against the US dollar in 2014 (at 43.85 Pesos to US$1 on an average) due to the effects of the tapering of the Quantitative Easing programme in the US.

ECONOMIC INDICATORS (2010 - 2015F)

	2010	2011	2012	2013	2014E	2015F
GDP Growth (%)	7.6	3.7	6.8	7.2	6.4	6.3
Inflation (%)	4.1	4.7	3.2	2.9	4.5	4.1
Exchange Rate PHP:US$	45.11	43.31	42.23	42.45	43.87	43
Lending Interest Rate	7.7	6.7	5.7	5.8	5.9	7.5

Source: Economist Intelligence Unit, June 2014

TOURISM MARKET OVERVIEW

- Between 2008 and 2013, international visitor arrivals to the Philippines grew at a compound annual growth rate (CAGR) of approximately 9%, from around 2.9 million visitors in 2008 to about 4.5 million visitors in 2013. The growth was mainly contributed by the increased flight connectivity to the country resulting from the expansion of flight routes of low-cost carriers making travel to the Philippines more affordable. Since the Philippines is an archipelago of over 7,000 islands, the lack of regional connectivity has been a major challenge for the local tourism industry, which is now seen improving.

- Tourism growth in 2009 was severely affected during the global economic crisis; international arrivals to the country dropped 4% in 2009 to reach 2.8 million visitors.

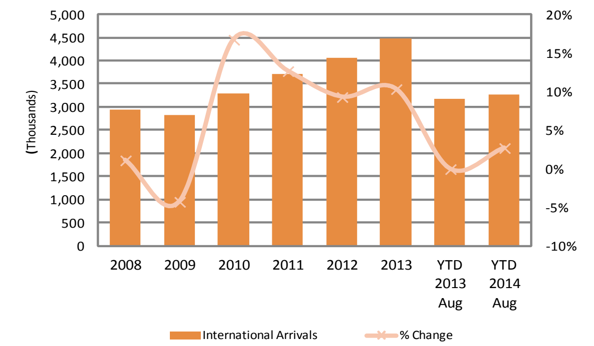
- However, the industry rebound in 2010 and 2011, witnessing double-digit growths of 17% and 13% in international arrivals, respectively, backed by the recovery of the global economy, in addition to the aggressive marketing efforts of the Philippines' Department of Tourism (DOT). The tourism department also began to actively promote medical tourism in the country, hosting the International Summit on Medical Travel, Wellness and Retirement in 2010, which was successful in attracting regional medical tourists.

- Although the DOT had targeted five million international visitor arrivals in 2013, the country registered only 4.5 million visitors that year due to Typhoon Yolanda, which struck the nation and deterred travel during the second half of 2013.

- With the tourism department's focus on new source markets such as North and Eastern Europe, international tourism in the Philippines is forecasted to increase, with tourism receipts expected to rise to US$6 billion in 2014, up from US$5 billion in 2013.

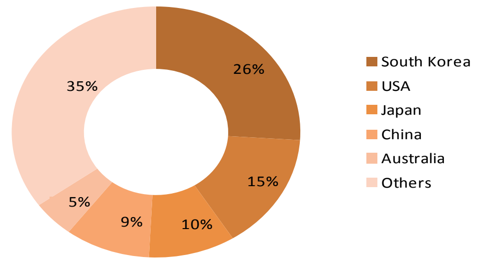
- As part of the National Development Tourism Plan 2011-16, the government's continued focus on improving tourism infrastructure, particularly roadwork, is anticipated to improve connectivity between the popular tourist destinations within the country. This in turn is expected to boost international arrivals to the Philippines. DOT expects six million international visitor arrivals before the end of 2014 (an increase of 33% from 2013) and 10 million international visitor arrivals by 2016.

INTERNATIONAL VISITOR ARRIVALS (2008 - MAY 2014 YTD)



Source: Department of Tourism, HVS Research

TOP SOURCE MARKETS (2013)



Source: Department of Tourism, 2014 HVS Research

- Visitors from the Asia Pacific region accounted for about 60% of the total volume of arrivals in 2013 due to the proliferation of budget carriers improving affordable travel within the region. South Korea continues to lead the feeder markets, representing close to a quarter of total visitor arrivals to the Philippines in 2013, at approximately 1.2 million visitors. The 13% growth over the previous year was fuelled by the tourism department's strong marketing campaigns targeting Koreans who enjoy the country's leisure attractions.

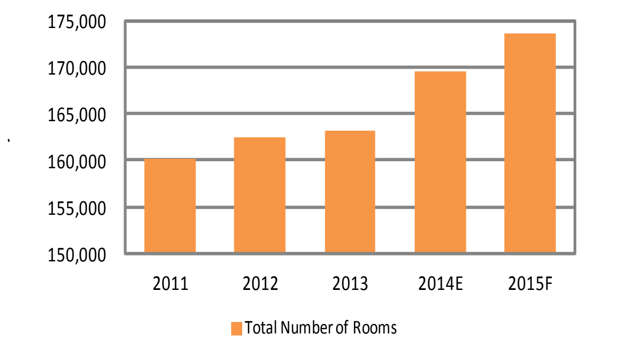
- USA ranks second among the top five feeder markets for the Philippines accounting for nearly 675,000 visitors, followed by Japan at about 435,000 visitors, constituting 14% and 9% of the total visitor volume in 2013, respectively.

- Notably, visitor arrivals from China attained the highest growth rate of 70% in 2013, as compared to the previous year, with the affordable low-cost carriers encouraging the growing Chinese middle class to undertake leisure travel to the various islands in the archipelago.

- Other emerging feeder markets for the Philippines include Indonesia, Vietnam and Saudi Arabia, which recorded growth rates of 24%, 27% and 29% in 2013, respectively. Arrivals from these countries are set to rise further with the recent announcement of the amended visa-free policy in 2013, allowing travellers from over 150 countries to stay in the Philippines for up to 30 days (expanded from the previous 15 days) without a visa.

HOTEL MARKET OVERVIEW

INDICATIVE MARKETWIDE HOTEL SUPPLY (2011 - 2015F)



Source: HVS Research

- 2013 saw only a minor increase of 0.4% (688 rooms) from approximately 162,400 rooms in 2012 to 163,100 rooms in 2013.

- Between 2011 and 2013, the Philippines saw the addition of several international brands, ranging from across the mid-tier to the luxury segment, majority of which entered the Metro Manila and Cebu markets.

- Raffles and Fairmont had their grand opening in Manila with over 500 rooms, while Microtel by Wyndham opened in Quezon City with about 80 rooms. Other openings in Manila included the Luxent Hotel in Quezon City, while Cebu saw the opening of Tunes Hotel Cebu, Quest Hotel, and Conference Hotel Cebu.

- Going forward, we estimate approximately 6,500 additional rooms to enter the Philippines hotel market in 2014, with most hotel openings occurring in Metro Manila and Pasig City where the Entertainment City is situated. Should all future hotels in the pipeline be realised, 2015 is anticipated to witness another 3,900 rooms being added to the total supply in the market, with the Manila Bay Resorts contributing about half of the room supply (2,050 rooms). One of the first properties to open in the bay area was the Solaire Resort and Casino opened in March 2013 with 488 Rooms, catering mainly to Korean and Taiwanese market.

INVESTMENT MARKET OVERVIEW

- Year 2014 has recorded an all-time high in terms of transaction volumes, reaching just over US$200 million.

- The exceptionally high sales volume till June 2014 YTD was stimulated by the sale of the Shangri-La at the Fort. Alphaland Corp, an upscale property developer, offloaded a 20% stake in the hotel to Shang Properties Inc. The sale was completed at about US$40 million. The property itself, however, is valued at approximately US$190 million, at an estimated US$282,000 per room.

- The other sale transaction to occur in Q1 2014 was that of the Amanpulo, situated in the Palawan island province, which was sold for approximately US$14.4 million (at nearly US$360,000 per room).

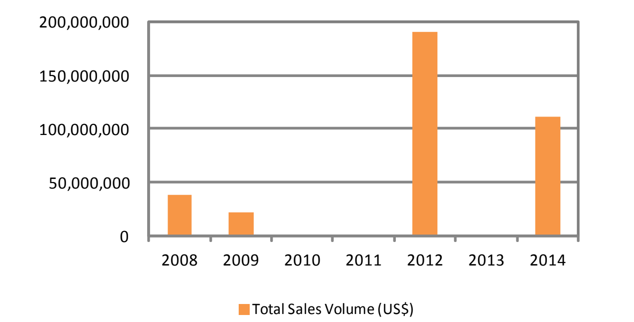
MAJOR SALES TRANSACTIONS (2012 - APR 2014 YTD, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
Apr-14	Shangri-La at the Fort	674	189,794,000	282,000
Feb-14	Amanpulo	40	14,367,000	359,000
Sep-12	Fairmont Makati Hotel & Raffles Suites	302	96,336,000	319,000

Source: RCA/HVS Research

- With the liberalisation of foreign investment regulations, the government has opened its doors to foreign equity in all areas of investment with the exception of those reserved only for locals by the mandate of the Philippine Constitution and existing laws. Although foreign entities are still not permitted to own land independently, they are able to lease land for up to 75 years.

TOTAL INVESTMENT VOLUME (2007 - JUN 2014 YTD, US$)



Source: RCA, HVS Research

- As the Philippines is still an emerging market, hotel investments have yet to realise their returns. Therefore, we expect sales transactions to start picking up only in the medium–to-long term once the market matures.

MARKET OUTLOOK

- Medical tourism appears to be Philippines' next upcoming tourism segment. The country has set a target of attracting 200,000 patients and approximately US$3 billion in medical tourism revenue by 2015. Based on the tourism department's strong marketing campaign to promote medical tourism continued increase in international arrivals is expected.

- China's outbound travel has been fuelling the global tourism industry in recent years. A rise in the discretionary income of the growing Chinese middle class and easing of the visa policies in the Philippines have promoted a longer length of stay by the Chinese in the country. We forecast the demand from China and other emerging markets to continue growing, which is expected to boost room occupancy and rates in cities such as Manila and Cebu.

- The country's gaming industry is also anticipated to grow over the next five years according to Fitch Ratings. With the government positioning Manila Bay as the Entertainment City of the Philippines, Asia's Las Vegas-like gaming complex is currently under construction. Key developments include the recent Solaire Resort & Casino, which opened in 2013, in addition to the City of Dreams Manila as well as the Resorts World Bayshore, which are scheduled to open by the end of 2014 and 2016, respectively. Positioned as a gaming destination, the Philippines' gross gaming revenue is projected to increase by approximately 10% annually and reach US$3.4 billion by 2020.

- The availability of a large English-speaking local workforce supports hotel development, growth in tourism, and the projected increase in international arrivals tremendously.

- The ASEAN affiliation of the Philippines and the integration of the ASEAN Economic Community in 2015 (which will ease the free trade movement) are expected to create a more conducive business environment for hotel investments going forward. Along with the availability of special economic zones with proper infrastructure support, this development is anticipated to boost corporate travel in the mid-to-long term.

- Cruise tourism looks to be a growing niche market and is one of the strategic tourism products discussed in the National Tourism Development Plan. Cruise tourist arrivals in the country grew by 75% in 2013 as compared to 2012 due to the strong interest in the European and Asian market. We anticipate that the growing market will continue to spur additional visitors to arrive into the country via the sea due to the nearby major cruise source markets such as China, Japan and Hong Kong. In addition, the government has laid out plans to develop and improve ports and terminals in order to meet the increasing visitor demand.
- 2014 is expected to outperform 2013 with the key economic indicators trending positively. Investors realise that the Philippines is an emerging real estate market and this growing interest will continue to drive capital inflow into the country, especially in Manila, due to its urbanization and proper infrastructure.

PHILIPPINES
- MANILA

MANILA

CITY OVERVIEW

- Metro Manila, known as the Metropolitan Manila or the National Capital Region of the Philippines, is the seat of the government and the most populous region in the country. It is located on an isthmus with the Laguna de Bay to the south-east and Manila Bay to the west.

- Metro Manila is currently facing the issue of passenger congestion at the Ninoy Aquino International Airport (NAIA) limiting the growth in tourist arrivals to the city. With the NAIA operating at close to full capacity, options are being considered to either develop a newer and bigger airport, or to function with a dual airport system with NAIA as the domestic hub and Clark International Airport as the international hub.

TOURISM MARKET OVERVIEW

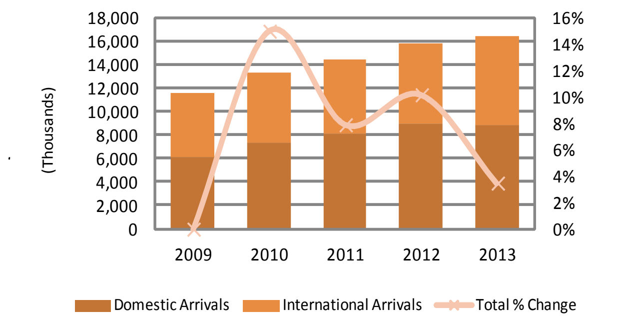
- Between 2009 and 2013, international air passenger movements grew at a compound annual growth rate (CAGR) of approximately 8%, while domestic passenger movements grew at about 10% annually.

- International passenger movements in 2011 slowed to approximately 4%, due to the unfortunate bus hostage tragedy in 2010 resulting in several countries issuing travel alerts and raising concerns regarding the safety and security in Manila, and the country in general. In fact, the Hong Kong government issued a black travel warning and advised its people against travel to the Philippines with the warning finally lifted only towards end of April 2014. Consequently, the number of tourists from Hong Kong dropped 16% in 2011 compared to 2010.

- Both international and domestic movements rebounded with double-digit growths in 2012 largely owing to the government's intensive national marketing campaign – *"It's more fun in the Philippines"* –which promoted many festivals in the city and lured back international tourists.

- Year 2014 is expected to outperform the previous year's visitor arrivals on the back of a rising medical tourism sector in Manila. The city is well-equipped with medical facilities and has a pool of skilled medical professionals to support the growth of this new sector.

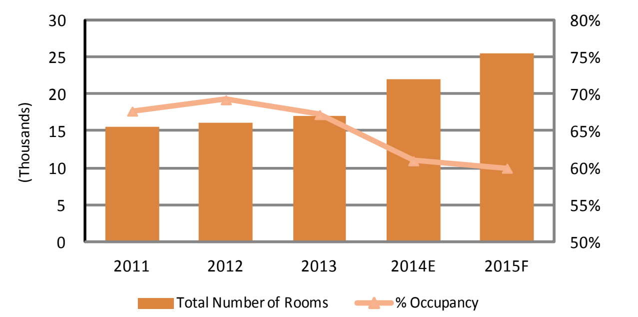
VISITOR ARRIVALS (2009 - 2013)



Source: Manila International Airport Authority, 2014 HVS Research

HOTEL MARKET OVERVIEW

INDICATVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Department of Tourism, HVS Research

- The Fairmont Makati and the Raffles Makati entered the Metro Manila hotel market in 2013. Housed in the same building, the Fairmont has 280 rooms, while the Raffles has around 30 suites and approximately 240 residential units. Additionally, the Solaire Hotel & Casino entered the market with around 500 rooms that year, resulting in a total room count of 16,000 for the Manila hotel market in 2013.

- Solaire Resorts and Casino has announced the opening of its second phase of the resort by the end of 2014. The US$500 million expansion project sees the doubling of room inventory to about 1,000 rooms and an increase of more than two thirds in their VIP gaming area capacity.

- Going forward, Metro Manila is expected to witness an additional 5,300 rooms by the end of 2014. Currently, there is significant amount of development taking place in Pasay City where the highly publicised project, Entertainment City, is coming up. With a touch of the Las Vegas vibe, this project is anticipated to elevate the Philippines' gaming industry to new heights, inducing more arrivals into the country. The additional room inventory in Entertainment City alone contributes a fifth of the proposed new supply anticipated to open in the region by the end of 2014.

- Similarly, 2015 is forecasted to have a considerable room inventory growth with another 5,900 rooms expected to enter the market. This will be largely contributed by the opening of more integrated resorts in Pasay City such as the development of Manila Bay Resorts, which alone will introduce around 2,050 rooms.

- The hotel market showed mixed results in 2013, with average occupancy recording a two percentage point-drop, from 69% in 2012 to 67% in 2013. However, the average room rate increased to US$139 in 2013 from US$131 registered the previous year. The drop in occupancy was owing to the significant amount of new supply entering the market, albeit at a higher rate positioning, which resulted in the overall average rate to improve.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 – 2017)

Anticipated Opening	Proposed Hotel	Location	No. of Rooms (Est.)
2014	Marco Polo Ortigas Manila	Pasig City	316
	Nobu Hotel Manila	Pasay City	321
	Radisson Hotel	Pasay City	500
	Tune Hotel	Pasay City	204
	Jin Jiang Inn Greenbelt	Makati City	70
	Lotte City Hotel Cebu	Mandaue	350
	Mercure Manila Ortigas	Pasig City	150
	Marriott Manila Hotel	Pasay City	228
	Microtel Inn & Suites South Forbes	Manila	61
	Tune Hotel Mall of Asia	Manila	214
	Tune Hotel	Manila	189
	Radisson Hotel Manila Bay City	Manila	500
	Discovery Primea	Makati	141
	Ascott Bonifacio Global City Manila	Taguig City	220
	Citadines Salcedo Makati	Manila	214
	Belle Grande Manila	Manila	950
	Solaire Resort & Casino (Expansion)	Paranaque City	312
2015	Citadines Millennium Ortigas Manila	Pasig City	210
	Worldhotel & Residences Makati	Makati	401
	Shangri-La Fort Bonifacio	Manila	576
	Novotel Manila Araneta	Quezon	415
	Manila Bay Resorts	Manila	2,050
2016	Moevenpick Hotel & Residences Makati	Makati	304
	Savoy Hotel Newport City	Manila	610
	Swiss-Belhotel Quezon City Metro Manila	Quezon	426
	Westin Manila Bayshore	Pasay City	600
	Conrad Manila	Manila	346
	Grand Hyatt Manila and Residences	Manila	658
2017	Somerset Alabang Makati	Manila	150
	Somerset Alabang Manila	Alabang	150
	Sheraton Manila	Pasay City	350
	Microtel Inn & Suites by Wyndham U P Technohub	Quezon	84
	Hilton Manila	Manila	355
Total Proposed Room Supply (Indicative)			**12,625**

Source: HVS Research

- We observe that Metro Manila has a significant hotel pipeline with more than 12,000 rooms due to be added into the existing room inventory within the next three years. A large bulk of rooms are forecasted to be placed in the city of Manila while the Department of Tourism's push to propel the country into a world-class gaming venue sees the Entertainment City in Pasay City adding 2,200 rooms into the city by end 2017.

INVESTMENT MARKET OVERVIEW

- By virtue of being the country's capital region and a major emerging hotel market, Metro Manila witnesses the majority of the sales transactions taking place in the country. While no significant transactions were recorded in 2013, Year 2014 registered the record sale of the Shangri-La at the Fort for approximately US$190 million (with price per room estimated at about US$282,000).

- Moreover, as Manila is an emerging hotel market, we note that the lack of stock will offer more opportunities for development than buying.

- Ayala Land Inc has recently announced its PHP65 billion of capital inflow to the development of Makati City in the next five years. The investment is an addition to its PHP60 billion investment in 2012 and the development will form six districts, involving 800,000 square metres of retail and office spaces, five hotels and 3,700 residential units in the next five years. Two of the five hotels include a 300-room Seda Hotel which offers serviced apartments and the 275-room Mandarin Hotel at the northern tip of the Ayala Triangle. A 10,000 square-metre convention centre will be part of the development where the InterContinental Manila currently is.

- Going forward, the city's hotel market is likely to face an oversupply situation at least in the Four and Five Star segments in the short to medium term.

MAJOR SALES TRANSACTIONS (2012 - APR 2014 YTD, US$)

Transaction Date	Asset	Location	Rooms	Estimated Sales Price	Estimated Price per Room
Apr-14	Shangri-La at the Fort	Taguig	674	189,800,000	282,000
Sep-12	Fairmont Makati Hotel & Raffles Suites	Makati	302	96,300,000	319,000

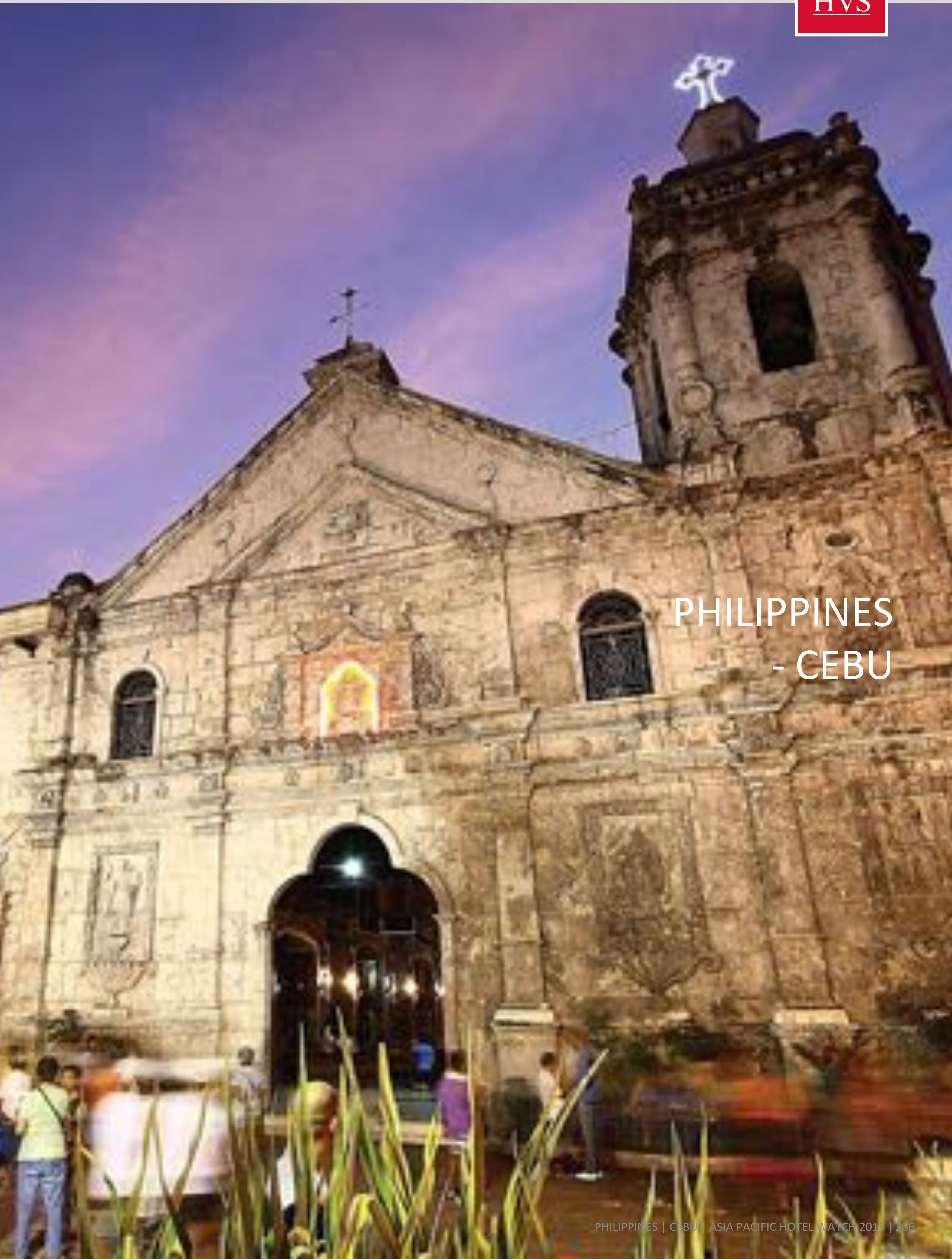
Source: RCA, HVS Research

MARKET OUTLOOK

- Looking at past performance as well as the marketing efforts of the government to promote medical tourism and the city's gaming industry, we expect Metro Manila's tourism industry to continue growing in the short-to-medium term. As more developments come up along the Manila Bay, integrated resorts such as those planned at the Entertainment City are likely to present competition to the traditional gaming venues of the region. The new casinos in Metro Manila are expected to offer a refreshing take on the gaming industry and attract more international arrivals into the city.

- However, in comparison with other cities in the ASEAN region, visitor arrivals to Manila currently are much lower. Having said that, with active promotion and more hotels opening in the city, Manila still has the potential to increase its market share.

- While striving to increase its competitiveness, Metro Manila should also address the ecological impacts of the rise in tourism such that the industry offers a viable source for sustained economic growth in the future.



PHILIPPINES - CEBU

CEBU

CITY OVERVIEW

- Being the oldest city in the country as well as the second most populous metropolitan area after Metro Manila, Cebu is an important centre of commerce and trade in the Visayas area. It is also the main domestic shipping port of the Philippines.

- As the resort tourism hub of the country, Cebu has become a retirement haven, demonstrated by the rising number of foreigners from Europe and North America moving to the city. Expectedly, the real estate industry is one of Cebu's fastest growing sectors with about 100 commercial and residential buildings anticipated to be completed by 2015, and another 150-200 buildings expected to open by 2017.

TOURISM MARKET OVERVIEW

- Between 2009 and 2013, Cebu experienced a compound annual growth rate (CAGR) of about 10% in total visitor arrivals. The overall growth was mainly driven by the increasing international passenger movements recorded at the Mactan-Cebu International Airport, growing at a CAGR of 15%. Domestic passenger movements, on the other hand, grew at a CAGR of approximately 9% during the same period.

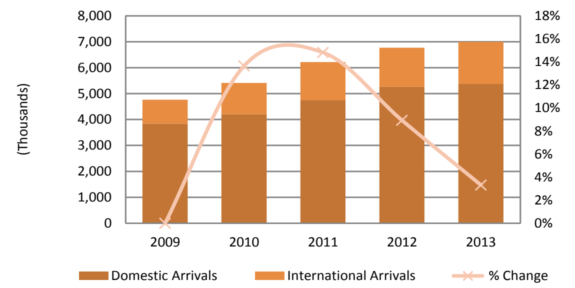
- Domestic arrivals peaked in 2011 recording a growth of 15% over the previous year, backed by the recovery of the national economy after the global financial crisis. The post-crisis period saw an increase in the local disposable income fuelling the growth for travel and leisure.

- Although domestic tourism has witnessed a slower rate of growth, it has historically represented the majority share of passenger movements into the city. In 2013, 75% of total passenger movements corresponded to the domestic segment.

- Leisure tourists, as well as business (corporate) and meeting travellers, equally constitute the total tourism market in Cebu. Corporate travel in the city is attributed to the information technology, banking and financial services industries, while the meeting segment is largely driven by the pharmaceutical and insurance trade.

- Going forward, Cebu is expected to see a boost in tourist arrivals with the city's assignment as the venue for the World Ecotourism Forum in November 2014 and the Asia Pacific Economic Forum in September-October of 2015. Over 400 delegates are expected to attend the Ecotourism conference, while the economic forum is expected to attract around 5,000 delegates.

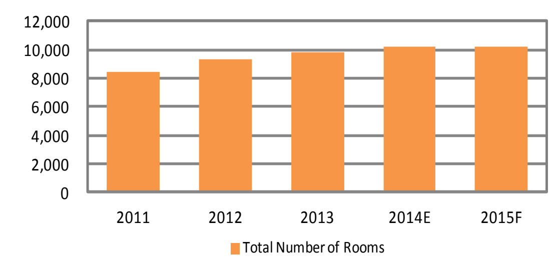
VISITOR ARRIVALS (2009 - 2013)



Source: Mactan Cebu International Airport Authority, 2014 / HVS Research

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY (2011 - 2015F)



Source: HVS Research

- Total room inventory grew by approximately 5%, from about 9,335 rooms in 2012 to 9,835 rooms in 2013.

- Between 2011 and 2013, the growth in room supply resulted from the openings of small independent boutique hotels. However, since 2012, there have been no prominent hotel openings in the market. However, the Moevenpick Hotel Mactan Island Cebu underwent a major renovation to reopen with a more modern and fresh look.

- Looking ahead, 408 rooms are anticipated to open in Cebu across the Lotte City Hotel and the Best Western Cebu Sand Bar Resort. Although there are no notable confirmed hotel openings for 2015, there was a recent announcement of a Maldives-inspired development called Abana Island Resort to be built on the three islets called "Islas Tres Rosas" located across Mactan Island. The resort is expected to consist of 16 luxury villas.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 - 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Lotte City Hotel Cebu	350
	Best Western Cebu Sand Bar Resort	58
2017	Abana Island Resort	16
Total Proposed Room Supply (Indicative)		**424**

Source: HVS Research

INVESTMENT MARKET OVERVIEW

- Cebu is geographically a small city in the Philippines, with its internationally branded hotel market still in the nascent stages of development. However, the city has been flourishing with double-digit growth in arrivals and holds potential to become a prosperous hotel market going forward.

- We gather that there is a 3,500-hectare reclamation project underway in the quiet Cordova town, which is envisaged to be developed into a future economic centre with commercial buildings and a casino. Furthermore, there will be good connectivity between Cordova and Cebu via roads, bridges and seaports. The entire development is expected to take place over the next five-to-ten years and would create development opportunities for both hotel investors and operators in the long term.

MARKET OUTLOOK

- Cebu is an important tourism gateway to the central and southern regions of the Philippines, with the most frequent domestic air and sea links. With a cosmopolitan population, and being one of the most secure and safe destinations in the country, Cebu has all the necessary traits to become a leading investment hotspot.

- As more boutique hotels open in Cebu, accommodation options available to the tourists are expected to increase and have a favourable overall impact on the city's hotel market.

- As one of the four cities in the country to be supplied with the US$7 million technical assistance grant established by the DOT, Cebu is anticipated to upgrade its tourism offerings to fully realise its potential.

- The recently held Tourism and Investment Forum in June 2014 addressed the importance of improving Cebu's regional competitiveness in tourism. With the implementation of development and support programmes and improved infrastructure, we envisage Cebu to have a more conducive environment for tourism and foreign direct investments in 2015 and beyond.

PHILIPPINES - BORACAY

BORACAY

CITY OVERVIEW

- Boracay is an island located about 315 kilometres south of Manila and two kilometres off the northwest tip of Panay Island in the Western Visayas region of the Philippines. It is easily accessible via an hour-long flight from both Cebu and Manila. The main point of entry to Boracay is the Caticlan Jetty Port on Panay Island from where one needs to undertake a 20-minute ferry ride. Well known for its beaches, the island has been recognised by numerous travel publications.

- The gateways to this island destination are the Boracay Airport and the Kalibo International Airport. Although both airports are situated on Panay Island, Boracay Airport is located in the town of Malay and is the closer airport to Boracay Island. Kalibo International Airport serves international carriers while Boracay airport currently only serves domestic flights.

- Managed by TransAire Development Holding Corporation, a division of San Miguel Group, the Boracay Airport, also known as Godofredo P. Ramos Airport or Caticlan Airport, is witnessing the extension of its runway to accommodate larger Boeing and Airbus aircrafts. The upgrade will also include the addition of a new terminal, airport equipment and commercial facilities to cater to the growing tourist arrivals. The project is expected to be completed by 2016.

TOURISM MARKET OVERVIEW

- Tourist arrivals in 2013 registered a 13% growth over 2012, with total arrivals reaching approximately 1.36 million, despite missing the target of 1.5 million tourists planned by the Aklan provincial government. This was due to the adverse effect of Typhoon Yolanda, which hit the country in November 2013, and resulted in a negative growth in arrivals to Boracay that month.

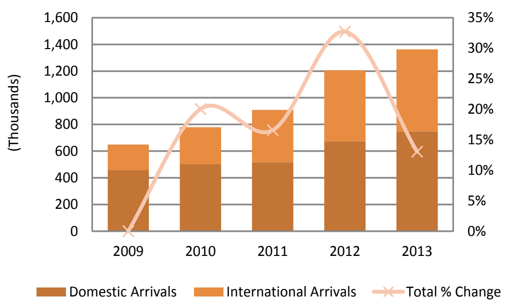
- Overall, however, 2013 was a great year in terms of tourist arrivals with the third quarter registering the highest growth rate of approximately 30% year-on-year.

- As an emerging leisure destination, demand in Boracay currently consists of mainly domestic travellers, who accounted for approximately 55% of the total arrivals to the island in 2013. On the other hand, the international visitor arrivals represent a significant 45% of the market and this trend is likely to continue rising. With the increase in awareness of Boracay as an island resort destination, international visitor arrivals are expected to further increase in the future.

- The overall compound annual growth for international tourists from 2009 to 2013 equated to a 34% increase. This was likely driven by the impactful marketing efforts of the Philippines tourism department in addition to international recognition received by the island, such as being ranked as the world's best island to visit by *Travel +Leisure* in 2012. This drove a 50% rise in international arrivals to Boracay in 2012 over the previous year.

- YTD June 2014 showed a 9% increase in total tourist arrivals into the island, up from approximately 775,000 tourists recorded during the same period last year. Going forward, the Aklan provincial government is optimistic of Boracay registering an estimated 1.5 million tourist arrivals by the end of 2014 following the peak summer and holiday seasons.

VISITOR ARRIVALS (2009 - 2013)



Source: Department of Tourism, 2014 / HVS Research

HOTEL MARKET OVERVIEW

- Presently, Boracay is home to an estimated 300 hotels and resorts and is experiencing significant development across the island. There has been noticeable construction activity towards the northern end of the island, which appears to be an upcoming tourism complex, while many other smaller, local boutique hotels and resorts are being developed throughout the region.

- The upcoming project in the northern end refers to the Boracay Newcoast development by Megaworld Corporation, which encompasses the Savoy Hotel Boracay (500 rooms), other boutique hotels, residences, a golf course and commercial facilities. While the residences and some of the hotels are scheduled to be completed by 2017 and 2018/19 respectively, the completion dates of other components are yet to be confirmed.

- Additional hotels anticipated to open in Boracay include the Azalea Hotels & Residences and Yoo Collection Aqua Boracay, both of which are expected to open in 2015 with approximately 220 rooms and 170 rooms, respectively. Moreover, 2016 is anticipated to see the opening of Crimson Resort & Spa with an estimated 200 rooms. The island sees itself expanding by approximately 1,340 rooms by end 2017 with the addition of five new hotels and resorts.

CITY PIPELINE

NEW HOTEL OPENINGS (2015 – 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2015	Azalea Hotels & Residences	222
	Yoo Collection Aqua Boracay	168
2016	SMC Boracay Hotel and Villa	259
	Savoy Hotel Boracay Newcoast	500
2017	Crimson Resort & Spa Boracay	190
Total Proposed Room Supply (Indicative)		**1,339**

Source: HVS Research

INVESTMENT MARKET OVERVIEW

- The ongoing trend in the residential market of Boracay highlights that the developers are keen on building condominiums while offering leaseback programmes in order to ease the initial capital required. Such a structure offers a win-win scenario allowing buyers to experience beachfront living while developers are able to generate revenues faster.

- It is noted that Boracay is experiencing diminishing land availability in key beachfront locations due to rapid development on one hand, and the limitations of the protected natural areas on the other. Investors should be wary of the limited opportunities for hotel development and secure the remaining available land plots at the earliest should they wish to enter the resort market in the Western Visayas region of the country.

MARKET OUTLOOK

- As the tourism department powers its marketing campaigns into full gear, we expect the international awareness about Boracay and its offerings to increase, and believe that the total arrivals target of 1.5 million in 2014 visitors is achievable. As the Visayas region is in the initial stages of development, Boracay faces an accessibility challenge requiring the tourists to undertake meticulous connections before reaching the white sandy beaches of the island. This includes ferry rides and distant overland transportations from Kalibo International Airport. Therefore, should Boracay wish to remain competitive with other regional island destinations such as Bali and Lombok, crucial infrastructure needs to be put in place at the earliest.

- Demand from the ASEAN market, especially over the weekends, seems to be picking up with more international budget carriers being available to and from the Kalibo International Airport. Paired with a relatively more affordable cost of living, we foresee a further increase in travellers to the island from the ASEAN countries in the short–to-medium term.

SEYCHELLES


SEYCHELLES

SEYCHELLES

Tourism's contribution to GDP in 2013 : SCR 3.05 Billion (21.2%)

Source: WTTC, 2014

Highest recorded transaction of US $35.7m for Banyan Tree Seychelles took place in 2013.

Source: Real Capital Analytics/HVS Research

ECONOMIC UPDATES

- The tourism and fisheries sectors are the main contributors to Seychelles' economy representing the bulk of the country's foreign exchange earnings. According to the World Travel & Tourism Council, Seychelles' tourism industry directly contributed approximately 21% to the country's GDP in 2013, and is expected to grow at about 4% annually to SCR 4.65 billion by 2024 .

- Post the global financial crisis, the economy rebounded in 2010 with almost 6% growth. The following year (2011) witnessed an even stronger growth of almost 8%, while 2012 and 2013 recorded moderate GDP increases (averaging at about 3%) due to the reduction in foreign direct investments as well as the impacts of higher oil prices. Going forward, Seychelles' GDP is expected to grow at about 4% in 2014, with a steady rise in visitor numbers that are expected to drive tourism revenues.

- The country witnessed record-high inflation in 2009, at nearly 32%, due to its own internal debt crisis from unsustainable macroeconomic policies, in addition to the adverse effects of the global economic slowdown. The inability of Seychelles to repay its loan forced a reform supported by the International Monetary Fund (IMF), which brought inflation under control, falling back to single-digit levels in subsequent years. However, the spike in inflation again seen in 2012 highlighted the country's vulnerability to international price shocks due to its heavy reliance on imports.

- As inbound tourism is one of the major revenue generating sources for the country, the island remains highly vulnerable to external economic conditions, including the present uncertainty of the European economy. However, the current economic outlook for Seychelles is positive as its flexible banking regulations make it a popular choice for offshore banking activity compared to other alternate destinations. Moreover, Seychelles is also expected to benefit from oil exploration as Eastern Africa appears to be a new frontier for oil drilling opportunities. The government recently signed an agreement with private oil companies in the second quarter of 2014 to allow for future exploration of Seychelles for oil and gas potential, which could become a leading income source for the country in the years to come.

ECONOMIC INDICATORS (2010 – 2015F)

	2010	2011	2012	2013	2014E	2015F
GDP Growth (%)	5.9	7.9	2.8	5.3	3.7	4
Inflation (%)	-2.4	2.6	7.1	4.3	2.3	2.8
Exchange Rate SCR:US$	12.07	12.38	13.70	12.06	12.44	12.05
Lending Interest Rate	12.7	11.2	12.2	12.3	13.0	21

Source: Economist Intelligence Unit, June 2014

TOURISM MARKET OVERVIEW

- Between 2009 and 2013, international visitor arrivals to Seychelles grew at a compound annual growth rate (CAGR) of 10%. This was driven by the year-on-year double-digit growth in international arrivals recorded by the country since 2010, with the exception of 2012, which saw a drop in visitor arrivals from its key source market, France (as a result of the cancellation of direct non-stop flights from France by Air Seychelles).

- Seychelles is primarily a leisure holiday destination. About 93% of the arrivals in 2013 were represented by the leisure segment, while 3% of the international visitors were corporate travellers, and the remaining 4% travelled for other purposes.

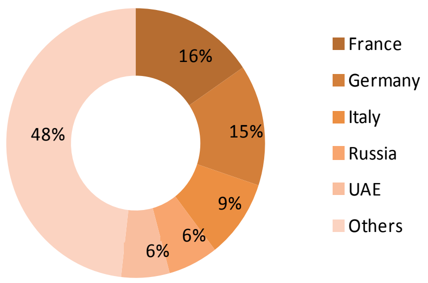
- According to the National Bureau of Statistics, about 230,300 international visitors arrived in Seychelles in 2013, representing an approximate 11% growth from 2012. The figure represents over two and a half times the total population and over five times the working population of the island.

- The 11% increase in international arrivals to Seychelles in 2013 over that recorded in the previous year was driven by a 10% increase in visitation from Europe, a 17% increase in visitation from Asia, a 10% increase in arrivals from USA, and a 6% increase in arrivals from Africa.

VISITOR ARRIVALS (2009 – 2013)

Source: National Bureau of Statistics HVS Research

TOP FIVE SOURCE MARKETS (2014)



Source: National Bureau of Statistics HVS Research

- Europe still accounts for an overwhelming majority of visitors to Seychelles, contributing 69% of the total international visitors to the island in 2013. France remains the leading feeder market for the country with about 35,800 visitors in 2013 (with the support of direct flights from Paris), followed closely by Germany with 33,500 visitors and Italy with 21,800 visitors.

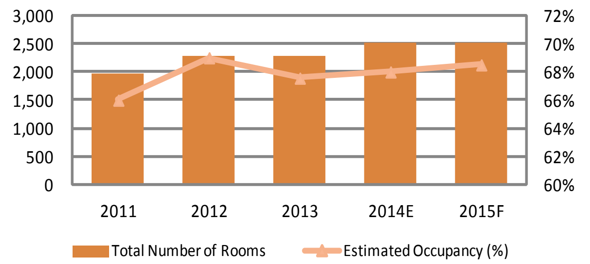
- Although not one of the top source markets, China represented a key emerging market for Seychelles registering approximately 73% growth in the number of visitors to the island in 2013 over that recorded in 2012. This increase was supported by the targeted marketing efforts of the island's tourism board at trade fairs in China. As the world's fastest growing outbound tourism market, Seychelles Tourism Board expects arrivals from China to keep increasing at a sustainable rate over the next few years.

- YTD June 2014 showed a slight dip of 1.5% in the number of international visitor arrivals (to about 111,000 visitors) compared to the same period in 2013. The decline resulted from the 7% drop in visitor arrivals from Europe owing to the European's unstable economy as well as the lack of direct flights during the period under consideration. Visitors from France, the leading source market for Seychelles, saw a 14% decrease in the number of visitors despite retaining its top position in the list of key feeder markets for the island.

- On the other hand, the Asian market saw a boom in outbound travel to Seychelles as a result of the aggressive marketing efforts by the island's tourism authorities in 2013. China, in particular, saw the strongest growth for YTD June 2014 at 137% from 2,150 visitors in 2013, although it currently ranks sixth among the key feeder markets for Seychelles. Moving forward, the tourism board is expecting arrivals from Europe to pick up during the second half of 2014 coinciding with the European holiday break during August and September.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: HVS Research

- In Seychelles, the majority of branded hotels and resorts are located in Mahe Island as it is the country's largest island, accommodating 85% of the total population, in addition to being the home to the capital city of Victoria. As of June 2014, Mahe Island had about 17 out of the total 40 luxury and upscale hotels in the country and there are no confirmed announcements for more resort openings in 2015 at the time of writing this report.

- There was no significant change in the supply of luxury and upscale hotel rooms in Seychelles in 2013 over that recorded in 2012. However, 2012 witnessed about 17% growth in the rooms' supply of this segment, up from about 1,970 rooms in 2011.

- There were three openings in the luxury and upscale hotel segment in 2011: Raffles Praslin Seychelles (86 villas), Hilton Seychelles Labriz Resort and Spa (111 rooms), and Petit Amour Villa. Thereafter, 2012 saw another two hotels open in Seychelles: Kempinski Baie Lazare Plantation Club (150 rooms) and the Coral Strand Seychelles (165 rooms).

- The Savoy Resort & Spa, which was initially due to open by the beginning of 2013, was delayed and opened in May 2014 instead. The 163-room resort houses Seychelles' largest hotel swimming pool of 700 square metres, and is located along one of Mahe island's most popular beaches: Beau Vallon.

- Additionally, the Shangri-La Seychelles is expected to welcome its first guests by the end of 2014. However, we note that this project was previously disrupted by Shangri-La Asia Ltd due to repeated delays by the owner and we cannot confirm if the resort is on schedule for the 2014 opening. The luxury resort is expected to consist of 55 villas, located in Long Island.

- Hotel occupancy of the country's luxury and upscale segment showed a three percentage points increase in 2012 (from 66% in 2011) due to the rise in international tourist arrivals that enabled room night demand to grow at a faster pace than the growth in supply in the market.

- ADR for 2012 showed similar increases at approximately 3.5% owing to the opening of high-end resorts, such as the Kempinski.

- 2013's occupancy and ADR showed a slight decrease of 2.1% and 2.6% respectively due to the dip of the higher spending guests from the European market as a result of the slow pickup of European economy from its financial crisis.

INVESTMENT MARKET OVERVIEW

- Le Domaine de La Reserve was sold at an undisclosed price in 2013; it changed hands with a Seychellois investor. Following the sale, the hotel, originally called La Reserve Hotel of Praslin was renamed Le Domaine de La Reserve. Under the new management team, the property will be a sister hotel to Le Domaine de L'Orangerie, located in La Digue Island.

- The sale of the Banyan Tree Seychelles in 2012 at approximately US$36 million, or almost US $600,000 per room key, marked the largest transaction to be recorded in the country in the last eight years.

- As of YTD June 2014, all known hotel transactions in the country have taken place either on Mahe Island or on Praslin Island only.

- Seychelles welcomes foreign investment with the objective to promote economic relationships and sustain its tourism and fishing industries. There are no limitations on the participation of foreign investors except for sectors referred to "reserved" and "strategic" areas of investment to protect public interest. The government recently announced an amendment of its policy in 2013 to now allow foreign nationals the right to buy privately owned land, provided they meet a number of set criteria and are granted sanction by the Seychelles government.

- Besides the tourism board's active efforts to launch offices outside Seychelles and promote its country, the establishment of internationally branded resorts has helped increase the international awareness about the island.

- One of the niche markets available for further development is "ecotourism" that involves the local community and the environment in tourism development, in order to create a sustainable industry.

MAJOR SALES TRANSACTIONS (2012 – APR 2014 YTD, US$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
May-12	Banyan Tree Seychelles	60	35,714,000	595,000
Apr-14	Le Domaine de La Reserve	40	Undisclosed	N/A

Source: Real Capital Analytics, 2014 HVS Research

MARKET OUTLOOK

- As of YTD June 2014, Seychelles witnessed a drop in tourist arrivals from the European market over the same period last year, we note that the decrease is due to momentary issues such as Europe's stagnant economy and the lack of direct flights. We are, therefore, of the view that once appropriate infrastructure is put in place to improve flight connectivity to and from the European region, and its economy stabilises; Seychelles will continue to see a positive growth in arrivals from the European feeder market. The recent rise in inbound tourism from Africa and the Asia Pacific indicates the potential of these feeder markets.

- The government's focus on regulatory reforms has paid off with Fitch recently affirming Seychelles' positive economic outlook in the beginning of 2014. As the economic stability in the country increases, hotel development in Seychelles is expected to pick up with more opportunities in the mid-to-long term.

- Furthermore, the Seychelles Tourism Board sees a potential in the growing yacht industry with the country's natural seascape providing the opportunity for the development of yachting experiences, cruises, water excursions and other leisure marina activities. The relatively short distances between the islands in the main island group also make it suitable to travel from one island to another, aiding the growth of this segment.

CAMBODIA


SIEM REAP
PHNOM PENH

CAMBODIA

Tourism's contribution to GDP in 2013 : KHR 6,510 billion (+10.4%)

Source: WTTC, 2014

Highest recorded transaction of US $64 m for Imperial Garden Villa and Hotel took place in 2014.

Source: Real Capital Analytics/HVS Research

ECONOMIC UPDATES

- The Cambodian economy is driven mainly by the garment industry and the construction, agriculture and tourism sectors. GDP growth is largely dependent on exports, 80% of which are generated by the garment industry. Notably, in 2009 during the global financial crisis, Cambodia's GDP growth slowed to 0.1%.

- The economy rebounded quickly to healthy GDP growth in recent years driven by some recovery in garment exports, increased tourism and construction activity. However, the nation's export industries are likely to be still affected by the slow recovery of the European and US economies. This decrease in demand is expected to be partially offset by continued growth and expansion in the service sector in the long-term.

- High electricity costs, undeveloped roadway networks and poor education system stand as the key limiting elements for economic growth and foreign investment emphasising the need for significant investment in infrastructure.

- Going forward, export-led sectors will remain the main sources of growth in the coming years; Cambodia's GDP growth is projected at 7.2% and 7.3% in 2014 and 2015, respectively. This is largely due to the anticipated increase in export revenues, and an increase in demand for tourism and other service industries driven by private consumption growth and heightened infrastructure and business investment .

- Although the rate of inflation will increase due to increasing demand, it is expected to remain limited at 3.7% on an average in 2014 as local food production expands and global food prices decline.

- Foreign capital inflow is expected to support the currency despite the current account deficit continuing to exert downward pressure on the riel's value. As a result, its value is unlikely to fluctuate significantly between 2014 and 2016. This is so despite the strengthening of the US dollar and the fact that the Cambodian economy is heavily dollarized, especially in the tourism sector.

ECONOMIC INDICATORS (2010-2016F)

	2010	2011	2012	2013	2014E	2015F
GDP Growth (%)	6.0	7.1	7.3	7.5	7.2	7.3
Inflation (%)	4.0	5.5	2.9	2.9	4.2	4.5
Exchange Rate KHR:US$	4,185	4,059	4,033	4,027	4,033	4,048
Lending Interest Rate	15.6	15.2	13.0	12.8	12.6	13.4

Source: Economist Intelligence Unit, June 2014

- Cambodia faces risks to continued economic growth with a need for stronger financial regulations and laws to create an environment conducive for private sector growth. Moreover, the extent and timing of exploitation of oil and gas reserves in Cambodia remain unclear, and other issues such as investment in education and training of a largely unskilled workforce can have sustained long term impact.

TOURISM MARKET OVERVIEW

- Between 2008 and 2013, international arrivals to Cambodia experienced a compound annual growth rate (CAGR) of approximately 18% from an estimated 2.1 million visitors in 2008 to 4.2 million visitors in 2013. The overall growth is a reflection of strong tourism demand and confidence in the country's improved political environment and accessibility.

- A temporary softening of growth in international tourist arrivals in 2009 was quickly overshadowed by strong arrival growth in 2011 and 2012. Increased regional travel to Cambodia's historic sites in Siem Reap resulted from the rise in demand from tour operators in feeder markets such as South Korea, China and Japan, as well as an overall rebound in global tourism.

- Land border crossings have traditionally accounted for the majority of international arrivals to Cambodia. These formed 50% of the international arrivals in 2013 with over two million overland trips from Vietnam, Laos and Thailand. Air arrivals constituted 48% of the international arrivals, while waterway arrivals represented the remaining 2%.

- A drop in international arrival growth from 24% in 2012 to 17% in 2013 was likely due to the political unrest in the second half of 2013. Travel advisories were issued by a large number of countries, recommending against travelling to Cambodia; these warnings typically last for several months.

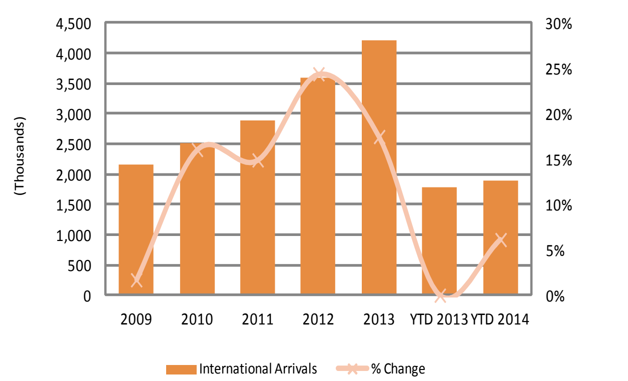
- Cambodia is primarily a leisure-driven destination with Angkor Wat Archaeological Park and the ancient temples and structures around Siem Reap being the prime attractions for visits to the country. Approximately 95% of the international visitors travel to the country for leisure while the remaining 4% and 1% travel for business and other purposes, respectively.

- Demand is generally stronger in the first and fourth quarters of the year (September to April), which correlates with the country's cooler climate, while it is the lowest in the middle of the year due to the country's monsoon season.

- According to Cambodia's Ministry of Tourism, total international tourist arrivals for 2014 are expected to reach 4.7 to 4.8 million by the end of the year, an increase of more than 4.5 million visitors since Angkor Wat was listed as a UNESCO World Heritage site in 1992.

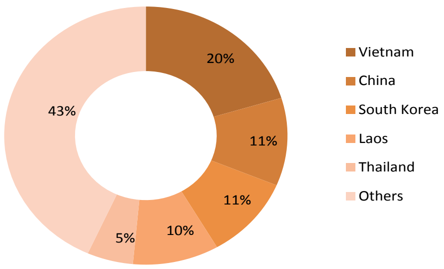
- Domestic visitation is negligible in Cambodia as most of the nation's population lives under the poverty line. Nearly all visitor arrivals are driven by international leisure demand, international corporate demand as well as from non-government organisations who aid in poverty reduction.

VISITOR ARRIVALS (2009 - MAY 2014 YTD)



Source: Department of Tourism, HVS Research

TOP SOURCE MARKETS (2013)



Source: Department of Tourism, HVS Research

- Asian countries have historically accounted for the majority of international arrivals to Cambodia. The largest Asian source markets, Vietnam, China, South Korea, Laos and Thailand, collectively accounted for approximately 57% of total arrivals in 2013. These are mostly tour groups visiting the temples in Siem Reap.

- Vietnam formed the largest contributor of inbound tourists to Cambodia in 2013 representing 20% of the total international arrivals. As it shares borders with Cambodia with convenient land border-crossing links, tourists from Vietnam have easy access to the country. Additionally, tourists also arrive by air via Phnom Penh or Siem Reap International Airports.

- Although not among the top five source markets currently, travel from Russia showed the largest CAGR of 61% from 2009 to 2013 due to the increasing popularity of Cambodia as a destination for a winter escape. This is evident in the seasonality patterns, wherein international tourist arrivals peak towards the end of the year.

- For the first time since 2009, China overtook South Korea as the second largest feeder market for Cambodia and contributed nearly half a million visitors in 2013. The Chinese market experienced a CAGR of 38% during this period. The tourism ministry plans to attract 1.3 million Chinese visitors by 2018 by introducing Chinese language road signs and establishing Chinese towns with Chinese temples, shops, hotels and restaurants

- The overall growth for the top five source markets represented about 20% year-on-year increase from approximately 2 million visitors in 2012 to 2.4 million visitors in 2013.

HOTEL MARKET OVERVIEW

- Cambodia's hotel market is primarily driven by Phnom Penh and Siem Reap. Additionally, there are emerging resort destinations in the southern coastal areas of the country, specifically in and around Sihanoukville, Koh Rong and other coastal islands . As such, the hotel market will be detailed in the city sections of Phnom Penh and Siem Reap.

INVESTMENT MARKET OVERVIEW

TOTAL INVESTMENT VOLUME (2007 - FEB 2014 YTD, US$)

Transaction Date	Asset	Location	Rooms	Estimate Sales Price	Estimate Price per Room
Feb-14	Imperial Garden Villa & Hotel	Phnom Penh	132	64,000,000	485,000
Jan-08	Amansara	Siem Reap	24	10,800,000	450,000
Jun-07	Raffles Hotel Le Royal	Phnom Penh	170	21,000,000	124,000
Jun-07	Raffles Grand Hotel d Angkor	Siem Reap	125	15,400,000	123,000

Source: Real Capital Analytics/HVS Research

- Investment into Cambodia is limited by several factors including lack of availability of suitable destinations besides Siem Reap, poor infrastructure of the country and risk of instability, widespread corruption amongst governmental bodies, and more. Noteworthy transactions in recent years include the sale of the Imperial Garden Villa and Hotel (including land) at an estimated US$64 million, approximately US $485,000 per key, in early 2014, and the sale of Raffles Le Royal in Phnom Penh and Raffles Grand Hotel d'Angkor at US$21 million (US$124,000 per key) and US$15.4 million (US$123,000 per key), respectively in 2007.

- While there were active transactions in 2007 and 2008, the period from 2009 to 2013 was quiet as the world suffered from the global credit crunch which discouraged investment due to cash flow shortages.

- With the recent purchase of the Imperial Garden in Phnom Penh, funds from Singapore accounted for almost 58% of all transactions in the Cambodian market, amounting from the record US $64 million Imperial Garden Villa and Hotel transaction recorded in 2014. This was followed by funds from United Arab Emirates (33%) and India which accounted for the remaining 9% of the sales volume.

MARKET OUTLOOK

- As Cambodia expands its tourism offerings beyond Siem Reap and Phnom Penh, the Ministry of Tourism is gearing its efforts toward encouraging tourists to visit its beaches as well as the northeast and other ecotourism destinations. However, due to the political instability in Thailand, the ministry's statistics department anticipates that 2014's tourism figure for the country will slow to annual growth of about 8%.

- Moreover, the availability of vast land parcels and the lack of internationally branded hotel supply outside of Siem Reap provide interesting opportunities for developers. With pristine beaches along the southern coast, and a budding tourism market in Sihanoukville, in addition to the presence of an airport, this area shows potential for further development once the necessary supporting infrastructure is in place.

- Having said that, some key concerns that could hinder Cambodia's tourism growth continue to pose a challenge. As the country strives to develop its economy, build better countrywide road network and overall government infrastructure, connectivity between destinations remains an issue in Cambodia. Furthermore, there is a shortage of skilled talent for the tourism sector.

- The integration of the ASEAN community (through the inauguration of the ASEAN Economic Community in 2015) is also anticipated to put a further strain on developing a skilled workforce in Cambodia as the population will soon have the freedom to work in any of the other ASEAN countries.

- Venturing into tourism as an alternate revenue source for Cambodia, the government has outlaid its Tourism Strategic Development Plan 2012-2020 and is in line in achieving its goal of 7.5 million visitors by 2020. Cambodia's integration into the ASEAN Economic Community (AEC) in 2015 is also expected to stimulate more visitations from tourists, especially from the neighbouring countries.

- The rising visitor arrivals and positive market dynamics have renewed investors' interest in the growing potential of Cambodia's lodging market, which was previously untapped due to its political instability, and is still largely limited to Siem Reap and Phnom Penh. With Cambodia now more connected by flights than ever before, this upgraded infrastructure has enhanced the ease of travelling and improved the overall traffic from the rest of Asia. This is evident in the double digit compound annual international tourism growth (18%) witnessed within the span of five years from 2009 to2013.

- Backed by the economic growth and foreign direct investment from countries such as South Korea, Japan and China, both international and domestic investor and developers are showing greater interest in the hotel development opportunities available in both key cities: Phnom Penh and Siem Reap, as well as Cambodia's unexplored coastal areas.

- In recent years, Cambodia's southern coastlines experienced a trend of boutique resort construction with the emphasis of environment sustainability efforts and community initiatives in order to reap the benefits of tourism. We anticipate this wave of environmental conscious trend among resorts to continue in the future and create alternatives and unique selling points to coastal and island resorts in Cambodia.

CAMBODIA - SIEM REAP

SIEM REAP

CITY OVERVIEW

- The provincial capital of Cambodia, Siem Reap serves as the gateway to the Angkor Wat, the ancient temple ruins of the Khmer Empire. Listed as one of UNESCO's World Heritage sites, the park boasted of more than 700,000 visitors in the first quarter of 2014 alone, a 12% increase compared to the same period last year. Being the main attraction in the country, Angkor Wat drives the tourist arrivals to Siem Reap and Cambodia as a whole.

- The city represents the country's top tourist destination as it welcomed approximately 1.2 million international visitors via air in 2013, a 22% increase over 2012. In total, international tourist arrivals to the Siem Reap province via all travelling routes amounted to 53% of all arrivals into the country compared to Phnom Penh and other destinations, which contributed 47%.

- Similar to Phnom Penh International Airport, the Siem Reap International Airport is undergoing expansion. This will double its current capacity of 2.5 million passengers per year and cater to the rising number of visitors to Siem Reap. The expansion will include the extension of parking lots and terminals with more check-in and immigration counters. This project is in conjunction with the extension of Phnom Penh International Airport, and is expected to be completed by end of 2015.

TOURISM MARKET OVERVIEW

- Between 2009 and 2013, international tourist arrivals to Siem Reap International Airport experienced a compound annual growth rate of approximately 22%, from an estimated 557,000 visitors in 2009 to 1.2 million visitors in 2013.

- The overall growth was primarily driven by the 28% rebound growth witnessed in 2010, on the back of global recovery from the financial crisis. Growth from 2011 onwards was more stabilised ranging approximately from 17% to 22%.

- The double-digit growth in 2011 (12%) was partially fuelled by the easing of political protests in Thailand, as Bangkok typically serves as one of the main transfer airports to Siem Reap from long-haul destinations.

- Visitor arrivals from top feeder markets such as Vietnam, South Korea and China have once again proven to be resilient during the recent years, driven by the increasing frequency of low-cost airlines, which provide direct flights from these destinations. Looking ahead, arrivals to Siem Reap are expected to continue growing as it remains the key gateway city to Angkor Wat.

- The rise in tourist arrivals is expected to be driven by the increased frequency of direct flights to Siem Reap from other ASEAN countries, which is expected to further stimulate regional travel. In 2013, Air Busan announced that it is now offering four direct flights from Busan to Siem Reap on a weekly basis.

- 2014 experienced some turbulent effects given the recent Thailand political crisis in the beginning to the middle of the year in addition to the anti-China protests in Vietnam, resulting in cancellations from international groups not willing to travel into the city due to regional safety concerns.

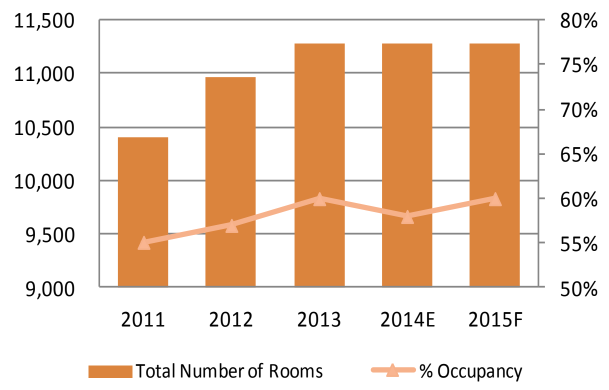
VISITOR ARRIVALS (2009 - 2013)

Source: Cambodia Airports, HVS Research

HVS

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Statistical and Tourism Department, HVS Research

- Siem Reap showed a 3% increase in total hotel room inventory in 2013 largely represented by small locally-owned boutique hotels along with the opening of the Shinta Mani hotel (63 rooms).

- In comparison with Phnom Penh, Siem Reap has a more developed hotel and tourism market. Owing to its limited geographical expanse, most lodging products in Siem Reap are large resorts located on the fringes of the city or along the road linking the city to the Angkor Wat. The represented brands are Sofitel, Le Meridien, Raffles, Anantara, Belmond La Residence (Orient Express), Park Hyatt, Amansara and Best Western. The luxury market is well represented and the mid-tier segment, as well as the small boutique hotel segment in the city, is growing.

- One of the more recent additions to the hotel supply in the city is the Park Hyatt Siem Reap (previously the well known Hotel de la Paix), which reopened in late 2013, following a year-long renovation. There was no change in ownership during the rebranding phase. Additionally, the owner, HMD Asia, opened another hotel in 2012 – the 39-room Shinta Mani Club.

- Similarly, the Alila Sothea Resort was recently rebranded to The Anantara in November 2013, adding back approximately 40 rooms to the city's hotel market.

- Going forward, 2014 and 2015 are unlikely to witness any notable changes in rooms' supply. However, 2016 is expected to see the opening of the much publicized Integrated Resort: The Metropolis, which is planned to spread over 22 hectares of land, comprising of an indoor theme park, two hotels with the key counts yet to be announced, three shopping complexes and seven condominium projects. The Courtyard by Marriott will also be expected to open in 2016 with approximately 200 keys. For 2017, the Sokha is expected to open a section of its premises with approximately 400 rooms while its remaining 200 rooms will open at a later date to be confirmed. By end 2017, Siem Reap is expected to see a 5.3% increase in total room supply.

INVESTMENT MARKET OVERVIEW

- Although Siem Reap is a well known tourist destination in the global travel circuit, it does present limitations from an investment perspective. As a primarily leisure destination, the market is subject to pronounced seasonality patterns, thereby limiting the performance potential of hotels. Additionally, with the significant rise in visitation to the city, infrastructure concerns for Siem Reap have become more pressing. While the expansion of the airport will address some of these, the road network as well as the overall infrastructure of the city needs to be upgraded particularly to cater to the demand during the rainy season.

- As such, the city offers small existing hotels for investment transactions as past developers have not been able to realise full returns on their investments as yet. Over the past three years, while no known transactions took place, the rebranding of the Sothea Resort to The Anantara, as mentioned in the supply overview sub-section, was influenced by a buy-out of an 80% ownership stake by Minor Hotel Group for an undisclosed sum. The rebranding of the Hotel de La Paix to Park Hyatt, on the other hand, had no change in ownership.

- Unlike Phnom Penh, Siem Reap identifies itself as a growing city with modern architecture and larger hotels.

- Serving as the gateway to the Angkor Archaeological Ruins, the Siem Reap market is more attractive to internationally branded hotel operators while Phnom Penh, a relatively newer market, is still new to foreign investment.

MARKET OUTLOOK

- Compared with Phnom Penh, Siem Reap is a more leisure-centric destination because of the world famous Angkor Archaeological Ruins. We anticipate international leisure tourism demand to increase with the impending formation of the ASEAN Economic Community in 2015, freeing up tourism and trade movement within the Southeast Asian nations. However, Siem Reap is entirely dependent on tourist interest in the Angkor Archaeological Park, which has experienced tremendous increases in visitation since 2011. Development of other points of interest in around the city, as well as infrastructure to support the same is necessary. By focusing on other tourism demand generators, Siem Reap would be able to sustain its tourism growth.
- Siem Reap is well-supplied with hotels across all categories. Challenges still remain regarding the political stability of Cambodia as well as neighbouring countries such as Thailand. These may still be a deterring factor for visitors to Siem Reap, particularly from long-haul feeder markets. It is also important that Siem Reap Airport establishes more direct flight connections to other regional hubs outside of Bangkok.
- As the Siem Reap hotel market is quite well-supplied, keen investors are considering mixed-use hotel/retail investments as the next viable option, owing to the limited retail facilities existing in the city currently.

CAMBODIA
- PHNOM PENH

PHNOM PENH

CITY OVERVIEW

- Located along the banks of the Tonlé Sap and Mekong Rivers on the eastern border with Vietnam, Phnom Penh has been the national capital of Cambodia since the French colonisation era. Additionally, it was the unfortunate site of many tragedies linking to the Pol Pot military rule, which resulted in a stagnation of the Cambodian economy between 1968 and 1997. Over the years, Phnom Penh has grown to become the nation's economic and cultural centre, as well as the permanent seat of the government.

- In the past few years, the number of hotels and restaurants in Phnom Penh has expanded noticeably and tourism arrivals into the city have increased significantly since 2011. The city is easily accessible via direct daily flights from several Asian cities and the opening of land border crossings has facilitated travel from neighbouring countries such as Vietnam into Phnom Penh.

- In order to cater to a rising number of international visitors, the Ministry of Tourism has kicked off a US$100 million-expansion project for both Phnom Penh and Siem Reap International Airports. The works will include an extension of the international terminal at the Phnom Penh airport to cater to increasing air passenger arrivals, which grew by over 70% in the last five years. The new extension will double the airport's capacity to 5 million passengers per year and is scheduled to be completed by 2016.

TOURISM MARKET OVERVIEW

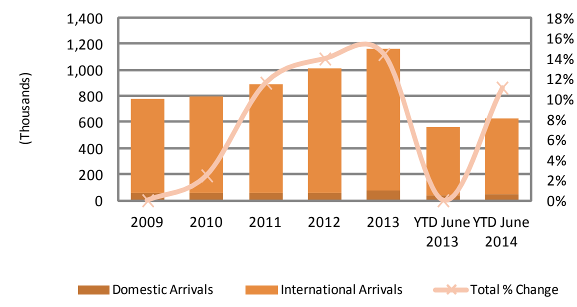
- Between 2009 and 2013, total passenger arrivals to Phnom Penh International Airport experienced a compound annual growth rate (CAGR) of approximately 11%, from an estimated 777,000 visitors in 2009 to an all-time high of 1.2 million visitors in 2013. Phnom Penh is directly connected to international travel hubs such as Singapore, Bangkok, Hong Kong and Seoul.

- Year 2009 saw a downturn in domestic passenger arrivals due to the impact of the global financial crisis, which deterred international tourists from travelling domestically to Phnom Penh from Siem Reap. Siem Reap has traditionally been the main tourism driver for the country. This resulted in an 11% decline in domestic arrivals to Phnom Penh that year.

- However, international tourist arrivals from 2010 to 2012 registered double-digit growth due to the increased regional travel, especially from key feeder markets such as South Korea, China and Japan. Moreover, the ASEAN summit, which took place in 2012, boosted international arrivals to Phnom Penh. The total growth in arrivals continued to climb in 2013 with a 14% increase year-on-year.

- The first six months of 2014 recorded an 11% growth in arrivals compared to 2013, and the full year is most likely going to surpass the record levels registered in 2013 with the upcoming peak season anticipated to further boost arrivals.

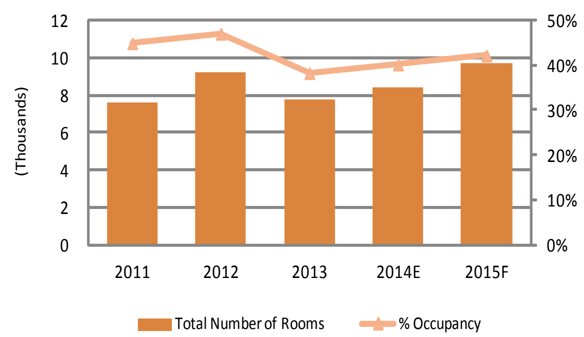
VISITOR ARRIVALS (2009 - JUN 2014 YTD)



Source: Cambodia Airports, HVS Research

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Statiscal and Tourism Department, HVS Research

- Phnom Penh saw a 16% drop in total hotel room count in 2013, from approximately 9,200 rooms in 2012 to 7,700 rooms in 2013 . According to the Statistics and Tourism Information Department, this was due to hotels which closed for major renovation and refurbishment. We note that there were no significant hotel openings in 2013.

- Phnom Penh currently has few branded properties in the three-star and four-star segments. The majority of the hotel supply in Phnom Penh is unbranded or is operated by domestic hotel chains. Local hotel owners have expressed concern regarding the costs involved in bringing international brands into the city. Of the total number of rooms recorded in 2013, only 745 (10%) rooms are internationally branded. The 346-room InterContinental Phnom Penh is the last branded hotel to enter the market in 2011.

- Year 2014's room supply is forecasted to increase with the addition of the Sokha Hotel, opening by the end of this year, adding approximately over 700 rooms to the city's hotel market. Thereafter, 2015 will see another 1,225 rooms entering the city with the Rosewood Phnom Penh scheduled to open on the top floors of the Vattanac Capital Tower and the completion of the 'Nagaworld 2' development, which is expected to add 1,050 rooms.

INVESTMENT MARKET OVERVIEW

- Phnom Penh is relatively new to the international hotel investment market. As a colonial city, it possesses rich cultural heritage and historical buildings, which may present opportunities for conversions into hotel accommodation. At present, the city's hotel market consists mostly of small-sized independent and locally-branded boutique hotels, with a few landmark luxury and upscale hotels such as the Raffles and the InterContinental.

- Another option for investors would be to purchase land and construct hotels.

- However, the local land ownership regulations state that foreign companies can only have leasehold interest in Cambodian land, unless the company is registered with majority Cambodian ownership. Currently, land owners are holding on to their land purchases, waiting for the city's infrastructure to improve before considering an investment in hotel construction.

MARKET OUTLOOK

- Phnom Penh has the potential for further tourism development. With Cambodia's Tourism Development Strategic Plan 2012-2020 set in motion, initiatives are being taken to enhance infrastructure and accessibility between cities in Cambodia. Additionally, efforts are on to create a more conducive environment for business travellers in anticipation of the increasing corporate demand from growing sectors such as banking and telecommunications. Recent improvements in Cambodia's banking and financial regulations and laws are attracting more foreign investment, and thereby driving the increase in corporate travel to Phnom Penh.

- Phnom Penh benefits from the tourism circuit with Siem Reap and the southern coast. Several airlines include stopovers in Phnom Penh while flying to Siem Reap, thereby inducing demand from visitors en route to Angkor. The visitation growth in Siem Reap and the southern coast will, thereby, almost directly elevate Phnom Penh's tourist arrivals.

- Phnom Penh currently sees investors showing interest at developing residential apartments to serve as retirement and holiday homes for expat retirees as well as to cater to the growing domestic middle class market who are looking at these apartments as more affordable accommodation options while travelling in the country.

- Going forward, with the improving political situation and the overall rise in cultural tourism in the global market, Phnom Penh is anticipated to benefit with its rich cultural heritage in the mid to long term.

AUSTRALIA


BRISBANE
GOLD COAST
PERTH
SYDNEY
MELBOURNE

AUSTRALIA

Tourism's contribution to GDP:
AU$42.25 billion (+2.8%)

Source: Australian Bureau of Statistics (ABS), 2013

Nationwide Occupancy : 71.5%
Nationwide ADR : AU$193
Nationwide RevPAR : AU$138

Source: ABS, 2013

Highest recorded transaction of US $306.1m for Four Seasons Sydney took place in 2013.

Source: RCA/HVS Research

ECONOMIC UPDATES

- The Australian economy got off to a positive start in 2014Q1 growing by 1.1%. This was largely backed by resource exports such as iron ore. Despite this, economic growth for Australia in 2014 is forecast to be below the long run trend of 3-4%, as the economy adjusts to the transition of the mining sector from investment-boom to production phase.

- Wage and consumer inflation in 2013 have largely kept pace with the long run historical trends. Additionally, the low interest rate environment is expected to have a positive impact on consumer and investment activities as evidenced by strong investment volumes in recent years.

- The recently announced tightening of fiscal policy might prove to be a small drag on short-term growth, but is likely to boost business confidence in the long run.

- The overall positive outlook for the Australian economy will continue to drive the domestic tourism market, which is a major part of the tourism industry in Australia.

ECONOMIC INDICATORS (2010 - 2015F)

	2010	2011	2012	2013	2014E	2015F
GDP Growth (%)	2.2	2.6	3.6	2.4	2.9	2.7
Inflation (%)	2.9	3.3	1.8	2.5	2.8	2.6
Exchange Rate AU$:US$	1.09	0.97	0.97	1.04	1.13	1.14
Lending Interest Rate	7.3	7.7	7.0	6.2	6.2	6.8

Source: Economist Intelligence Unit, June 2014

TOURISM MARKET OVERVIEW

- The tourism market in Australia is largely driven by the domestic segment , which contributed 64% of the tourism industry's revenues in 2013. Recently growth domestic overnight has slowed largely due to decreased corporate travel.

- Tourism in Australia is heavily concentrated in the states of New South Wales, Victoria and Queensland, which account for approximately two-thirds of all tourism revenues and arrivals.

- In the first five months of 2014, international tourist arrivals grew by 8% year-on-year. This was largely driven by an increase in tourist arrivals from Europe (+12.5%), Asia (+8.4%) and the Americas (+12.1 %). Tourism Research Australia (TRA) expects international arrivals to reach seven million in 2014.

- In 2013, the island state of Tasmania experienced the highest growth in international arrivals (+14%), indicating the growing interest these region as an emerging tourism destination.

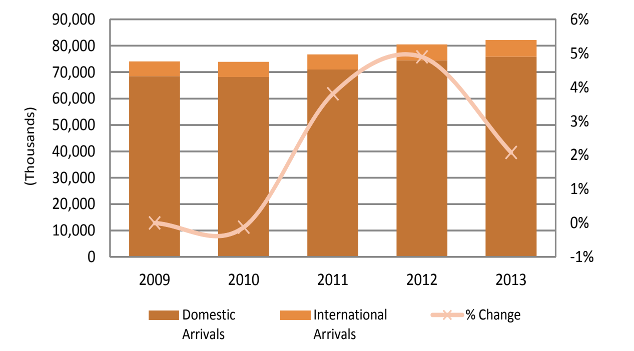
- In 2013, China remained the most valuable feeder market and grew by nearly 16%, in terms of spending. The strongest growth in arrivals was also seen from China, (14.6%), followed by Singapore (+14.3%) and Malaysia (+13.3%).

- Asia, which is Australia's largest feeder region (accounting for 42.5% of total visitor arrivals) grew by 8.3% on the back of increased capacity in low cost carriers to Australia. Visitation from Southeast Asia, in particular, grew at the fastest rate of 11.2% in 2013 among the Asian regions. On the other hand, arrivals from both Europe (22.1%) and the Americas (11.3%) grew by approximately 6.3% in 2013.

- Due to its close proximity, New Zealand (18.1%) continues to be one of the largest source markets for international visitors to Australia, followed by China (11.6%), the UK (10.4%) and USA (8.1%). Conversely, visitation by Japanese tourists registered the most notable decline by 4.8% in 2013. This was most likely due to the weakening yen currency against the dollar.

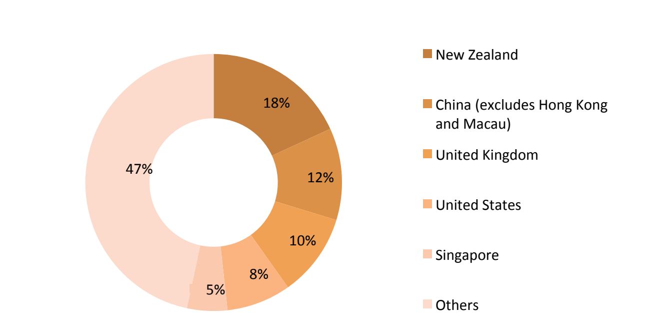
- In 2013, Australians took 8.7 million trips overseas, which is an increase of 6.8% over the previous year. This rise occurring alongside an increase in domestic leisure travel indicates that Australians are travelling more frequently both within the country as well as internationally.

VISITOR ARRIVALS (2009 - 2013)



Source: Australian Bureau of Statistics,Tourism Research Australia

TOP SOURCE MARKETS (2013)

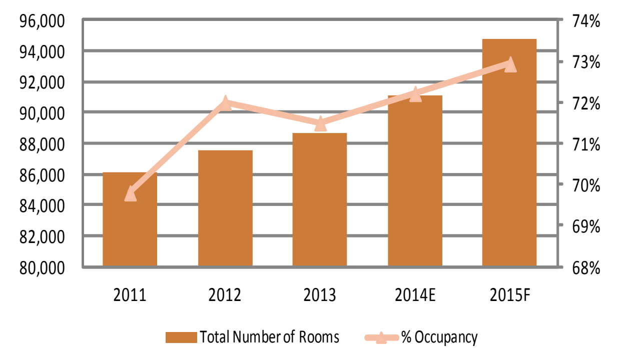


Source: Australian Bureau of Statistics,Tourism Research Australia, HVS Research

- Interestingly, the growth in outbound travel is higher than the growth in international tourist arrivals recorded in 2013, which could be attributed to the continued relative strength of the Australian dollar against the currencies of its key feeder markets (despite recent declines in the Australian currency against the US dollar).

- The most popular destinations for Australians in 2013 were New Zealand (13.4%), which is the nearest developed country to Australia, followed by Indonesia (10.8%) and USA (10.8%).

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Australian Bureau of Statistics, HVS Research

HOTEL MARKET OVERVIEW

- The growth in hotel room supply in Australia has not kept pace with the increase in domestic and international travel. In the past three years, the number of hotel rooms has grown by less than 2%, while both domestic and international travel have grown by 5-6%.

- In 2014 and 2015, the room supply is anticipated to increase by 2-3% annually, which still remains lower than the rate of growth in domestic and international travel.

- Despite the rising demand and rate growth, countrywide occupancy has seen a slight drop as Australian domestic tourism is relatively rate sensitive to hotel accommodation and there are cheaper options of motels and serviced apartments.

- RevPAR growth was most significant in the regional capital cities of Sydney, Melbourne, Darwin as well as Hobart. This is linked to the increase in international tourist arrivals in Tasmania, of which Hobart is the provincial capital.

- According to TRA, there are currently 12,250 rooms in the pipeline. This includes an upcoming 900-room, AU$500 million property in Darling Harbour, Sydney.

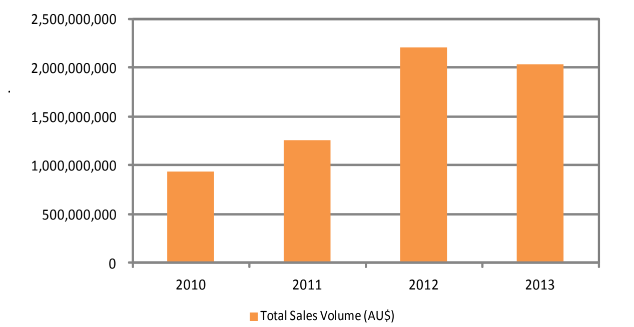
INVESTMENT MARKET OVERVIEW

- In 2013, the overall hotel transaction volume in Australia declined by 17% to AU$2.03 billion despite record-breaking transactions.

- The largest portfolio transaction in 2013 was the sale of the TAHL portfolio of 31 hotels for approximately AU$687 million. The largest single property transaction in 2013 was the sale of the Four Seasons Sydney for approximately AU$341 million (AU$640,000 per key).

- Growing interest in Australian hospitality assets from sovereign wealth funds and global institutional investors has continued to keep the investment market strong. However, sales volumes are unlikely to reach the record levels of earlier years due to saturation in the hotel market and the limited availability of prime hospitality assets in key cities.

TOTAL INVESTMENT VOLUME (2007 - 2013)



Source: RCA, HVS Research

- In the past three years, the origin of funds from overseas investors has witnessed an increase from 29% of total transaction volume in 2011 to 83% in 2013, reflecting the strong international investor confidence in the Australian hospitality markets. This could also be a result of the availability of cheaper credit in the international lending markets, and the fact that property investment markets in key global cities are becoming saturated.

- Furthermore, over the past three years, funds from Singapore have accounted for 24% of all transactions in the Australian market. The next largest sources of funds are United Arab Emirates (14.7%), Hong Kong (13.3%) and Malaysia (8.8%). Most of the buyers are institutional and public-listed hotel companies looking to expand their brand footprint in Australia.

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MARKET OUTLOOK

- According to the TRA, international tourist arrivals are forecast to grow by an average of 4.5% per annum for the next 10 years to 9.6 million arrivals.

- In the short-term, demand growth for hotels is going to continue to outstrip supply due to a limited number of rooms entering most key cities.

- Tourist contributions from the key feeder markets of China, North America and the UK are expected to cross AU$5 billion by 2020.

- China is likely to continue being the main source of growth for the Australian tourism market with the TRA expecting it to contribute as much as 24% of the total growth in visitor arrivals and 40% of the growth in inbound tourism expenditure.

- Potential emerging tourism markets in Australia are Tasmania, Queensland and Western Australia due to the increasing demand for eco-tourism and the large variety of natural habitats in these regions.

AUSTRALIA - SYDNEY

SYDNEY

CITY OVERVIEW

- Sydney is the provincial capital of New South Wales, and the main business and convention city of Australia. In 2013, in terms of hotel market performance, Sydney recorded the highest hotel occupancy (83.7%) and ADR (AU$218.83) in Australia, resulting in a RevPAR of AU$183.16.

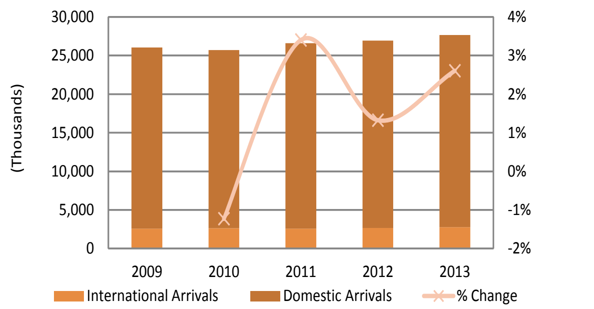
- The city's main convention venue the Darling Harbour Convention Centre is currently closed for renovations and expected to reopen in 2016. The ICC Sydney along with the Barangaroo development are anticipated to transform Sydney's west side and create further momentum for hotel demand for the city.

TOURISM MARKET OVERVIEW

- In 2013, domestic tourists cumulatively spent AU $7.6 billion in Sydney, which is 14.8 % of the total domestic tourism expenditure in the country and the second-highest in Australia. More significantly, whether travelling on business or leisure, 47% of all international visitors to Australia visit Sydney.

- Sydney is primarily a business city, with the few main tourist attractions being landmark sites such as the famous Sydney Opera House and harbour area in addition to the local culture and heritage.

VISITOR ARRIVALS (2009 - 2013)



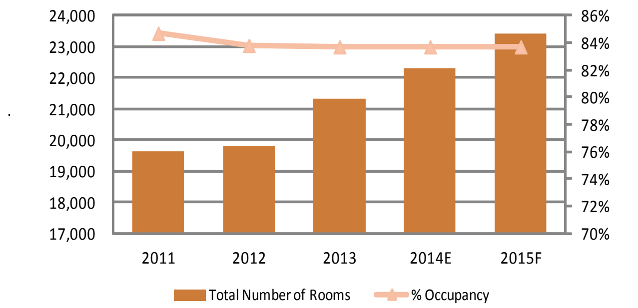
Source: Sydney Airport, TRA

- Based on the 2013 data, the main purpose of travel for domestic visitors is spread almost evenly amongst the following: Visiting Friends and Relatives (36%); Leisure (29%); and Business (28%). International visitors travel to Sydney mainly for Leisure (52%) and Visiting (24%).

- International visitor arrivals have been rising steadily since 2011 on the back of more extensive marketing activities conducted by Tourism Australia. The city also plans to build a new airport to support its AU$2.5 billion revamp of Sydney's Convention and Exhibition Centre, and the development of an integrated exhibition and entertainment precinct in the vicinity of the city's CBD.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Australian Bureau of Statistics, HVS Research

- Sydney's marketwide hotel occupancy has remained nearly constant over the past three years despite a growing rooms' supply. This is largely due to the ongoing infrastructure improvements in the city and steady tourism growth. Despite the closure of the Darling Harbour Convention Centre, Sydney has retained some MICE events thanks to temporary facilities that have been set up.

- The main supply of hotel rooms in Sydney are Hotels (and Motels, as categorized by the Australian Bureau of Statistics), which together comprise 75.5% of the total hotel room count. Serviced apartments make up the remaining supply of overnight accommodation.

- The luxury hotel segment in Sydney, specifically, has witnessed record occupancy and average rate in the past few years, with its performance far outstripping that of the other forms of accommodation. This is due to the strong presence of financial institutions in Sydney and the high-end business travel that this segment generates. The luxury hotels are located in the CBD and around the Darling Harbour area.

- Due to the large size of Australia and great distances between points of interest, typically vacationers rent cars to travel more freely between destinations, staying in motels along their route. As this type of travel increases, more and more hotels are being built at popular rest stops. Consequently, the increasing presence of hotels at these locations has led to a steady decline in the number of motels.

- Given the high average length of stay of visitors to Sydney, serviced apartments constitute a higher proportion of total room supply than is typical in gateway cities. As such, serviced apartments are recording higher occupancies than hotels.

CITY PIPELINE

NEW HOTEL OPENINGS (2014 – 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2015	Adina Apartment Hotel Mascot	123
	Holiday Inn Express Macquarie Park	190
	Kensington Lane Hotel	60
	Crowne Plaza Hunter Valley	316
	Meriton Chatswood	302
	QT Bondi	84
	Quest Liverpool	88
	Tankstream Hotel	282
2016	Meriton Mascot	290
	Meriton Parramatta	266
	Travelodge Mascot	209
	Pullman Sydney Airport	299
	V by Crown	81
2017	Sofitel Sydney Darling Harbour	600
Total Proposed Room Supply (Indicative)		**3190**

Source: HVS Research

- As can be seen from the pipeline, a sizeable number of hotels are anticipated to open in Sydney in the foreseeable future. However, this growth is still 1-2 percentage points lower than the projected demand growth.

- Considering the high occupancy at which Sydney operates, this could mean that there will be a short supply glut in the city in the coming years if the demand continues to rise at the same pace as it has in the past few years.

- Also recently announced the Sofitel Sydney Darling Harbour is expected to open in 2017 with approximately 600-rooms.. The hotel will be located within the new ICC and a part of the renewal of the Darling Harbour neighbourhood.

INVESTMENT MARKET OVERVIEW

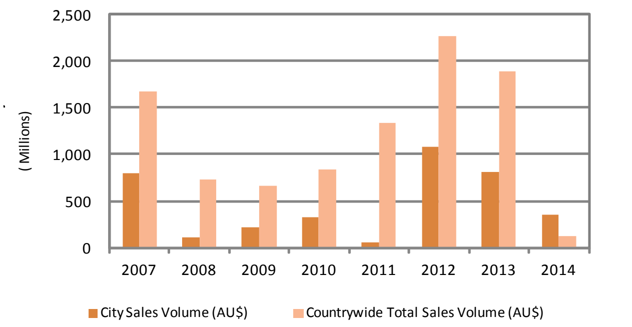
- An estimated 50% of all hotel transactions in Australia are recorded in Sydney as this is the prime hotel market next to Melbourne.

- The largest recent transaction was the sale of the 436-key Sofitel Wentworth Sydney for approximately AU$202.7 million (AU$465,000 per key) in 2014. (The same property transacted for AU$130 million in 2010).

- The Sheraton by the Park is currently being marketed (at the time of printing). The sale of this property is expected to further fuel investor demand for hotel assets in Sydney as well as lead a further yield contraction.

- The strong investment interest in Sydney is illustrated by the diverse profile of buyers ranging from institutional investors to sovereign wealth funds, mostly based in Southeast Asia and the Middle East. Almost 88% of the total transaction volume in 2013 had funds that originated from the neighbouring Asia Pacific countries.

TOTAL INVESTMENT VOLUME (2007 – JUL 2014 YTD, AU$)



Source: RCA, HVS Research

HOTEL TRANSACTIONS SYDNEY AND NSW (JUN 2014 YTD, AU$)

Transaction Date	Asset	Rooms	Estimated Sales Price	Estimated Price per Room
Jul-14	Blue Sydney	100	33,000,000	330,000
Jun-14	Sofitel Wentworth Sydney	436	202,000,000	465,000
May-14	1888 Hotel	90	33,000,000	365,000
Apr-14	Kirketon Hotel	40	11,000,000	282,500
Mar-14	Albert & Victoria Court	25	5,900,000	236,000

Source: RCA, HVS Research

MARKET OUTLOOK

- As Sydney's near term hotel pipeline is not keeping pace with demand growth, existing properties are anticipated to continue recording high occupancy levels in the short-term. This is expected to further fuel investor interest into upscale and luxury properties in the city.

- Cruise travel, although making up only a small proportion of total travellers currently, is seen as an upcoming growth generator and currently being explored by the Australian Tourism Board.

- With the new ICC Sydney, along with Barangaroo Centre set to open from 2016 onwards Sydney is expected to re-emerge onto the global MICE scene with 35,500m2 of new convention space and a transformed business district.

AUSTRALIA
- MELBOURNE & PERTH

MELBOURNE

CITY OVERVIEW

- Melbourne, the capital of Victoria, is the second most populous city in Australia and is seen to be the country's cultural capital. Visitors to Melbourne are mainly attracted to the region's food and wine, nature and sporting events. The city plays host to three major international sporting events, the Australian Open (tennis), the Melbourne Cup (horse racing) and the Australian Grand Prix (Formula One car racing).

- The Port of Melbourne is Australia's busiest seaport and the city also boasts of the world's longest tram network.

TOURISM MARKET OVERVIEW

VISITOR ARRIVALS (2009 - 2013)

Source: Tourism Victoria, TRA, HVS Research

- In 2014Q1, international tourist arrivals increased by 11.9% year-on-year compared to the previous year, fuelled mainly by an increase in the number of Chinese, New Zealand and UK tourists visiting the city.

- In 2013, the number of visitors to Melbourne grew by an overall 2.5%. Domestic tourism grew by 0.3%, while international tourist arrivals grew by 10.7%, underlining the city's attractiveness for international visitors.

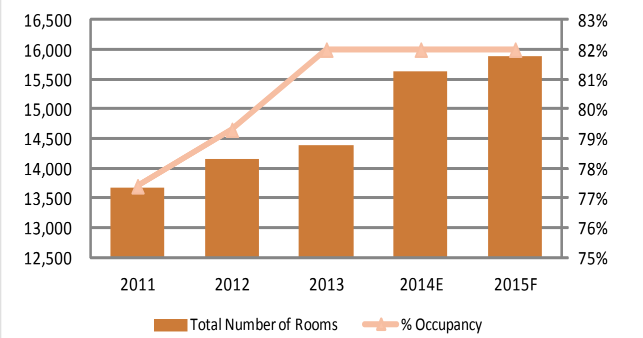
- The main purpose of travel for domestic visitors to Melbourne is spread almost evenly between Visiting (34.1%), Leisure travel (33.3%) and Business (28.1%) as seen in 2013.

- Whereas, the main purpose of visit for international travellers is observed to be more for Leisure, representing 45.7% of the total international travel volume, while Visiting and Business segments make up the remaining 28.7% and 14.9%, respectively.

- The top feeder markets are China (17%), New Zealand (14.4%) and the UK (9.8%). The number of visitors from these countries has increased by 9.8%, 5.3% and 5.4%, respectively in 2013.

HOTEL MARKET OVERVIEW

INDICATIVE HOTEL SUPPLY AND OCCUPANCY (2011 - 2015F)



Source: Australian Bureau of Statistics, HVS Research

- Hotels are currently experiencing the highest occupancies in recent years in Melbourne. This is partly due to the renovation of the Sydney Convention Centre, which has resulted in a number of MICE events being organised in Melbourne instead.

- The hotel market in Melbourne has performed well with only a moderate increase in hotel supply (by 5.2% from 2011 to 2013), its occupancy has grown consistently.

- In 2013, Melbourne had the strongest RevPAR growth of all cities in Australia.

- Domestic travel stays in hotels or motels, which make up 53.4% of the total accommodation used, have increased by 2.1%.

- In 2013, average occupancy in Melbourne was up 2.7%, ADR by 3.1% and RevPAR by 6.7%.

- Average rates recorded by motels declined, and even though occupancies and RevPAR increased, it was largely due to a decline in the number of available rooms.

NEW HOTEL OPENINGS (2014 - 2017)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Hotel Sophia (Extension)	50
	Larwill Hotel	100
	Mecure North Melbourne	72
	Mecure Therry Street	80
	Quest Melbourne Airport	97
2015	Peppers Docklands	68
	Wyndham on William Melbourne	200
2017	Q Hotel Melbourne	188
	W Hotel	205
Total Proposed Room Supply (Indicative)		**1,060**

Source: , HVS Research

CITY PIPELINE

- Melbourne recently witnessed the opening of 11 hotels in the past 12 months, which added 1,250 rooms to the market . Of these, the most notable were the Sheraton Melbourne and Oaks on Williams.

- Due to the current surge in the Melbourne hotel market, there has been a heightened interest in hotel development although most projects still have to go through the regulatory approval process. In the near term, the pipeline continues to remain moderate though more developments are expected in the future.

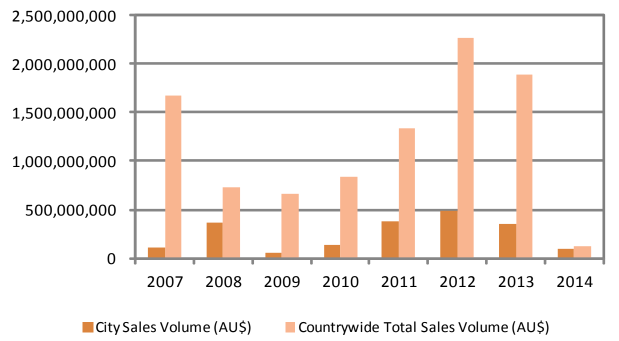
INVESTMENT MARKET OUTLOOK

- Melbourne is one of the two gateway cities into Australia. Any first time investor in the country will first venture into either Melbourne or Sydney before going further afield as these are the two most economically stable cities in Australia. Historically, Sydney has outpaced Melbourne in terms of economic GDP growth , which is why investors are still more interested in Sydney, however, in recent times, both cities are showing significant potential.

- Melbourne is seen as a centre for arts, culture and sports in Australia, accounting for roughly one-third of all hotel investments made in the country. Despite having a richer history, it is still less developed compared to Sydney which is why Sydney is still the preferred choice for investors.

- Largest recent transaction in Melbourne was the sale of Park Hyatt Melbourne for AU$ 133,750,000 (AU$ 560,000 per key)

TOTAL INVESTMENT VOLUME (2007 - JUL 2014 YTD, AU$)



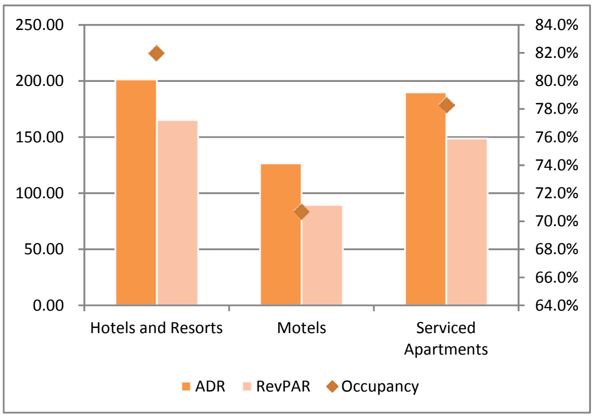
Source: RCA, HVS Research

MARKET OUTLOOK

- Melbourne is riding on the wave of increased international tourist arrivals to Australia. Moreover, the displacement of MICE events from Sydney to Melbourne in light of the undergoing renovations at the former's Convention Centre, is having a favourable impact on Melbourne's tourism industry.
- As such, marketwide occupancy and average rate in Melbourne are likely to continue recording high growth levels for the next couple of years before stabilising, even as the various cities complete their infrastructure projects to cope with the increased visitor arrivals.

PERTH

ACCOMMODATION PERFORMANCE BY CATEGORY (2013)



Source: ABS, HVS Research

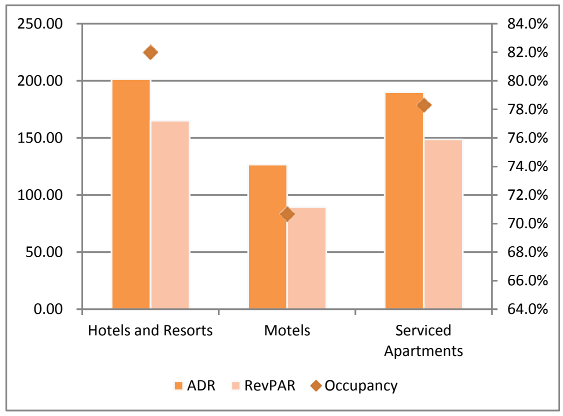
- Perth is the gateway city to Western Australia, and has historically been a hub for the mining industry.

- The drop in mining development activity in recent years has led to the local economy shifting more towards domestic services.

- The hotel market performance for Perth has declined in 2013 compared to 2012 largely due to a drop in mining-related visits as the industry transitions from investment to production. However, being the city closest to Southeast Asia, Perth is also the entry point for visitors to the Margaret River wine region and other leisure destinations along the western coast.

BRISBANE

ACCOMMODATION PERFORMANCE (2013)



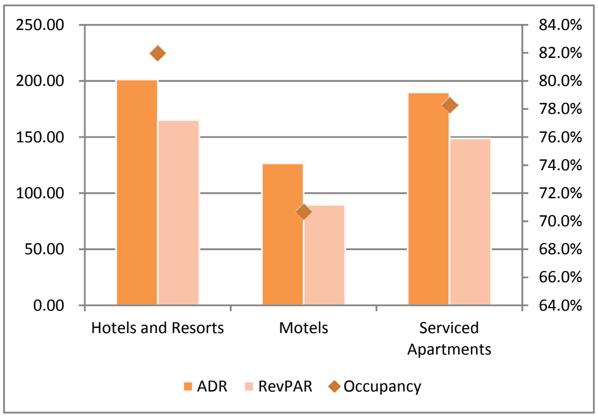
Source: ABS, HVS Research

- Brisbane is the third-most popular destination in Australia after Sydney and Melbourne, and is a favourite destination for nature tourists and sports enthusiasts due to the availability of many nature trails and leisure destinations.

- However, due to the lack of diversity in tourist attractions, Brisbane has not fully benefited from the international tourism boom in Australia as compared to Sydney and Melbourne. Resultantly, the city has recorded a lower hotel market performance in 2013 compared to 2012.

HOBART

ACCOMMODATION PERFORMANCE BY CATEGORY (2013)

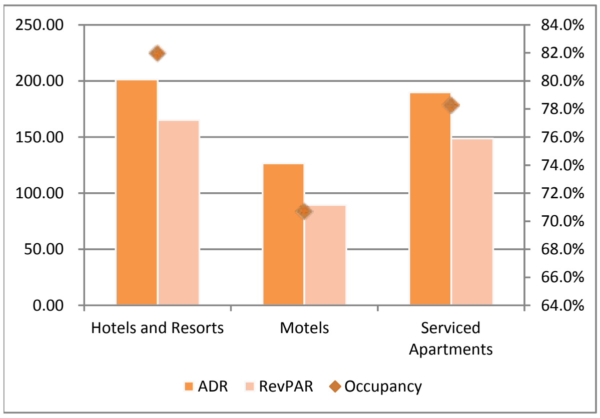


Source: ABS, HVS Research

- Hobart experienced an overall growth in occupancy and average rate in 2013 for its hotels and motels due to an increased visitor interest in Tasmania as a unique tourism destination. The city recorded the second-highest rate growth in Australia in 2013.

GOLD COAST

ACCOMMODATION PERFORMANCE BY CATEGORY (2013)



Source: ABS, HVS Research

- Gold Coast has been Australia's main international tourist destination for a long time and is increasingly facing competition from other upcoming leisure destinations in the country, which are being actively promoted. Overall occupancies in the Gold Coast have remained relatively unchanged leaving the notable growth witnessed in the motels and guest house sector due to increased backpacker travel to the region.

HVS

SINGAPORE
6 Temasek Boulevard
#23-01A
Suntec Tower Four
Singapore 038986

GUANGZHOU
85 Huacheng Avenue
Tian He District
Suite 1295 Tower A G.T. Land Plaza
Guangzhou 510623
P R China

BANGKOK
62 Soi Langsuan,
Ploenchit Road
Unit 2302, 23rd Fl.,
The Millennia Tower
Bangkok, Thailand 10330

BEIJING
Unit 2423, South Tower
Beijing Kerry Centre
1 Guanghua Road, Chaoyang District
Beijing, 100020
PR China

HONG KONG
Level 21, The Center
99 Queen's Road Central
Hong Kong

SHANGHAI
222 Yan An Road East
Suite 3206C Bund Center
Shanghai 200002
PR China