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South East Asia Lodging Industry: Sanguine Outlook Albeit Mixed Sentiments in 2019

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The South East Asia (Indonesia, Malaysia, Myanmar, Philippines, Singapore, and Vietnam) lodging industry experienced mixed sentiments for 2019. Despite growth in tourism arrivals, the ever-changing political climate, mercurial global economic conditions, and growth in accommodation supply are few of the many reasons that continue to put downward pressure on several markets. Even with the headwinds, the underlying dynamics behind demand growth appear to be resilient and are expected as such going forward.

Real GDP Growth	Historical			Forecast		
	2016	2017	2018	2019	2020	2021
World	3.4%	3.8%	3.6%	3.0%	3.4%	3.6%
South East Asia	5.2%	5.9%	5.5%	5.0%	4.9%	5.4%
Indonesia	5.0%	5.1%	5.2%	5.1%	5.1%	5.3%
Malaysia	4.4%	5.7%	4.7%	4.4%	4.4%	5.1%
Myanmar	5.7%	7.1%	6.9%	7.1%	7.0%	7.4%
Philippines	6.9%	6.7%	6.2%	5.7%	5.2%	5.8%
Singapore	3.0%	3.7%	3.1%	0.5%	1.0%	2.2%
Vietnam	6.2%	6.8%	7.1%	6.9%	6.7%	6.3%

Consumer Price Inflation	Historical			Forecast		
	2016	2017	2018	2019	2020	2021
World	2.8%	3.2%	3.6%	3.4%	3.6%	3.5%
South East Asia	2.8%	3.2%	3.4%	2.8%	2.7%	3.2%
Indonesia	3.5%	3.8%	3.2%	3.1%	3.0%	3.5%
Malaysia	2.1%	3.8%	1.0%	0.8%	1.5%	2.0%
Myanmar	7.0%	4.6%	6.9%	7.3%	6.1%	6.2%
Philippines	1.8%	2.9%	5.3%	2.3%	2.0%	3.2%
Singapore	-0.5%	0.6%	0.4%	0.6%	0.4%	0.7%
Vietnam	2.7%	3.5%	3.5%	2.5%	3.1%	3.3%

Source: International Monetary Fund and Economist Intelligence Unit, November 2019

The global economic growth is anticipated to end off at a rate of 3.0% in 2019, before gradually recovering back to the 2018 performance of 3.6% in 2021. Nonetheless, South East Asia remains the fastest-growing region in the world and is projected to grow at a rate of 5% in 2019. While the global Consumer Price Index (CPI) forecast remains relatively stable, South East Asia's CPI has been projected to abate from 3.4% in 2018 to 2.8% in 2019, mainly held back by slow wage growth and prolonged trade tensions. However, South East Asia's unemployment rate remains at a low 3.5% and is expected to prevail at the same level through 2021. The region's inflation is anticipated to rise in 2021 on the back of looser monetary conditions and resilient domestic demand.

As of year-to-date (YTD) Q3 2019, South East Asia registered a growth rate of 12.3% in international visitor arrivals, a 2.1% increase from the same time last year. While Malaysia recorded year-over-year (YOY) growth of 3.7% as of YTD September 2019, a five-year compound annual growth rate (CAGR) of 0.1% reveals that the country continues to miss tourism goals and struggles to attract more tourists. Vietnam achieved the highest CAGR of 15.4%, followed by Indonesia (12.4%) and Myanmar (9.2%). The strong tourism demand has been driven by an increase in flight connectivity and concerted tourism efforts by the government, such as easing of visa restrictions, developing infrastructures, supporting tourism enterprises, and the promotion of tourism campaigns.



Looking forward, the Indonesian government has actively promoted its "10 New Bali" program, established in 2018, to develop and promote several destinations beyond Bali, including Mandalika in West Nusa Tenggara, Thousand Islands in Jakarta, Tanjung Lesung in Banten, Tanjung Kelayang in Bangka Belitung, Borobudur Temple in Central Java, the Bromo Tengger Semeru National Park in East Java, Labuan Bajo in East Nusa Tenggara, Wakatobi in Southeast Sulawesi, and Morotai in North Maluku. In conjunction with Visit Malaysia 2020 (VM2020), Tourism Malaysia has recently launched a digital initiative, the VM2020 Website Campaign, which aims to entice and showcase various destinations in the country to more tourists. In early 2019, the Myanmar government launched the Myanma Tourism Bank to spur development in its growing tourism sector by offering low interest loans to tourism enterprises. In the Philippine government's National Tourism Development Plan, the country seeks to spur growth and development through foreign direct investment by showcasing attractive areas in the Tourism Enterprise Zones. Singapore has also announced mega projects to fuel long-term tourism including the Greater Southern Waterfront development, Mandai eco-tourism hub, Jurong Lake District's seven-hectare tourism development, and the expansion of the two integrated resorts. Apart from an effort to further develop less well-known tourist sites and diversify tourism products, Vietnam will soon launch a new tourism marketing campaign, #VietnamNOW, to build awareness of the country's tourism assets and events.

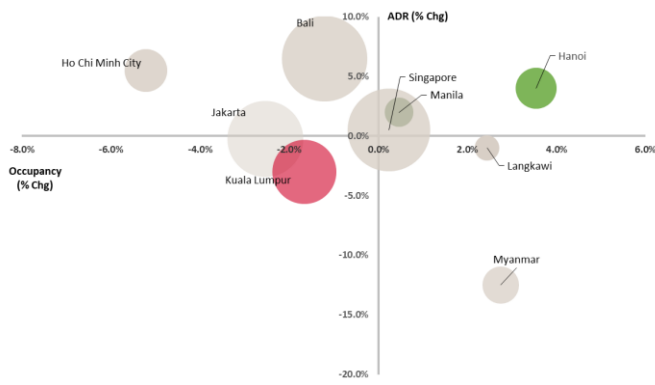
International Visitor Arrivals	2013	2014	2015	2016	2017	2018	YTD Sep 2018	YTD Sep 2019	5-Year CAGR
Indonesia	8,802,129	9,435,411	10,230,775	11,519,275	14,039,799	15,806,191	11,948,709	12,270,097	12.4%
<i>Y-o-Y Growth Rate</i>	<i>9.4%</i>	<i>7.2%</i>	<i>8.4%</i>	<i>12.6%</i>	<i>21.9%</i>	<i>12.6%</i>	<i>12.0%</i>	<i>2.7%</i>	
Malaysia	25,715,460	27,437,315	25,721,251	26,757,392	25,948,459	25,832,354	19,386,115	20,109,203	0.1%
<i>Y-o-Y Growth Rate</i>	<i>2.7%</i>	<i>6.7%</i>	<i>-6.3%</i>	<i>4.0%</i>	<i>-3.0%</i>	<i>-0.4%</i>	<i>-0.3%</i>	<i>3.7%</i>	
Myanmar	900,161	1,131,624	1,300,583	1,130,148	1,349,390	1,398,098	960,720	1,350,794	9.2%
<i>Y-o-Y Growth Rate</i>	<i>51.7%</i>	<i>25.7%</i>	<i>14.9%</i>	<i>-13.1%</i>	<i>19.4%</i>	<i>3.6%</i>	<i>-</i>	<i>40.6%</i>	
Philippines*	4,681,307	4,833,368	5,358,682	5,967,005	6,620,908	7,168,467	4,869,417	5,554,950	8.9%
<i>Y-o-Y Growth Rate</i>	<i>9.6%</i>	<i>3.2%</i>	<i>10.9%</i>	<i>11.4%</i>	<i>11.0%</i>	<i>8.3%</i>	<i>8.9%</i>	<i>14.1%</i>	
Singapore	15,567,923	15,095,152	15,231,469	16,403,459	17,424,611	18,508,302	14,030,720	14,322,196	3.5%
<i>Y-o-Y Growth Rate</i>	<i>7.4%</i>	<i>-3.0%</i>	<i>0.9%</i>	<i>7.7%</i>	<i>6.2%</i>	<i>6.2%</i>	<i>7.5%</i>	<i>2.1%</i>	
Vietnam	7,572,352	7,874,312	7,943,651	10,012,735	12,922,151	15,497,791	11,616,490	12,870,506	15.4%
<i>Y-o-Y Growth Rate</i>	<i>10.6%</i>	<i>4.0%</i>	<i>0.9%</i>	<i>26.0%</i>	<i>29.1%</i>	<i>19.9%</i>	<i>22.9%</i>	<i>10.8%</i>	
Average Growth Rate	15.2%	7.3%	5.0%	8.1%	14.1%	8.4%	10.2%	12.3%	8.3%

Source: Statistics Indonesia, Tourism Malaysia, Myanmar Ministry of Hotels and Tourism, Philippines Department of Tourism, Singapore Tourism Board, Vietnam National Tourism of Administration and HVS Research.
*YTD August Statistics

Countries	Existing Hotel Room Supply (2018)	New Hotel Room Supply (2019-2023)	Total Future Supply by End 2023	CAGR (2018-2023)
Indonesia	712,202	47,870	760,072	1.3%
Malaysia	308,207	34,377	342,584	2.1%
Myanmar	68,167	4,447	72,614	1.3%
Philippines*	289,649	24,052	313,701	1.6%
Singapore	66,994	6,898	73,892	2.0%
Vietnam	550,000	53,027	603,027	1.9%

Source: Statistics Indonesia, Tourism Malaysia, Myanmar Ministry of Hotels and Tourism, Philippines Department of Tourism, Singapore Tourism Board, Vietnam National Tourism of Administration and HVS Research. *2016 Statistics: Existing Hotel Room Supply

According to HVS research, the South East Asia market is on a trajectory to add 170,671 hotel rooms (or 8.6%) to the overall hotel room supply between 2019 and 2023, translating to a five-year CAGR of 1.7%. Over the years, South East Asia has been experiencing an unprecedented hotel development boom, with most of the hotel room supply focusing on major urban and suburban markets in the upper-midscale through upper-upscale market segments. The following graph and table depict the positioning of each major city/country in relation to the forecasted hotel performance for 2019.



Source: HVS Research

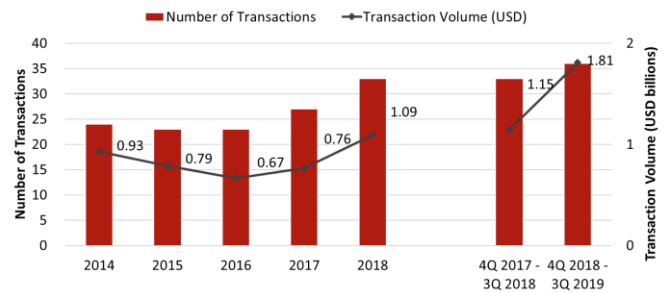
Key Country/City	Occupancy	ADR
	Percentage Points Change	% Change
Bali	-1.2%	6.5%
Hanoi	3.5%	4.0%
Ho Chi Minh City	-5.2%	5.5%
Jakarta	-2.5%	-0.2%
Kuala Lumpur	-1.7%	-3.0%
Langkawi	2.4%	-1.0%
Manila	0.5%	2.0%
Myanmar	2.7%	-12.5%
Singapore	0.2%	0.5%



Source: HVS Research

Per HVS research, hotel performance in Hanoi, Manila, and Singapore is expected to remain resilient, with both occupancy and average daily rate (ADR) forecasted to be positive in 2019. Due to lackluster tourism performance and a strong pipeline of hotel rooms, hotel performance in Kuala Lumpur is anticipated to taper off, with occupancy and ADR forecasted to be negative in 2019. While Langkawi and Maldives have always penetrated the market in terms of ADR performance given the exclusivity of the location, the entrance of midscale hotels has impacted overall market rates. While sluggish economic growth should extend through 2020, strengthening international and domestic tourism is likely to continue to underpin demand in the South East Asia lodging industry.

Transaction History in South East Asia (2014 - 3Q 2019)



Source: RCA Analytics & HVS Research

In 2018, transaction activity in South East Asia continued its strong momentum from 2017 and achieved transaction volume of approximately \$1.09 billion USD worth of hospitality assets, indicating a 42.8% YOY increase. Despite political headwinds and global economic uncertainties, the number and volume of hotel transactions in the region has registered a similar positive trend as of YTD September 2019. The majority of hotel transactions are in Indonesia, Malaysia, and Singapore. The recovery in 2017 was mainly attributed to an increase in transaction activity in Malaysia, followed by an upbeat hotel investment market in Singapore in 2018 and 2019. Domestic investors have been active in their home markets, and there is foreign investors' interest looking to tap into the region's robust tourism growth, but the barriers to entry is relatively high.





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