



Hotels Recovery Guide

South Korea

Seoul, Jeju

JLL's Hotels & Hospitality Group | July 2020



Seoul



Pre-COVID-19 trend

Luxury & Upper Upscale hotel RevPAR achieved a 2.1% compound annual growth rate (CAGR) over the past five-year period (2014-2019), driven by the 3.1% CAGR in average daily rate (ADR). This was supported by the consistent growth in international visitor arrivals, which grew by a CAGR of 4.3% during the same five-year period, reaching a new peak of 17.5 million in 2019. Much of this growth was driven by visits from Mainland Chinese tourists.

In 2019, Seoul was one of the fastest growing RevPAR markets in Asia, with Luxury & Upper Upscale hotel RevPAR growing by 7.8% year-on-year (YOY) due to the favourable supply and demand dynamics. Although hotel supply increased at a CAGR of 14.3% over the past five years, looking forward, future supply appears to be constrained with an estimated CAGR of 2.3% from 2020 to 2022. With demand expected to recover and limited new supply in the pipeline, the outlook remains positive.

KRW 1.6 Trillion Hotel assets in Seoul represented almost 80% of the total deal volume in South Korea, which included the landmark sale of the Grand Hyatt Seoul, the largest single-asset hotel transaction recorded in the country.

Total transaction volume in South Korea increased by more than 55% YOY to KRW 1.6 trillion in 2019, led by the landmark sale of the Grand Hyatt Seoul. The 615-room hotel was sold to a consortium led by Hong Kong-based investment firm PAG and Seoul-based Inmark Asset Management. The hotel was sold with land zoned for residential use and is subject to a long-term management agreement with Hyatt.

There has been a notable increase of international capital investing in the South Korean hotel market, with such investors typically preferring management contract hotels over master-leased properties.

Notable hotel transactions in Seoul

Year	Property Name	Keys	Price	Price per Key
2019	Grand Hyatt Seoul	615	KRW 562.0B*	KRW 913.8M*
2019	Hankang Hotel	111	KRW 182.5B	KRW 1.6B
2019	ibis Ambassador Seoul Myeongdong	280	KRW 159.1B	KRW 568.2M
2019	TMark Hotel Meyongdong	288	KRW 88.2B	KRW 306.3M
2019	Holiday Inn Express Euljiro	224	KRW 59.0B	KRW 263.4M

JLL: Transacted by JLL

Source: JLL

*All-in price including residential land

Note: Property Names listed as at time of acquisition

COVID-19 impact

LUXURY & UPPER UPSCALE HOTELS

YTD June 2020 (year-on-year)

-58.2% **4.4%** **-56.4%**
Occ ADR* RevPAR*

*Local currency

Source: STR

The COVID-19 situation in Seoul was relatively controlled with no severe lockdown measures implemented as of 23 July. Nonetheless, the drop in international visitor arrivals has stifled hotel trading performance in the city.

Although Seoul is more dependent on international visitation compared to the rest of South Korea, the strength of the domestic market is still significant and is expected to drive the city's recovery in the short- to medium-term.



+14.0% YOY
17.5 Million
Total International Visitor Arrivals to Seoul in 2019

63%
Share of International Room Guests of Total in 2018

+9.0% YOY
58,248
Rooms as at end-2019

Notable recent openings:

Andaz Gangnam Seoul,
Moxy Seoul Insadong,
Four Points Sheraton Guro - Conversion

Existing Supply

5-star: 22.2%
4-star: 23.4%
3-star: 33.3%
Others: 21.1%

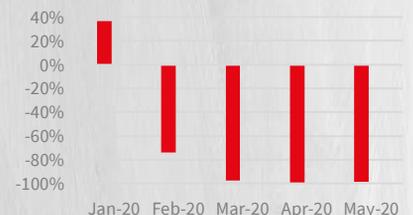
4.00 to 4.50%

Seoul Indicative Hotel Yields (Pre-COVID-19)



COVID-19 IMPACT

Annual Change in Monthly International Visitor Arrivals to Seoul



Pre-COVID-19 trend

According to the latest available statistics from the Korea Hotel Association (KHA), overall RevPAR of Jeju hotels recorded a 11.7% YOY growth in 2018 driven by growth in both ADR and occupancy of 5.5% and 5.8%, respectively. This was on the back of strong domestic demand as well as the recovery in visitor arrivals from Mainland China.

Over the past five years, hotel supply grew at a CAGR of 10.2%, with the most significant growth occurring during the 2013-2014 period as demand from China boomed. In the near future, upscale and luxury hotels are slated to open as part of integrated resort developments, including the Grand Hyatt Jeju, the Four Seasons Hotel & Spa at Jeju Shinhwa World, and the JW Marriott Jeju.

KRW 1.6 Trillion *One notable transaction was recorded in Jeju in 2019, namely the 363-room Best Western Hotel Jeju.*
Hotel investment volume in South Korea, 2019

There was one notable transaction in Jeju in 2019, namely the Best Western Hotel Jeju, which was sold to the Industrial Bank of Korea for a reported KRW 62.2 billion.

As international visitation started experiencing strong growth since 2010, Jeju began receiving investor interest from both domestic and international investors. Prior to the COVID-19 outbreak, hotel yields for Jeju of 5.0 to 5.5% were slightly higher as compared to Seoul's 4.0 to 4.5%.

Given Jeju's competitive position with a large domestic base and significant potential to increase its international visitor share, we expect investors to remain active in the Jeju hotel market post-COVID-19.

Notable hotel transactions in Jeju

Year	Property Name	Keys	Price	Price per Key
2019	Best Western Hotel Jeju	363	KRW 62.2B	KRW 171.3M
2018	Villa de Aewol	53	KRW 16.2B	KRW 306.2M
2018	Kensington Jeju Hotel	221	KRW 117.0B	KRW 529.4M

Note: Property Names listed as at time of acquisition

Source: JLL

COVID-19 impact

Given uncertainties around COVID-19, we expect Jeju to continue to benefit from domestic travel as international travel remains constrained in the near term. With nearly 90% of visitor arrivals in 2019 being domestic, Jeju is expected to recover faster than most leisure orientated destinations in Asia, which are more heavily reliant on international visitors.

#1 Most Popular Domestic Tourism Destination in South Korea

Seoul Gimpo-Jeju flight route is the world's busiest flight route, Forbes 2019

+40.9% YOY
1.7 Million
 Total International Visitor Arrivals to Jeju in 2019

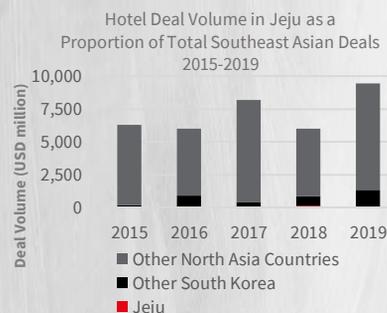
89%
 Share of Domestic Visitors of Total

+2.3% YOY
23,871
 Rooms as at end-2019

Notable recent openings:
 The Shore Hotel Jeju (re-branded from the previous Hyatt Regency Jeju)

Existing Supply
 5-star: 25.3%
 4-star: 16.2%
 3-star: 10.6%
 Others: 47.9%

5.00 to 5.50%
 Jeju Indicative Hotel Yields (Pre-COVID-19)



COVID-19 IMPACT



South Korea's road to recovery



Mar 2020

Apr to May 2020

Jun to Jul 2020

The Korean government extended the application criteria for Employment Support Allowance to companies impacted by COVID-19, including those in hospitality and travel industries. This allows for up to 90% of employee labour cost to be subsidised for up to six months.

Starting April, the Financial Supervisory Service initiated seven local banks to offer two rounds of financing programmes with low interest for SMEs.

From 11 May, the government also released household cash subsidies offering up to KRW 1 million per household.

Seoul Metropolitan Government released cash subsidies for impacted hotels in Seoul. All registered hotels in Seoul were eligible to apply for up to KRW 5 million in cash subsidies from 27 May to 12 June.

Beginning 20 June, the Ministry of Culture, Sports and Tourism and Korea Tourism Organisation launched the "Travel Week" Campaign. The campaign, which was extended from two to four weeks, provides hotel coupons and discounted transportation tickets to all domestic travellers.

"Workers Vacation Support Project", supported by both the South Korean government and private companies, was extended to an additional 40,000 employees. Half of the employees' holiday expenses are subsidised with a minimum expense of KRW 400,000 per employee.



Domestic market to drive recovery

As domestic tourism is expected to recover more quickly relative to international tourism, we expect domestic markets in South Korea such as Jeju, Busan and Daegu to show relatively strong performance.

With domestic tourism historically representing approximately 80% (excluding Seoul) of room night demand, we expect South Korea to gradually recover relatively more quickly than many other markets in Asia.

Despite the challenges brought about by COVID-19, investment activity in 2020 remained relatively buoyant driven by the strength of the domestic market. As at YTD July, nearly all or around KRW 510 billion (USD 435 million) of the hotel assets in South Korea were transacted domestically. This represented more than twice the domestic transaction volume during the same period last year due to some one-off larger sales.

KRW 1.0T
USD 800M

South Korea Transaction
Volume Forecast
2020

Investment opportunities in the horizon

With a number of hotel assets, primarily those in the economy segment, facing varying levels of distress pre-COVID-19, we expect attractive opportunities to come to market once the situation stabilises.

Leased hotel opportunities may also prove attractive once underlying operating performance stabilises in the face of declining domestic interest rates.

Transaction activity of independent and smaller key-count hotels likely to remain active

Independent hotels and those of smaller key counts are expected to continue to trade actively in South Korea. As fund lives expire for hotels built during the cycle of new supply from 2008 to 2015, we anticipate more institutional quality hotels with master leases to also come to market.

On a broader level, we still expect asset values to stay relatively resilient due to strong demand for real assets and the decreasing interest rate environment.

South Korea *Optimising Performance and Value*



Leverage the staycation trend amongst domestic travellers, and take advantage of current travel restrictions and focus on attracting domestic demand.



Focus on segmented marketing, target specific audiences and offer unique and customised offers to stand out amongst other staycation packages. This includes selective marketing campaigns around F&B and social events.



Undertake realistic revenue forecasting now as you navigate through an extended period of uncertainty. Factor in gradual demand ramp up, particularly around domestic travel in the near term, and potential travel bubbles as they are established for the medium-term. On expense management, factor in scenarios of reduced manning for the foreseeable future and where available, and ensure that government subsidies are applied for and utilised.



Ensure hotel facilities are ready for post-lockdown travel, embrace restrictions and set up health and safety protocols as markets reopen. Fully utilise technology by introducing “untact” service for check-in / check-out and housekeeping services.



Take opportunity of the lull period to execute a potential hotel re-positioning where either essential maintenance or refurbishment might be required. These expenditures will optimise the asset for the years ahead without displacing potential income under the current business conditions.



Look at alternative revenue opportunities such as creating promotional takeaway meals, gourmet product lines, and “at home” hotel experiences. Explore remote meeting meal delivery packages, hotel rooms as day-use office, offer meeting / bespoke social event spaces, as well as strategic partnerships with nearby offices and businesses forming community related campaigns.



Contact us



Nihat Ercan

Managing Director

Head of Investment Sales, Asia Pacific

nihat.ercan@ap.jll.com

Xander Nijens

Managing Director

Head of Advisory, Asia Pacific

xander.nijens@ap.jll.com

Corey Hamabata

Senior Vice President

Investment Sales, Asia Pacific

corey.hamabata@ap.jll.com

David Marriott

Executive Vice President

Strategic Advisory and Asset Management, Asia Pacific

david.marriott@ap.jll.com

Iris Jang

Investment Analyst

Investment Sales, Asia Pacific

iris.jang@ap.jll.com

Daniel Yip

Senior Vice President

Strategic Advisory and Asset Management, Asia Pacific

daniel.yip@ap.jll.com

Sze Min Tay

Associate

Research, Asia Pacific

szemin.tay@ap.jll.com

www.jll.com

Jones Lang LaSalle

©2020 Jones Lang LaSalle IP, Inc. All rights reserved. The information contained in this document has been compiled from sources believed to be reliable. Neither Jones Lang LaSalle nor any of its affiliates accept any liability or responsibility for the accuracy or completeness of the information contained herein. And no reliance should be placed on the information contained in this document.