Singapore | October 2020

Hotels & Hospitality

Reimagining Singapore's Mid-Market Hotels

Contents


oasia hotel
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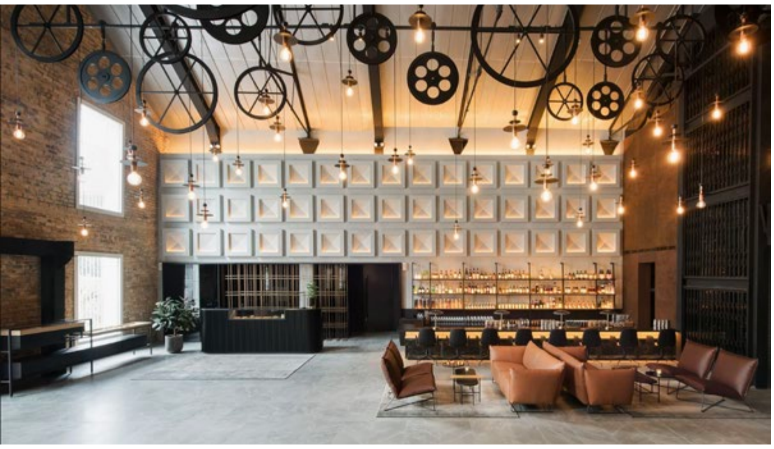


The Warehouse Hotel, Singapore

Singapore's hotel space has been reimagining itself for decades. Starting in the 1990s and accelerating with each passing decade, the mid-market has progressively transitioned from niche to mainstream.

Fast forward three decades and the mid-market space now comprises just over half of Singapore's hotel room supply, with approximately 32% of these properties being managed by home-grown companies. Owing to their competitive price range, mid-market hotels were typically found in decentralised locations. With time, this has changed and mid-market properties are now found in central locations with the arrival of internationally branded properties and exciting boutique brands.

With discerning guests increasingly expecting properties to reflect their locality, boutique hotels have gained popularity by providing customised services, often within unique architecture. Since 2010, the mid-market segment saw the growth of boutique hotels including Naumi Liora (later rebranded KeSa House), Wangz and Porcelain Hotel.

The rise of boutique hotels was also complemented by 'big-box' mid-market properties, which went hand-in-hand with the rise of mass tourism to Singapore. Notable additions included the Bay Hotel (now Travelodge Harbourfront) and Park Regis. From 2011, internationally branded hotels located in prime locations entered the market, including ibis Novena (2011), Holiday Inn Express Orchard Road (2013), Holiday Inn Express Clarke Quay (2014) and YOTEL Orchard (2017). This increased the level of competition within the mid-market segment, which now includes domestic chains, boutiques, 'big-boxes', as well as smaller independent properties.

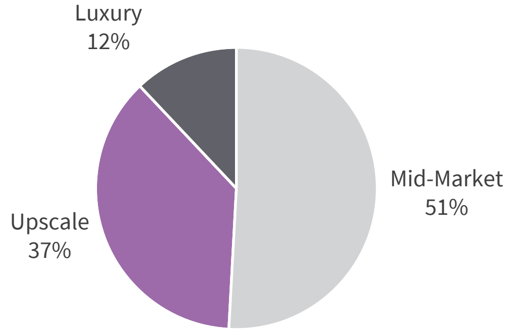
COVID-19 has raised existential questions about the future of the mid-market hotel space, both in Singapore and across the globe, especially for those who do not partner with a global or strong domestic operator. Increasingly, we will see social and economic implications framing the business model of this sector within Singapore's hospitality scene. This will force the mid-market segment to reimagine their assets, their definition of flexibility and determine the urgency to adapt.

Overview of the Mid-Market Segment

Supply

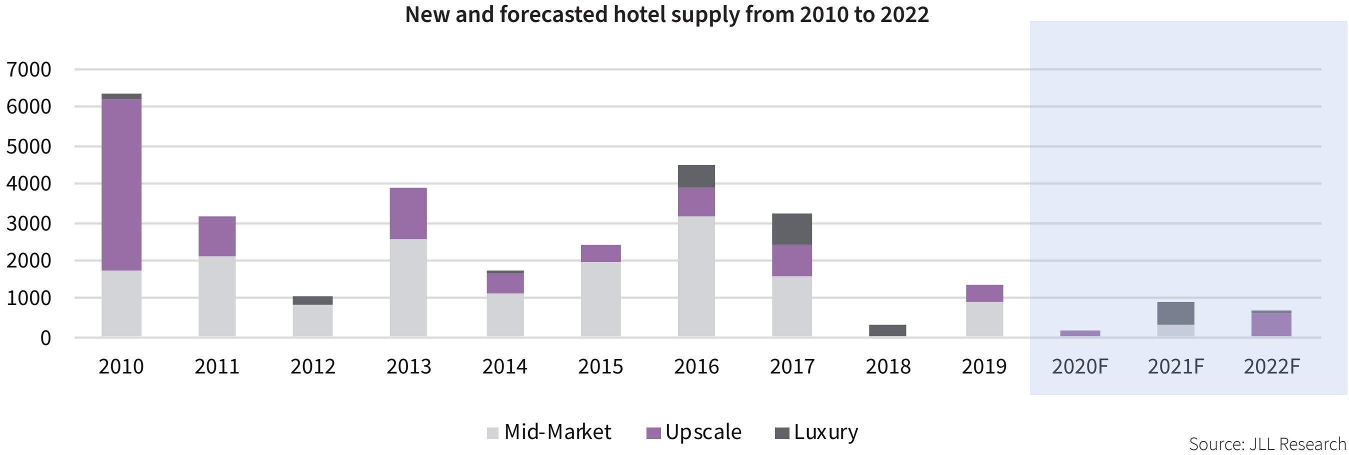
The mid-market hotel segment has grown substantially over the past decade, with current mid-market stock accounting for 51% of the total hotel supply[1] in Singapore.

However, within the mid-market segment itself, 57% of rooms are either internationally managed[2] or part of significant domestic chains[3]. The remaining 43% (13,248 keys) are independent mid-market hotels, many of which are boutique in nature.



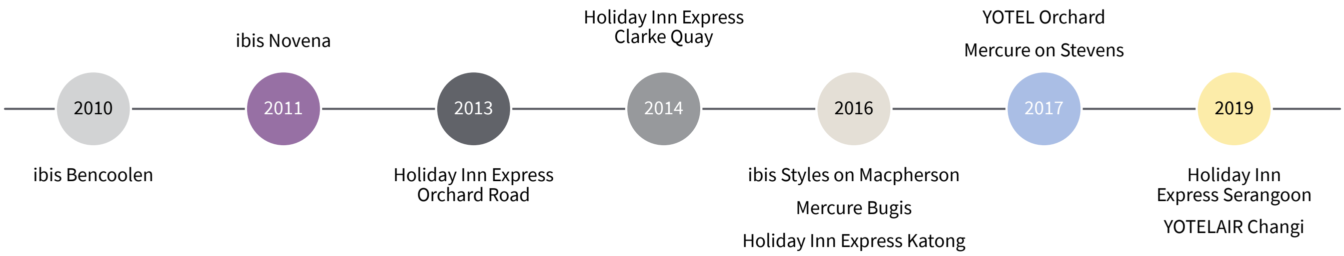
Source: JLL Research

New and forecasted hotel supply from 2010 to 2022



Source: JLL Research

Entrance of midscale international brands

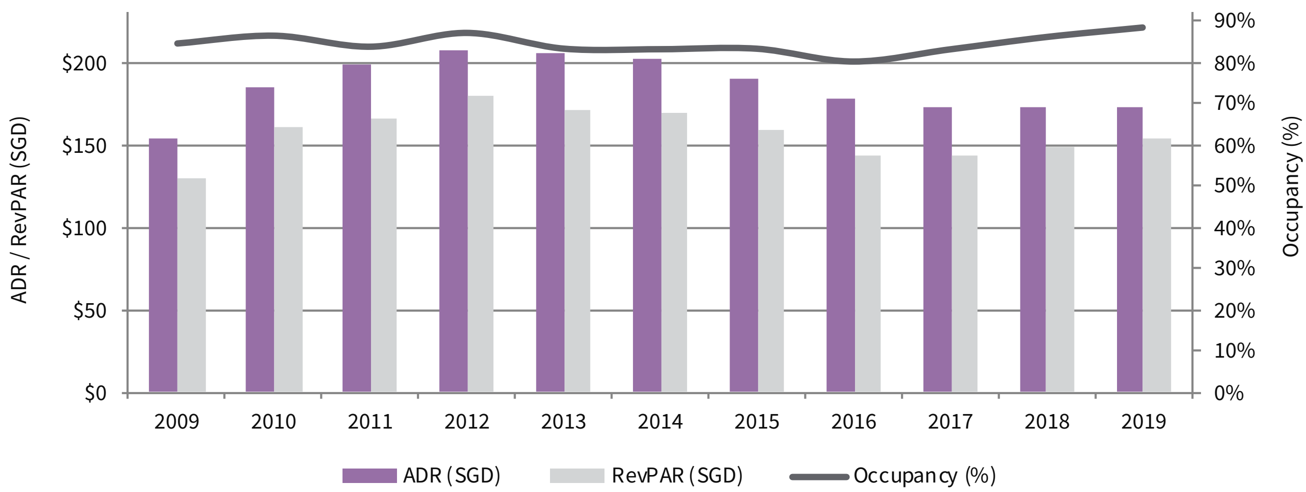


[1]: Supply categorised below the mid-market segment (including hostels) are not captured in the JLL database
[2]: Based on international management companies, by number of rooms – Accor, IHG, Pan Pacific Hotels, YOTEL and Marriott International
[3]: Based on domestic chains, by number of rooms – Worldwide Hotels, Far East Hospitality, Furama Hotels, Millennium Hotels and Global Premium Hotels

The first half of the previous decade saw the largest influx of mid-market hotel supply come online. Consequently, new supply of independent and/or boutique mid-market hotels decreased as a proportion of total supply, with investors and developers favouring the 'big-box' approach, typically accompanied by a global hotel management company.

During the second half of the decade, supply tapered off with notable new properties including the Mercure Singapore on Stevens (2017) and Village Hotel Sentosa (2019). With only the 324-room Clan Hotel scheduled to open in the Central Business District (CBD) during 2021, we anticipate there to be limited new supply during the projected COVID recovery period until trading performance resumes back to 2019 levels, now likely to be beyond 2022.

Economy & midscale trading performance in Singapore



Source: STR
Note: Rates inclusive of Service Charge

Trading performance

Room revenues have closely correlated with new supply, with the economy and midscale sectors in Singapore showing good RevPAR growth from 2016 through to 2019 as the market absorbed the new supply.

COVID-19 aside, it was anticipated that this performance growth would have continued into 2020 and beyond, with supply remaining limited and outpaced by the growth in arrivals to the country. This strong performance was emphasised by a number of properties showing record performance as recently as January 2020. Although COVID-19 has provided an industry wide setback, we expect the economy and midscale sectors to have solid demand in the rebound.

The Impact of COVID-19

The first confirmed case of COVID-19 was reported in Singapore on 24 January 2020 and the subsequent travel restrictions and Circuit Breaker measures have severely impacted the hospitality sector.

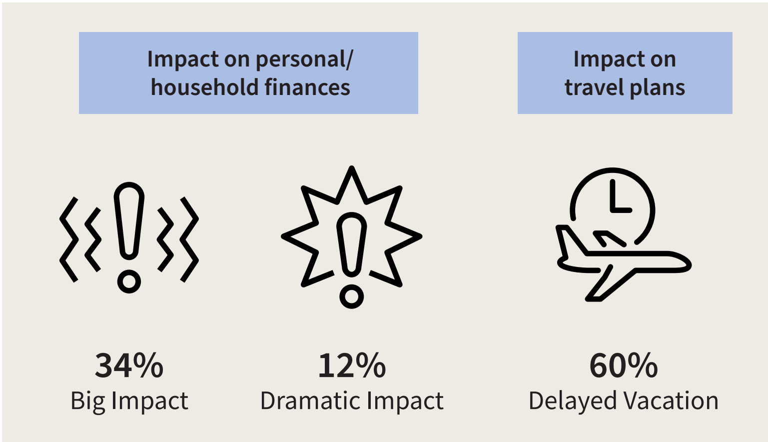
Although the mid-market segment, and others, saw good demand driven by mandatory quarantine measures introduced by the government, as well as stranded Malaysian commuters in Singapore after the Movement Control Order commenced, the segment was not spared with RevPAR trending down significantly from February 2020.

On top of short-term headwinds, we expect to see certain longer-term COVID-19 implications influencing Singapore's mid-market into 2021 and beyond.

More conservative consumer spending

Recent findings[4] have found that the global economic impact from COVID-19 has resulted in more conservative consumer spending behaviour.

Whilst a Singapore survey suggested that 34% of people expect COVID-19 to have a big impact on their personal or household finances, and 12% expecting this impact to be dramatic, this combined fear has led to 60% of people having indicated they have delayed the booking of vacations.

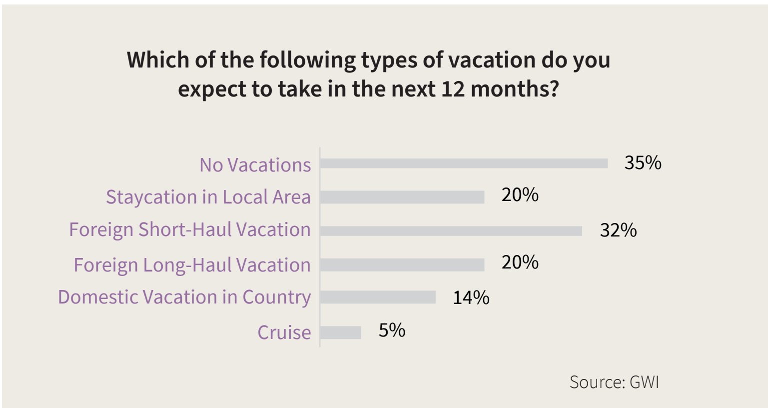


But there is still demand for travel

Despite ongoing concerns, an Asia Pacific (APAC) travel sentiment survey[5] revealed that 45% of respondents are planning to travel within six months after the lifting of relevant travel restrictions, of which almost half (49%) of respondents are millennials.

Within Singapore itself, while 35% of survey respondents do not expect to travel in the next 12 months, there is still demand for hotels with 20% preferring to go on staycations in their local neighbourhoods and 14% preferring to take a domestic vacation countrywide.

With Singapore slowly looking to relax travel restrictions, having started with Brunei and New Zealand whereby inbound travellers will only need to take a COVID-19 test upon arrival in lieu of a Stay Home Notice (SHN), we expect to see the above trends mirrored in neighbouring ASEAN countries. The total population in ASEAN of around 660 million[6] is expected to generate substantial demand for foreign short-haul vacation into Singapore once the borders reopen.



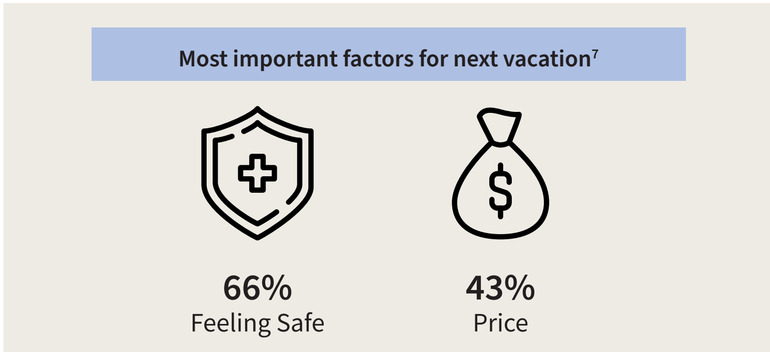
[4]: Global Web Index (GWI) Coronavirus Research | July 2020
[5]: Sabre Corporation APAC Travel Sentiment Survey; conducted in June 2020
[6]: ASEAN Key Figures 2019

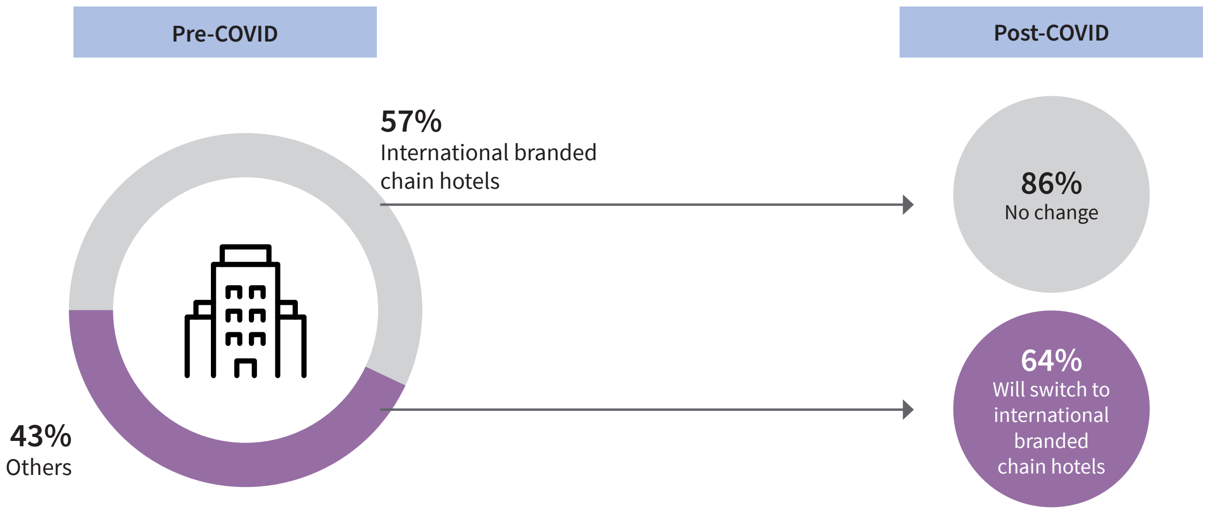
However, people are prioritising safety and cleanliness

The general consensus of respondents planning to travel within six months is that they would likely travel if relevant safety measures are enforced. In Singapore, mask-wearing has been compulsory since April 2020 and temperature screening is implemented at the entrance to all buildings. Contact tracing tools such as the SafeEntry national digital check-in system and the TraceTogether mobile app are also easily available countrywide, providing a safety net that has enabled businesses such as bars, restaurants and retailers to open again.

Based on an earlier survey[7], the most important factors that Singaporean respondents consider for their next vacation are feeling safe (66%) and price (43%).

Respondents have also indicated a preference for internationally branded chain hotels over smaller boutique hotels as they are perceived to have assurances of enhanced sanitation and cleaning, as well as proper safe distancing measures.





Source: Sabre

Similar trends can already be seen in China, where a recent survey[8] showed that 85% of people would spend less than CNY 10,000 (SGD 1,983) on travel this year, compared to just 27% back in 2017. Another survey[9] found that younger travellers in China are more open to resuming travel, and Chinese travellers now prefer international economy hotel chains and local boutique hotels, resulting in economy and midscale hotels in China seeing faster occupancy recovery.

Across the region, we expect the early stages of the recovery to see consumers be more price and safety conscious, and it seems that these are trends which will materialise in Singapore, with the mid-market segment poised to recover relatively quickly once all travel restrictions are lifted. With this, we see an opportunity for independent mid-market hotels to upgrade themselves and level the playing field with internationally branded hotels to capture demand within the segment, thus being able to attract demand for both local staycations and foreign short-haul vacations in the short to medium-term.

[7]: Global Web Index (GWI) Coronavirus Research | May 2020
[8]: Survey conducted by Ctrip and China Tourism Academy in March 2020
[9]: McKinsey & Company COVID-19 Travel Sentiment Survey; conducted in China in April 2020

Adding Value to the Mid-Market

Hotel Indigo Katong, Singapore

With limited new supply coming to market in the next two years, as well as a growing need to differentiate themselves from competition, opportunities exist for improvements to hotels in the mid-market segment. These improvements may vary in scale, but each is relatively easy to adopt in order to drive the returns generated during the COVID recovery.

01 Active Asset Management

02 Asset Enhancement Through Refurbishments

03 Co-living and Student Accommodation Influences

Active Asset Management

Source: sgclean.gov.sg

Regardless of whether owners choose to invest capital expenditure (capex) into their projects, the operating environment will become more competitive and owners must aim to position their properties at the front of the market. The following asset management recommendations aim to prepare hotels for post-COVID travel and maximise the existing potential of the hotel.

The 'New Norm': COVID-19 related improvements

To support guest confidence in making reservations, in February 2020 the National Environment Agency (NEA) introduced the voluntary SG Clean quality mark. The accreditation provides guests with assurance of high cleaning standards and instils confidence in travel agents and partners, helping place independent hotels on a level playing field with internationally branded or domestic chain hotels.

Other than standard temperature checking procedures, safe distancing measures and disinfection of common areas, the following improvements will be relatively easy to implement:

Contactless /
Self check-in counters

Enhanced hospital-grade cleaning and provision of free masks and hand sanitisers at check-in or within guest rooms

Technology-based improvements i.e. robotic process automation and guest services apps

Strategies to maximise revenues

In the current environment for largely local demand and potentially short-haul regional demand, the lowering of average daily rate (ADR) to compete with the 'big-box' properties would be counterintuitive for smaller properties. More meaningful may be for owners and management teams to formulate interesting packages that highlight key features of the property, coupled with partnerships with the local area such as nearby food & beverage (F&B) businesses to provide an element of authenticity and a perceived value proposition.

By considering selective marketing campaigns around F&B and community events, management can work around reduced capacities to contain costs. On top of launching staycation packages to maintain existing revenue streams, the management should also explore alternative revenue generating opportunities, such as:

The Great Madras, Singapore

- Converting unutilised guestrooms and/or event spaces into temporary co-working spaces for rental, potentially partnering with flexible workspace operators as demand for such space continues to exist with the market
- Offer catering and cleaning services for nearby offices and other relevant facilities, thereby recharging payroll costs of in-house F&B and housekeeping staff

Hotel Mono, Singapore

In the medium to longer term, management can look at keeping key operational functions in-house while exploring marketing arrangements with various external specialists to bring best-in-class distribution. These include exploring marketing affiliations such as Design Hotels and Tablet Hotels to tap on their global yet targeted client base, as well as bespoke travel agents/clubs such as Scott Dunn and Prior Travel Club for repeat individual and group business opportunities, which lend access to their database platform and loyalty programs, providing a wider reach to global clientele looking for a unique travel experience. These, in conjunction with a small sales function in-house focused on key local account management, can help establish a robust sales and marketing approach focused on both local and global opportunities across several segments.

Asset Enhancement Through Refurbishments

Asset enhancement can be achieved through the use of a well thought out capex allocation to make refurbishments to the property. In some cases, this may be considered defensive capex whereby the intention is to stay competitive – particularly in heritage properties, but possibly across the sector, there has been an identifiable trend of capex initiatives being used to significantly reposition the hotel and thereby drive ADR upwards, increasing gross revenues.

Refurbishment options include rebranding and revitalising the property with new design features, making technological upgrades and cosmetic improvements, which may in turn improve the green/sustainability credentials of the hotel. Refurbishment is especially suitable for older properties – given current market conditions with potentially lowered revenues, offering the potential for plans to be completed at a time of limited opportunity costs for the revenues which would have otherwise been generated.

Repositioning and revitalisation

With 62.3% of Singapore mid-market supply being independent hotels, there is an increasing need for hotels to be creative and differentiate themselves to maintain a competitive edge.

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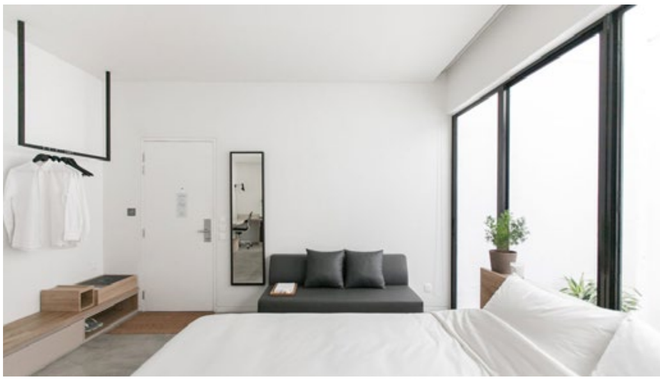
CASE STUDY

Lloyd's Inn is one such example – originally a budget hotel opened in 1990, the property underwent a one and a half year refurbishment transforming it into a modern lifestyle hotel. Since reopening in 2014, the hotel has approximately doubled its ADR, whilst maintaining strong occupancies. The hotel has won several accolades, including TripAdvisor's Best Bargain Hotel in Singapore (2015), and has consistently won the Travellers' Choice Award from TripAdvisor, which recognises the top 10% of properties on the site based on traveller's reviews and ratings.



Llyod's Inn, Singapore

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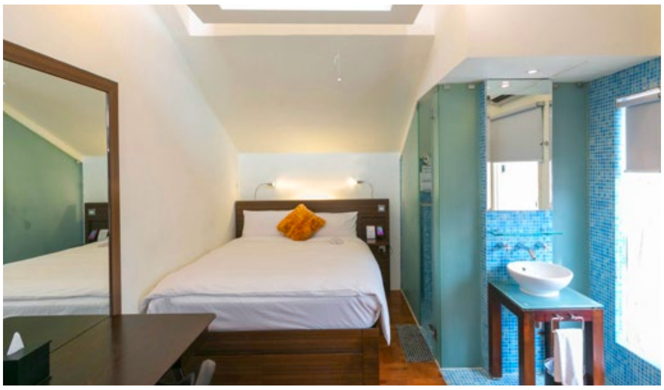
CASE STUDY

Another notable renovation property is the 33-room Hotel 1929, which many credit with being a front-runner in Singapore's boutique hotel scene. Comprising five conserved shophouses on Keong Saik Road, the property was acquired in a mortgagee sale for SGD 3.4 million in 2002. After spending almost SGD 2 million on renovations, Hotel 1929 opened in 2003 and went on to change hands in 2013 at SGD 35 million (c. SGD 1.1 million per key), proving the benefits of investing in capex for long term capital appreciation.

Boutique and lifestyle hotels have been gaining popularity in recent years as they provide unique and authentic local experiences at relatively competitive prices when compared to upscale and luxury hotels. However, from a management perspective, challenges remain for small scale operators to compete with international brands as they do not have access to the same plethora of booking channels and distribution systems. One possible workaround that has grown in prominence in Singapore, as well as elsewhere in the region, has been white-label branding. A notable example is the Vagabond Club, which now belongs to Marriott's Tribute Portfolio of independent boutique hotels. The partnership enables the hotel to operate with greater autonomy, whilst enjoying the power of a global booking system.



Hotel 1929, Singapore

Top 5 capex improvements

Capex improvements can include both technological infrastructure upgrades, as well as design improvements, which can help hotel owners save costs in the long run. Owners who are keen to make technological upgrades may tap into publicly available resources, including the Smart Hotel Technology Guide created by the Singapore Tourism Board (STB) and the Hotel Industry Digital Plan – developed to help local small and medium-sized enterprises (SMEs) in the hotel industry embark on digital transformation efforts.

1 **Lobby area and restaurants**

Creating an open and seamless multipurpose space which can function as a 24-hour check-in area, traditional F&B outlet at relevant hours, as well as casual zones for both socialising and working at other times. Such multi-function areas can provide greater space utilisation, by acting as one lobby/reception area; a restaurant that can be used for breakfast in the morning; a grab-and-go outlet in the afternoon; a bar at night; whilst being a co-working/meeting space at other times.

2 **Guest rooms**

Making efficient use of space whilst still providing guests with comfort and required amenities. Hotel owners can explore unique bed configurations, such as bunk beds or adjustable smart beds. Rooms may also benefit from movable features, allowing multiple room layouts. Such adjustable configurations can provide additional spaces for desk/work areas, storage, alternative room layouts for relaxation purposes, or even yoga mats and exercise balls on request for exercise in the room. Combined, this will likely increase revenue generated per square metre.

YOTEL Singapore – Bunk bed and adjustable SmartBed

Hotel Soloha, Singapore

Artyzen Habitat Hongqiao Shanghai, China

3

New communal spaces

As the economy transitions, individuals and companies seek new ways of living and working. Hotel owners are encouraged to think outside of the box in providing new areas for guest enjoyment and utility. Over recent years, this has included new cafe and bar concepts, often with a bohemian twist, though it is anticipated that along with much publicised growth in co-working spaces, the 'e-culture' will prevail and that novel but popular space functions may include pay-per-use gaming facilities to complement existing leisure amenities such as gyms. These experiential facilities may not only help owners position their properties, but also contribute additional revenue streams.

4

Retail/pop-up spaces

By repurposing underutilised spaces into retail areas that can be leased, or ad-hoc rentals for seasonal retail and F&B pop-ups, hotel owners are able to further diversify their income streams and put such spaces into better use to help alleviate fluctuations in cash flow.

5

Technology-based improvements

Creating a fuss-free environment for guests to be able to access hotel and room amenities, as well as requesting services at their fingertips. Room and facilities access, and the ability to control room temperature and lighting systems via mobile app, is likely to become common, as opposed to an in-room iPad or digital screen, or more dated technologies. Such software investments not only provide more guest engagement, but may, once developed fully and at scale, provide more cost efficient and user-friendly solutions.

Top 5 green and sustainable improvements

Making green and sustainable improvements to hotels is not only in line with global and local pledges to reduce carbon and other environmentally damaging emissions, but are also typically cost effective to hotel owners in the long run. Based on a joint study by the Building and Construction Authority (BCA) and the National University of Singapore (NUS)[10], hotels that are retrofitted for green mark certification can enjoy average savings of about 24% of total building energy consumption.

The BCA currently offers a variety of Green Mark Incentive Schemes to aid in the development or refurbishment of environmentally friendly buildings through cash or gross floor area (GFA) incentives. For older buildings, the BCA provides support to co-fund up to 50% of energy efficiency retrofit costs, which can benefit hotel owners by increasing capital value by approximately 2%.

Green building management system
A single dashboard system to optimise energy usage within the building and enhance cost efficiencies. This includes the use of more efficient air conditioning systems, as well as new lighting methods to decrease power consumption.

Introducing bicycles
Include a bicycle parking station and offer bicycle rentals to guests, thereby reducing carbon emissions whilst potentially enhancing guest experience

Water conservation
Installing flow-reducers on all taps and showers to reduce water consumption, as well as installing water dispensers throughout the hotel instead of providing bottled water

Open-air areas
Creating more open-air areas to reduce electricity consumption from air conditioning

Solar energy
Installation of solar panels to use solar energy to run certain aspects of the hotel

[10]: BCA-NUS Project on Valuation of Green Commercial Properties; 30 September 2011

Co-living and Student Accommodation Influences

Co-living has been a rising trend globally, and increasingly so amongst the millennial demographic in Asia as residential prices continue to rise. According to a local consumer sentiment survey[11], at least 24% of millennials surveyed are moving out of their parents' homes before the age of 27. More recently as a result of the COVID-19 pandemic, there has been increasing numbers of young Singaporeans opting for co-living as they yearn for more privacy and space with almost the entire family working from home[12]. This trend is aided by the attractiveness of co-living concepts, which provide flexible and affordable housing solutions as an alternative to the conventional housing market, often in trendy or hip neighbourhoods.

Similarly, a boom in institutional investment into co-living and student accommodation in Europe, the United States and Australia has seen a growing appetite from investors to develop such products in Asia, where universities are becoming increasingly highly ranked.

Hotel owners may therefore, consider converting hotels into co-living or student accommodation assets as demand for residential leasing and student accommodation increases, potentially providing a more stable cash flow to owners.

Conversion of hotels to co-living or student accommodation assets

Despite the rising popularity of co-living, there has been an impediment in growth of the co-living sector in Singapore due to the difficulty in acquiring a long-term supply of rental housing units[13].

This presents a gap in the market for co-living assets, which can potentially be filled by converting old, existing mid-market hotels into modern co-living or student accommodation developments. Such a strategy allows owners to convert traditionally unfavourable guest rooms and unused common areas into shared spaces, enjoying maximum utility from their floor area.

Hong Kong-based Weave Living's entrance into the Singapore market earlier this year further cements the potential viability of such conversions. Such groups see value-add potential in acquiring hospitality assets for conversion to co-living, having already done so to success in Hong Kong. Weave on Anchor, their third property, was converted from the 141-room Silka West Kowloon Hotel into a 200-unit co-living property.

Weave on Boundary, Hong Kong

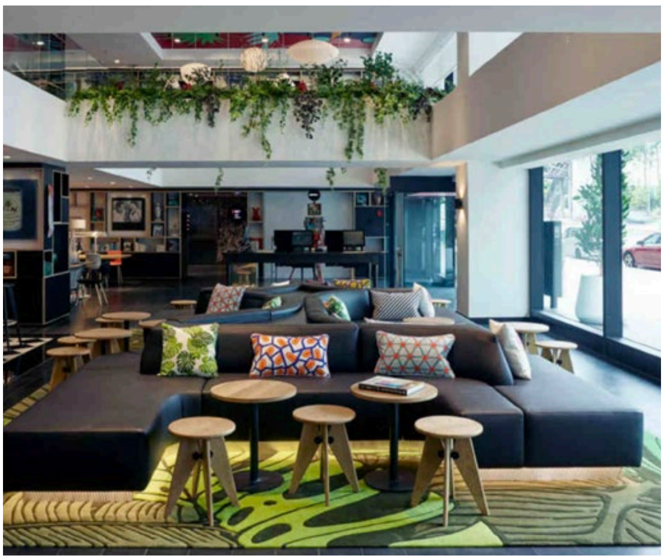
[11]: PropertyGuru H2 2018 Consumer Sentiment Survey
[12]: The Business Times – 'Co-living operators upbeat as they look to demand from new segments'; 20 May 2020
[13]: Centre for Liveable Cities – Making Space: Prospects for the Growth of Co-Living in Singapore; August 2019

Incorporating co-living concepts within hotels

Hotel owners who are not ready for a full conversion can instead look to incorporate co-living concepts within their hotels. This provides them with a diversified revenue flow by integrating shared space concepts with revenue generating departments, such as F&B outlets to offset costs, and provides guests with flexible, short and longer term accommodation options.

This dual concept of co-living hotels is not new in Singapore. In October 2019, Katrina Group (via its hospitality arm ST Hospitality) launched the first of their four co-living hotels, the 40-room ST Signature Chinatown which incorporates smart technology and design to ensure maximum efficiency of space.

Mojo Nomad Aberdeen Harbour, Hong Kong



citizenM Kuala Lumpur Bukit Bintang, Malaysia

ST Signature Chinatown, Singapore

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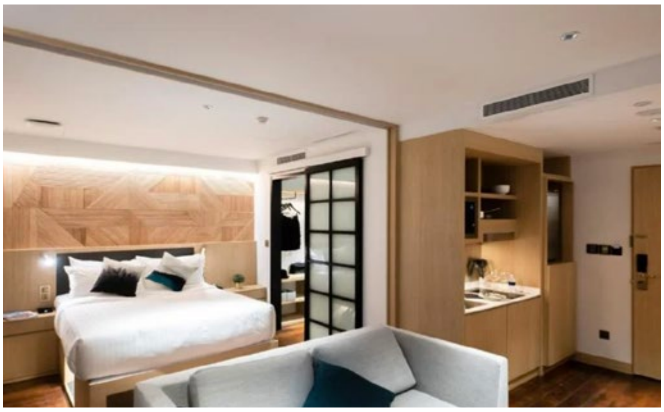
CASE STUDY

Another successful mixed-concept property is 8M Collective's KeSa House. Originally transacted for SGD 42 million (c. SGD 530k per key) back in 2011 as the 79-room Saff Hotel, the property underwent a multi-million dollar refurbishment and was rebranded as Naumi Liora in 2012.

In 2017, the property changed hands again to 8M for SGD 75 million (c. SGD 950k per key), an approximately 180% growth in capital value. After asset enhancement through refurbishments, including the conversion of hotel rooms on the ground level into F&B outlets, the 60-room KeSa House was relaunched in 2019 with a flexible-living concept comprising both short and long-term stay accommodation options, and co-living spaces such as kitchens and communal gardens, supported by the exciting range of new F&B options on the ground floor.



While various improvements can be made to improve independent hotels in the mid-market segment, there is no one-size-fits-all solution. Hotel owners have a range of options available to them as suggested above, and they have the ability to choose which components best fit their business model to survive and thrive beyond the COVID-19 pandemic.

KeSa House, Singapore

Key Takeaways

With consumers now more price and safety conscious, hotel owners need to provide assurance of high safety and cleaning standards for post-COVID travel

Hoteliers must implement relevant asset management strategies to maximise existing potential and explore alternative revenue streams

Owners may potentially diversify revenue streams and risks by considering co-living/ student accommodation concepts, though do not necessarily pigeon-hole product into any one particular category – flexibility may be the key to success

It is undeniable that the COVID-19 pandemic has changed consumer spending behaviours and the way people perceive travel in the near-term. With 87% of APAC consumers expecting to make changes to the way they travel and many evolving the way they live and work, hoteliers must constantly strive to be at the forefront of demand trends.

In order to survive and thrive beyond the crisis, hotel owners should review their current operations, assess all available options to them for timely adaptation and act whilst having the least impact to any existing business operations. With limited new supply coming onto the market in the near-term, the mid-market segment is poised to lead recovery in the hospitality sector and we expect the sector to thrive again in Singapore, albeit in a possibly evolved form.

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