



Hotels Recovery Guide

Colombo, Sri Lanka

JLL's Hotels & Hospitality Group | October 2020



Colombo



Pre-COVID-19 trend

Marketwide hotel ADR achieved a 3.4% compound annual growth rate (CAGR) over the past five years (2014-2019). However, occupancy recorded a declining CAGR of 4.3% during the same period, resulting in a CAGR decline of 1.1% in RevPAR overall.

Hotel supply registered a CAGR of 6.9% in the same five-year period analysed, outpacing room night demand which had a CAGR of 2.3% between 2014 and 2019. Supply is expected to continue to grow, increasing by 19.5% annually from 2020 to 2022.

USD 57 Million

Hotel investment volume in Sri Lanka, 2019

One notable deal was recorded in 2019, namely the sale of the 198-key Marriott Weligama Bay Resort & Spa.

From 2008 to YTD September 2020, total hotel transaction volume in Sri Lanka totalled USD 287 million. Of these, the Colombo city centric represented around 19% of the total historical transaction volume. Notably, hotel transaction volume in the country has slowed over the last five years, with only three transactions, or about 23% of the total historical deal volume, having occurred in the past two years.

The most recent notable transaction in Sri Lanka was in 2019, namely the 198-key Marriott Weligama Bay Resort & Spa sold to Singapore-based Hotel Properties Ltd (HPL) for around USD 57 million. We also understand that HPL purchased the 34-key Tangalla Bay Hotel in 2018 for around USD 2.5 million. In the same year, The Fort Printers was sold to ZTDH Investments for around USD 7.5 million.

Notable hotel transactions in Sri Lanka

Year	Property Name	Keys	Price	Price per Key
2019	Marriott Weligama Bay Resort & Spa	198	USD 57.0M	USD 288K
2018	Tangalla Bay Hotel	34	USD 2.5M	USD 75K
2018	The Fort Printers	14	USD 7.5M	USD 536K

Note: Property Names listed as at the time of acquisition
Source: JLL, RCA

COVID-19 impact

MARKETWIDE HOTELS

YTD August 2020 (year-on-year)

-44.3% Occ **-11.6%** ADR* **-50.8%** RevPAR*

*Local currency
Source: STR

Since the first reported case of COVID-19 in Colombo on 11 March 2020, RevPAR has trended downward during the months that followed.

As of 30 September 2020, Sri Lanka remains hesitant to open its border to international tourists. Hence, the decline in RevPAR is expected to continue into Q4 2020, as international demand is the primary demand driver of its hotel sector.



-18% YOY
1.9 Million

Total International Tourist Arrivals to Sri Lanka in 2019

-63.1% YOY
507,311

Total International Tourist Arrivals to Sri Lanka as of YTD September 2020

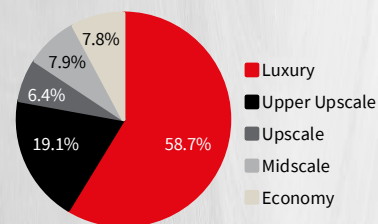
+0% YOY
5,936

Rooms as at end-2019

Notable Upcoming Openings:
ITC Colombo One
Cinnamon Life
Sheraton Colombo
Amari Colombo
Intercontinental Colombo

Existing Supply
Luxury: 9%
Upper Upscale: 37%
Upscale: 14%
Midscale: 27%
Economy: 13%

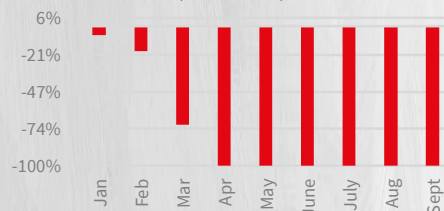
Future Hotel Supply by Location (2020F to 2022F)



Source: JLL

COVID-19 IMPACT

Annual Change in Monthly International and Domestic Passenger Movements at Sri Lankan Airports (2020 vs 2019)



Source: Sri Lanka Tourism Development Authority

Colombo's road to recovery



Apr-May 2020

Jun-Jul 2020

Aug-Sep 2020

By mid-April, grants of LDR 5,000 were arranged for citizens whose income were severely impacted. Colombo eased lockdown measures on 11 May and on 26 May, hotels and restaurants registered with Sri Lanka's Tourism Authority were allowed to resume in-house dining services. However, as Colombo remained a COVID-19 hotspot, the city was under curfew from 10pm to 4am.

Sri Lanka emerged from its nationwide lockdown on 28 June, which had earlier been relaxed and re-imposed selectively. Repatriation of its citizens remains a priority, as borders remained closed to leisure and business travellers.

The country's Election Commission held the parliamentary election on August 5, which was put off in April due to the global pandemic.

As of 30 September, reopening of airports for outbound passengers (other than cargo) remains uncertain. A proposal has been made to the Cabinet to allow entry of Russian tourists via Mattala Rajapaksa International Airport, with a minimum stay of 14 days and compulsory PCR test 3 day prior to arrival and upon arrival. If approved, this is expected to significantly boost room night demand across destinations close to the Mattala airport, with more than 40,000 Russian tourists forecast to arrive between October 2020 to April 2021.



Pressure expected amidst influx of new supply in the next two years

The tourism and hotel sector in Colombo has weathered the 2019 Easter attacks, with the city's strong corporate base holding strong. However, with a large hotel supply pipeline, we anticipate some stress in the luxury and upper upscale segments in the short- to medium-term due to intensified competition. We expect new supply in these segments to command a rate premium, supported by the large international operators such as Marriott, IHG and Amari entering the market. We also remain hopeful that efforts to boost MICE and leisure businesses in the city will help boost overall demand levels.

Distressed sales not yet evident

A debt moratorium on capital and interest for Sri Lanka's tourism sector initiated in April 2019 following the tragic Easter attacks was expected to expire on 30 September 2020, but has been extended until 31 March 2021. As a result of the extended financial support, we anticipate fewer hotels to be under distress and hotel transaction volume to remain subdued in the near-term. Whilst the country has yet to reopen its airports to international tourists as of 30 September 2020, hotels are capitalising on pent-up travel demand within the domestic market.

Greater interest from private equity funds, distressed asset firms and HNWIs

Partial stake sales are likely to happen with part divestments planned for multiple hotels. However, we expect transactions to only occur once travel restrictions are further eased and site visits can be facilitated. We also anticipate an increase in activity from private equity funds and distressed asset funds as they capitalise on opportunities to invest in hotel assets which would likely be valued at a discount to their pre-COVID-19 values.





Introducing innovative ways to attract tourists once the airports open up, such as including livestreaming of wildlife in national parks.



Currently, a few hotels around the airports are catering to quarantine demand as part of repatriation activities. There is limited flight connectivity and almost negligible demand from traditional international business and leisure source markets such as India, China, UK, Germany and Australia. Whilst weekday demand remains limited, weekends are slightly better due to packages, F&B events/festivals coupled with music and entertainment, or demand for rooms generated alongside banquet bookings. Hotels are allowed to facilitate banquet halls at 50% of total seating capacity with up to 300 guests at the maximum for large functions.



Follow safety guidelines released by the Ministry of Health, and secure local and/or international health and safety certifications to restore guest confidence. The “Safe and Secure” COVID-19 certification for tourism industry has been launched to allow hotels to be certified upon fulfillment of the standard compliance.



The debt moratorium for the tourism sector has been extended by six more months to 31 March 2021. The Central Bank of Sri Lanka has also eased monetary policy to support economic activity during the pandemic. Hotels to take the opportunity to ramp up revenues to sustainable levels, with no pressure to pay due debts in the short-term.



With intercity travel for work almost impossible within the country, consider social MICE, weddings and home coming events to support demand for hotel meeting facilities.



Consider selective marketing campaigns to a targeted list of repeat local customers, offering attractive packages and rate flexibility for staycations. Destinations within driving distances of 8 to 10 hours are recording a faster pick up in occupancies, especially during the weekends.



Colombo city hotels are looking at alternative revenue options such as partnering with food delivery platforms, creating promotional takeaway items, and exploring meal delivery plans for nearby households/offices. Explore strategic partnerships with credit card companies and phone carriers to promote outlets to local residents. Hotels may also consider offering institutional catering at subsidised prices, as well as institutional housekeeping and laundry.



Contact us



Jaideep Dang

Managing Director

Investment Sales and Advisory, South Asia

jaideep.dang@ap.jll.com

Harmeet Bedi

Senior Director

Head of investment Sales, South Asia

harmeet.bedi@ap.jll.com

Roopa George

Director

Head of Strategic Advisory, South Asia

roopa.george@ap.jll.com

Shirat Mathur

Manager

Strategic Advisory, South Asia

shirat.mathur@ap.jll.com

Adhiraj Guha

Analyst

Strategic Advisory, South Asia

adhiraj.guha@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.