



Hotels & Hospitality Group

# Singapore mid-market hotels outlook

How the segment is registering greater interest from investors

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May 2022



# Introduction

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Since April 26th, 2022, Singapore has removed almost all remaining Covid-19 restrictions and travel requirements, taking a major step forward into accepting the virus. By removing the Pre-Departure Test before departing for Singapore for all fully vaccinated travellers, the newly relaxed border policies should undoubtedly make the travel experience comparable to pre-pandemic times and are believed to ultimately boost inbound tourism.

Marking a milestone with this announcement, Singapore has accelerated its way to recovery and therefore becomes a safe haven for investors looking to acquire hotel assets in the region, in all segments. More specifically, the mid-market segment is increasingly in vogue, with greater interest from investors than in the past decade.

Meanwhile, mid-market hotel operators are facing headwinds as they navigate the lodging industry's recovery in a post-Covid-19 world. Labour, supply chain and tech transformation are amongst the major asset management pivot points that are shaping the segment in the months to come.



# A resilient segment amid global challenges

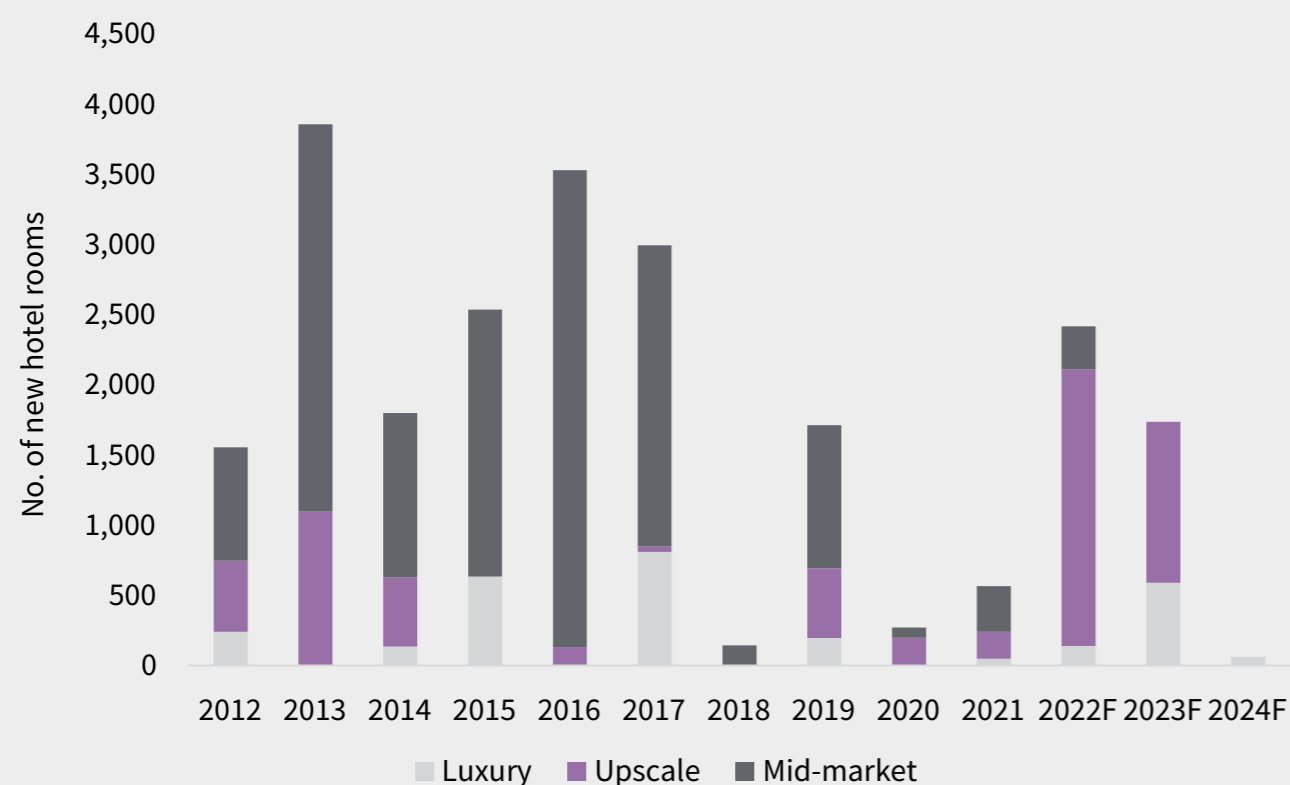
At the end of 2021, Singapore counted 61,729 hotel rooms according to the Singapore Tourism Board, of which more than a third identified in the mid-market segment. Despite a lower incoming supply in the next three years, mid-market hotels in Singapore have grown even faster than the upscale categories, underscoring higher demand.

While the number of rooms in the luxury and upscale segments expanded by a Compound Annual Growth Rate (CAGR) of 2.7% and 2.0% respectively between 2012 and 2021, rooms in the mid-market segment have increased by 5.2% on average each year since 2012, with more and more international brands entering the Singapore market<sup>1</sup>.

The rapid expansion of the mid-market segment is intimately linked to strong demand. The occupancy in the mid-market segment has remained relatively stable during the harsh Covid-19 years, thanks to longer length of stay. With borders kept closed, demand from stranded foreign workers, staycations, and Singaporeans needing temporary accommodation due to work from home arrangement or delays in new housing due to Covid-19 supply chain bottlenecks have formed the bulk of the mid-market business.

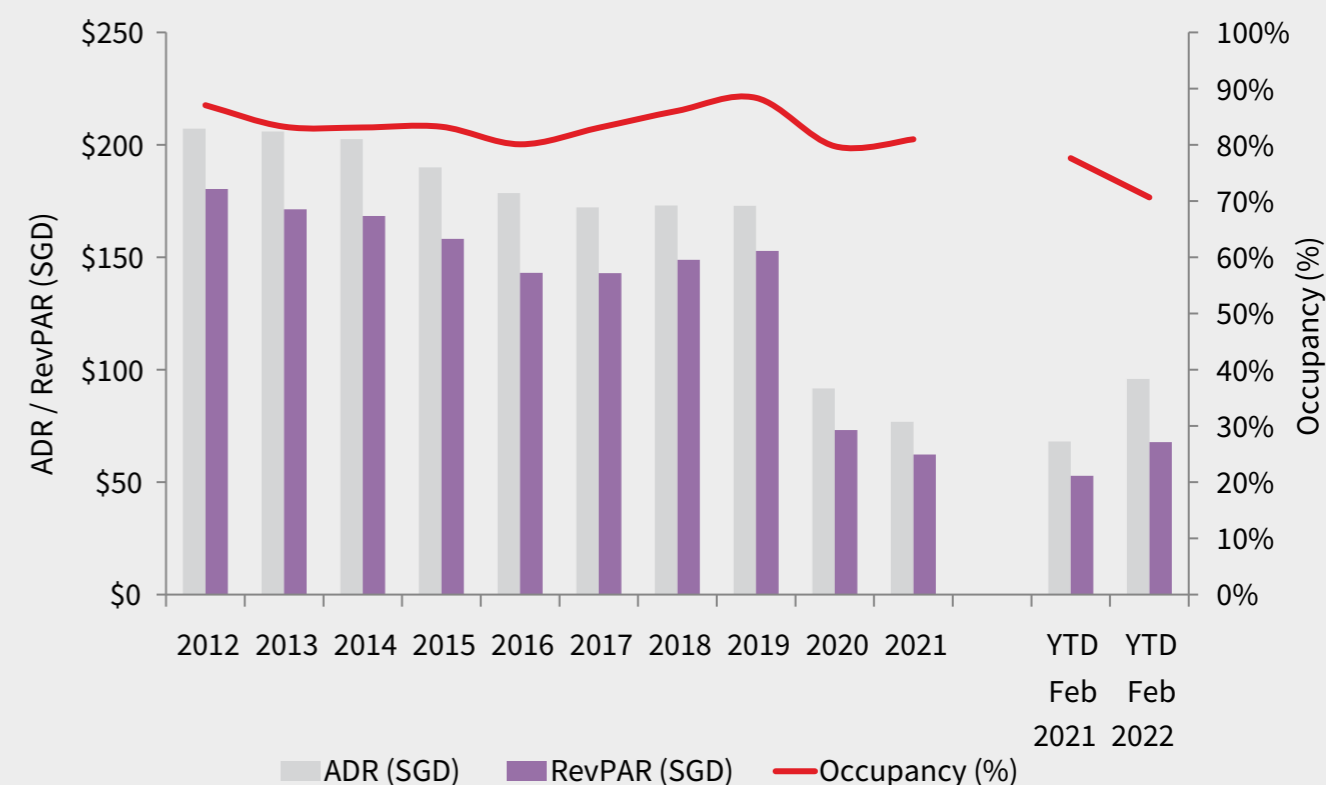
Welcoming this new clientele has opened the doors to new opportunities, especially in the mid-term lease space (3 to 12 months), which naturally brought some midscale hotel owners onto the co-living territory.

## New supply by positioning



Source: JLL

## Midscale and Economy trading performance in Singapore



Source: STR  
Note: Rates inclusive of Service Charge

<sup>1</sup>Reimagining Singapore's Mid-Market Hotels, JLL <https://www.jll.com.sg/en/trends-and-insights/research/reimagining-singapores-mid-market-hotels>

# Investment volume boosted by conversions into co-living products

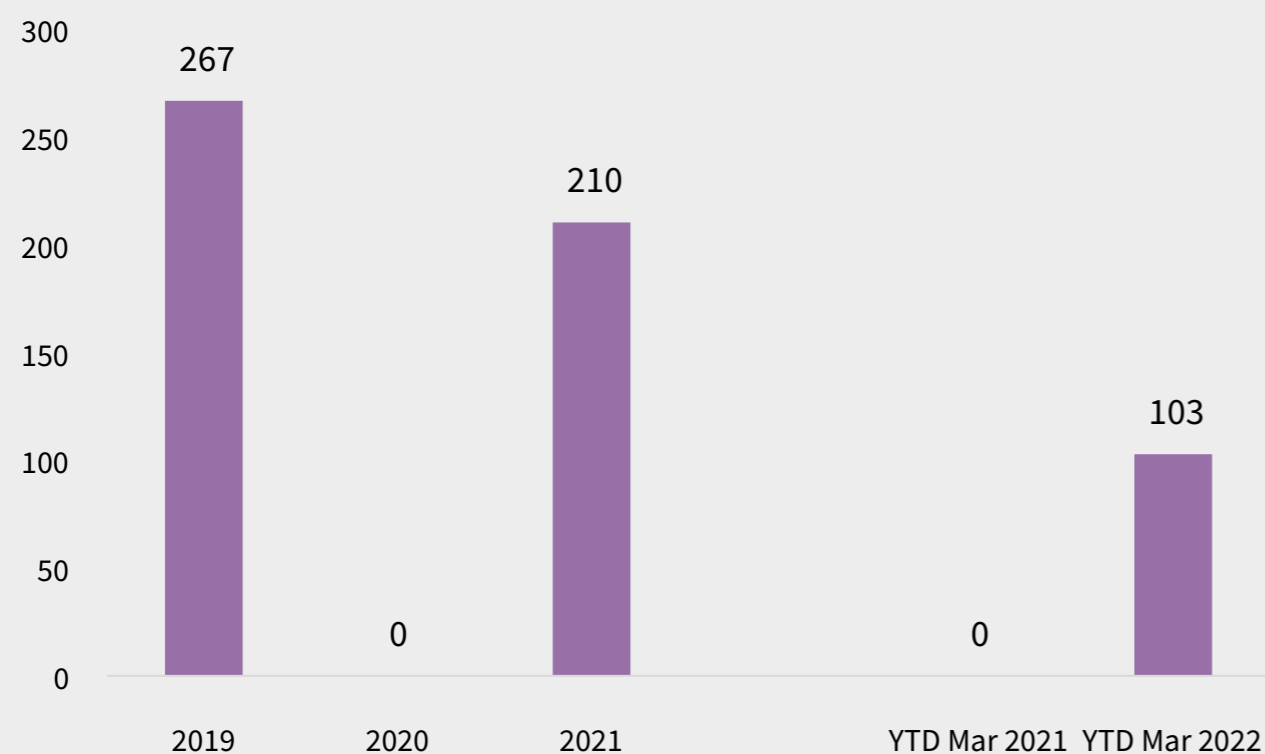
Singapore's mid-market segment has proven to be an attractive place for investors despite the slow transaction activity from the collapse of international visitor arrivals since the start of Covid-19 in 2020.

Indeed, as at YTD March 2022, the segment registered two deals with a total transacted volume of SGD 103 million, representing half of the full year of 2021 in only three months. The increasing investment volume underscores the resiliency of the segment and its opportunity to diversify its clientele with longer length of stay. For example, in September 2021, Balestier Hotel was sold to a joint venture of LHN Group and Four Star for conversion into a co-living space under LHN Group's Coliwoo brand.

The first quarter of 2022 was also marked by the announcement of a partnership between SLB Development Ltd and Weave Living to convert the Hotel Clover in Jalan Sultan into a co-living product.

With strong appetite from investors, we expect the mid-market segment in Singapore to record SGD 400 million of transaction for the full year 2022.

Mid-market transaction volume (in million SGD)



Source: JLL

## Latest mid-market hotel transactions in Singapore

Year	Property	Price (SGD)	Price per key (SGD)
2022	Hotel Clover (Jalan Sultan)	74,800,000	850,000
2022	Hotel Kai	28,000,000	875,000
2021	Porcelain Hotel	90,000,000	652,174
2021	Gay World Hotel	13,500,000	500,000
2021	Amber Hotel Katong	27,000,000	1,080,000
2021	Balestier Hotel	15,000,000	357,143
2021	K Hotel 44	22,500,000	401,786
2021	Regin Hotel	19,500,000	423,913
2019	The Claremont	68,000,000	755,556
2019	The Amaris by Santika	29,700,000	781,579

Source: JLL



# Operational opportunities have come for mid-market hotels

Covid-19 imposed a unique circumstance upon the Singapore hospitality industry. With limited inbound visitors, hotels were forced to focus inward to serve a local clientele. The luxury and upscale segments turned to government quarantine arrangements, while the economy segment housed migrant workers stranded in Singapore, especially given a number of pandemic outbreaks in traditional worker dormitories. The mid-tier to upscale boutique segment pivoted to house expats and local Singaporeans displaced by construction and renovation delays given Covid-19-induced supply and labour chain issues.

Across all segments, the reaction of the hospitality industry to Covid-19 was to move from short 'daily' stays towards longer stays of a few weeks to months. This helped the co-living trend gain traction, and also necessitated reconfiguration to include facilities such as laundry, etc. Tech adoption also gained traction as hotels sought to minimise contact between staff and potentially Covid-19-exposed guests, especially at quarantine locations.

As Singapore lifts Covid-19 restrictions and opens its doors to international travellers once more, we have identified three asset management pivot points below.

Overall, experiential travel has gained popularity as tourists are more than ever selective in their next travels, as the world emerges from the pandemic. Tourists are after authenticity and expect hotel properties to reflect the localities. With lower key count, Singapore mid-market hotels have a strong card to play when it comes to storytelling through a well-thought design, continuing the growing trend of boutique hotels started in 2010.

Additionally, operators continue to express their interest into expanding in the mid-market space as several big brands are looking into smaller hotels with less key counts at the right location, which is often the case for mid-market hotels. Adhering to a brand helps to overcome the three major trends highlighted previously. While the brand ensures a real career path and retains talents, it gives the hotel a bigger power to lower some operational costs.



## 1. Labour challenges

The pandemic has reinforced the challenges of labour shortage that the industry has started to face years before Covid-19. It is now even more difficult not only to attract, but also to retain talent. This is even true for independent mid-market hotels. Other than the pay itself, talent is attracted by benefits and flexibility that a company or a hotel is able to offer. The perspectives of a clear career path also offer a sense of assurance on the hotel, thus give the candidate more desire to stay and dedication to the work.



## 2. Rising costs amid supply chain challenges

Covid-19 and the current tensions between Russia and Ukraine are strongly causing operational issues for hotels by rising costs in goods and services. Smaller independent hotels usually do not have enough buying power to lower the rates and end up paying high bills. Being backed by a larger group or brand helps to have bigger negotiating power, thus, to access to better pricing.



## 3. Digital transformation

The pandemic has accelerated the need of digitalisation of the lodging industry, especially for smaller independent hotels who are still lacking a website through which booking a room is possible. Additionally, adhering to a hotel Property Management System (PMS) is a must nowadays as not only it allows more efficiency on an operational angle, but it also enhances productivity on a labour perspective. In fact, by drastically reducing time consuming and paper-intensive processes, the hotel staff is able to focus on the guests' needs, contributing to the high-quality service expected from guests who are after experiences. Nowadays, digitalisation is a must for all hotels, regardless their positioning and whether they are independent or branded.



# What's next for Singapore mid-market hotels?

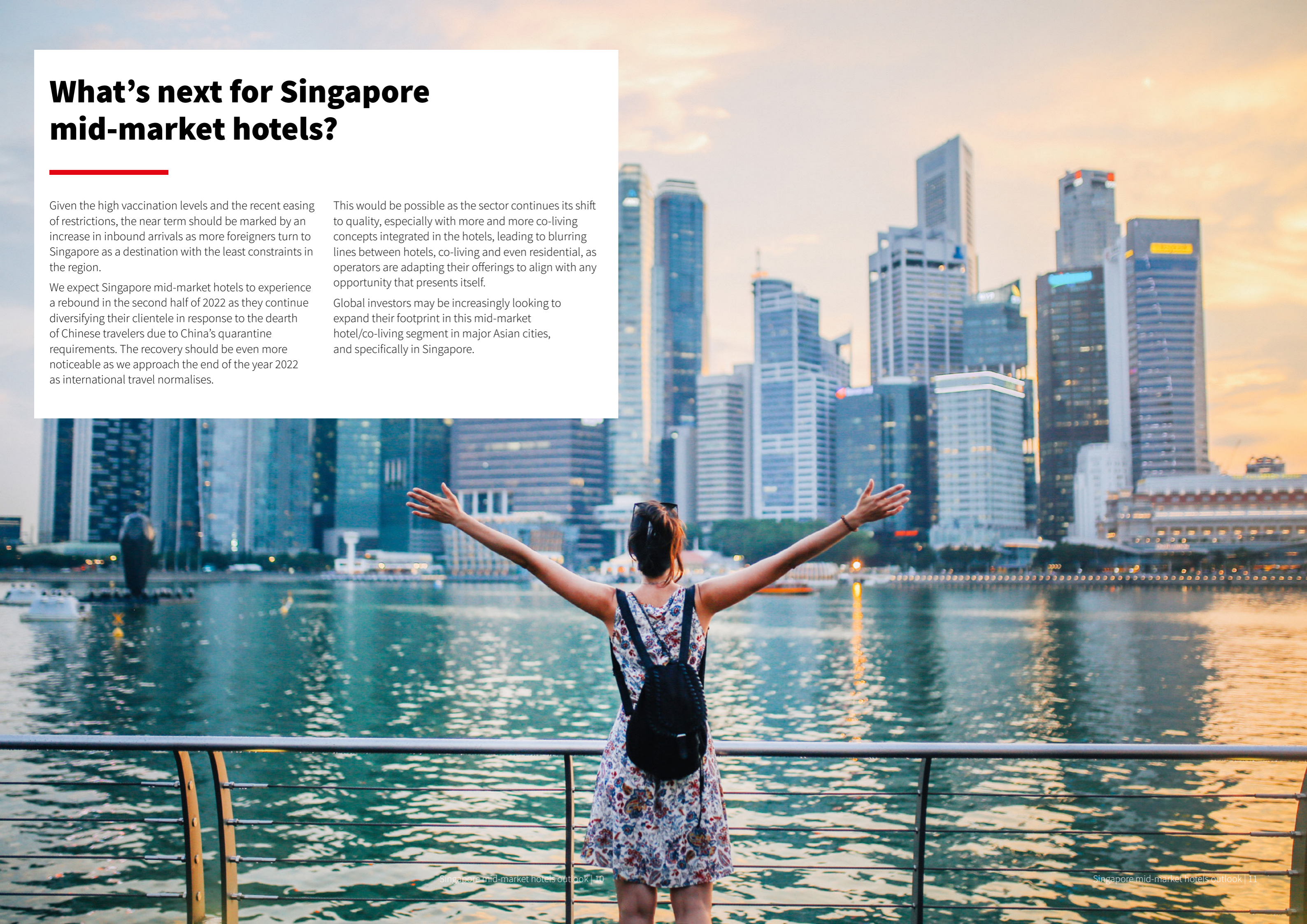
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Given the high vaccination levels and the recent easing of restrictions, the near term should be marked by an increase in inbound arrivals as more foreigners turn to Singapore as a destination with the least constraints in the region.

We expect Singapore mid-market hotels to experience a rebound in the second half of 2022 as they continue diversifying their clientele in response to the dearth of Chinese travelers due to China's quarantine requirements. The recovery should be even more noticeable as we approach the end of the year 2022 as international travel normalises.

This would be possible as the sector continues its shift to quality, especially with more and more co-living concepts integrated in the hotels, leading to blurring lines between hotels, co-living and even residential, as operators are adapting their offerings to align with any opportunity that presents itself.

Global investors may be increasingly looking to expand their footprint in this mid-market hotel/co-living segment in major Asian cities, and specifically in Singapore.





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