IPD

An MSCI Brand

IPD Asia Pacific Hotel Investment Report 2013

Published July 2013

ipd.com

IPD in association with Jones Lang LaSalle® RYAN LAWYERS

IPD has recently produced an investment index that tracks the return performance of hotel property assets in the Asia Pacific region. This index, named the IPD Asia Pacific Hotel Investment Index, is sponsored by Jones Lang LaSalle and Ryan Lawyers.

The index includes corporate hotels located within major cities where demand is skewed towards business travel. These hotels are considered to be institutional grade hotels comprising of 3, 4 and 5 star. The index does not include resorts, casinos, motels and hostels.

As at December 2012 the IPD Asia Pacific Hotel Investment Index is comprised of 179 hotels over 10 countries and has a value of US $12.5 billion.

Index composition

The index is underpinned by 179 hotels worth US $12.5bn as at December 2012. This is predominately made up of Australia (US $4.9bn), Hong Kong (US $2.5bn), Japan (US $2.7bn) and Singapore (US $1.2bn). Mainland China, Malaysia, New Zealand, South Korea, Tawain and Thailand make up the remaining US $1.2bn.

Trends in hotel returns

The Asia Pacific hotel property market recorded an annualised total return of 11.1% for the year ending December 2012. This result consisted of a strong 6.7% income return and a 4.1% capital return. The return represents a softening of 240bps over the last 12 months.

Hotel markets

Across countries in the Asia Pacific region, Hong Kong continues to outperform delivering an annualised total return of 23.0% to December 2012. This result compares favourably to the competing markets of Australia, Japan and Singapore which delivered total returns of 9.5%, 5.5% and 6.0% respectively. The moderation in investment returns in Australia, Hong Kong and Singapore, reflects a general softening in RevPAR growth due to weaker space market fundamentals.

Chart 1: Return performance for Asia Pacific hotels - rolling annual return on quarterly periods

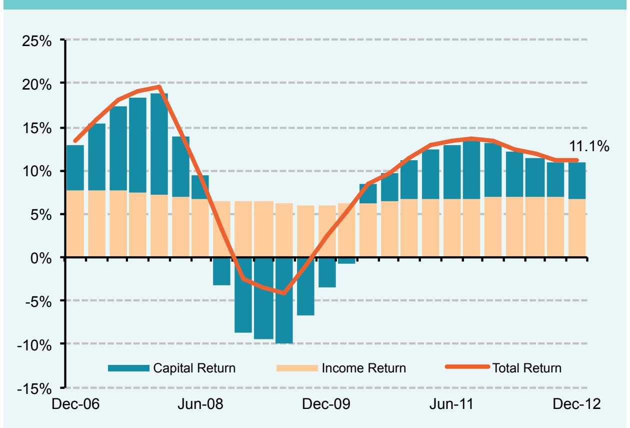
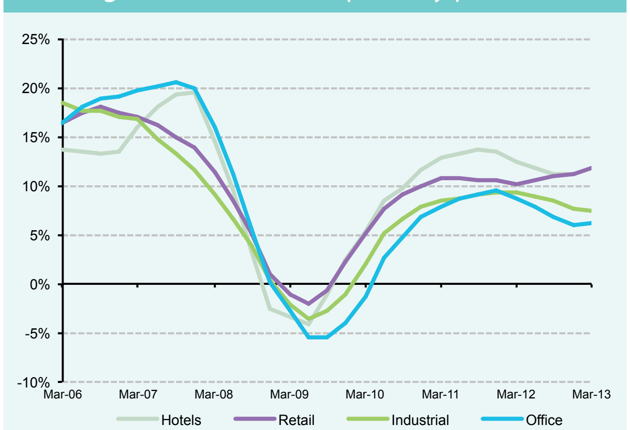


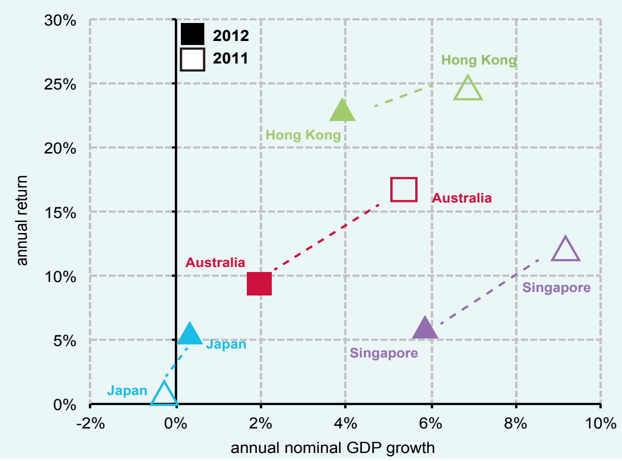
Chart 2: Asia Pacific total returns by sector - rolling annual return on quarterly periods



The cyclical return profile of hotels against other core sectors (retail, office, industrial) is highlighted in Chart 2.

The recent moderation in hotel returns is consistent with the softening displayed by the office and industrial sectors. This softening in the property investment cycle reflects a general weakness in macroeconomic conditions. The strengthening of the retail sector reflects strong retail demand conditions. Jones Lang LaSalle reported in their Asia Pacific Property Digest for 1Q 2013, "Demand for retail space across the region (Asia Pacific) continues to be supported by the entry and expansion of international retailers."

Chart 3: GDP growth versus hotel returns - annual values as at December

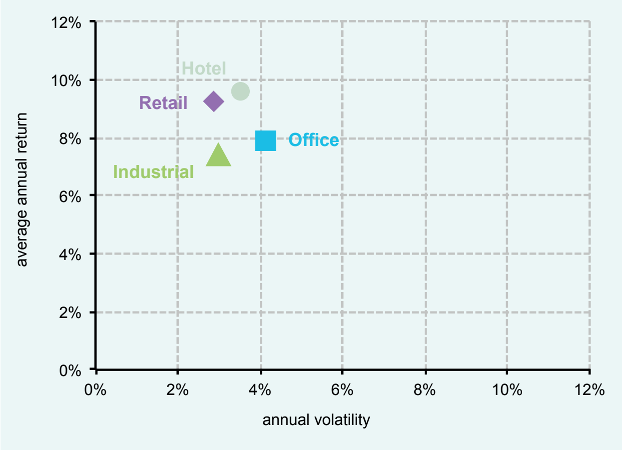


Source: censtatd Hong Kong , RBA and IPD research

A key driver of hotel investment return performance is the pace of economic activity. A common measure in economic activity is growth in Gross Domestic Product (GDP).

Chart 3 highlights the close linear relationship between hotel investment returns and GDP growth. It is clear that a softening (strengthening) in GDP growth translates into softer (stronger) hotel returns for selected markets. The general variability in this relationship across markets is linked to different flow on effects in demand.

Chart 4: Asia Pacific risk-reward for property sectors - quarterly observations on a 7 year period ending December 2012



A key attribute in evaluating the investment proposition across property sectors is the risk-reward trade off.

Chart 4 shows the annualised average return and annualised volatility across property sectors over the last 7 years to December 2012. The chart clearly shows that the hotel sector delivers a relative outperformance in return with a risk profile residing between the retail and office sectors. This suggests that hotels compete favourably on a risk adjusted return basis when compared against core property sectors.

Technical note

The basis of capital employed:

All IPD measures of performance, including indices, are value-weighted within a single measurement period based on the open market valuations of each of the real estate assets directly held within contributing portfolios. Capital employed is defined as the value of the assets held at the beginning of the computation period plus purchase, development and other capital expenditure during the period.

Calculation of principal single period measures:

Total return is calculated as the change in capital value, less any capital expenditure incurred, plus net income, expressed as a percentage of capital employed over the period concerned.

Capital growth is calculated as the change in capital value, less any capital expenditure incurred, expressed as a percentage of capital employed over the period concerned.

Income return is calculated as net income expressed as a percentage of capital employed over the period concerned.

An MSCI Brand

IPD overview

IPD provides real estate benchmarking and portfolio analysis services to clients in over 30 countries around the world. These services incorporate more than 1,500 funds containing nearly 70,000 assets, with a total capital value of over USD 1.5 trillion. Each year, IPD produces more than 120 indices helping real estate market transparency and performance comparisons, as well as nearly 600 benchmarks for client portfolios.

IPD is a subsidiary of MSCI Inc., a leading provider of investment decision support tools to investors globally, and clients include real estate investors, managers, consultants, lenders and occupiers.

Contact Details:

Anthony De Francesco
IPD
+61.(0)2 9248.1900
anthony.de.francesco@ipd.com

Mitchell McCallum
IPD
+61.(0)2 9248.1905
mitchell.mccallum@ipd.com