Source: *The Business Times*, p11
Date: 6 January 2023

Challenges and opportunities for hospitality Reits in the post-Covid race

By Luciano Lopez and Sing Tien Foo

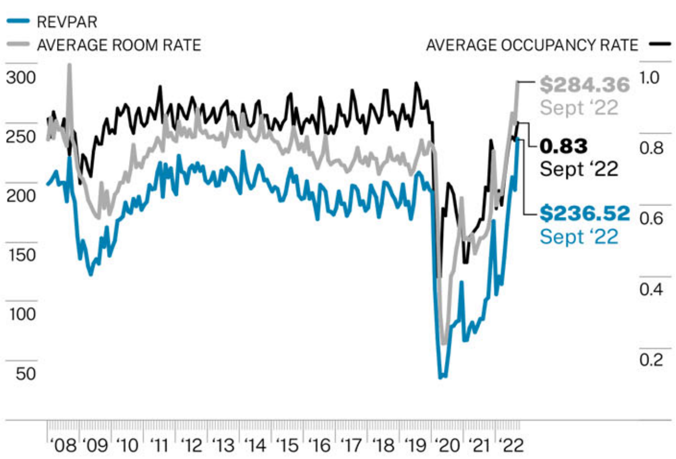
AT the height of the pandemic, countries worldwide closed their borders to stem contagion, bringing tourism and travel to a halt. The shutdowns hit hotel and lodging operators the hardest, leaving them with no choice but to redesign their business models and fast-track digitalisation.

More than two years on, the pandemic is transiting into an endemic phase, with a baseline number of people constantly affected by the disease.

The revival of Real Estate Investment Trusts (Reits) specialising in hospitality is closely linked to recovery in tourism and business travel. Reits with shopping centre assets in the Orchard Road belt are also impacted as their revenues depend highly on tourist spending.

Rosy outlook for hotels

Average hotel room performance



Source: Singapore Tourism Board, Luciano Lopez, Sing Tien Foo

The post-Covid rebound in travel

In Singapore, visitor arrivals surged by leaps and bounds as most countries fully reopened their borders. As of October 2022, more than 800,000 visitors have entered the country, increasing by more than 3,000 per cent year-on-year from the all-time low in 2021. Yet, the number of visitor arrivals is still not even 50 per cent of the peak recorded pre-pandemic.

Visitors from South-east Asian countries, especially Indonesia, Malaysia, and the Philippines, and those from India and Australia make up most of the visitors thus far. China's recent relaxation of its zero-Covid policy is expected to lead to surges in Chinese tourists in Singapore and elsewhere.

As of September 2022, the average occupancy rate for local hotels has recovered to 83 per cent, painting an optimistic and rosy picture of the hotel industry in Singapore. The hotel room rate per night exceeded the rate hotels charged in all segments before the pandemic. Revenue per room (RevPAR), an indicator of hotel room yield, also outperformed the pre-pandemic level in 2019.

The rebound comes mainly from two sources. First, revenge travel has been unleashed, sending tourists flooding out on long-awaited holidays and locals streaming into staycations.

Second, the resumption of high-impact events, including the Formula One (F1) race in Singapore, has attracted business cum leisure (b-leisure) travellers back to the island.

Given its metropolitan city nature, Singapore is not a natural resort destination, and the government's substantial investments in building up meetings, incentives, conferences, and exhibitions (Mice) infrastructure has borne fruit.

The steady inflow of companies moving their regional headquarters to Singapore also pulls in demand from longer-term business visitors. The higher demand, mostly seen in the luxury and business segments, has not spilled over to the low and budget hotel segment.

In the Q3 2022 real estate sentiment survey conducted by the NUS Institute of Real Estate and Urban Studies (IREUS), the outlook of the hotel sector stood out with the highest positive balance of 85 per cent, reflecting that more respondents indicated positive than negative sentiment on the industry sector.

Absorbing the Covid impact

The business models of hospitality Reits are broadly divided into two types.

The first type has a geographically diversified portfolio of hotel and lodging properties, such as CapitaLand Ascott Trust, CDL Hospitality Trust, and Fraser Hospitality Trust. CapitaLand Ascott Residences underwent a corporate restructuring exercise just before the Covid outbreak in 2019, merging the hotel assets of Ascendas Hospitality Trust into a single portfolio.

The second type focuses on real estate business in one market, such as Far East Hospitality Trust in Singapore and ARA US Hospitality Trust in the US.

OUE Commercial Trust, after the merger with OUE Hospitality Trust in 2019, integrated two hotels in Singapore, Crowne Plaza Changi Airport and Hilton Singapore Orchard, into a commercial real estate portfolio, and hence, has become a diversified Reit.

Hospitality Reits that invest and manage mostly hotel properties, locally and overseas, experienced declines in stock prices and dividend yields during the pandemic. These Reits weathered a rough patch, and their assets were significantly undervalued during the Covid period. The average price-to-book value ratio of the hospitality trusts was 0.72 as of November 2022.

Frasers Property, the sponsor, attempted to privatise Frasers Hospitality Trust (FHT) by acquiring all issued stapled units, but the offer was rejected by the minority unitholders in 2022.

Barring further black-swan events, the sector is on track back to business as usual. Some Reits bit the bullet, using the Covid slack period to reposition and improve their properties. These Reits are now more ready to ride the recovery wave.

In March 2020, OUE Commercial rebranded its Mandarin Orchard to Hilton Singapore Orchard and undertook a major asset enhancement initiative to refurbish hotel rooms during the pandemic. When it reopened in 2022, the refurbished hotel, which is integrated with the adjacent retail mall at Mandarin Gallery, could tap into returning demand from business and high-end leisure travellers who prefer to stay near the prime Orchard Road shopping belt.

CapitaLand Ascott Trust used the Covid period to further consolidate portfolios post-merger and expand through new yield-accretive acquisitions of around S$318 million to strengthen their present key markets in Australia, France, Japan, US, and Vietnam.

Embedding sustainability into the business model

While hospitality Reits are poised to gain from the recovery in travel and tourism, pressure is mounting on them to embed a philosophy of sustainability into their business DNA.

For hotel operators, this starts with tackling the wastage and overconsumption of energy and water resources that are prevalent in the sector. Smart and energy-efficient technologies could save operating costs; a more proactive approach is also helpful to nudge users to reduce energy consumption. Simple steps – such as providing refillable containers instead of single-use toiletries, providing filtered water instead of bottled drinking water, and encouraging guests not to replace bed linens and towels – can go a long way.

Hospitality Reits that ignore their environmental and social responsibilities could end up on the wrong side of investors' books and face being sidelined.

In the recent December review of the Dow Jones Sustainability World (DJSW) Index, which represents the cream of the crop in sustainability, sustainability champion City Developments Ltd (CDL) was dropped from the index. The misalignment of CDL's hotel arm, Millennial and Copthorne Hotels (M&C), in keeping pace with the sustainability strategy of the parent company, may have dragged down its overall assessment, causing the surprise omission of CDL from the DJSW.

Another local firm, Keppel Corporation, was added to the index.

The lifting of travel restrictions has helped revive many countries' tourism cycle, though recovery has been uneven.

The hospitality and lodging industry should not let its guard down. Reits need to be agile and resilient in dealing with future shocks. And pandemic or no, one immediate challenge that cannot be ignored is to infuse more green and sustainability into the tourism and hospitality industry.

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Reits stacked up

Price-to-book ratios of SGX-listed Reits, as at December 2022

Reit	Price-to-book ratio
Hospitality	
CDL Hospitality Trusts	0.9
CapitaLand Ascott Trust	0.8
Far East Hospitality Trust	0.7
Frasers Hospitality Trust	0.7
ARA US Hospitality Trust	0.5
Retail	
Frasers Centrepoint Trust	0.9
SPH Reit	0.9
Sasseur Reit	0.8
BHG Retail Reit	0.6
Starhill Global Reit	0.6
United Hampshire US Reit	0.6
Lippo Malls Indonesia Retail Trust	0.3
Dasin Retail Trust	0.2
Office	
Elite Commercial Reit	0.8
Keppel Pacific Oak US Reit	0.7
Keppel Reit	0.7
IReit Global	0.6
Prime US Reit	0.6
Manulife US Reit	0.5
Industrial	
CapitaLand Ascendas Reit	1.2
Mapletree Industrial Trust	1.1
Mapletree Logistics Trust	1.1
ESR-Logos Reit	0.9
Daiwa House Logistics Trust	0.8
Sabana Industrial Reit	0.8
Aims APAC Reit	0.6
EC World Reit	0.6
Healthcare	
Parkway Life Reit	1.6
First Reit	0.7
Diversified	
CapitaLand India Trust	1.0
CapitaLand Integrated Comm Trust	1.0
Frasers Logistics & Comm Trust	0.9
Mapletree Pan Asia Comm Trust	0.9
Lendlease Global Commercial Reit	0.8
CapitaLand China Trust	0.7
Suntec Reit	0.7
Cromwell European Reit	0.6
OUE Commercial Reit	0.6
Specialised	
Keppel DC Reit	1.4
Digital Core Reit	0.7

Source: SGX, Luciano Lopez, Sing Tien Foo