A Hospitality Sector Review
for the Pearl of the Orient

Hospitality Sector Banking on Domestic Tourism to Drive Recovery

Research, August 2020

Cover Photo by Bambi Corro

santosknightfrank.com/market-reports/

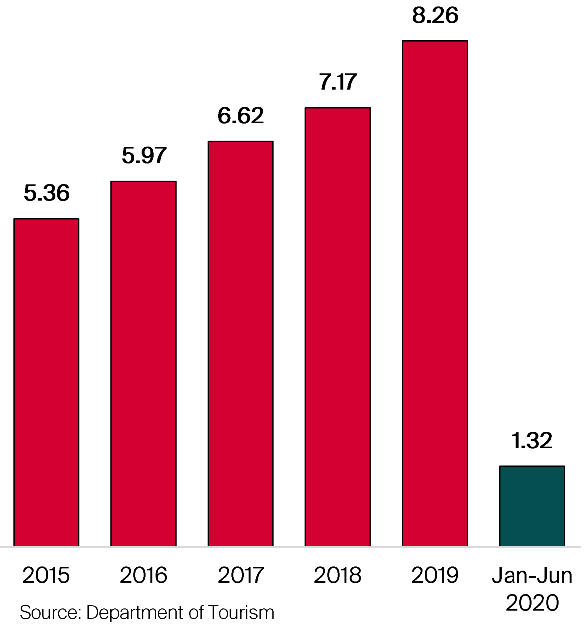
The Philippine tourism industry has been faring well in the past decade. It displayed continuous positive trajectory in terms of international tourist arrivals, and even surpassing targets for GDP contribution, revenue generation, and domestic arrivals.

In 2019, the country set a new record with 8.26 million international tourist arrivals, which is 15% higher than the recorded 7.17 million arrivals in 2018. Furthermore, the contribution of Tourism Direct Gross Value Added (TDGVA) to the Philippine economy as measured by the Gross Domestic Product (GDP) is estimated at 12.7% or PhP2.5 trillion in 2019, the highest figure since 2000. Both inbound and domestic tourism expenditure grew in 2019 by 23.2% and 10.4%, respectively. In terms of employment, around 5.71 million individuals, or 13.5% of the total labor force, were employed in tourism industries.

However, the recent outbreak of COVID-19 has severely affected the tourism sector. Data from the Department of Tourism (DOT) revealed that visitor arrivals were recorded at 1.3 million from January to June 2020. This translates to around 68% decline year-on-year. The adverse effect on tourism was also seen on a global scale. According to World Tourism Organization (UNWTO), international tourism figures were down by 22% year-on-year in Q1 2020 alone. This was mainly pulled down by the 57% decrease in the month of March, when most of the lockdowns were implemented in the different parts of the world. Among the regions, Asia and the Pacific experienced the biggest impact.

The pandemic has affected not only the tourism sector but also the hospitality industry, in general. Different areas in the country have been subjected to lockdowns of varying degrees since mid-March. The consequent implementation of international and domestic travel ban has put restrictions in the operation and occupancy of hotels. Moreover, leisure stay has been prohibited and accommodation establishments are only to accept guests that fall under the classifications permitted by the DOT. Furthermore, the associated risks of contracting the virus has negatively affected the general attitude of both domestic and foreign travelers.

Figure 1
Philippine Visitor Arrivals (in Millions)



Source: Department of Tourism

Metro Manila Hospitality Sector

Metro Manila has been put under various degree of quarantines from a strict Enhanced Community Quarantine (ECQ) in March 16, to a downgraded General Community Quarantine (GCQ) last June 1.

Under these quarantines, accommodation establishments were not allowed to accept guests unless they secure a Certificate of Authority to operate by the DOT. Even then, hotels can only accommodate certain types of guests. These are: (a) guests who have existing bookings, (b) long-staying guests, (c) stranded OFWs, Filipinos, or foreign nationals, (d) repatriated OFWs, (e) Non-OFWs needing mandatory facility-based quarantine, (f) essential workers and employees of exempted establishments (e.g. BPOs).

City of Dreams Casino Games
© City of Dreams Manila

In terms of hotel operations, a skeletal workforce system is being implemented. Moreover, ancillary establishments within the hotel premises are not allowed to operate or provide room service. F&B establishments, however, are permitted to prepare meals for guests or offer take-out and delivery services to customers.

Other sectors, such as gaming and transportation, are also experiencing disruptions in their operations. PAGCOR-owned and operated casinos, as well as licensed and integrated resorts in Metro Manila have temporarily suspended their operations. Meanwhile, all local carriers have suspended both commercial international and domestic flights in light of the travel ban. Both Cebu Pacific and Philippine Airlines were restricted to servicing cargo flights to transport medical supplies and sweeper flights for stranded passengers and repatriated individuals.

Performance during ECQ-MECQ

Among all the hotels within Metro Manila CBDs, only 43% remained operational during ECQ and MECQ to accommodate guests permitted by the DOT. In terms of hotel rooms, around 36% of the total inventory were made available to guests. Some accommodation establishments, especially those with higher room configuration, opted to offer only half of their total rooms to better practice social distancing.

TABLE 1
Operational Status of Metro Manila Hotels

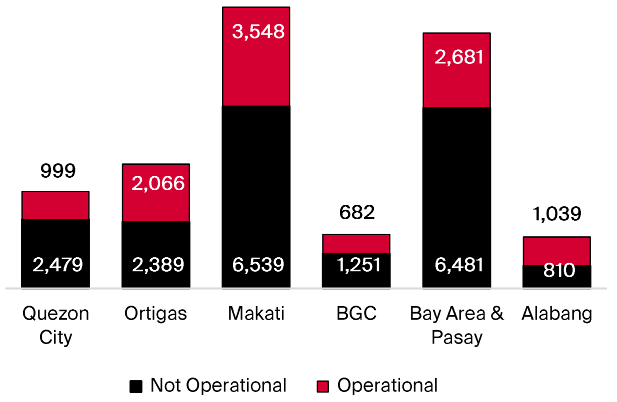
	ECQ/MECQ (March 16 to May 31)	GCQ (June 1 to present)
Operational Hotels	43%	60%
Occupancy (Operational)	58%	50%
Occupancy (MM CBDs)	25%	30%
Average Daily Rate Discount	28%	25%

Source: Santos Knight Frank Research

Over-all occupancy level in Metro Manila plunged down to 25% during the lockdown. Those that continued to operate posted 30% to 95% occupancy level, or around 58% on average. Most of the hotel rooms were occupied by BPO employees and other essential workers.

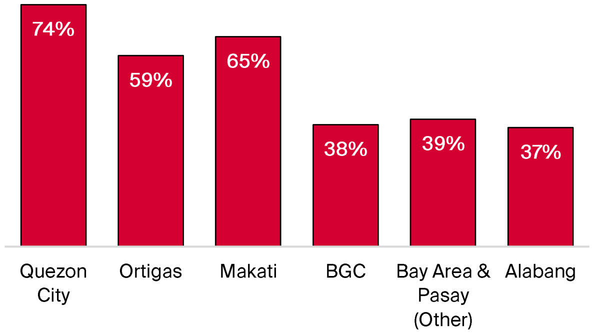
In order to sustain business operations amid the low occupancy, hotels were prompted to renegotiate their average daily rate (ADR). Some hotel operators extended additional discounts to BPO firms on top of corporate rates as a means of attracting more occupants. A few of the hotels did not change their ADR while others offered as much as 58% less of their usual room rates, bringing the average ADR discount

Figure 2
Hotel Rooms Offered per CBD (ECQ-MECQ)



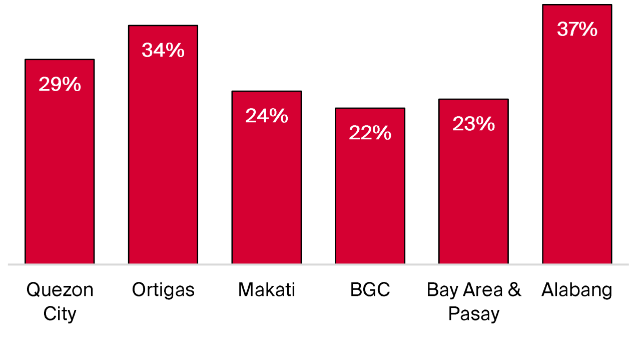
Source: Santos Knight Frank Research

Figure 3
Average Occupancy Rate per CBD (ECQ-MECQ)



Source: Santos Knight Frank Research

Figure 4
Average ADR Discount Offered per CBD (ECQ-MECQ)



Source: Santos Knight Frank Research

offered to 28%. Due to the high discounts offered, some hotel operators were reported to operate even at a loss, only doing so out of altruism, especially for their employees and front-liners.

Performance during GCQ

During GCQ, the percentage of operational hotels in Metro Manila increased to 60%, from 43% during ECQ-MECQ. This was caused by a more relaxed quarantine restrictions and more hotels acquiring permit to operate from the DOT. Similar to ECQ and MECQ, smaller room cuts were offered by accommodation establishments during GCQ as DOT only permits single and double occupancy rooms. Some hotel operators repurposed a portion of their facilities to long-stay rooms and work spaces. Some of the notable brands that have this product offering are Go Hotels, Summit Hotels, and Seda Hotels.

In contrast, lower operational occupancy levels are recorded during GCQ, ranging from 25% to 95%, resulting to 50% on average. A main factor to this decline is BPO employees moving out of the hotel establishments and adopting a work-from-home scheme. There has been a shift from BPO employees to stranded and repatriated OFWs as the main type of guests. Among the CBDs in Metro Manila, Quezon City and Makati City recorded the highest average occupancy levels. This can be explained by the presence of several 3-star hotels, which are the more preferred accommodation-type by stranded OFWs and foreign nationals.

In terms of ADR, discounts offered during GCQ are slightly lower than in the previous months, averaging 25%. Some of the hotels that have already operated during ECQ and MECQ slightly decreased their room rate discounts to compensate for the additional costs incurred in complying with the health and safety protocols by the DOT.

Moreover, some hotels that have started operating only during GCQ offered minimal discounts to recover some of the lost revenues when they temporarily stopped operations.

Upcoming Supply

Metro Manila is expected to welcome an additional supply of 23 hotels, which will offer around 6,800 rooms, from 2020 to 2024. Around 1,500 rooms are estimated to be offered by the end of this year, down from the original forecast of about 2,700 rooms prior to the quarantine. The delay in completion dates of hotels were caused by several factors such as extended lockdown, supply chain disruptions, and new working guidelines for construction activities. Moreover, other challenges faced by the hospitality sector during the pandemic, such as operational restrictions, travel bans, and other uncertainties in the market, have forced some hotel operators to suspend their opening dates indefinitely. Other operators have pushed back their target completion to a later year.

Market Trend Under New Normal

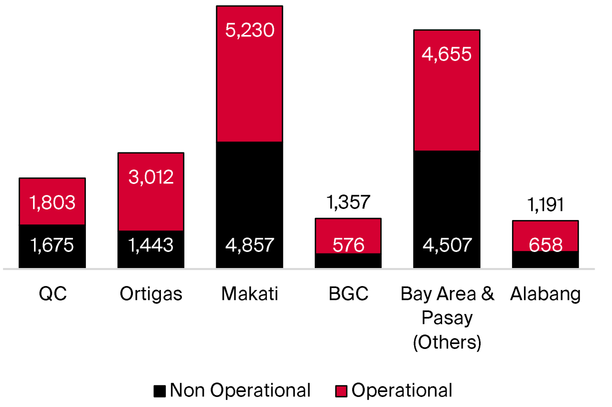
The pandemic has undeniably advanced new trends in the hospitality sector. The duration of such changes, however, remains uncertain, and will be highly dependent on the development of an effective and accessible COVID-19 vaccine.

The use of digital platforms has been giving the tourism and hospitality sector a boost and will open more opportunities in the future. The use of online booking platforms and contactless payments provides safer and more convenient transactions during and post-pandemic.

As tourists remain cautious of the health crisis, they will give preference to small group but high-value experiential travel. Outdoor activities such as road trips and sun and beach will be popular among tourists.

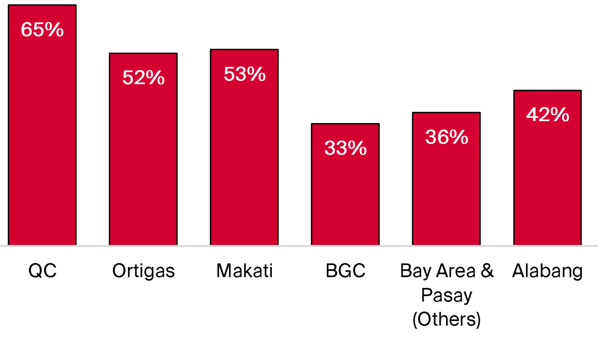
Hotels will be subjected to health and safety protocols such as thermal scanning,

Figure 5
Hotel Rooms Offered per CBD (GCQ)



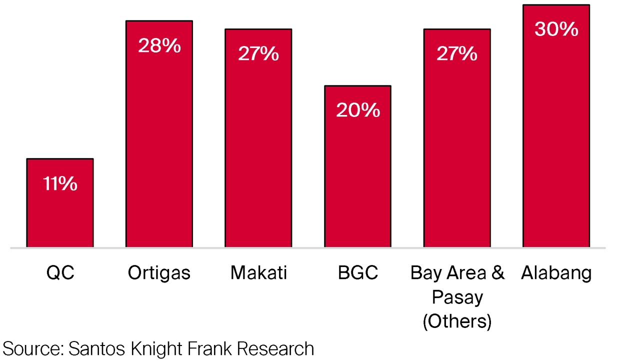
Source: Santos Knight Frank Research

Figure 6
Average Occupancy Rate per CBD (GCQ)



Source: Santos Knight Frank Research

Figure 7
Average ADR Discount Offered per CBD (GCQ)



Source: Santos Knight Frank Research

social distancing measures, maximum of double occupancy rooms, and provision of sanitation kits to guests.

Outlook

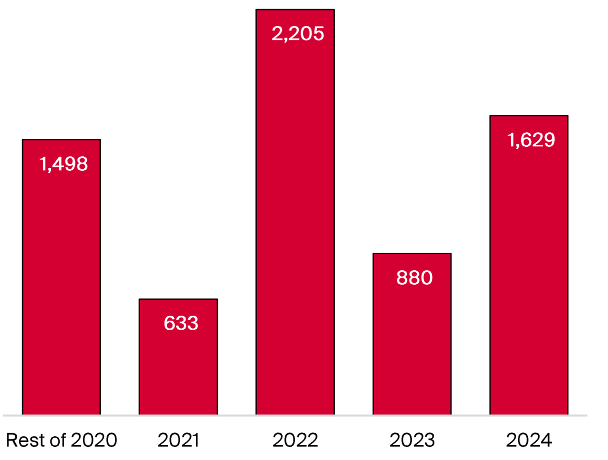
In terms of recovery, leisure demand has the potential to restart the industry. Domestic travelers are seen to engage in short travel distances, such as traveling to neighboring cities or provinces, and eventually going farther distances as travel becomes mainstream again. However, demand for leisure travel will be highly dependent on the travel restrictions and quarantine status of the respective LGUs of destination. Also, taking into account the associated risks from the virus, engaging in leisure travel will be subject to the discretion of the individual travelers. For international leisure tourists, travel restriction from the country of origin will also be an additional factor.

Likewise, demand for business travel will remain uncertain depending on the travel restrictions as well as the financial capabilities of the companies. Recovery will be much slower in areas with stricter quarantine than MGCQ as only those employees from exempted establishments, such as government offices, are allowed to travel. Moreover, processing and securing of documents, such as travel passes, will take significant time and effort.

M.I.C.E. operations are strictly prohibited in ECQ, MECQ, and GCQ areas, but have the option to conduct events via online platforms where no physical interactions are involved. However, physical M.I.C.E. events will be allowed in areas under MGCQ, provided that they will be limited to 50% of the maximum venue capacity.

Despite some drastic effects of the pandemic to the local hospitality sector, some destinations in the country are still receiving international recognition. Forbes included the Philippines in its nominal list of top tourist destinations post-COVID-19. The list, which included six other countries in

Figure 8
Upcoming Hotel Supply (in Number of Rooms)



Source: Santos Knight Frank Research

the different parts of the world, featured the cities of Manila and Quezon in Metro Manila as destinations for those who want to experience mainstream Filipino culture. Those tourists looking for beach destinations may try Palawan and Boracay.

Palawan has been recognized by two other international travel publications. El Nido's Hidden Beach took the 20th spot in Condé Nast Traveller's "The 30 Best Beaches in the World." The island province has also been voted as the best island in the world in 2020 by the readers of travel publication Travel + Leisure. This marks Palawan's fourth time winning the same award since first receiving it in 2013.

Citations such as those mentioned will help the distressed industry recover post-pandemic. Moreover, DOT is ramping up its efforts to revive the industry by gradually reopening domestic tourism, as well as helping hospitality stakeholders through various financial recovery plans. With the emerging challenges and trends in the sector, it is important now more than ever that hospitality players pivot their properties to new opportunities.

Manila Office
10th Floor, Ayala Tower One & Exchange Plaza
Ayala Avenue, Makati City, 1226
t: (632) 752-2580
f: (632) 752-2571
w: www.santosknightfrank.com

Cebu Office
Suite No. 30, Regus Business Center
11th Floor, AppleOne Equicom Tower
Mindanao Avenue corner Biliran Road
Cebu Business Park, Cebu City 6000
t: (6332) 318-0070 / 236-0462

MANAGEMENT

Rick Santos
Chairman and CEO
Rick.Santos@santos.knightfrank.ph

OCCUPIER SERVICES AND COMMERCIAL AGENCY

Morgan McGilvray
Senior Director
+63 917 865 3254
Morgan.McGilvray@santos.knightfrank.ph

INVESTMENTS AND CAPITAL MARKETS

Ninoy Teo
Senior Director
+63 917 574 3035
Ninoy.Teo@santos.knightfrank.ph

VALUATIONS

Mabel Luna
Director
+63 917 865 3712
Mabel.Luna@santos.knightfrank.ph

RESIDENTIAL SERVICES

Kim Sanchez
Associate Director
+63 917 537 9650
Kim.Sanchez@santos.knightfrank.ph

PROPERTY MANAGEMENT

Ed Macalintal
Director
+63 917 533 7750
Edgardo.Macalintal@santos.knightfrank.ph

PROJECT MANAGEMENT

Allan Napoles
Managing Director
+63 917 527 7638
Allan.Napoles@santos.knightfrank.ph

TECHNICAL SERVICES AND ENGINEERING

Juvel Cedo
Business Development Manager
+63 917 635 8102
Juvel.Cedo@santos.knightfrank.ph

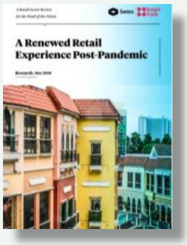
FACILITIES MANAGEMENT

Dennis Nolasco
Senior Director
+63 917 553 5646
Dennis.Nolasco@santos.knightfrank.ph

RECENT PUBLICATIONS

The Hospitality Sector Rebound

A Renewed Retail Experience Post- Pandemic



Metro Manila Market Update Q1 2020

The Residential Sector Amid the Challenging Times

RESEARCH & CONSULTANCY

Jan Custodio
Senior Director
+63 917 574 3572
Jan.Custodio@santos.knightfrank.ph

Glen Sulibit
Senior Research Manager
Glen.Sulibit@santos.knightfrank.ph

Rhys Revecho
Research Analyst
Rhys.Revecho@santos.knightfrank.ph

Gelo Manansala
Research Analyst
Angelo.Manansala@santos.knightfrank.ph

Ivy Ohoy
Research Analyst
Ivy.Ohoy@santos.knightfrank.ph

Shai Retuya
Research Analyst
Shaira.Retuya@santos.knightfrank.ph

Andrea Villadoz
Research Analyst
Andrea.Villadoz@santos.knightfrank.ph

Santos Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organizations, corporate institutions and the public sector. All our clients recognize the need for expert independent advice customized to their specific needs.

Scan the QR Code to see Santos Knight Frank Research Publications