Santos Knight Frank

Metro Manila Hospitality Market Update

Shifting Gears: The Reignition of the Hospitality Industry

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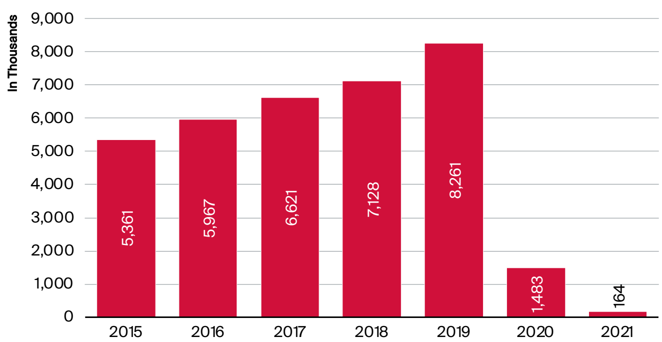
Q3 2022

General Overview

The hospitality industry has always been a key component of the Philippine economy. It has awakened after being dormant for almost two years. Domestic and foreign travelers have flocked to the different tourist destinations as the country relaxed its health restrictions and reopened its borders.

Prior to the pandemic, the tourism industry contributed approximately 13% of gross domestic product (GDP). It took a major hit on the onset of the COVID-19 pandemic as countries, including the Philippines, imposed mandatory border closures. The Philippines saw foreign tourist arrivals plummet in 2020 by 82% to approximately 1.42 million arrivals. This is in stark contrast to foreign tourist arrivals in 2019 which saw the country receive 8.3 million tourists. The country's tourism industry continued to be pressured in 2021 with figures reaching a mere 164,000 arrivals, a dip of 88.95% from 2020. This was to be expected as borders and lockdowns continued to be imposed, both in the Philippines and in other countries, amidst several surges of COVID-19 cases.

Figure 1.
Philippine Tourist Arrivals (2015-2021)



Source: Santos Knight Frank Research

Philippine tourism during the pandemic was buoyed by domestic travel. Over 37.3 million trips took place in 2021. This was 38.16% more than the 26.9 million domestic trips recorded in 2020. Additionally, the tourism industry registered a 4.6% growth in employment with 4.9 million people employed in 2021. The National Capital Region (NCR) was recorded to be the most frequently visited destination of local tourists in 2020 and 2021.

The Philippines, however, cannot remain hidden behind the pandemic, lockdowns and border closures. Over the years, the Philippines has received awards for its beaches, diving spots, and other cultural attractions making it a key tourist destination in the region. According to the Department of Tourism, the Philippines was close to reaching its target of 1.7 million arrivals as of September 2022. In addition, visitor arrivals from February to September 2022 brought in about PhP 100 billion, a phenomenal increase from the PhP 4.94 billion recorded in the same period last year.

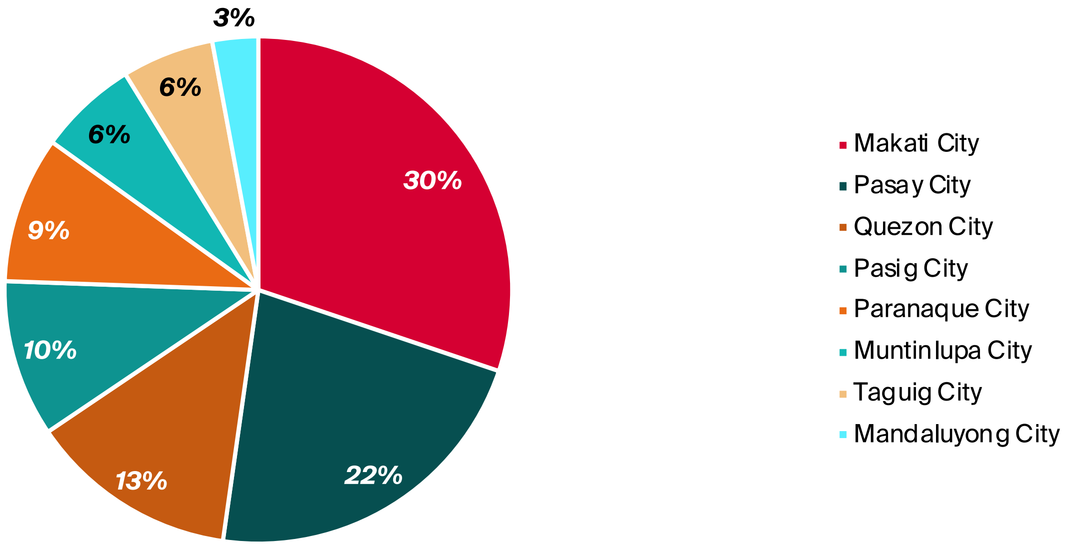
The hospitality industry in the Philippines and more so in Metro Manila, will continue to benefit from borders opening and foreign and domestic tourists' "revenge travelling". As the gateway and economic center of the Philippines, majority of business travelers and tourists would have to transit to or through the capital as a jump off point to other regional destinations. In addition, Metro Manila hosts multiple conferences, summits, and meetings each year. One such event was the World Travel and Tourism Council's Global Summit which took place in Metro Manila last April 2022. Metro Manila's hospitality sector may not yet have reached pre-pandemic levels, but with tourist arrivals increasing, borders and the economy opening, and new establishments being built, one can't help look forward to what's to come.

Hotel Distribution

Metro Manila, being the capital and the central hub of the country, hosts an immense amount of hotel establishments. These hotels target a wide variety of travelers, from the budget type, to business, and to luxurious. In total, Metro Manila, consists of at least 29,670 hotel rooms, close to the 30,000 rooms recorded prior to the pandemic.

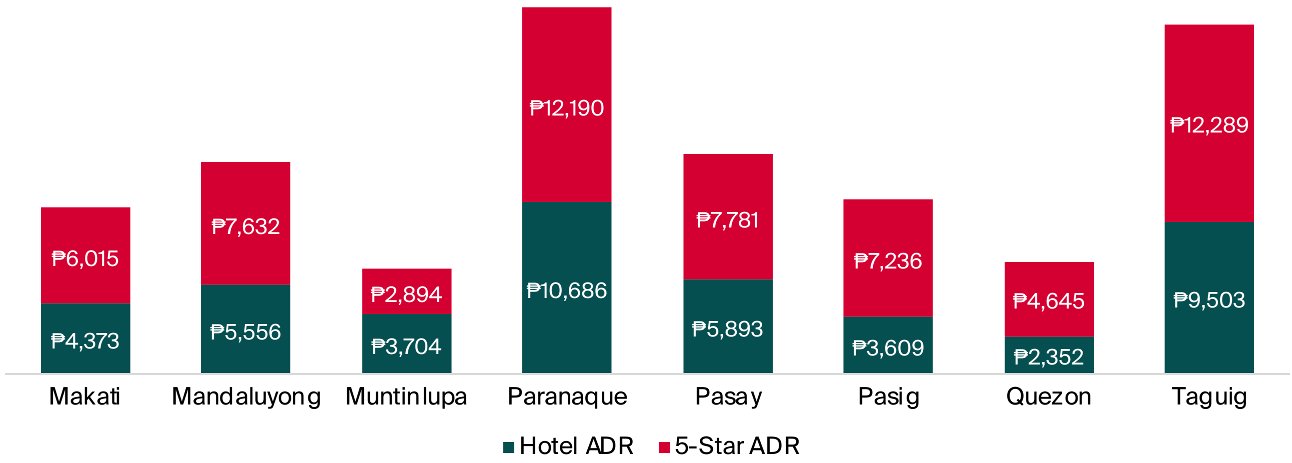
Of the cities in Metro Manila, Makati City is not only centrally located, but serves as the economic center of the capital. Dubbed as the "Financial Capital of the Philippines", it hosts the greatest number of rooms compared to other cities in the metropolis. The city holds close to 9,000 rooms and make up 30% of Metro Manila's room capacity. This was followed by Pasay City and Quezon City, making up 22% and 13% respectively. Of the cities recorded, Mandaluyong has the least number of hotels with 870 rooms or 3% of total supply. Travelers tend to stay close to the airport or place of business when staying in the capital. This would explain why Makati and Pasay are on the top of the list. Quezon City tends to attract mainly business travelers, returning Filipinos, and domestic tourists. Given Quezon City's size and distance from the airport, it is likely that these travelers would instead stay in a hotel close to their intended purpose of travel.

Figure 2.
Metro Manila Hotel Distribution as of Q3 2022



Source: Santos Knight Frank Research

Figure 3.
Metro Manila ADR of Hotels (in PHP)



Source: Santos Knight Frank Research

Average Daily Rate

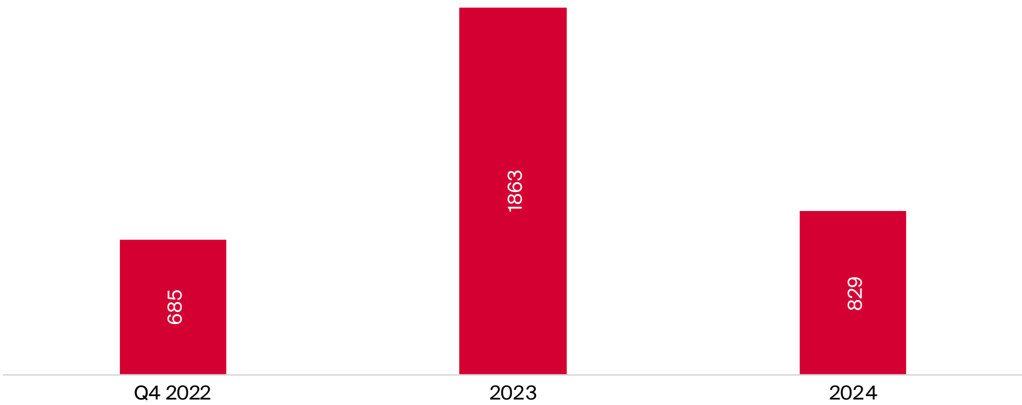
The Average Daily Rate (ADR) in Metro Manila stands at approximately PhP 5,246.04. Paranaque City was recorded to have the highest ADR among the cities in Metro Manila at approximately PhP 10,685.80. ADRs for hotels in Paranaque City were pulled up mainly by the hotel casinos in the area. Although relatively high, Paranaque's ADR has yet to reach pre-pandemic levels which was recorded at close to PhP 20,000 a night. This is compared to Makati, although considered the financial capital and holds the most 5-star hotels, the ADR was recorded at a mere PhP 4,082.02. Prices were mostly brought down by the lower tiered hotels. Following Paranaque is Taguig and Pasay with an ADR of PhP 9,503.06 and PhP 5,893.01 respectively. Similar to Paranaque and other cities in Metro Manila, ADRs are still below pre-pandemic levels, but as the industry recovers with more tourist arrivals, it is expected to increase accordingly.

ADR in Taguig city matches the features and amenities expected by its target clients who are mainly business travelers and top level executives. This reflects that the hospitality industry in Paranaque and Taguig caters more to either foreign or high-end domestic tourists and business travelers.

Upcoming Developments

The hospitality industry in Metro Manila is expected to open 3,370 rooms in the coming years. Of this, 1035 rooms are expected to open in Paranaque, 809 rooms are expected to open in Taguig, 613 rooms in Pasig, 500 rooms in Makati, and 420 rooms in Quezon City. Even amidst external threats, the construction of these establishments are continuing and as average daily rates continue to rise in the metropolis, it is yet another reflection of the positive trajectory the hospitality industry is on. Notable developments include Grand Westside Hotel in Paranaque City developed by Megaworld, expected to open in the fourth quarter of 2022; Pullman Living Manila located near the Ortigas central business district, which is expected to be completed by 2023; the Westin Sonata Place Hotel in Pasig, which has a target opening date of March 2023; and Citadines Roces in Quezon City, also expected to open by 2023.

Figure 4.
Metro Manila's Upcoming Hotel Room Supply for 2022-2024



Source: Santos Knight Frank Research

Upcoming Developments

Overall, tourism will continue to see improvements in 2022 and onwards. As countries move past and adapt to COVID-19, travel will again become accessible to millions of people all over the world. The government is also seeing a recovery of the country's tourism industry as borders and travel ease. The government has yet to release monthly tourism data, but has recently announced that tourist arrivals as of September have almost reached it's target of 1.7 million.

Barring any new COVID surges or lockdowns, the positive trajectory of the hospitality industry in Metro Manila and the country will continue. Even if the industry has yet to reach pre-pandemic levels, with prices and tourist arrivals rising, as well as the continued construction of new hotels, the hospitality industry is well on its way to reach and surpass its previous state. Known for our "Filipino Hospitality," it is expected that more tourists will come to our shores in the coming months and years. Additionally, as the economic engines of the country reignite and economic liberalization laws implemented, foreign investment and business is expected to rush in, bringing with them foreign business travelers, consultants, and other staff that will require temporary lodging. More importantly, the approaching holiday season will bring about more staycations, tourists, and balikbayans.

The industry, however, does face major headwinds such as rising commodity and energy prices, the continued impacts of the Ukraine-Russia conflict, supply chain disruptions amidst lockdowns in China, airport congestion, and lack of modern infrastructure. Only time will tell how these headwinds will impact the industry, but as borders open and with revenge travelling, the Philippines will continue to be an attractive destination both in the region and in the world.

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