



**2019 South Korea
Hotel Industry
Survey of Operations**

2018 Calendar Year

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FOREWORD BY HORWATH HTL – ASIA PACIFIC



Dear Industry Partners,

Horwath HTL is pleased to present the 2019 South Korea Hotel Industry Survey, which represents results of Calendar Year 2018 gathered from surveys received from notable properties. This year's study attracted a total of 35 participating resorts, which accounted for 11,122 rooms.

In 2018, international visitor arrivals to South Korea saw a year-on-year increase of 15.1 percent. This was mostly due to eased tensions between China and South Korea from the 2017 THAAD incident. The mainland Chinese market, South Korea's largest single foreign source market, experienced a 14.9 percent year-on-year growth in arrivals in 2018. The Japanese market also witnessed strong growth in arrivals in 2018, increasing by 27.6 percent.

Among the 2019 survey participants, occupancy declined by five percentage points year-on-year. This was partly due to the entry of several newly-opened properties, which were still ramping up their operations. Meanwhile, ADR increased by one percent year-on-year. Overall, RevPAR decreased by five percent.

We would like to extend our deepest appreciation to all participants in this survey, without which this survey would not have been possible. We are grateful for any feedback or comments you may have to offer that will assist us in continuing to improve the utility of this survey. You are more than welcome to visit our website at www.horwathhtl.asia for more information about us and other publications we release throughout the region.

A handwritten signature in black ink that reads "Robert Hecker". The signature is fluid and cursive, with the first name "Robert" and the last name "Hecker" clearly legible.

Robert Hecker
Managing Director
Horwath HTL – Pacific Asia

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MARKET AND SURVEY INTRODUCTION

TOURISM MARKET

South Korea saw a total of 15.3 million international visitor arrivals in 2018, up 15.1 percent from 2017. The easing of political tensions between China and South Korea after the 2017 THAAD incident as well as the Chinese government's partial lift on the ban on Chinese tour groups to South Korea in the later half of the year contributed to a strong increase in mainland Chinese arrivals. Inbound arrivals from China rose by 14.9 percent, a strong rebound from 2017's 67 percent decline. The Japanese source market also rebounded strongly in 2018, growing by 27.6 percent year-on-year compared to a 5 percent decline in 2017. Japan and Chinese arrivals accounted for 50.2 percent of total international arrivals in 2018. The Hallyu wave and proximity via a short direct flight are contributing factors that led to strong inbound arrivals from both Mainland China and Japan.

Meanwhile, despite holding the 2018 Pyeongchang Winter Olympics in February 2018, the country's overall international arrivals for that month still registered a negative 16.5 percent growth month-on-month. This was largely due to continued decline in Chinese arrivals for the same period as the Chinese tour group ban still in effect then. However, the following month saw an increase in arrivals by 10.7 percent month-on-month as international recognition of South Korea increased after the winter Olympics.

Additional, South Korea has also made efforts to diversify its nationality mix by tapping on the Muslim travel market. More businesses are evolving to become Halal-friendly, such as restaurants and accommodations. This has paid off, as Malaysia, Kazakhstan, and Uzbekistan arrivals grew by 24.5 percent, 18.8 percent, and 9.3 percent in 2018 respectively.

HOTEL MARKET

Based on our survey findings, the hotel market experienced a decline in occupancy by 5 percentage points. The entry of several relatively new hotels in the survey was a contributing factor to the lower overall occupancy as these hotels seek to stabilise their performance. Meanwhile, overall ADR was up by 1 percent year-on-year, which resulted in an overall RevPAR decline of 5 percent.

SURVEY ACCURACY NOTES

The benchmark data presented in this survey of operations for the hotel industry offers users a baseline reference on the operational performance of hotels in each category by and large. With great emphasis on presenting accurate benchmarks, the following fundamentals on the results presented should be noted.

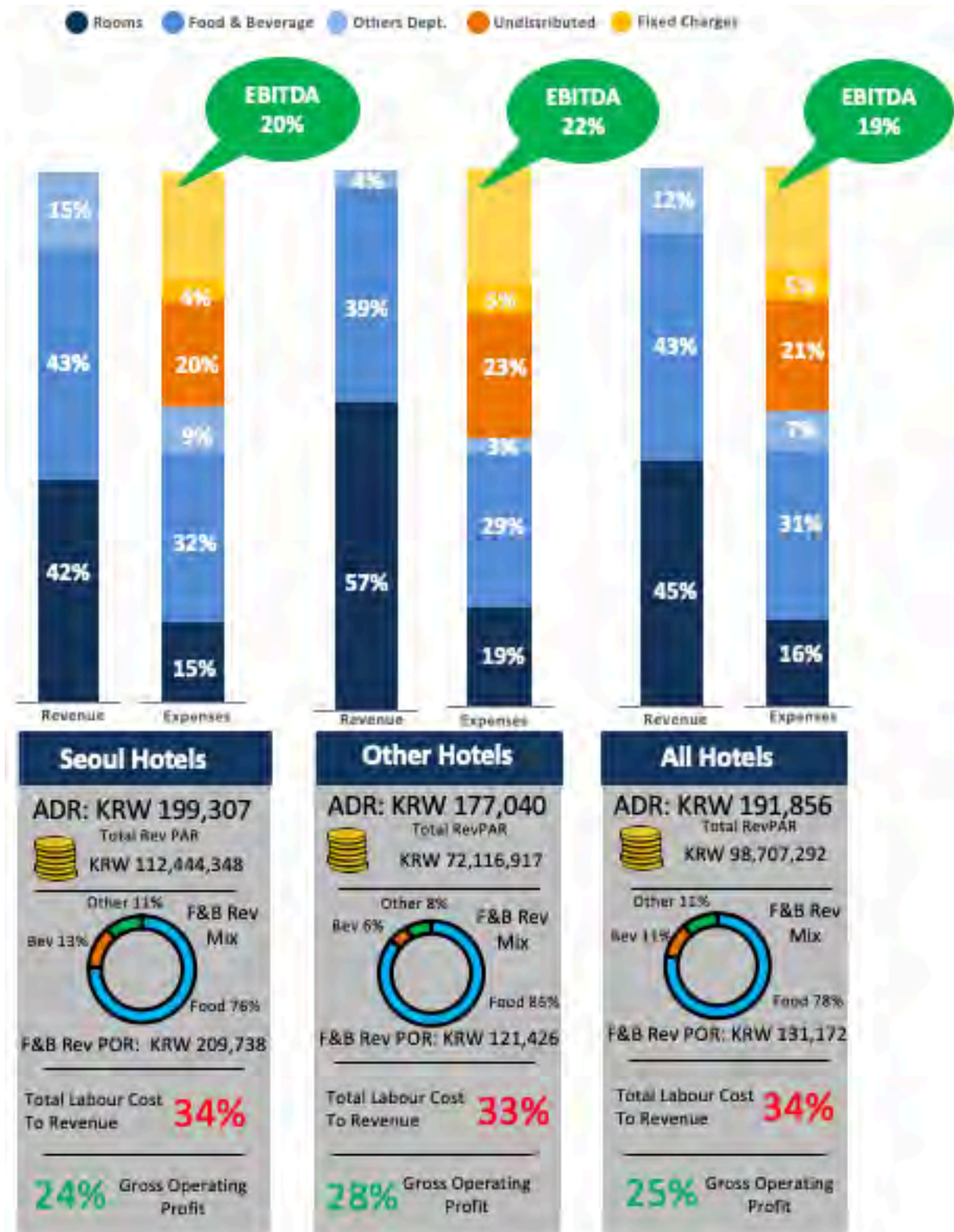
Service Charges: In accordance to local industry practice, all respective departmental revenues, Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) are inclusive of Service Charges.

Previous Year Comparisons: The derivation methods of the previous year data (presented in the Summary of Results), has been retroactively adjusted to be consistent with the current year practice. On this note, the 2017 performance figures shown in this current 2019 study (calendar year 2018) might not be identical to the previous year's study.

Line Items: Vertical totals and averages may not add up as each average indicator is based on the hotels that contribute data for each specific line item.

Requisite Sample Size: Each average benchmark figure will only be presented if the number of respondents is more than 10 percent of the total respondents in the respective column group. Anything less than 10 percent will be show as Not Available (N/A).

Categories by Number of Rooms: In previous years, we have used number of rooms as a category along with average daily rates and locations. However, as of 2014, we have chosen not to segment hotels by size to avoid misleading data. If we rely solely on number of room size, data from hotels in different segments, such as budget and luxury, could be combined and create false averages. We feel that analysing hotels based on rate category and location provides stronger and more accurate data.



SUMMARY OF RESULTS

KEY FINDINGS

The 2019 survey had 35 participating hotels, resulting in a total of 11,122 available rooms per day.

- Occupancy declined by 5 percentage points YoY on the back of an increase in RNA by 5 percent and a decrease in RND by 1 percent over the same period.
- RevPAR grew negatively by 5 percent YoY; the 1 percent increase in ADR was not enough to negate the 5 percent decline in occupancy.
- Operating revenue growth was flat while operating expenses declined by 2 percent YoY, hence GOP grew from 24 percent to 25 percent.
- Due to a decline in fixed charges, EBITDA grew by 29 percent YoY.

TABLE I.1 2018 vs. 2017

SUMMARY OF RESULTS	2018	2017	% Change
Total Number of Hotels	35	34	3%
Total Number of Available Rooms per Day	11,122	10,602	5%
Total Number of Occupied Rooms per Day	7,439	7,480	-1%
Occupancy	67%	71%	-5%
Average Number of Guests per Occupied Room	2.2	1.5	46%
Average Daily Room Rate (KRW)	191,856	190,829	1%
RevPAR (KRW)	128,318	134,640	-5%
Average Rate per Guest Night (KRW)	84,782	94,545	-10%
Total Revenue per Guest Night (KRW)	179,360	183,099	-2%
Total Revenue per Available Room (KRW)	98,707,292	99,090,930	0%
Total Expenses per Available Room (KRW)	73,619,768	75,178,897	-2%
GOP per Available Room (KRW)	25,087,525	23,912,033	5%
GOP as a Percentage of Revenues	25%	24%	4%
Fixed Charges per Available Room (KRW)	5,422,264	8,622,541	-37%
EBITDA per Available Room (KRW)	19,665,261	15,289,492	29%

Note:

Vertical totals may not add up as averages are based on respondents that contribute for each specific line items.

GOP: Gross Operating Profit

EBITDA: Earnings Before Interests, Taxes, Depreciation and Amortization