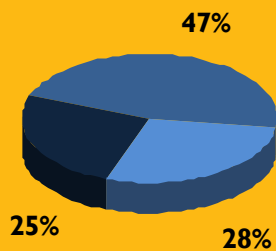




# SHENZHEN HOTEL MARKET SENTIMENT SURVEY

May 2010

SHARE OF RESPONDENTS



■ 3-Star

■ 4-Star

■ 5-Star

## INTRODUCTION

The Horwath HTL Shenzhen Hotel Market Sentiment Survey, part of a national assessment, has been designed to provide the Shenzhen hotel industry a quick assessment of the future market outlook. The survey focuses on the outlook for occupancy, average room rates and total revenue.

In this survey, hoteliers have also been asked to make comments on their expectations for the year of 2010 in comparison to the last year, as well as comment on the impact of key factors that drive room night demand growth.

This report summarizes the outcome of the survey and compares the Shenzhen market sentiment with that of other markets across China. Of the 32 respondents from Shenzhen, the majority of them were from 4-star hotels (47 percent), followed by 5-star hotels at 28 percent and 3-star hotels at 25 percent. The composition of the participating properties from Shenzhen in terms of star classification is inconsistent with that across China, with 5-star properties in Shenzhen at 28 percent, compared to 59 percent of a total of 383 respondents across China and 3-star properties in Shenzhen at 25 percent, compared to 5 percent across China.

Having been through one of the worst years in recent history, it is not surprising to find most markets across China, including Shenzhen, have a vastly improved outlook for 2010. This is in line with our survey findings of the China Hotel Market Sentiment Survey. The following analysis provides some useful insight as to the expectations for different hotel markets across Shenzhen.



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## SENTIMENT RANKINGS

By Key City	Score		
	Feb '09	Jul '09	Jan '10
1. Shanghai	-40	-70	65
2. Sanya	-38	-16	65
<b>3. Shenzhen</b>	<b>-55</b>	<b>-66</b>	<b>52</b>
4. Chongqing	20	48	52
5. Beijing	-50	-64	51
6. Suzhou	-44	-58	51
7. Guangzhou	2	-56	46
8. Hangzhou	-44	-11	37
9. Dalian	-84	-73	32

*"Shenzhen ranked 3rd with a score of positive 52, which had a big shift in sentiment through July 2009."*

## RANKING SCORE KEY

Much Worse	-150.0
Worse	-75.0
Same	0
Better	75.0
Much Better	150.0

## SENTIMENT RANKINGS

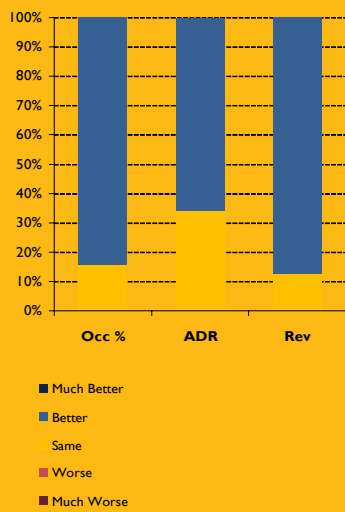
As a way to measure and compare the results across regions and cities in China, we have created an index to formulate an overall average sentiment score from all survey questions. Points were assigned to each corresponding response and compounded accordingly. The index utilized a scale of negative 150 to positive 150 in which a score of negative 150 denotes a sentiment of absolute pessimism; a zero score indicates unchanged expectations from the previous year whereas a positive 150 signifies a very optimistic outlook. The sentiment index or score allows trends to be observed over time.

After a deterioration of the market sentiment in the July 2009 China Survey, hoteliers across all regions and key cities in China have returned to a positive frame of mind in 2010. Naturally the positive outlook for 2010 is relative to the poor performances recorded across the region in 2009 and should be viewed in that context.

Shenzhen's ranking has taken a big shift from the previous report after being ranked 11<sup>th</sup> with a score of negative 66 in July 2009. Shenzhen is currently ranked 3<sup>rd</sup> with a score of positive 52. This is clearly indicating that hoteliers in Shenzhen are eagerly expecting significant improvement performance in 2010.

Within the Shenzhen market, the 5-star submarket registered the highest positive score of 59, while the 4-star submarket scored a slightly lower positive score of 49, 3-star submarket showed its optimistic sentiment at a score of 48. This is a clear sign that all star rating submarkets in Shenzhen expect to see a return to growth.

**RATIO OF RESPONSES**



*“Significantly, no Shenzhen hoteliers expect occupancy, ADR and total revenue to decline.”*

**EXPECTATION FOR 2010**

Key Cities	Occ	ADR	Rev	Avg
Chongqing	63	43	63	57
Chengdu	66	56	66	63
Hangzhou	44	25	38	35
Wuhan	75	70	75	73
Sanya	73	60	83	72
Nanjing	61	27	61	50
Qingdao	83	25	75	61
Guangzhou	60	30	60	50
Suzhou	75	34	48	52
Beijing	70	24	59	51
<b>Shenzhen</b>	<b>63</b>	<b>49</b>	<b>66</b>	<b>59</b>
Shanghai	85	46	78	70
Tianjin	75	8	50	44

**2010 MARKET OUTLOOK — WHAT IS YOUR ASSESSMENT OF THE HOTEL MARKET FOR 2010 VS. 2009?**

Shenzhen hoteliers were asked their expectation for performance levels in 2010 compared to that recorded in 2009, in relation to hotel occupancy (Occ), average room rate (ARR) and hotel revenues. The majority of respondents stated that they expected occupancy and total revenue to perform better in 2010 in comparison to 2009.

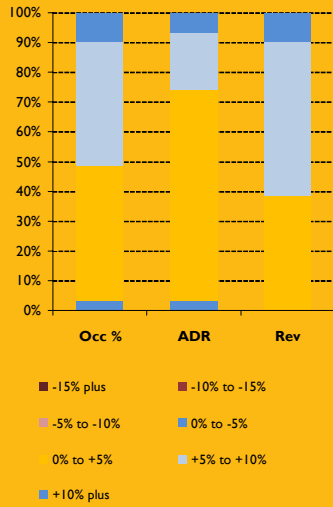
In response to the market wide occupancy performance for the coming year, 84 percent of Shenzhen hoteliers replied that they expect better performance in occupancy levels compared with 2009. A total of 16 percent expect that performance will be as same as 2009. Significantly, no Shenzhen hoteliers expect occupancy to decline.

The outlook for average daily rates is not as positive as occupancy, with 34 percent of Shenzhen hoteliers replying that ADR will remain the same as it was in 2009, while 66 percent of respondents hold an optimistic outlook. Also, no Shenzhen hoteliers expect ADR to decline.

In terms of total revenue, a clear majority of 88 percent of Shenzhen respondents expect that hotel revenues will be higher compared to 2009, while 12 percent of respondents feel that their revenue level will remain the same. The expectation of total revenue is consistent with occupancy performance and ADR in Shenzhen, in that no hoteliers expect total revenue to decline this year.

All cities we listed showed a positive outlook for 2010, especially in regards to occupancy. The most positive cities were Wuhan, Sanya and Shanghai with an average score above positive 70. Shenzhen recorded a positive average score of 59. Hoteliers in Shenzhen have more confidence in total revenue growth but hold a relatively cautious outlook on the ADR performance in 2010.

**RATIO OF RESPONSE**



*“Shenzhen hoteliers showed higher expectations in the coming year”*

**EXPECTATION FOR 2010**

Key Cities	Occ	ADR	Rev	Avg
Chongqing	68	74	76	73
Chengdu	56	56	69	60
Hangzhou	54	58	54	56
Wuhan	77	67	83	76
Sanya	80	75	88	81
Nanjing	64	41	59	55
Qingdao	89	56	94	80
Guangzhou	80	50	70	67
Suzhou	77	36	68	61
Beijing	89	51	90	77
<b>Shenzhen</b>	<b>79</b>	<b>65</b>	<b>86</b>	<b>76</b>
Shanghai	103	77	102	94
Tianjin	61	28	50	46

**HOTEL PERFORMANCE EXPECTATION – FOR YOUR HOTEL, WHAT IS YOUR EXPECTATION FOR GROWTH/DECLINE FOR 2010 VS. 2009?**

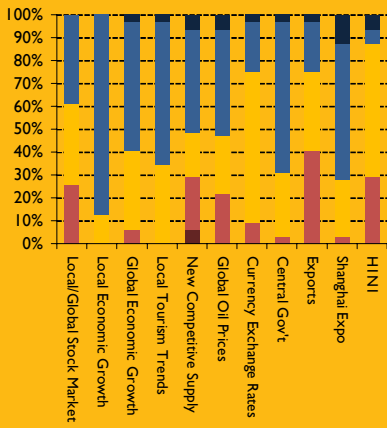
The second survey question asked Shenzhen hoteliers to give their expectation of how their respective hotels will fare in 2010 in comparison to 2009, in percentage terms.

All cities had positive sentiment scores for their respective hotel performance outlook. For question 2, the average China sentiment score was positive 71. Shenzhen hoteliers showed higher expectations that their respective hotels to perform better than market in the coming year with a score of positive 76.

As with the general outlook for question 1, in all key cities, hoteliers were more optimistic in regards to occupancy growth than ADR. Among the key cities, Shanghai is the most optimistic city, scoring 94, which should be mainly attributed to their positive outlook for the World Expo.

Shenzhen recorded a positive score of 76. Over 51 percent of Shenzhen hoteliers expect to see an improvement in occupancy growth of at least 5 percent and over 61 percent of hoteliers expecting to see hotel revenue increase over 5 percent. However, as can be seen, the majority of Shenzhen hoteliers do not expect to see the same increase in ADR for 2010, with over 70 percent of hoteliers expecting to see less than a 5 percent increase.

**RATIO OF RESPONSES**



■ Very Positive Impact  
 ■ Positive Impact  
 ■ No Impact  
 ■ Negative Impact  
 ■ Very Negative Impact

*“Over 87 percent of respondents expect a positive impact from local economic trends in 2010”*

**FACTORS AFFECTING PERFORMANCE RANKING**

1. Local/Global Stock Market	9
2. Local Economic Trends	66
3. Global Economic Growth Trends	42
4. Local Tourism Trends	52
5. New Competitive Supply	17
6. Global Oil Prices	28
7. Currency Exchange Rate	14
8. Central Government Policy	52
9. Exports	(9)
10. Shanghai Expo	61
11. HINI	(7)

**FACTORS EFFECTING PERFORMANCE – HOW EACH OF THE FACTORS BELOW ARE EXPECTED TO INFLUENCE HOTEL MARKET PERFORMANCE IN 2010?**

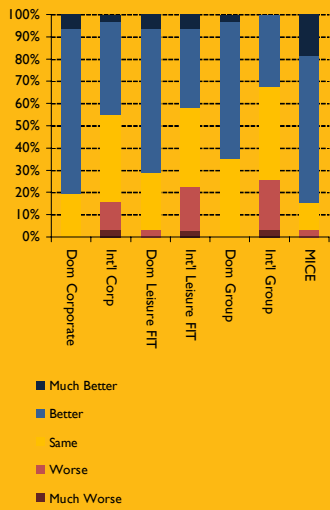
Each hotelier was also asked to gauge their attitude towards eleven factors and how these will impact their hotels’ performance in 2010.

1. Local/global stock market performance
2. Local economic growth trends
3. Global economic growth trends
4. Local tourism trends
5. New competitive supply additions
6. Global oil prices
7. Currency exchange rates
8. Central Government Policy
9. Decline in exports
10. Shanghai Expo
11. HINI virus

Shenzhen hoteliers ranked local economic trends to be the most positive of the 11 factors listed for 2010 with a sentiment score of 66 and over 87 percent of respondents expecting a positive impact. Shanghai Expo is also cause for optimism with 72 percent of Shenzhen respondents indicating that Shanghai Expo would have a positive impact on performance in 2010, with a sentiment score of positive 61.

Due to Shenzhen’s high reliance on foreign trade markets, exports had the lowest score at negative 9, although 34 percent expected that the export market would have no impact on performance. Additionally, it should be noted that new competitive supply is not expected to continue to have a negative impact on performance levels in 2010 with a score of positive 17 and only about 29 percent of hoteliers having a pessimistic outlook in regards to new supply.

**RATIO OF RESPONSES**



*“The majority of Shenzhen hoteliers had a positive outlook about the future performance of domestic demand and MICE segments”*

**MARKET SEGMENT PERFORMANCE**

1. Domestic Corporate	65
2. Foreign Corporate	22
3. Domestic Leisure FIT	56
4. Foreign Leisure FIT	17
5. Domestic Leisure Group	51
6. Foreign Leisure Group	2
7. MICE	75

**MARKET SEGMENT PERFORMANCE — HOW ARE EACH OF THE MAJOR DEMAND SEGMENTS EXPECTED TO PERFORM IN 2010 VS. 2009?**

The last question dealt with each participant’s opinion with regard to primary market demand segments which were Corporate, Leisure FIT, Leisure Group and MICE (Meetings, Incentive, Conference, and Exhibition) and how they are expected to perform in 2010.

The majority of the Shenzhen hoteliers had positive opinions about the future performance of the domestic corporate, domestic leisure FIT, domestic leisure group and MICE demand segments, with over 64 percent of respondents expecting a better performance for these demand segments, which should be attributed to a return to economic growth across the globe, a strong domestic market and the continued benefit from a positive central government policy.

Despite the positive outlook, hoteliers in Shenzhen are not as optimistic towards demand growth from international demand sources. All international demand segments scored a lower sentiment ranking than their respective domestic counterparts. The leisure group segment also scored low in comparison to the other demand segments.

The Shenzhen 5-star submarket generally followed the same trend. Foreign leisure FIT and foreign leisure group registered the lowest sentiment scores of positive 25 and negative 8. On the contrary, hoteliers showed a very optimistic outlook for the MICE demand of the 5-star submarket, with a sentiment score of positive 100. The high expectation of MICE demand growth indicated that Shenzhen hoteliers are looking forward of more conventions, exhibitions and trade shows under the positive economic environment in 2010.

## CONCLUSIONS

In conclusion, hoteliers in Shenzhen recorded significant improvement in their sentiment towards the market outlook since the last survey in July 2009, with all respondents managing to record an overall sentiment score that was positive. However, exports was the most negative factor and with around 40 percent of respondents expecting the export market to have a negative impact on market performance in 2010. The MICE, domestic corporate, domestic leisure FIT demand and domestic leisure group segments were expected to have the most positive influence on demand growth in 2010, indicating that hoteliers are relatively optimistic about the domestic market. The survey respondents showed more conservative expectation on international segments, especially on both foreign leisure group and FIT segments.

Horwath HTL would like to thank the Shenzhen Hotel Association for their strong support of the China Hotel Market Sentiment Survey.

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