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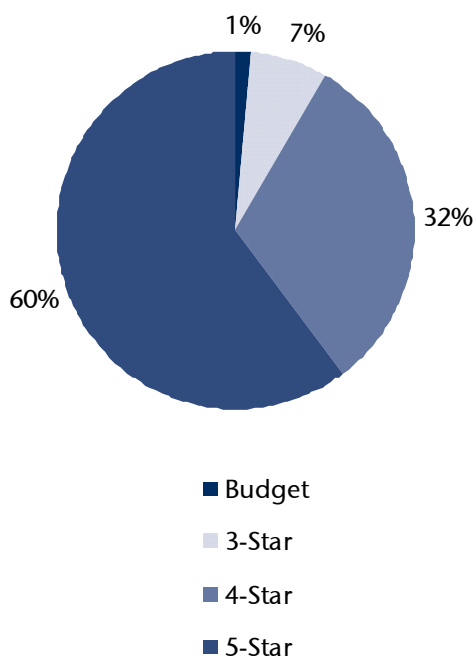
Hotel, Tourism and Leisure

The global leader in
hospitality consulting

**Beijing Hotel Market
Sentiment Survey**



SHARE OF RESPONDENTS BY STAR CLASSIFICATION



INTRODUCTION

The Horwath HTL Beijing Hotel Market Sentiment Survey, part of a national assessment, has been designed to provide the Beijing 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 mid-year survey, hoteliers have also been asked to make comments on their expectations for the coming semester in comparison to the second half of last year, as well as comments on the impact that the 2010 Shanghai Expo has had on hotel performance and on the continued impact of the global financial crisis.

This report summarizes the outcome of the survey and compares the Beijing market sentiment with that of other markets across China. With the effect of the global financial crisis weakening on its impact on China's hotel markets, most hotel markets, including Beijing, appear to have hit bottom and have shown a return to growth in 2010, as hoteliers had expected at the beginning of the year. The following analysis provides some useful insight as to the expectations of Beijing's hoteliers for the remainder of the year.

SENTIMENT RANKINGS

BY KEY CITY	SCORE			
	FEB 2009	JUL 2009	JAN 2010	SEP 2010
1 Shanghai	-40	-70	65	95
2 Hangzhou	-44	-11	37	65
3 Beijing	-50	-64	51	64
4 Shenzhen	-55	-66	52	57
5 Chongqing	20	48	52	46
6 Sanya	-38	-16	65	34
7 Tianjin	-81	-99	31	31
8 Dalian	-84	-73	32	7

“Of the key cities identified, Beijing ranked 3rd in this mid-year survey, with a slightly positive shift in sentiment through the first half of 2010”.

RANKING SCORE KEY

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

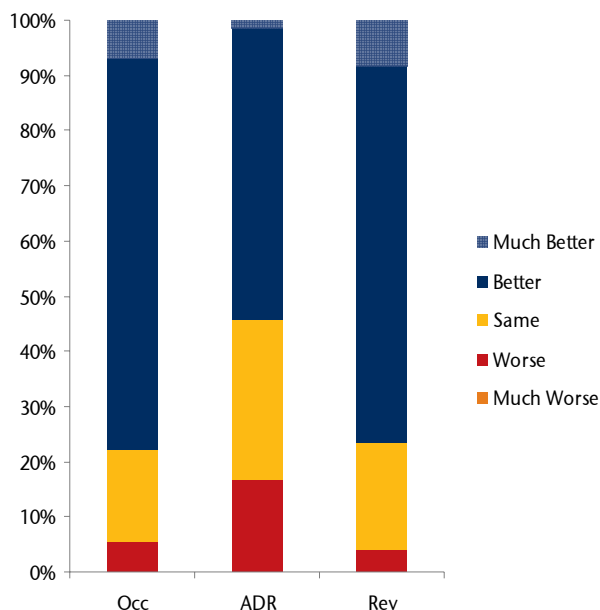
SENTIMENT RANKINGS

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 are assigned to each corresponding response and compounded accordingly. The index utilizes 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 scores allows trends to be observed over time.

While the 2010 Shanghai Expo has only generated a positive effect on hotel markets in the East China region, coming into the second half of the year, the sentiments of hoteliers across all regions and key cities in China have remained positive. Similar to the China hotel market sentiment (positive 59), general sentiment of the Beijing hotel industry continued to be optimistic with a score of positive 64.

Of the key cities identified, Beijing ranked 3rd in this mid-year survey, with a slightly positive shift in sentiment through the first half of 2010. This is clearly indicating that hoteliers in Beijing are keeping positive outlook and expecting continuous improvement of performance in 2010.

Within the Beijing market, the 4-star submarket registered the highest positive score of 66, while the 5-star submarket scored a slightly lower positive score of 62. The 3-star and budget market recorded a sentiment score of 48. This is a clear signal that all submarkets in Beijing believe the market has returned to positive growth.



“78 percent of the Beijing hoteliers replied that occupancy was better or much better than expected”.

MARKET PERFORMANCE RANKING

By Key City	Occ	ADR	Rev	Avg
1. Chongqing	13	31	25	23
2. Hangzhou	67	75	84	75
3. Sanya	82	95	102	93
4. Beijing	59	29	61	50
5. Shenzhen	64	50	63	59
6. Shanghai	92	84	99	91
7. Tianjin	38	14	45	33
8. Dalian	38	38	47	41

FIRST HALF MARKET PERFORMANCE

WAS THE FIRST HALF 2010 MARKET PERFORMANCE BETTER OR WORSE THAN YOU EXPECTED AT THE START OF THE YEAR?

Occupancy

In response to expectations on market-wide occupancy performance, 78 percent of Beijing hoteliers replied that occupancy was better or much better than expected, 17 percent felt that performance was in line with expectation, while only 5 percent felt that it was worse or much worse.

Average Room Rate

The ADR performance for the first half of 2010 was relatively worse than the occupancy performance, with 54 percent of Beijing hoteliers reporting that ADR performance was better or much better than expected. 29 percent felt that ADR remained the same, while 17 percent of respondents thought ADR was worse.

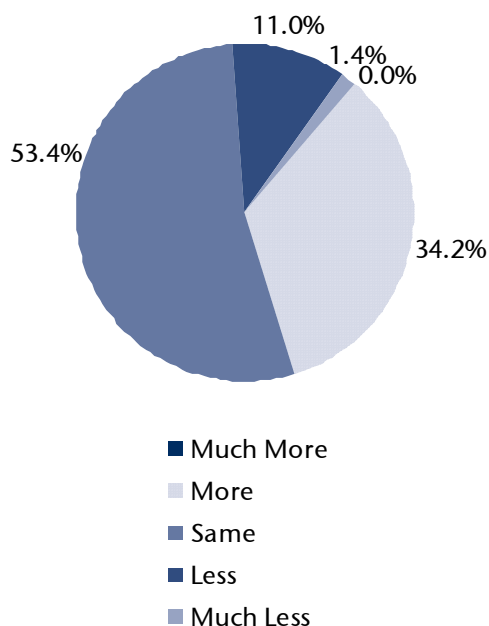
Revenues

In terms of total revenue, a clear majority of 77 percent of respondents had a positive assessment of the market’s first half revenue performance. 19 percent stated that revenue was in line with expectations while only 4 percent felt performance levels were worse than had been expected.

Index Score

The index was used to gauge the average responses of the respondents with regards to their actual first half performance compared to their expectation at the beginning of the year. Amongst the 8 key cities, Sanya and Shanghai were most positive in their assessment of actual performance levels in relation to expectations at the beginning of the year. The remaining cities had varying responses to the performance indexes. Beijing was in the middle among 8 key cities with a score of 50.

In the 5-star submarket, revenues were assessed to have performed best against expectations with a positive score of 68, followed by occupancy (66), and ADR (32). A similar trend applied to the 4-star submarket, while for the 3-star and below submarkets, occupancy and total revenues recorded the same scores.



“The majority of Beijing hoteliers stated that the Shanghai 2010 Expo has not generated a positive impact on hotel performance”.

IMPACT OF 2010 SHANGHAI EXPO

1. Chongqing	(19)
2. Hangzhou	58
3. Sanya	(82)
4. Beijing	(15)
5. Shenzhen	32
6. Shanghai	108
7. Tianjin	(38)
8. Dalian	(47)

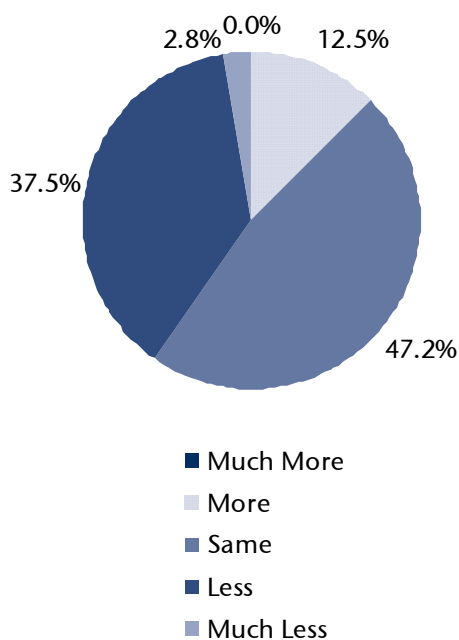
THE IMPACT OF THE 2010 SHANGHAI EXPO

HAS THE SHANGHAI WORLD EXPO IMPACTED HOTEL DEMAND AS MUCH AS YOU HAD EXPECTED?

When asked if the Shanghai Expo had an impact on hotel performance, 34 percent of Beijing hoteliers responded that their hotel performance was impacted negatively or very negatively. 53 percent replied that it had no impact on hotel performance, while 12 percent indicated that the Shanghai Expo had a positive or very positive impact on hotel performance.

Unsurprisingly, only East China had a positive sentiment score in the hotel performance ranking by region, illustrating the fact that while the Shanghai 2010 Expo has had a very positive impact on the market performance, it has been limited to Shanghai and surrounding cities. Northeast China reported the lowest sentiment score in relation to the impact of Shanghai Expo, at negative 29.

Amongst 8 key cities, not surprisingly Shanghai assessed that Shanghai Expo had the biggest positive impact recording the highest score at 108. Hangzhou recorded the next highest score at 58. The cities in which hoteliers assessed the Shanghai Expo to have had a negative impact on their markets are Chongqing (-19), Tianjin (-38), Dalian (-47) and Sanya with the lowest score of negative 88. Like the majority of hotel markets, Beijing hoteliers stated that the Shanghai 2010 Expo has not generated a positive impact on hotel performance with a negative score of 15.



“40 percent of Beijing hoteliers felt that the global financial crisis has impacted demand less or much less than expected”.

IMPACT OF FINANCIAL CRISIS

1. Chongqing	(6)
2. Hangzhou	0
3. Sanya	20
4. Beijing	23
5. Shenzhen	0
6. Shanghai	21
7. Tianjin	50
8. Dalian	0

THE IMPACT OF THE FINANCIAL CRISIS

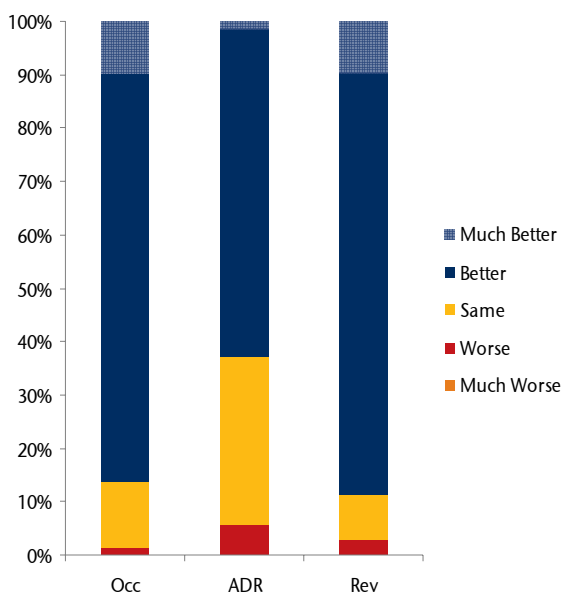
HAS THE GLOBAL FINANCIAL CRISIS IMPACTED HOTEL DEMAND AS MUCH AS YOU HAD EXPECTED?

When asked if the crisis had continued to impact demand, 13 percent responded that demand was still affected more or much more than expected. 47 percent replied that the impact of the crisis was in line with expectation i.e. the same, while 40 percent felt that the crisis had impacted demand less or much less than expected in 2010.

All regions had positive sentiment scores in the hotel performance ranking by region, except Northwest China (-50), reinforcing the fact that the financial crisis has had limited impact on market performance in the first half of the year. This also indicates that other factors, such as new supply, have had a bigger impact on some markets than the financial crisis.

Cities in which hoteliers feel the impact of the crisis has not been as bad as expected include Tianjin, which had the highest score at 50, followed by Beijing (23) and Shanghai (21). The only city in which hoteliers believe the financial crisis has still had an impact above expectation was Chongqing (-6), which is the lowest score amongst 8 key cities.

Amongst the submarkets in Beijing, only the 5-star hoteliers felt that the financial crisis has not affected them more than expected as they registered a highest score of positive 37. The 3-star and 4-star submarkets registered scores of positive 13 and 0 respectively.



“Approximately 63 percent of respondents expected all performance measures to perform better or much better in the second half of 2010”.

EXPECTATION FOR THE SECOND HALF OF THE YEAR

By Key City	Occ	ARR	Rev	AVG
1.Chongqing	38	56	38	44
2. Hangzhou	50	58	75	61
3. Sanya	7	48	41	32
4. Beijing	71	44	72	62
5. Shenzhen	54	50	50	51
6. Shanghai	88	81	90	86
7. Tianjin	38	15	45	33
8. Dalian	9	9	0	6

SECOND HALF MARKET OUTLOOK

WHAT ARE YOUR EXPECTATIONS FOR THE SECOND HALF 2010 MARKET PERFORMANCE COMPARED TO SECOND HALF 2009?

Approximately 63 percent of respondents in Beijing stated that they expected all performance measures to perform better or much better in the second half of the year in comparison to the second half of last year.

Occupancy

Hotel occupancy in Beijing scored a national average of positive 71, where 86 percent of respondents expected hotel occupancy to be better or much better compared to the second half of 2009. Shanghai recorded the highest sentiment score of 88, followed by Beijing (71), and Shenzhen (54).

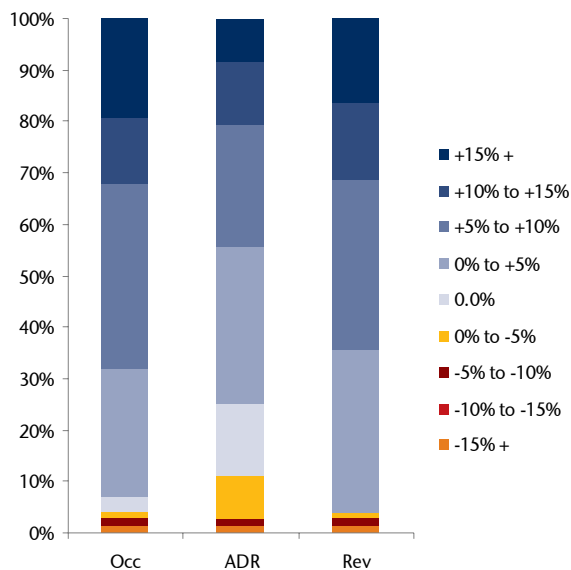
Average Room Rate

Beijing’s average sentiment with regard to ARR was relatively bleak, with a score of 44, ranked the third lowest of 8 key cities. 63 percent of Beijing hoteliers expected ADR to get better or much better. However, 31 percent of respondents expected that ARR would remain the same. Like occupancy, Shanghai had the highest positive score of 81, followed by Hangzhou (58) and Chongqing (56).

Revenues

The expectations for hotel revenues in Beijing were the most optimistic, with an average sentiment score of 72 and almost 89 percent of hoteliers in Beijing expecting more or much more revenues in the second half of 2010 compared to the second half of 2009. Shanghai continued to be the most optimistic region, with the highest positive sentiment score of 90. Next up was Hangzhou (75), Beijing (72), and Dalian with the most pessimistic score at 0.

Hoteliers in the various submarkets had varying expectations for the performance indexes. In the 5-star category, occupancy and total revenue were the most optimistic with the same score of positive 80, with ARR much lower (47). For the 4-star submarket, total revenue registered the highest score of positive 65, closely followed by occupancy (61), and again ARR much lower at positive 39. In the 3-star and below markets, all three performance indexes were optimistic with the same score of positive 38.



“Over 44 percent of hoteliers in Beijing expect to see an increase in performance growth of at least 5 percent”.

SECOND HALF HOTEL PERFORMANCE EXPECTATION

By Key City	Occ	ARR	Rev	Avg
1. Chongqing	48	44	55	49
2. Hangzhou	46	79	79	68
3. Sanya	17	44	44	35
4. Beijing	76	49	74	67
5. Shenzhen	64	54	70	63
6. Shanghai	102	101	106	103
7. Tianjin	44	8	38	30
8. Dalian	9	5	9	8

HOTEL PERFORMANCE EXPECTATION

FOR YOUR HOTEL, WHAT ARE YOUR EXPECTATIONS FOR SECOND HALF 2010 PERFORMANCE COMPARED TO SECOND HALF 2009?

Beijing’s sentiment outlook remains optimistic at a score of positive 67, compared to the national sentiment outlook of positive 60. Over 44 percent of hoteliers expect to see an increase in performance growth of at least 5 percent, and around 8 percent of hoteliers in Beijing even expect to see hotel performance improve by 15 percent or more.

Occupancy

68 percent of hoteliers expect occupancy to increase by at least 5 percent in the second half, and a sentiment of 76 was scored. The most optimistic city was Shanghai, with rating of 102, which should be mainly attributed to their positive outlook for the World Expo. Shanghai was followed by Beijing (76), Shenzhen (64), and Chongqing (48). Dalian was the least optimistic with a score of 9.

Average Room Rate

Beijing’s average sentiment score for ARR was the lowest amongst its three performance measures, with 44 percent of respondents expecting room rates to increase by at least 5 percent. Similarly with occupancy, Shanghai still had the highest positive score of 101, followed by Hangzhou (79), Shenzhen (54), and Beijing (49). While the bottom two were Tianjin (8) and Dalian (5), which were the most pessimistic cities amongst 8 key cities.

Revenues

The sentiment score for hotel revenues in Beijing was positive 74, with 64 percent of hoteliers in Beijing expecting revenues to increase by at least 5 percent. The top three cities with the highest scores belong to Shanghai (106), Hangzhou (79), and Beijing (74). Dalian still was the most pessimistic city with the lowest sentiment score of 9.

Individually, hoteliers in the submarkets were all optimistic on their own hotel’s performance. 5-star hoteliers were the most optimistic with an average sentiment score of 69. Occupancy had the highest score (79), followed by revenues (78), and ADR (51).

OTHER MARKET SENTIMENT REPORTS

BY REGION

ASEAN
Benelux
Europe
South East Europe

BY COUNTRY

Australia
Austria
Canada
China
Croatia
Germany
Hungary
India
Indonesia
Italy
Japan
Norway
Romania
Serbia
South Africa

BY CITY/DESTINATION

Beijing
Hong Kong
Shanghai
Québec

CONCLUSION

In conclusion, hoteliers in Beijing remained optimistic on their outlook for the remainder of 2010 with regards to market-wide occupancy, ARR and total revenue as well as their individual property performance.

The majority of the respondents in Beijing agreed that first half 2010 market performance was better than expected across the board for occupancy, ARR, and revenue. With the increases in performance recorded, the majority of hoteliers in Beijing believed that the impact of the global financial crisis had already weakened. Finally, Beijing hoteliers continue to hold a relatively optimistic view on hotel performance for the second half of the year, with sentiment scores that are better than average as compared to other key cities in China.

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