



# CHINA HOTEL MARKET SENTIMENT SURVEY

April 2010

## INTRODUCTION

The Horwath HTL China Hotel Market Sentiment Survey, part of a global initiative, has been designed to provide the China 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 2009, as well as comment on the impact the crisis has had on room night demand.

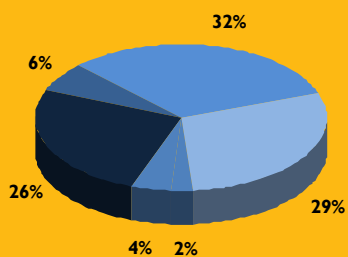
This report summarizes the outcome of the survey, gathered from responses across 27 provinces and municipalities. Of the 383 respondents, 32 percent of them came from East China (Shanghai, Zhejiang, Jiangsu, Anhui, Fujian and Shandong), 26 percent of them from North China (Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia), 29 percent from Mid-South China (Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan), followed by Northeast China (Liaoning, Helongjiang and Jilin) at 6 percent, Southwest China (Chongqing, Sichuan, Guizhou, Yunnan and Tibet) at 4 percent and Northwest China (Shannxi and Gansu) at 2 percent.

In regards to the star classification of the participating properties, the majority of the contributions were from 5-star hotels (59 percent), followed by 4-star hotels at 31 percent. The budget and 3-star sections only accounted for a small portion of respondents at 6 percent and 5 percent respectively.

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

### SHARE OF RESPONDENTS

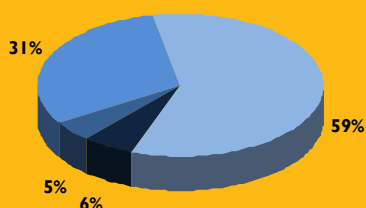
#### BY REGION



- North
- Northeast
- East
- Mid-South
- Northwest
- Southwest

### SHARE OF RESPONDENTS

#### BY STAR CLASSIFICATION



- Budget
- 3-star
- 4-star
- 5-star



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## SENTIMENT RANKINGS

By Region	Score		
	Feb '09	Jul '09	Jan '10
1. North	-49	-60	48
2. Northeast	-65	-56	43
3. East	-40	-39	52
4. Mid-South	-38	-43	54
5. Northwest	-35	-92	49
6. Southwest	2	30	51
By Key City	Score		
	Feb '09	Jul '09	Jan '10
Chongqing	20	48	52
Guangzhou	2	-56	46
Sanya	-38	-16	65
Shanghai	-40	-70	65
Beijing	-50	-64	51
Shenzhen	-55	-66	52
Tianjin	-81	-99	31

*"We should expect to see a return to growth, particularly in occupancy performance."*

## 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.

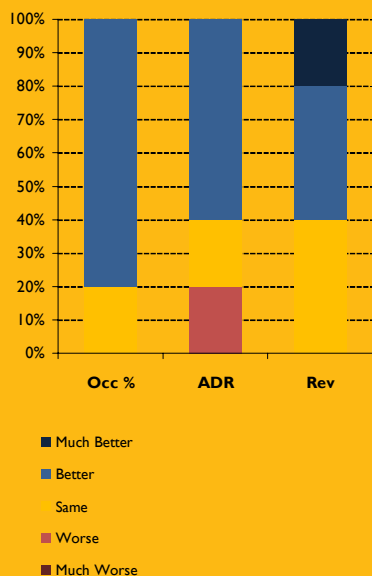
After a deterioration of the market sentiment in the July 2009 China Survey, hoteliers have returned to a positive frame of mind in 2010. Naturally the positive outlook for 2010 is relative to the poor performances recorded across the region in 2009 and should be viewed in that context. A positive sentiment, nonetheless, indicates that in most markets across China, we should expect to see a return to growth, particularly in occupancy performance.

Comparing across regions, North and Northwest had the biggest shift in sentiment, with both regions previously among the least positive mid-2009. A positive economic outlook in these regions has led hoteliers to believe that the market reached bottom in 2009 and things are on the way up in 2010.

On a provincial basis (including four municipalities), Shanghai registered the highest score at 65, which should be attributed to the expectation for the Expo. Lowest scores were recorded by Tianjin (31), Liaoning (33), and Zhejiang (38).

Amongst the key cities across China, the top three cities which recorded the highest scores were Shanghai (65), Sanya (65), and Qingdao (56) while Tianjin (31), Dalian (32), and Hangzhou (37) rounded the bottom three. Beijing was eight from the last with a score of positive 51.

**RATIO OF RESPONSES**



*"50 percent of respondents stated that they expected occupancy and average room rates to perform better in 2010 in comparison to 2009."*

**EXPECTATIONS FOR 2010**

	Occ,	ADR	Rev.	Avg
North	66	26	58	50
Northeast	64	30	56	50
East	68	35	62	55
Mid-South	68	51	71	63
Northwest	66	42	66	58
Southwest	66	48	66	60

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

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. At least 60 percent of respondents stated that they expected occupancy, average room rates and revenues to perform better in 2010 in comparison to 2009.

In response to expectations on market-wide occupancy performance, 80 percent of the hoteliers replied that they expect growth in occupancy levels in line with 2009, 20 percent expect that performance will be as same as 2009.

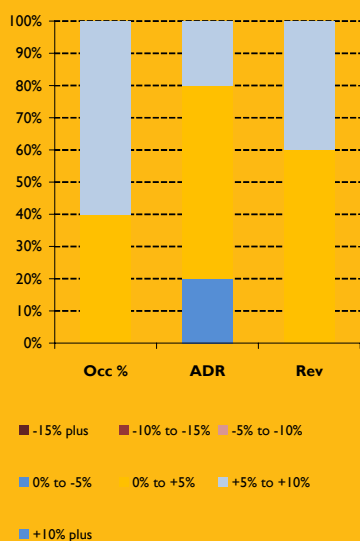
Respondents expect that ADR will be slightly worse than our other two performance gauges, with 80 percent of hoteliers replying that ADR will remain the same or better than 2009. However, 20 percent of respondents worried that ADR will perform worse compared to 2009.

In terms of revenues, 40 percent of hoteliers around China expecting higher revenues in 2010 compared with 2009, 20 percent are expecting their revenue to be much better than 2009, while 40 percent of respondents expect the revenue level to remain the same

All regions we listed held a positive outlook for 2010, especially in regards to occupancy performance. The most positive regions were Mid-South and Southwest with sentiment scores of positive 63 and 60 respectively.

Comparing the key cities across China, Wuhan (73), Sanya (72), and Shanghai (70) were the top three in the category, while Hangzhou was the last at positive 35. Beijing was six last at positive 51.

**RATIO OF RESPONSES**



*"Most hoteliers expect their respective hotels to perform better than market in the coming year."*

**EXPECTATION FOR 2010**

	Occ	ADR	Rev	Avg
North	79	48	80	69
Northeast	65	43	71	60
East	82	60	80	74
Mid-South	76	64	82	74
Northwest	69	58	68	65
Southwest	64	67	74	68

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

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

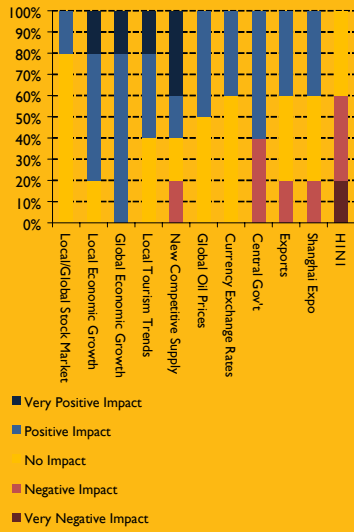
The China sentiment outlook was again positive, with a sentiment average score of positive 71 for question 2. 54 percent of hoteliers expect to see an improvement in revenue growth of at least 5 percent, with a further 22 percent of hoteliers expecting to see hotel performance increase over 5 percent. A higher overall sentiment score for question 2 indicates that most hoteliers expect their respective hotels to perform better than market in the coming year.

All hoteliers expect occupancy to increase in 2010, with 52 percent expecting that to be in excess of 5 percent. A total sentiment score of 77 was recorded for China. The most optimistic region was East, scoring 82, North hoteliers recorded a score of 79, followed by Mid-South (76) and Northwest (69).

The China sentiment score for ADR was again below occupancy, scoring 55, with 53 percent of hoteliers around China expecting performance to increase from 0 to 5 percent. Southwest led the way scoring 67, followed by Mid-South at 64, East at 60, then the Northwest (58), North (48) and Northeast (43).

The China sentiment regarding hotel revenues was slightly higher than occupancy with a score of 80.

**RATIO OF RESPONSES**



*"All respondents expecting a positive impact from global economic trends."*

**FACTORS AFFECTING PERFORMANCE RANKING**

1. Local/Global Stock Market	15
2. Local Economic Trends	75
3. Global Economic Growth Trends	90
4. Local Tourism Trends	60
5. New Competitive Supply	60
6. Global Oil Prices	38
7. Currency Exchange Rate	30
8. Central Government Policy	15
9. Decline in exports	15
10. Shanghai Expo	15
11. HINI	(60)

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

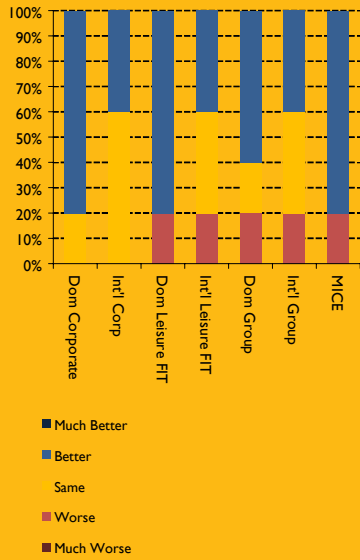
Each hotelier was also asked to gauge their attitude towards eleven factors and how these will impact their hotels' performance in 2010.

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

Local tourism trends scored the highest sentiment score among the 11 factors at 32, highlighting a continued reliance on local demand sources for many hotel markets. Also positive was the markets outlook for the global economy, with all respondents expecting the global economy to boost demand growth in 2010. 80 percent of respondents also felt that local economic growth trends would have a positive impact on performance. Most negative was the HINI virus at a score of negative 60, although 40 percent expected that HINI would have no impact on performance.

It is worthwhile mentioning that among the eleven factors, Shanghai Expo was at a score of positive 15, 40 percent of respondents felt that Shanghai Expo would have a positive impact on performance, while 20 percent expected that the Expo would have negative impact on performance. Hoteliers in Shanghai and other Yangtze River Delta cities had a more positive assessment on Expo than other regions as would be expected.

**RATIO OF RESPONSES**



*"All regions had positive scores for all segments."*

**MARKET SEGMENT PERFORMANCE**

1. Domestic Corporate	60
2. Foreign Corporate	30
3. Domestic Leisure FIT	45
4. Foreign Leisure FIT	15
5. Domestic Leisure Group	30
6. Foreign Leisure Group	15
7. MICE	45

**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 respondents had positive opinions about the future performance of the domestic corporate, domestic leisure FIT, domestic leisure group and MICE demand segments, with over 60 percent of respondents expecting a better performance for these demand segments, which should be aided by underlying strong economic growth in China and the continued impact of the government’s stimulus package.

Employing the scoring system to obtain an average score, all segments yielded positive results, indicating that respondents generally think performance across all segments will improve this year. In comparison, the participants believe the domestic corporate segment will be the biggest improver in 2010, with a positive score of 60.

All regions had positive scores for all segments. For North, the highest scoring segment was MICE (66). In East the highest scoring segment was domestic corporate (71), which was also the case for the Mid-South, at a similar score of 70.

## CONCLUSIONS

Hoteliers in all regions have recorded significant improvement in their sentiment towards the market outlook since the last survey in July 2009, with all regions managing to record an overall sentiment score that was positive. While the context of the sentiment improvement in relation to the poor results of 2009 needs to be considered, this survey at least highlights that most hoteliers across China do believe that the various regional hotel markets have hit bottom, and that can only be seen as a very positive outcome for the industry.

Mid-South region, which includes Shenzhen and Sanya has the most positive outlook for 2010. East region has the second positive outlook for 2010 and it is certainly encouraging that the East region (of which Shanghai is a major component) has recorded a positive sentiment score in the outlook for 2010, especially for the expectation of Expo.

In key cities such as Beijing, Shanghai, and Shenzhen, all had positive scores in terms of market sentiment for the hotel industry. Shanghai and Sanya have much more positive outlook for 2010 than other cities, while Tianjin and Dalian hold a less optimistic outlook for the coming year.

## Other Market Sentiment Reports

### BY REGION

ASEAN      Benelux      Europe      Northeast Asia      South East Europe

### BY COUNTRY

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

### BY CITY/ DESTINATION

Beijing      Hong Kong      Shanghai      Shenzhen      Québec

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