



CHINA HOTEL MARKET SENTIMENT SURVEY

July 2009

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 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 comment on the impact the crisis has had on room night demand.

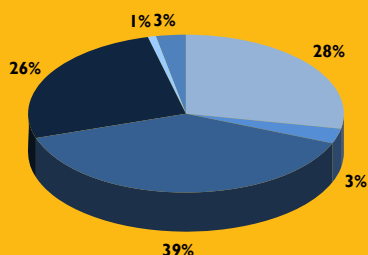
This report summarizes the outcome of the survey, gathered from responses across 23 provinces and municipalities. Of the 386 respondents, 39 percent of them came from East China (Shanghai, Zhejiang, Jiangsu, Anhui, Fujian and Shandong), 28 percent of them from North China (Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia), 26 percent from Mid-South China (Guangdong, Guangxi, Hainan, Hubei, Hunan and Henan), followed by Southwest China (Chongqing, Sichuan) at 3 percent, Northeast China (Liaoning and Helongjiang) at 3 percent, and Northwest China (Shannxi) at 1 percent.

In regards to the star classification of the participating properties, the majority of the contributions were from 5-star hotels (54 percent), followed by 4-star hotels at 33 percent. The 3-star and budget sections only accounted for a small portion of respondents at 7 percent and 6 percent respectively.

With the effects of the financial crisis still lingering, it is not surprising to find most markets across China retaining a negative outlook for the second half of 2009. 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

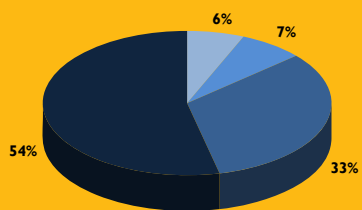
BY REGION



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

SHARE OF RESPONDENTS

BY STAR CLASSIFICATION



- Budget/Economy
- 3-Star
- 4-Star
- 5-Star



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SENTIMENT RANKINGS

By Region	Score	
	July	Feb
1. North	-60	-49
2. Northeast	-56	-65
3. East	-39	-40
4. Mid-South	-43	-38
5. Northwest	-92	-35
6. Southwest	30	2

By Key City	Score	
	Chongqing	48
Guangzhou	-56	2
Sanya	-16	-38
Shanghai	-70	-40
Beijing	-64	-50
Shenzhen	-66	-55
Tianjin	-99	-81

"General sentiment of the China hotel industry continues to be pessimistic with a national score of -44"

RANKING SCORE KEY

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

SENTIMENT RANKINGS

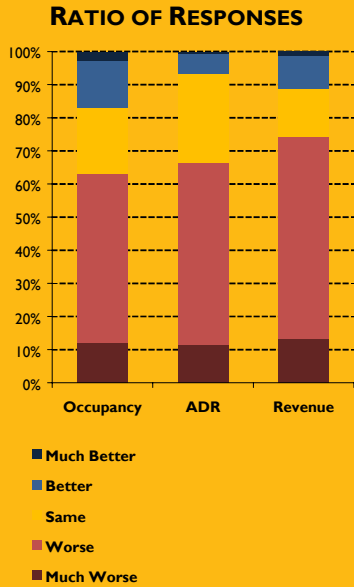
As a way to measure and compare the results across regions and cities in China, we have created an index to formulate an overall average sentiment score from all survey questions. Points were assigned to each corresponding response and compounded accordingly. The index utilized a scale of negative 150 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 purpose of creating a sentiment index or score is to better track changes in market sentiment in future surveys to be conducted by Horwath HTL.

Coming into the second half of the year, the sentiments of hoteliers across all regions and key cities in China have remained negative. The current economic crisis still has a strong effect on the hotel industry, with majority of respondents posting even weaker results compared to six months before. Similar to the global hotel market sentiment (negative 40), general sentiment of the China hotel industry continued to be pessimistic with a national average score of negative 44.

Comparing across regions, Southwest China, like the first half of the year, had the highest and only positive sentiment score of 30. On the opposite end was Northwest China with a very bleak outlook and having the lowest score of negative 92.

On a provincial basis (including four municipalities), Heilongjiang registered the highest score at 56. Lowest scores were recorded by Tianjin (-99), Shaanxi (-92), and Liaoning (-71).

Amongst the key cities across China, the top three cities which recorded the highest scores were Chongqing (48), Changsha (20), and Hangzhou (-11) while Dalian (-73), Shanghai (-70), and Shenzhen (-66) rounded the bottom three. Beijing was fourth from the last with a score of negative 64.



"63 percent of the respondents replied that performance in the first half of the year was worse or much worse than expected"

MARKET PERFORMANCE RANKING				
	Occ.	ADR	Rev.	Avg
North	-52	-69	-73	-65
Northeast	-75	-67	-83	-75
East	-35	-51	-53	-46
Mid-south	-45	-38	-48	-44
Northwest	-75	-25	-75	-58
Southwest	6	-31	-13	-13

FIRST HALF MARKET PERFORMANCE

The first survey question dealt with the contributors' actual performance in the first half of the year compared to their expectations at the beginning of the year.

In response to expectations on market-wide occupancy performance, 63 percent of the hoteliers replied that occupancy was worse or much worse than expected, 20 percent felt that performance was in line with expectations, while only 17 percent felt that it was better or much better.

Respondents showed that ADR fared slightly better than our other two performance gauges, with 34 percent of hoteliers replying that ADR has remained the same or better than expected. However, 66 percent of respondents voiced that ADR had performed worse or much worse.

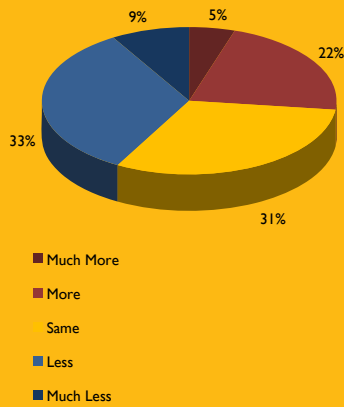
Total revenue followed the same trend wherein majority or 74 percent of the respondents had a bleak assessment of the market's first half revenue performance. 14 percent stated that revenue was in line with expectations while 12 percent felt performance levels were better than had been expected.

The index was used to gauge the average responses of the respondents with regards to their actual first half performance compared to their expectations at the beginning of the year. All regions yielded negative results, with Northeast China registering the lowest score of negative 75.

Across all provinces and municipalities, Hunan (45), Henan (33), Inner Mongolia (17), and Chongqing (0) were the only provinces with positive scores, signaling a better performance for the first half of the year than expected. Shanghai (-69), Heilongjiang, Liaoning (both at -75), and Tianjin (-100) rounded up the table with the lowest scores.

Comparing the key cities across China, Changsha (45), Chongqing (0), and Wuhan (-19) were the top three in the category, while Dalian was the last at negative 79. Beijing was third last at negative 66, tied together with Shenzhen.

RATIO OF RESPONSES



“ Positive sentiment scores showed that the financial crisis has not had the impact initially expected.”

IMPACT OF FINANCIAL CRISIS

North	13
Northeast	0
East	11
Mid-south	22
Northwest	25
Southwest	13

THE IMPACT OF THE FINANCIAL CRISIS

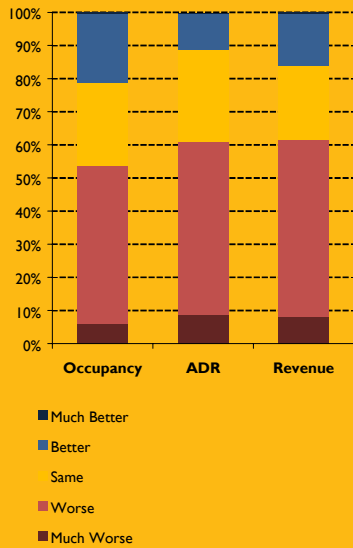
The second question asked each respondent if the current crisis has impacted demand to the extent which was expected.

When asked if the crisis had impacted their demand, 27 percent responded that demand was affected more or much more than expected. 31 percent replied that the impact of the crisis was inline with expectations i.e. the same, while 42 percent felt that the crisis had impacted demand less or much less than expected.

All regions had positive sentiment scores in the hotel performance ranking by region, reinforcing the fact that the financial crisis has had less of a direct impact on market performance than initially expected. 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 Guangzhou, which had the highest score at 50, followed by Sanya (45) and Wuxi (42). The cities in which hoteliers believe the financial crisis has had the impact that was expected are Shanghai (6), Wuhan (0), and Dalian with the only negative score of 25.

RATIO OF RESPONSES



“Over 50 percent of respondents expected to perform worse or much worse in the second half of 2009.”

EXPECTATION FOR THE SECOND HALF OF THE YEAR

	Avg	Occ	ADR	Rev
North	-51	-38	-61	-55
Northeast	-42	-50	-42	-33
East	-31	-21	-38	-34
Mid-south	-41	-37	-42	-43
Northwest	-75	-75	-50	-100
Southwest	36	38	31	38

SECOND HALF MARKET OUTLOOK

Hoteliers were asked their expectations for the second half of the year compared to the second half of last year, in relation to hotel occupancy, average room rate and hotel revenues.

Over 50 percent of respondents stated that they expected all performance measures to perform worse or much worse in the second half of the year in comparison to the second half of last year.

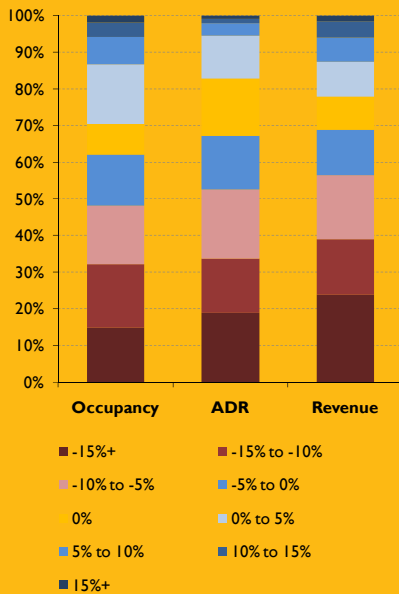
Occupancy scored a national average of negative 29 where 54 percent of respondents expected hotel occupancy to be worse or much worse compared to the second half of 2008. Southwest China recorded the highest sentiment score of 38, followed by East China (-31), Mid-South China (-41), Northeast China (-42), North China (-51), and Northwest China being the most pessimistic with a score of negative 75.

The national average sentiment with regard to ADR was the bleakest amongst the three performance gauges, with a score of negative 44. Like occupancy, only Southwest China posted a positive sentiment score of 31. The second highest score came from East China (-38), followed by a tie between Northeast and Mid-South China at negative 42. Northwest China posted a score of negative 50, and the lowest score came from North China at negative 61.

The expectations for hotel revenues were negative, with a national average sentiment score of negative 40 and 61 percent of hoteliers in China expecting lower or much lower revenues in the second half of 2009 compared to second half of 2008. Southwest China continued to be the most optimistic region, with a positive sentiment score of 38. Next up was Northeast China (-33), followed closely by East China (-34), Mid-South China (-43), North China (-55), and Northwest China with the most pessimistic score at negative 100.

Amongst the key cities across China, Chongqing (47), Changsha (10), and Hangzhou (-14) were the top 3 with the highest scores with regards to their expectations for occupancy, ADR, and revenue for the current half of the year. Beijing (-54), Shenzhen, Wuxi (both at -56), and Guangzhou (-71) rounded the table with negative expectations for this half for all three performance indexes.

RATIO OF RESPONSES



"19 percent of hoteliers expect to see hotel performance contract by 15 percent or more."

SECOND HALF HOTEL PERFORMANCE EXPECTATION

	Avg	Occ	ADR	Rev
North	-69	-53	-76	-77
Northeast	-70	-70	-61	-80
East	-48	-35	-55	-53
Mid-south	-46	-45	-45	-47
Northwest	-108	-100	-100	-125
Southwest	25	34	13	28

HOTEL PERFORMANCE EXPECTATION

The last survey question asked was for hoteliers to give their expectation of how their respective hotels will fare in the second half of 2009 with respect to the second half of 2008, in percentage terms.

The national sentiment outlook remains pessimistic at a score of negative 50, similar to the global sentiment score of negative 49. Over 50 percent of hoteliers expect to see a drop in performance growth of at least 5 percent, and 19 percent of hoteliers in China expect to see hotel performance contract by 15 percent or more.

62 percent of hoteliers expect occupancy to decrease by at least 5 percent in the second half, and a national average sentiment of negative 40 was scored. The most optimistic region was the Southwest, with a positive rating of 34. This is followed by East China with negative 35, Mid-South China (-45), North China (-53), Northeast China (-70), with the most pessimistic being Northeast China at negative 100.

The national average sentiment score for ADR was negative 55, with 67 percent of respondents expecting room rates to drop by at least 5 percent. Like before, Southwest China had the highest and only positive score of 13, followed by East China (-35), Mid-South China (-45), North China (-53), Northeast China (-70), and the Northwest being the lowest score of negative 100.

Hotel revenues scored the same as ADR with an average national sentiment score of negative 55. 69 percent of hoteliers expected revenues to drop by at least 5 percent. Once again, Southwest China had the only positive score of 28, followed by Mid-South China (-47), East China (-53), North China (-77), Northeast China (-80), and Northwest China coming in last with negative 125.

Going by the key cities of China, Chongqing (48), Changsha (30), and Wuhan (1) were the only cities with positive expectations on their respective hotel's performance for occupancy, ADR, and revenue. On the other side of the table, hoteliers in Shenzhen (-76), Shanghai (-92), and Dalian (-100) were the most pessimistic in their expectations. Beijing was the fourth last at negative 73.

CONCLUSIONS

In conclusion, hoteliers across China remained pessimistic on their outlook for the rest of 2009 with regards to market-wide occupancy, ADR and total revenue as well as their properties' performance. Majority of the contributors agreed that first half 2009 market performance was worse than expected across the board for occupancy, ADR, and revenue. Additionally, the performance outlook for second half 2009 is all negative with respect to occupancy, ADR, and revenue.

In key cities such as Beijing, Shanghai, and Shenzhen, all had greater than average negative scores in terms of market sentiment for the hotel industry. However, Southwest China, which includes Chongqing, still remains optimistic in their expectations for the second half of 2009, being the only region with positive scores. Lastly, majority of respondents across China agreed that the global financial crisis had not affected hotel demand as expected, indicating that other factors have had a bigger influence on hotel market performance.

Other Market Sentiment Reports

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BY COUNTRY

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 Indonesia Italy Japan Macedonia Montenegro Mexico
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