



Horwath HTL™

Hotel, Tourism and Leisure

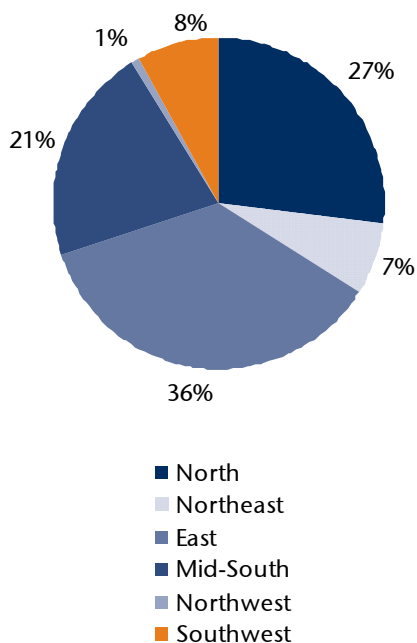
The global leader in
hospitality consulting

**China Hotel Market
Sentiment Survey**



SHARE OF RESPONDENTS

BY REGION

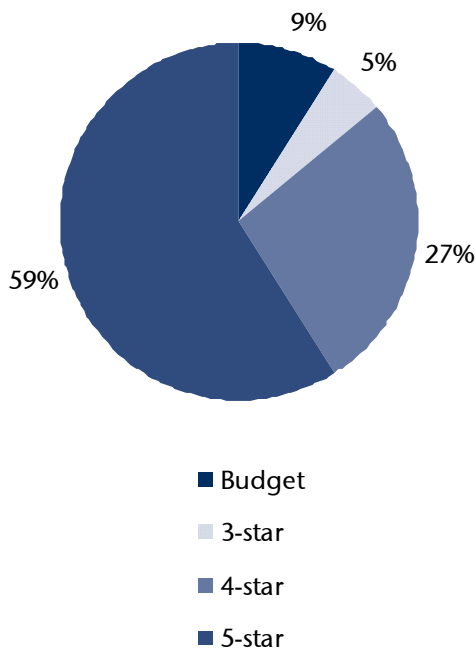


INTRODUCTION

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 comments on the impact that 2010 Shanghai Expo has had on hotels performance and whether the financial crisis continually impacted hotel room night demand as expected.

This report summarizes the outcome of the survey, gathered from responses across 25 provinces and municipalities. Of the 332 respondents, 36 percent of them came from East China (Shanghai, Zhejiang, Jiangsu, Anhui, Fujian and Shandong), 27 percent of them from North China (Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia), 21 percent from Mid-South China (Guangdong, Guangxi, Hainan, Hubei, Hunan and Henan), followed by Southwest China (Chongqing, Sichuan, Guizhou and Yunnan) at 8 percent, Northeast China (Liaoning, Heilongjiang and Jilin) at 7 percent, and Northwest China (Shannxi) at 1 percent.

SHARE OF RESPONDENTS BY STAR CLASSIFICATION



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 27 percent. The budget and 3-star sections only accounted for a small portion of respondents at 9 percent and 5 percent respectively.

With the effect of the financial crisis became weaker and weaker, it is validated that the various regional hotel markets do hit bottom and show a return to growth as hoteliers expected at the beginning of this year. Therefore, it is not surprising to find most markets across China have a vastly improved outlook for the second half of 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.

This is the fourth China survey by Horwath HTL, and we have analyzed previous sentiment scores in order to provide some context to the sentiment scores recorded.

SENTIMENT RANKINGS

BY REGION	SCORE			
	FEB 2009	JUL 2009	JAN 2010	SEP 2010
1. North	-49	-60	48	61
2. Northeast	-65	-56	43	8
3. East	-40	-39	52	70
4. Mid-South	-38	-43	54	53
5. Northwest	-35	-92	49	69
6. Southwest	2	30	51	49

BY KEY CITY	SCORE			
	FEB 2009	JUL 2009	JAN 2010	SEP 2010
1. Chongqing	20	48	52	46
2. Guangzhou	2	-56	46	48
3. Sanya	-38	-16	65	34
4. Shanghai	-40	-70	65	95
5. Beijing	-50	-64	51	64
6. Shenzhen	-55	-66	52	57
7. Tianjin	-81	-99	31	31

“General sentiment of the China hotel industry continues to be optimistic with a national score of 59”.

RANKING SCORE KEY

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

SENTIMENT RANKINGS

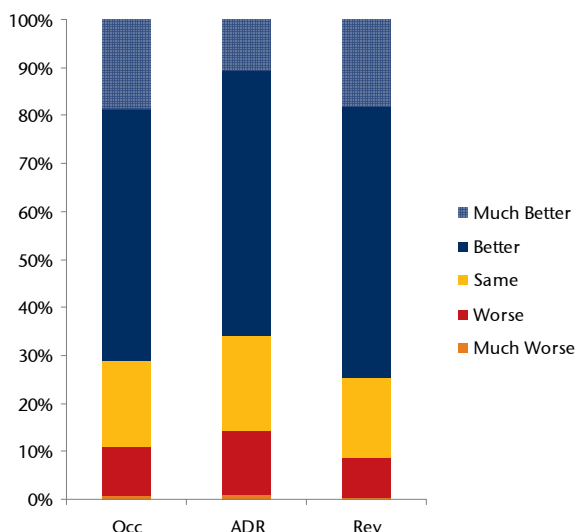
As a way to measure and compare the results across regions and cities in China, we have created an index to formulate an overall average sentiment score from all survey questions. Points are assigned to each corresponding response and compounded accordingly. The index utilizes a scale of negative 150 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.

Coming into the second half of the year, the sentiments of hoteliers across all regions and key cities in China have remained optimistic. The 2010 Shanghai Expo has a great positive effect on the hotel industry, especially in the East region (of which Shanghai is a major component) recorded a highest score. Additionally, the economic crisis still has a continuous effect, but already shown even weaker results compared to six months before. Similar to the global hotel market sentiment (positive 28), general sentiment of the China hotel industry continued to be optimistic with a national average score of positive 59.

Comparing across regions, East and Northwest kept a biggest increase trend in sentiment, with both regions had the highest sentiment score. On the opposite end was Northeast China with a very bleak outlook and having the lowest score of positive 8.

On a provincial bases (including four municipalities), Shanghai registered the highest score at 95, which should be attributed to the great positive impact of 2010 Shanghai Expo. Lowest scores were recorded by Tianjin (31) and Liaoning (12.5).

Among the key cities across China, the top three cities which recorded the highest scores were Shanghai (95), Hefei (80), and Wuxi (68) while Tianjin (31), Ningbo (22), and Dalian (7) rounded the bottom three. This can be viewed as hoteliers believe the market has hit bottom, but do not expect to see much change for 2010. Beijing was in the middle among 16 key cities with a score of 64.



“Over 70 percent of respondents stated that performance in the first half of the year was better or much better than expected”.

MARKET PERFORMANCE RANKING

	Avg	Occ	ADR	Rev
1. North	47	57	26	59
2. Northeast	23	14	25	29
3. East	69	70	62	75
4. Mid-South	64	63	60	69
5. Northwest	50	50	50	50
6. Southwest	27	25	25	31

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, 71 percent of the hoteliers replied that occupancy was better or much better than expected, 18 percent felt that performance was in line with expectation, while only 11 percent felt that it was worse or much worse.

Average Room Rate

Respondents showed that ADR fared slightly worse than our other two performance gauges, with 86 percent of hoteliers replying that ADR has remained the same or better than expected. However, 14 percent of respondents voiced that ADR had performed worse or much worse.

Revenues

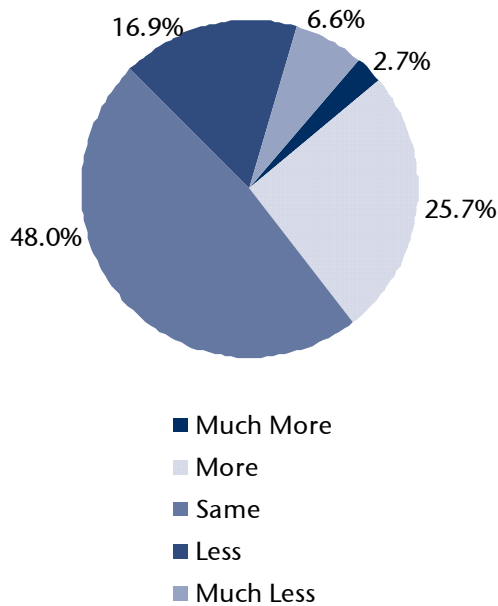
Total revenue following the same trend wherein majority or 74 percent of the respondents had a positive assessment of the market’s first half revenue performance. 17 percent stated that revenue was in line with expectations while 9 percent felt performance levels were worse or much worse than had been 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. All regions yielded positive results, with East China registering the highest score of positive 69.

Across all provinces and municipalities, Anhui (97), Shanghai (91), and Hubei (86) were the only with positive scores above 85, signalling a better performance for the first half of the year than expected. Tianjin (32), Chongqing (23), Liaoning (21), and Yunnan (0) recorded the lowest scores.

Comparing the key cities across China, Hefei (107), Sanya (93), and Shanghai (91) were the top three in the category, while Kunming (0) was the last at 0. Beijing was in the lower rank at positive 50, slightly worse than Shenzhen (59).



“Positive sentiment scores showed that the Shanghai 2010 Expo has generated a positive impact on hotel performance”.

THE IMPACT OF THE 2010 SHANGHAI EXPO

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

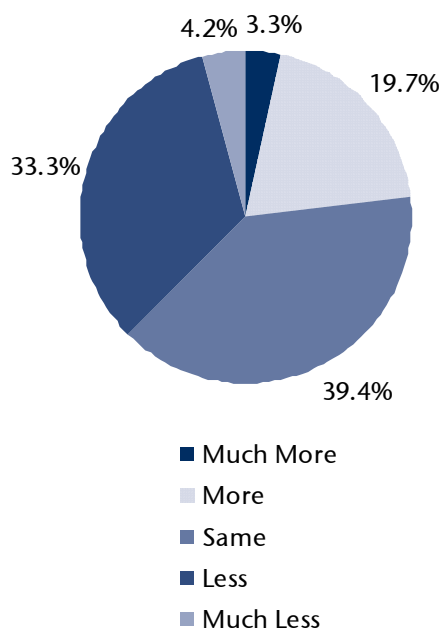
When asked if the Shanghai Expo had an impact on hotel performance, 28 percent responded that their hotel performance was impacted negatively or very negatively. 48 percent replied that it was no impact on the hotel performance, while 24 percent indicated that the Shanghai Expo had a positive or very positive impact on the hotel performance.

Unsurprisingly, only East China had a positive sentiment score in the hotel performance ranking by region, illustrating the fact that the Shanghai 2010 Expo has had a very positive impact on market performance as expected. Oppositely, the rest regions have not generated as the same positive degree impact as East China. Like Northeast China, it reported the most pessimistic outcome, which had a lowest sentiment score at negative 29.

Cities in which hoteliers feel the impact of the Shanghai Expo has been as positive as expected include Shanghai, which had the highest score at 108, followed by Hangzhou (58), and Kunshan (50). The cities in which hoteliers indicate that it has had the negative impact are Kunming (-50), Sanya (-82), and Haikou with the lowest negative score of 88.

IMPACT OF 2010 SHANGHAI EXPO

1. North	(21)
2. Northeast	(29)
3. East	41
4. Mid-South	(25)
5. Northwest	0
6. Southwest	(25)



“A majority of 77 percent of respondents felt that global financial crisis has already impacted demand less or much less than expected”.

THE IMPACT OF THE FINANCIAL CRISIS

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

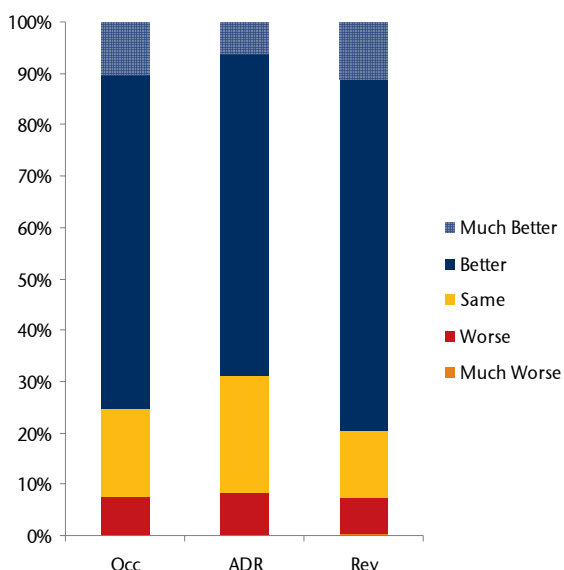
When asked if the crisis had continuously impacted their demand, 23 percent responded that demand was still affected more or much more than expected. 39 percent replied that the impact of the crisis was in line with expectation i.e. the same, while 38 percent felt that the crisis had already impacted demand less or much less than expected.

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 less of a direct impact on market performance than the first half of this 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 Hefei (21). The cities in which hoteliers believe the financial crisis still continually has had the strong impact that was expected are Chongqing (-6), Kunshan (-13), and Dongguan with the lowest score of negative 43.

IMPACT OF FINANCIAL CRISIS

1. North	23
2. Northeast	21
3. East	7
4. Mid-South	6
5. Northwest	(50)
6. Southwest	6



“Approximately 70 percent of respondents expected to perform better or much better in the second half of 2010”.

EXPECTATION FOR THE SECOND HALF OF THE YEAR

	Avg	Occ	ARR	Rev
1. North	59	67	40	69
2. Northeast	12	18	7	11
3. East	64	65	58	69
4. Mid-South	55	48	56	60
5. Northwest	67	50	75	75
6. Southwest	49	50	50	47

SECOND HALF MARKET OUTLOOK

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

Approximately 70 percent of respondents 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

Occupancy scored a national average of positive 59 where 75 percent of respondents expected hotel occupancy to be better or much better compared to the second half of 2009. North China recorded the highest sentiment score of 67, followed by East China (65), Northwest China (50), Southwest China (50), Mid-South China (48), and Northeast China being the most pessimistic with a score of lowest 18.

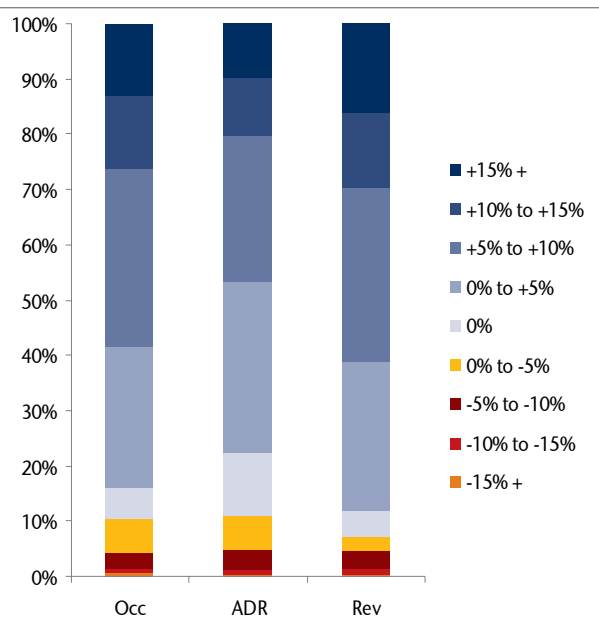
Average Room Rate

The national average sentiment with regard to ARR was the bleakest amongst the three performance gauges, with a score of lowest 50. Like occupancy, only Northeast China posted a very pessimistic sentiment score of the lowest 7. The highest score came from Northwest China (75), followed by East China (58), Mid-South China (56), Southwest China (50), and North China (40).

Revenues

The expectations for hotel revenues were the most optimistic, with a national average sentiment score of highest 62 and almost 80 percent of hoteliers in China expecting more or much more revenues in the second half of 2010 compared to the second half of 2009. Northwest China continued to be the most optimistic region, with the highest positive sentiment score of 75. Next up was a tie between East and North China at positive 69, and then followed closely by Mid-South China (60), Southwest China (47), and Northeast China with the most pessimistic score at 11.

Of the key cities across China, Shanghai (86), Hefei (75), and Wuxi (68) recorded the top 3 highest scores with regards to their expectations for occupancy, ADR, and revenue for the current half of the year. Tianjin, Sanya (both at 32), Ningbo (29), and Dalian (6) rounded the table with negative expectations for this half for all three performance indexes.



“10 percent of hoteliers expect to see hotel performance increased by 15 percent or more”.

SECOND HALF HOTEL PERFORMANCE EXPECTATION

	Avg	Occ	ARR	Rev
1. North	64	74	46	72
2. Northeast	4	9	(2)	4
3. East	76	76	68	84
4. Mid-South	51	46	46	61
5. Northwest	71	38	100	75
6. Southwest	48	49	44	52

HOTEL PERFORMANCE EXPECTATION

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

The national sentiment outlook remains optimistic at a score of 60, similar to the global sentiment score of positive 25. Over 46 percent of hoteliers expect to see an increase in performance growth of at least 5 percent, and around 10 percent of hoteliers in China even expect to see hotel performance improve by 15 percent or more.

Occupancy

59 percent of hoteliers expect occupancy to increase by at least 5 percent in the second half, and a national average sentiment of 62 was scored. The most optimistic region was the East, with a highest rating of 76. This is followed by North China (74), Southwest China (49), Mid-South China (46), Northwest China (38), with the most pessimistic being Northeast China at lowest 9.

Average Room Rate

The national average sentiment score for ARR was 51, with 47 percent of respondents expecting room rates to increase by at least 5 percent. Oppositely with occupancy, Northwest China had the highest positive score of 100, followed by East China (68), North and Mid-South China (both at 46), Southwest China (44), and the Northeast China still being the most pessimistic region with a lowest score of negative 2.

Revenues

Hotel revenues scored the most positive with an average national sentiment score of 68. Over 60 percent of hoteliers expected revenues to increase by at least 5 percent. Like occupancy, East China had the highest score of 84, followed by Northwest China (75), North China (72) Mid-South China (61), Southwest China (52), and northeast China coming in last with lowest 4 once again.

Shanghai (103), Kunshan (88), and Hefei (86) were the top three cities with the most positive expectation on their respective hotel’s performance for occupancy, ADR, and revenue. On the other side of the table, hoteliers in Tianjin (30), Ningbo (15), and Dalian (8) were the most pessimistic in their expectations with the lowest three scores among 16 key cities.

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 across China remained optimistic on their outlook for the remainder of 2010 with regards to market-wide occupancy, ARR and total revenue as well as their properties' performance.

Majority of the contributors agreed that first half 2010 market performance was better than expected across the board for occupancy, ADR, and revenue. From the sentiment results, it is proved that the various regional hotel markets do hit bottom and start to show a return to growth. Additionally, the performance outlook for second half 2010 is almost all positive with respect to occupancy, ADR, and revenue.

In key cities, such as Shanghai, Beijing, and Hangzhou, almost had greater than average national scores in terms of market sentiment for the hotel industry. However, Northeast China, which includes Liaoning, Heilongjiang, and Jilin, had a relatively pessimistic expectation for the second half of 2010, being the only region with negative scores in terms of hotel's ADR outlook.

Lastly, majority of respondents across China agreed that the continuous impact of the global financial crisis on hotel demands had already become weaker and weaker. Meanwhile, the 2010 Shanghai Expo had only generated a great positive impact on the hotel performance in East China, especially for Shanghai, as expected.

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