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**浩华中国资讯**

**2010 年第 4 期**

# CHINA MARKET OVERVIEW

# ZHENGZHOU

By Shu Wang, Assistant Director, Horwath HTL

## GENERAL MARKET REVIEW

Zhengzhou, a hub for finance, commerce and resource distribution in central China, is the provincial capital and largest prefecture level city of Henan Province. Located at the north of the province's centre and south of the Yellow River, Zhengzhou has shown a steady and continuous GDP growth over the past five years with a compounded annual average growth (CAAG) of 19 percent since 2005. Despite the global economic downturn, the GDP of Zhengzhou rose by 10 percent to RMB 330 billion in 2009, though the annual growth was considered the weakest among the past five years. Similarly in 2009, GDP per capita also increased by approximately 8 percent to RMB 44,000.

## SUPPLY, DEMAND & OCCUPANCY

Since the Crowne Plaza opened in 1995 and Sofitel opened in 1999, it has been over a decade since no any new international 5-star branded hotel was developed in Zhengzhou. As the capital city of Henan Province, Zhengzhou is a typical secondary market in China as corporate and MICE demand accounted for the majority of total room night demand, approximately 84 percent in 2009. The overall occupancy of the competitive market in 2008 and 2009 was 60 percent and 63 percent respectively. As of July 2010, the year-to-date overall occupancy registered at 68 percent with a CAAG rate of 6 percent over the last three years.

## RATE PERFORMANCE

In terms of rate performance, average rate for the top-tier market increased slightly by around 1 percent over the past 2 years, increasing from around RMB 541 in 2008 to RMB 546 year-to-date 2010. Since the opening of the Zhengzhou International Convention and Exhibition Centre at the end of 2005, this venue has hosted several major high profile events such as the China Domestic Travel Mart in 2008 and the 2010 National Finance Conference. These events allowed the hotels to increase rates substantially during the event periods.

## MARKET SEGMENTATION

Corporate demand accounted for the largest proportion of demand, approximately 60 percent of the total competitive market in 2009. Following on, MICE was the second largest demand segment, comprising of 24 percent of the total

occupied room nights in 2009. With notable attractions in the neighbouring areas and cities in Zhengzhou, the leisure segment represented around 11 percent of the total demand. In terms of other demand, it contributed towards the remaining demand of 5 percent, and it mainly referred to government demand in the case of this competitive market. The domestic market represented the largest source of demand as it constituted around 89 percent of the total demand in 2009.

## NEW SUPPLY

Unlike many other cities, the Zhengzhou hotel market has not experienced a significant increase in terms of top-tier supply during the past 10 years. However, 5 international 5-star branded hotels are opening in coming years, including JW Marriott, Sheraton, Le Meridien, Radisson and Hilton, which will add 2,769 rooms to the market. As the annual supply growth is predicted to be higher than the annual demand growth between 2011 and 2015, this situation is expected to cause a decline in the overall occupancy level of the market.

## MARKET OUTLOOK

Zhengzhou has consistently experienced high levels of economic and infrastructure growth in recent years, as seen from the consecutive annual increases in all the major economic indicators and the rapid transportation development. Furthermore, the economy of Zhengzhou was not deeply impacted by the global economic recession in the last two years. Henceforth, with a mature and solid investment base, the creation of Zhendong New Commercial District, positive growth in its leading industries, as well as the continuous infrastructure improvement, there is an optimistic outlook for future development in Zhengzhou, and especially more so with the expected global economic recovering in the short to medium term. Looking at the next few years, corporate demand should continue to enjoy stable growth. The opening of a series of high quality international 5-star hotels will potentially increase the market overall ADR. Despite a strong anticipated growth in demand, the continuous high growth of supply in the next five consecutive years calls for a conservative outlook regarding the market wide occupancy growth.

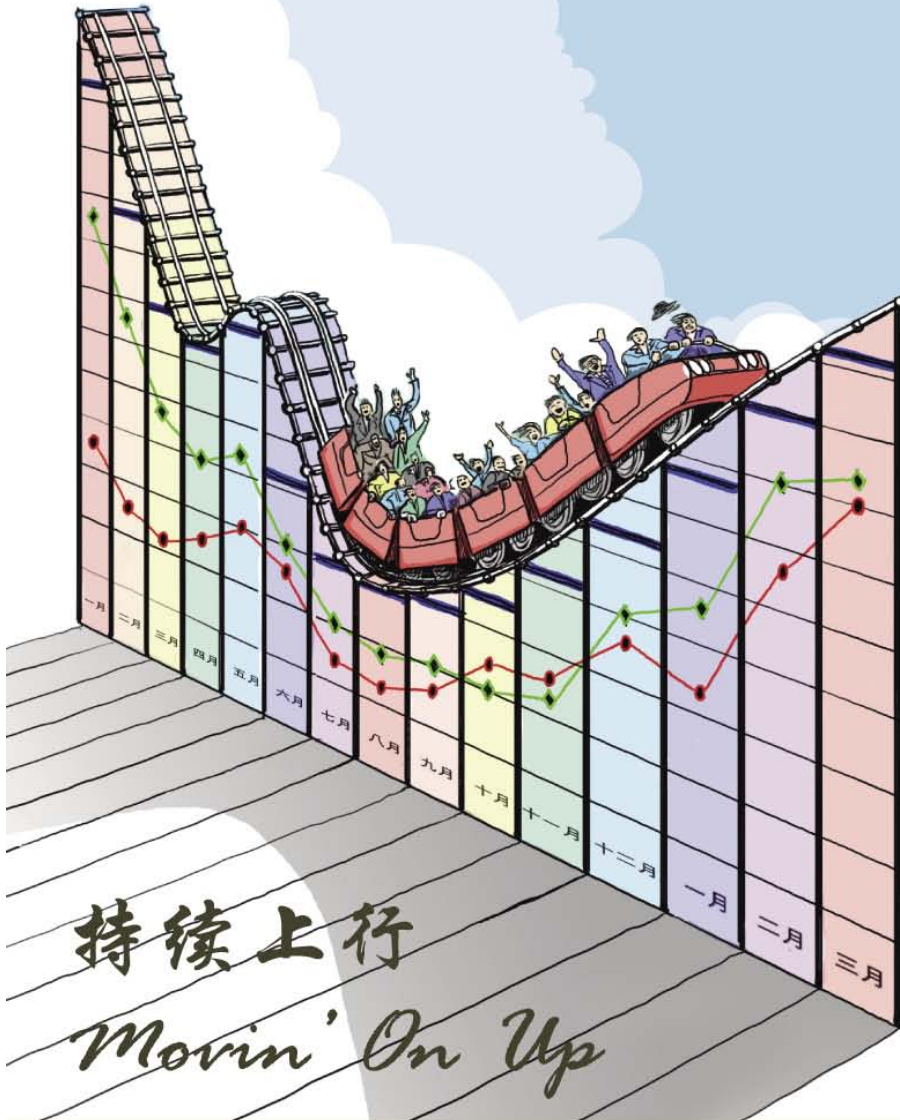


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# HOTEL MARKET SENTIMENT REPORT

# CHINA

By Cindy Wei, Consultant, Horwath HTL

## 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.

## SHARE OF RESPONDENTS BY REGION

Of the 332 respondents, 36 percent of them came from East China (Shanghai, Zhejiang, Jiangsu, Anhui, Fujian, and Shandong), followed by North China (Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia) at 27 percent, then Central & South China (Guangdong, Guangxi, Hainan, Hubei, Hunan, and Henan) at 21 percent. The other regions accounted for a much smaller proportion of survey respondents.

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

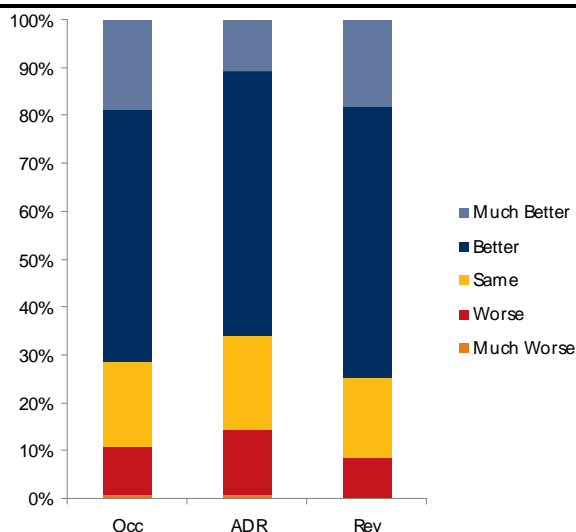
## FIRST HALF MARKET PERFORMANCE

In response to expectations on market-wide occupancy performance, 71 percent of the hoteliers replied that it was better or much better than expected, 18 percent felt that it was in line with expectation, while only 11 percent felt that it was worse or much worse.

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.

Total revenue followed the same trend. 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.

## FIRST HALF MARKET PERFORMANCE



## THE IMPACT OF THE SHANGHAI WORLD EXPO AND THE GLOBAL FINANCIAL CRISIS

The survey result presents that 23 percent of participants responded that the crisis still affected the hotel demand more or much more than expected. 39 percent replied that the impact of the crisis was in line with expectation, while 38 percent felt that the crisis had already impacted demand less or much less than expected.

With regard to the impact of the Shanghai World Expo, 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 it had a positive or very positive impact on the hotel performance.

# HOTEL MARKET SENTIMENT REPORT

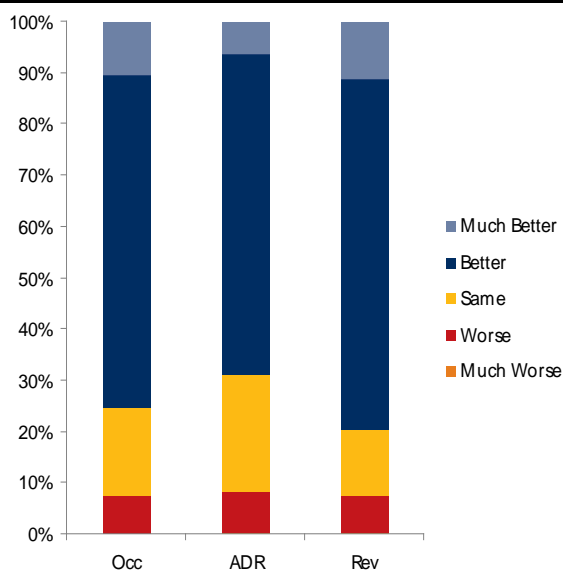
# CHINA

By Cindy Wei, Consultant, Horwath HTL

## SECOND HALF PERFORMANCE 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. Approximately 70 percent of respondents stated that they expected all performance measures to perform better or much better in the second half of 2010 in comparison to the second half of 2009.

## SECOND HALF MARKET OUTLOOK



## HOTEL PERFORMANCE

When asked their expectations of their properties performance for second half of 2010 compared to second half of 2009, 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.

In terms of occupancy, 59 percent of hoteliers expect occupancy to increase by at least 5 percent in the second half. With regard to ADR and Revenue performance, 47 percent of respondents expected room rates to increase by at least 5 percent. Over 60 percent of hoteliers expected revenues to increase by at least 5 percent.

## CONCLUSION

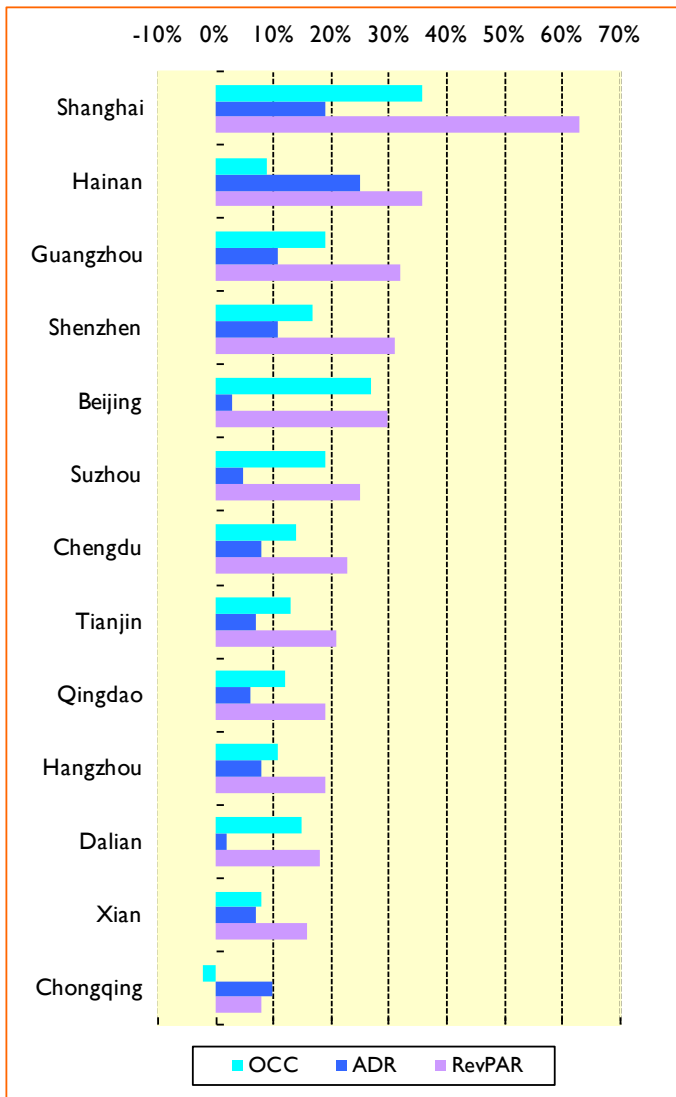
Majority of the contributors agreed that first half 2010 market performance was better than expected across the board for occupancy, ADR, and revenue. From the sentiment results, it is proved that the various regional hotel markets do hit bottom and start to show a return to growth. Additionally, the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

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

Note: The Full Market Sentiment Reports can be downloaded from the Horwath HTL website.

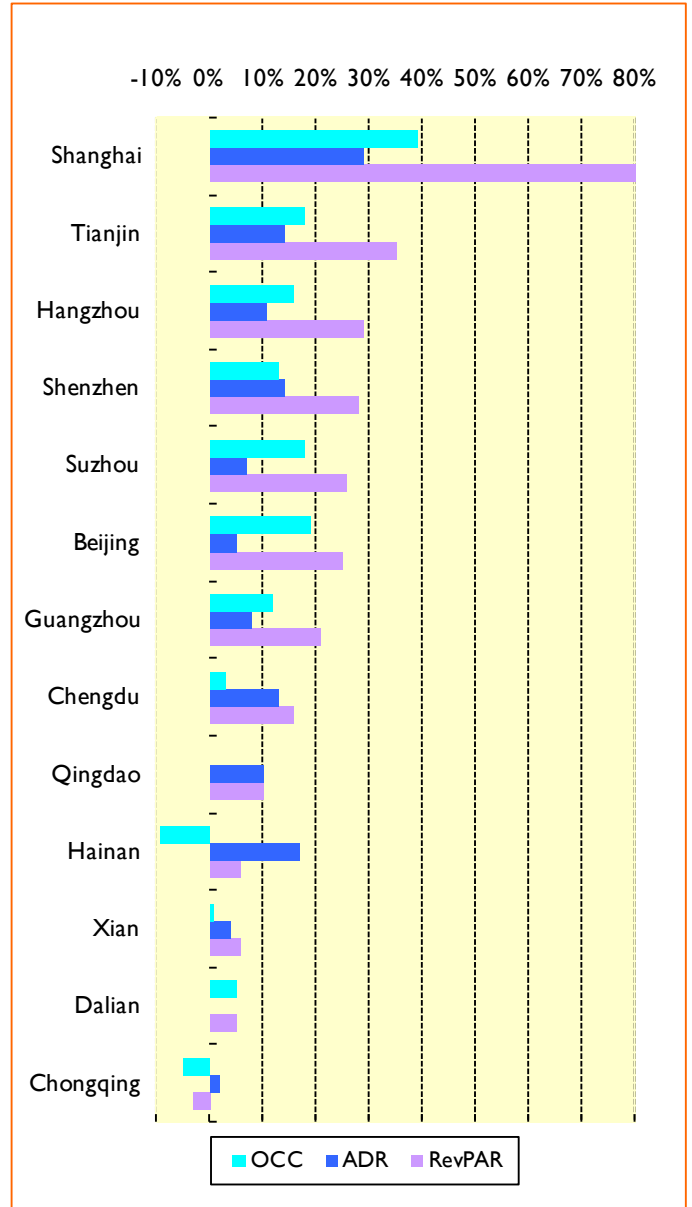


KEY MARKETS PERFORMANCE UPDATE  
YOY GROWTH, YTD SEPTEMBER 2010 VERSUS 2009



Source: STR Global

KEY MARKETS PERFORMANCE UPDATE  
YOY GROWTH, Q3 2010 VERSUS Q3 2009



Source: STR Global

Based on the above performance data of the key markets in China provided by STR Global, Horwath HTL further provides brief comments for each market.

## KEY MARKETS UPDATE Q3 2010

# CHINA

By Kevin Zhao, Research Analyst, Horwath HTL  
Julie Dai, Director, Horwath HTL

### BEIJING

Q3 usually represents the peak tourism and MICE demand seasons of Beijing. With the continuous increase in demand, the overall market wide occupancy has recovered from 54 percent for Q1 to 67 percent for Q3 2010. It has seen a 19 percent increase over the same quarter of 2009. By comparison, market wide ADR presented a slower pace of growth, recording an increase of only 5 percent for Q3 2010 versus the same quarter of 2009. Accordingly, market wide RevPAR for Q3 went up by 25 percent versus Q3 2009. For YTD September 2010, the overall market recorded increases of 27 percent, 3 percent, and 30 percent respectively for occupancy, ADR, and RevPAR in comparison with the same period of 2009.

### SHANGHAI

Similar to Q2, the Shanghai hotel market in Q3 continued to realize the strongest increase in performance among 13 selected cities in China. Although supply has increased by 14 percent, the strong increase in demand due to the positive impact of Shanghai Expo has maintained the market wide occupancy level at above 70 percent for Q3 2010, recording an increase of 39 percent over the same quarter of 2009. Market wide ADR experienced a drop compared with Q2 but still maintained at above RMB 870, achieving an increase of almost 30 percent versus Q3 2009. As a result, market wide RevPAR recorded an exceptional growth of 80 percent over Q3 2009. For YTD September 2010, the overall market recorded significant increase of 36 percent, 19 percent, and 63 percent respectively for occupancy, ADR, and RevPAR performance versus the same period of 2009 according to the data provided by STR Global.

### SHENZHEN

Following the strong growth in demand in Q2 2010, the Shenzhen hotel market has maintained the occupancy level at above 60 percent for Q3, recording an increase of 13 percent over the same quarter of 2009. Market wide ADR has not changed significantly compared with the last quarter but still achieved an increase of 14 percent versus Q3 2009. Accordingly, market wide RevPAR went up by 28 percent. For YTD September 2010, the overall market recorded increases of 17 percent, 11 percent, and 31 percent for occupancy, ADR, and

RevPAR performance versus the same period of 2009 according to the data provided by STR Global.

### HANGZHOU

The Hangzhou hotel market has experienced continuous improvement for Q3 2010. Overall supply has grown rapidly by about 14 percent. In comparison, the continuous growth in demand has shown a faster pace, which maintained the market wide occupancy at above 60 percent level. Meanwhile, market wide ADR went up by 11 percent over Q3 2009. Accordingly, RevPAR recorded a growth of almost 30 percent over Q3 2009. The overall market recorded increases of 11 percent, 8 percent, and 19 percent respectively for occupancy, ADR, and RevPAR performance for YTD September 2010 versus the same period of 2009 according to the data provided by STR Global.

### SUZHOU

Similar to Hangzhou, the Suzhou hotel market also experienced a continuous increase in market demand. In comparison, the increase in supply returned to a reasonable level. Market wide occupancy for Q3 2010 kept at slightly above 50 percent, recording an increase of 18 percent over Q3 2009. The market wide ADR also increased by 7 percent for the same period. Accordingly, market wide RevPAR has managed to improve by 26 percent. For YTD September 2010, the overall market recorded increases of 19 percent, 5 percent, and 25 percent respectively for occupancy, ADR, and RevPAR in comparison with the same period of 2009.

### DALIAN

For Q3 2010, the increase in demand has moved back to a much slower pace compared with both Q1 and Q2 2010, while the increase in supply kept relatively stable. Market wide occupancy has recovered to closely 70 percent. Market wide ADR experienced a slight change over the same quarter of 2009. Accordingly, market wide RevPAR increased by 5 percent versus the same quarter of 2009. For YTD September 2010, the increases of occupancy, ADR, and RevPAR reached 15 percent, 2 percent, and 18 percent respectively over the same time period of 2009.



## KEY MARKETS UPDATE Q3 2010

# CHINA

By Kevin Zhao, Research Analyst, Horwath HTL  
Julie Dai, Director, Horwath HTL

### CHENGDU

Q3 usually is a high demand season in Chengdu. Though the supply maintained a double-digit increase for Q3 2010, the market wide occupancy still maintained at closely 70 percent level due to the faster growth pace in demand. Meanwhile, the Chengdu hoteliers have successfully pushed ADR performance to improve by almost 13 percent for Q3 2010 versus Q3 2009. As a result, the market wide RevPAR recorded an increase of 16 percent. For YTD September 2010, the overall market recorded increases of 14 percent, 8 percent, and 23 percent respectively for occupancy, ADR, and RevPAR performance versus the same time period of 2009 according to the data provided by STR Global. As the last quarter covers October which is typically a high demand season for leisure and MICE segments, we expect the market to continue with strong performance for the last quarter of 2010.

### XI'AN

The Xi'an hotel market continued to record double digit increases in supply for Q3 2010; however, market demand grew in a relatively slower pace compared with the first two quarters with the reason that market demand volume had already recovered to a high level since the second half of 2009. Accordingly, both market wide occupancy and ADR have seen a small improvement over the same period of 2009, recording increases of 1 percent and 4 percent respectively. The soft increase in occupancy and ADR resulted in an increase of 6 percent in market wide RevPAR. For YTD September 2010, the overall market recorded increases of 8 percent, 7 percent, and 16 percent for occupancy, ADR, and RevPAR performance versus the same time period of 2009.

### TIANJIN

Similar to Q2 2010, overall market demand increased at a faster pace than the supply for the 3<sup>rd</sup> quarter of 2010. Occupancy has seen an obvious increase in September due to the positive impact of the Annual Meeting of New Champions 2010; however, market wide occupancy for Q3 2010 was still below 50 percent. Meanwhile, market wide ADR for Q3 2010 experienced a significant increase of 14 percent over Q3 2009 due to the opening of several up-scale properties. As a result, market wide RevPAR has improved by 35 percent versus Q3

2009. For YTD September 2010, the overall market recorded increases of 13 percent, 7 percent, and 21 percent for occupancy, ADR, and RevPAR performance versus the same time period of 2009.

### CHONGQING

Compared with Q3 2009, the Chongqing hotel market has seen a drop in market wide occupancy of 5 percent. Different from Q1 and Q2, market demand growth slowed down and couldn't catch up with the supply growth pace. Market wide ADR slightly rose by 2 percent. Accordingly, market wide RevPAR dropped by 3 percent for Q3 2010 in comparison with the same quarter of 2009. For YTD September 2010, the overall market recorded increases of 10 percent and 8 percent for ADR and RevPAR performance and a drop of 2 percent for occupancy versus the same time period of 2009. Our market research has shown that with the establishment of Chongqing Liangjiang New Area, both corporate and MICE demand segments are expected to increase. The overall Chongqing hotel market is expected to benefit from the improvement of the overall economic conditions.

### QINGDAO

Q3 has usually been seen as the peak seasons in Qingdao. Market wide occupancy can usually reach the peak for both July and August. The market wide occupancy level for Q3 2010 significantly improved to 72 percent in comparison with Q1 and Q2 2010 but was the same as that for Q3 2009. It should be noted that market wide ADR increased by 10 percent over the same quarter of 2009. Accordingly, market wide RevPAR improved by 10 percent. For YTD September 2010, the overall market recorded increases of 12 percent, 6 percent, and 19 percent for occupancy, ADR, and RevPAR performance versus the same time period of 2009.

### GUANGZHOU

The continuous growth in demand has helped the Guangzhou hotel market to maintain the market wide occupancy at the 60 percent level for Q3 2010, recording an increase of 12 percent over the same quarter of 2009. Market wide ADR recorded an increase of 8 percent in comparison with Q3 2009. Accordingly, market wide RevPAR improved by around 20



## KEY MARKETS UPDATE Q3 2010

# CHINA

By Kevin Zhao, Research Analyst, Horwath HTL  
Julie Dai, Director, Horwath HTL

percent versus Q3 2009. For YTD September 2010, the overall market recorded increases of 19 percent, 11 percent, and 32 percent for occupancy, ADR, and RevPAR performance versus the same time period of 2009 according to the data provided by STR Global. We had expected market performance to be pushed to a higher level with the positive impact of the Asian Games.

### HAINAN

Among the 13 selected cities in China, the Hainan hotel market is the only market seeing a decrease in demand for Q3 2010 compared with the same quarter of 2009 due to the negative impact of floods and typhoons. Market wide occupancy dropped by 9 percent; however, market wide ADR continued to

improve by 17 percent over Q3 2009. As a result, market wide RevPAR increased by 6 percent. For YTD September 2010, the overall market recorded increases of 9 percent, 25 percent, and 36 percent for occupancy, ADR, and RevPAR performance versus the same time period of 2009. Our recent market research showed many travelers are still concerned by the floods that occurred during the National Day holiday. Some local hoteliers are concerned that the traditional high season in winter might be impacted. However, we believe the coming of the best season in Hainan and the close of the Shanghai Expo should again move people's attentions to Hainan.

The following table summarizes the number of participating hotels included in our analysis for each identified key market:

### PARTICIPATED HOTELS FOR KEY MARKETS, 2010

Key Market	Total Participated Hotels Count	Participated Hotel Count by Class					
		Economy Class	Midscale w/o F&B	Midscale w/F&B Class	Upscale Class	Upper Upscale Class	Luxury Class
Beijing	188	36	10	47	47	26	22
Shanghai	131	13	8	38	30	26	16
Dalian	17	3	1	5	4	1	3
Suzhou	18	1	1	4	3	6	3
Guangzhou	22	2	1	6	8	2	3
Shenzhen	40	4	3	10	12	5	6
Chengdu	20	4	1	5	5	1	4
Hangzhou	37	13	2	9	6	3	4
Xi'an	22	7	1	5	3	2	4
Tianjin	29	10	3	7	2	6	1
Chongqing	14	3	2	4	0	3	2
Qingdao	15	2	0	5	4	2	2
Hainan	29	1	1	9	3	7	8
<b>Total</b>	<b>582</b>	<b>99</b>	<b>34</b>	<b>154</b>	<b>127</b>	<b>90</b>	<b>78</b>

Source: STR Global



**HHTL**

# UPDATE NEWS

## **21<sup>ST</sup> ANNUAL HOTEL INVESTMENT CONFERENCE ASIA PACIFIC**

The 21<sup>st</sup> Annual Hotel Investment Conference Asia Pacific (HICAP) was successfully hosted in InterContinental Hong Kong from 13 to 15 October 2010. This year, Niseko Village Japan was the winner of the HICAP Merger & Acquisition Deal of the Year Award. Marina Bay Sands in Singapore was the winner of the Reggie Shiu Development of the Year Award. Winners of HICAP's Sustainable Hotel Awards included: ITC Royal Gardenia Bangalore for Sustainable Project Design; Crowne Plaza Alice Springs for Sustainable Operations; El Nido Resorts for Sustainable Destination; and Shangri-la Wuhan for Sustainable Communities. The 22<sup>nd</sup> annual HICAP will be held 12-14 October 2011, at the InterContinental Hong Kong. For the latest information, please visit the event website: <http://www.HICAPconference.com>.

## **7<sup>TH</sup> ANNUAL CHINA HOTEL DEVELOPMENT & FINANCING CONFERENCE**

Horwath HTL has announced the 7<sup>th</sup> annual China Hotel Development & Financing Conference will again be held at the Crowne Plaza Sun Palace Beijing from Wednesday 23<sup>rd</sup> March to Friday 25<sup>th</sup> March, 2011. For more information or details on sponsorship, please contact Michelle Xie on [mxie@horwathhtl.com](mailto:mxie@horwathhtl.com). Further announcements are to be made.

## **HORWATH HTL GLOBAL HOTEL MARKET SENTIMENT SURVEY REPORT, SEPT 2010**

Horwath HTL successfully conducted the Global Hotel Market Sentiment Survey and recently published the Global Survey Report in September 2010. The regional and country level Reports will be launched soon in the following weeks. Please visit our website to download the latest Survey Reports.

## **ABOUT HORWATH HTL**

Horwath HTL (Asia Pacific) is the regional arm of Horwath International's Hotel, Tourism and Leisure Group. As a Crowe Horwath International member, we are part of a professional association of accounting and management consulting firms originated in New York in 1915 and currently ranked among the top ten international professional service groups with offices in 387 cities in 82 countries and an annual combined turnover in excess of US\$1.5 billion. The major services provided by Horwath HTL include:

- Market & Financial Feasibility Studies
- Hotel Operator Selection & Contract Negotiation
- Destination and Large scale Project Masterplanning
- Asset Management
- Strategic Management and Planning
- Due Diligence

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