



HORWATH HTL NEWSLETTER CHINA
EDITION 2, 2010

浩华中国资讯

2010 年第 2 期



Horwath HTL 浩華

Hotel, Tourism and Leisure 酒店及旅遊業顧問

CHINA MARKET OVERVIEW

XIAMEN

By Xin Xin Loh, Consultant, Horwath HTL

GENERAL MARKET REVIEW

Located in the southeastern part of Fujian province, Xiamen is one of China's Special Economic Zones, with a focus on 3 pillar industries – electronics and information technology, machinery and metallurgy, and chemical production. The city has become one of the country's most competitive cities, in terms of its government service, legal system, infrastructure, and market openness. For almost 20 years, Xiamen has maintained an annual GDP growth rate of over 18 percent, except for 2009, during which the city was affected by the global financial crisis. Between 1997 and 2009, international tourist arrivals to Xiamen have increased by a compounded annual average growth (CAAG) rate of 11 percent, while domestic tourist arrivals grew by a CAAG rate of 13 percent.

SUPPLY, DEMAND & OCCUPANCY

Over the past five years, top-tier room nights supply has doubled in Xiamen. Overall, in the past 5 years, demand only grew at a rate that matched half that of supply increases in the market (10 percent and 19 percent respectively), resulting in a drop of market occupancy from 73 percent in 2005 to 53 percent in 2009. Both 2006 and 2008 saw the most significant occupancy drop, reporting a 9 percentage point decrease from 2005 and 2007 respectively. These significant drops in occupancy levels can be attributed to reasons which include entry visa restrictions into China, natural disasters, global financial crisis all occurring in succession, as well as increases in new top-tier hotel room nights supply. In 2009, market occupancy further declined to 53 percent, owing to the substantial amount of new hotel additions and the negative impact of the global financial crisis, which has affected, most notably, top-tier hotels. It is evident that the Xiamen top-tier hotel market has yet to absorb the large amount of new supply that has entered the market in the past 5 years.

RATE PERFORMANCE

In terms of rate performance, market ADR increased by about 13 percent in the past 5 years, growing from approximately RMB 571 in 2005 to RMB 648 in 2009, as more properties have started to focus on rate management techniques to drive rate premium, in order to compensate for the drop in occupancy. Hotels that have recently entered the market have also shown the ability to achieve relatively healthy rate levels. However,

despite the positive ADR growth trend, the top-tier market's average RevPAR has been decreasing by an annual average of 5 percent between 2005 and 2009.

MARKET SEGMENTATION

Corporate guests, traditionally the strongest and most stable amongst all demand segments, account for the major portion of demand at about 49 percent of total demand. As Xiamen continues to develop as an important coastal city, demand growth from the corporate segment is likely to continue. The second largest source of demand is the leisure market, comprising of both leisure group and individual leisure sectors, representing 26 percent of all occupied room nights. MICE demand is responsible for about 21 percent of overall demand. Both leisure and MICE demand have exhibited strong growth in recent years. The remaining portion of demand is derived from various other segments, including airline crew, long-stay and government demand.

NEW SUPPLY

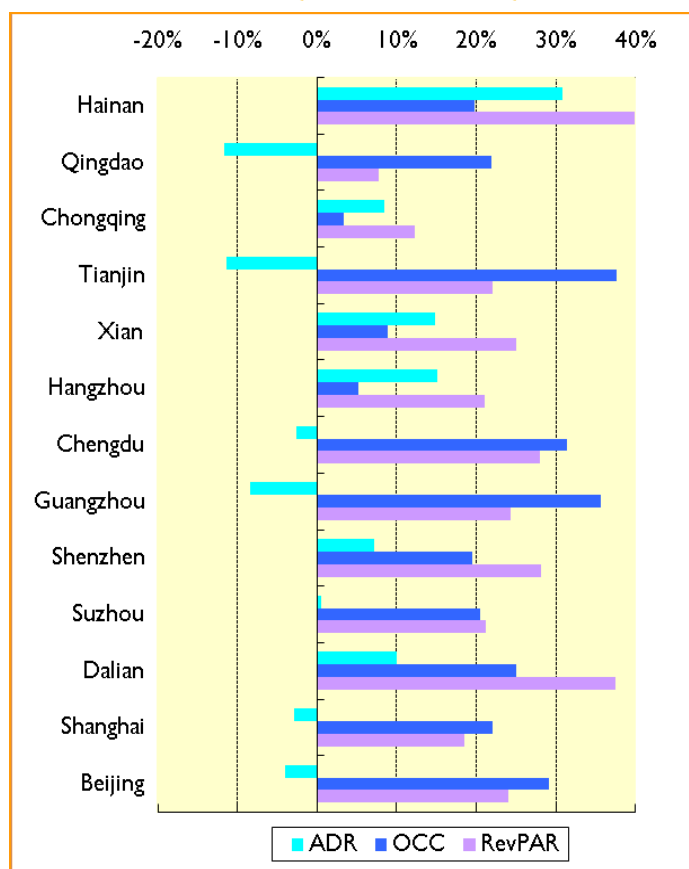
It has been anticipated that, up until 2013, there will be more than 3,000 top-tier hotel rooms that will enter the Xiamen market, most of which will be internationally branded. This would represent a doubling in terms of available hotel room nights. This large influx of new supply will add pressure on the existing market supply and most likely dilute market-wide occupancy levels further.

MARKET OUTLOOK

Given Xiamen's reputation as a strong economic and investment centre, its infrastructure and clean living environment, as well as the development of existing and new industrial and business parks around the city, the corporate demand segment is likely to exhibit stable growth potential into the future, though at lower growth rates than previous years, given the relatively large demand base that this segment currently holds. As for leisure and MICE demand, it is likely that the influx of new internationally-branded hotel supply will have the potential to induce demand from these two segments in the near future. Once again, there are reservations concerning the growth potential of market-wide occupancy for the Xiamen hotel market due to the significant growth in new hotel supply in 2010 and 2011.



KEY MARKETS PERFORMANCE UPDATE
YOY GROWTH, Q1 2010 VERSUS Q1 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.

BEIJING

Although the Beijing hotel market experienced considerable downturn in performance in 2009, the overall market performance for the first quarter of 2010 indicated a positive signal for the year. With growing demand, market wide occupancy reached 53.7 percent, rising by approximately 30 percent compared to the same period in 2009. ADR recorded a slight drop of 3.9 percent due to the pressure of supply. As a result, the overall market RevPAR managed to achieve 24 percent growth. According to the Beijing Market Sentiment Report recently released by Horwath HTL, hoteliers in Beijing have a vastly improved outlook for 2010. They have more confidence in market occupancy growth but hold a more cautious outlook on the ADR performance in 2010.

SHANGHAI

The Shanghai hotel market showed a similar pattern as its counterpart, Beijing. It reported a 22.1 percent growth in overall market occupancy and a slight drop of 2.8 percent in ADR for Q1 2010 versus Q1 2009. In combination, the market wide RevPAR improved by 18.6 percent. The Shanghai World Expo has shown the power in bringing in abundant travelers especially for the mid-tier and budget hotel sectors, which should definitely push market wide occupancy to a new level by year end. According to the Shanghai Market Sentiment Report recently released by Horwath HTL, the hoteliers showed more conservative expectation on international demand sources, especially on both foreign leisure FIT and group segments. Also, the majority of Shanghai hoteliers expect Shanghai Expo to have the most positive impact on market performance in 2010.

SHENZHEN

Following the strong recovery of demand for the last quarter of 2009, occupancy continued its active performance, expanding approximately 20 percent compared with the same period in 2009 and positioned slightly above the important 60 percent mark. Meanwhile, ADR went up about 7.2 percent. Accordingly, the quarterly overall RevPAR in Q1 2010 improved 28.2 percent. Similar to Beijing and Shanghai, most hoteliers in Shenzhen have more confidence in total revenue growth but hold a relatively cautious outlook on the ADR performance in 2010 according to the Shenzhen Market

KEY MARKETS UPDATE Q1 2010

CHINA

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

Sentiment Report recently released by Horwath HTL. This Report also indicates that domestic demand was expected to have the most positive influence on demand growth in 2010.

HANGZHOU

In line with the previously positive outlook for the 2010 hotel market, the increasing demand induced by Shanghai World Expo and booming domestic travel benefited the general Hangzhou market. In Q1 2010, occupancy, ADR, and RevPAR increased by 5.2 percent, 15.2 percent, and 21.1 percent respectively versus Q1 2009. Actually, Hangzhou was one of the best performed markets in 2009. The strong ADR performance for Q1 2010 was pushed by the opening of several luxury hotels, such as Aman and Banyan Tree, which have set new rate ceiling for the Hangzhou hotel market and further strengthened the position of Hangzhou as a primary leisure destination for both domestic and international travelers.

DALIAN

Similar to the Shenzhen market, the hotel market in Dalian also showed positive recovery for the first quarter of 2010 compared with the same period in 2009 but to a much faster pace. It achieved positive growth in occupancy and ADR with 25.1 percent and 10 percent respectively. The RevPAR improved by almost 40 percent which was the second largest RevPAR improvement among the 13 selected major cities. The real market wide occupancy and ADR performances were still in low levels though the growth rates were remarkable.

CHENGDU

In Q1 2010, the Chengdu market indicated strong improvement in both occupancy and RevPAR. Although occupancy dropped 6.2 percent in February 2010 in comparison of the same time of 2009, it showed significant improvement for both January and March, reporting positive growth of 54.5 percent and 43.2 percent respectively. The quarterly average occupancy has recovered to a relatively healthy level with a 31.5 percent increase compared with Q1 2009. Meanwhile, overall ADR saw a slight reduction of 2.6 percent compared with the same period of 2009. In combination, the overall RevPAR increased by 28.1 percent versus Q1 2009. Hopefully, the strong growth of demand is able

to absorb new additions effectively for year end 2010, which would allow the market wide occupancy to stay at a reasonable level.

XI'AN

The Xi'an hotel market followed the same pattern as the Hangzhou market. For Q1 2010, its overall occupancy and ADR grew by 8.9 percent and 14.8 percent, resulting in a 25 percent growth of RevPAR according to the data provided by STR Global. In 2009, the Xi'an high-end market experienced significant growth in supply and stronger growth in demand, which finally resulted in market wide occupancy close to 60 percent. It is reasonable to have a positive outlook for the Xi'an market for 2010 considering the fast economic development and the recovery of international leisure travelers. However, we should also take into consideration the continuous growth of supply, which might have negative impact on occupancy performance.

TIANJIN

The market performance in Tianjin in 2009 was disappointing to many hoteliers in Tianjin. For the first quarter of 2010, the hotel market reflected a strong recovery in market wide occupancy which increased by approximately 38 percent compared with Q1 2009. However, ADR shrunk by more than 10 percent during the same time. In combination, the overall RevPAR improved by 22.1 percent for Q1 2010 versus Q1 2009. It again demonstrates that the base of low to mid-tier market demand is much stronger in Tianjin though the local government and hotel developers are eager to provide more and more luxury hotel products to the market.

SUZHOU

According to the statistical data from the National Tourism Administration, Suzhou was the third most visited city by travelers in 2009. During Q1 2010, the Suzhou hotel market reported a minor 0.6 percent growth in ADR compared with Q1 2009. Occupancy rose by 20 percent. As a result, overall RevPAR achieved a 21 percent growth in comparison with the same period of 2009. We believe various types of demand (especially corporate and leisure segment) have achieved much stronger growth with the recovery of the economy from the



KEY MARKETS UPDATE Q1 2010

CHINA

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

financial crisis.

CHONGQING

Among the 13 selected major cities in China, the Chongqing market reflected the smallest improvement in both occupancy and ADR for Q1 2010 versus Q1 2009. The market wide occupancy and ADR went up by around 3.4 percent and 8.5 percent respectively, resulting in a 12.3 percent improvement in RevPAR. This market has achieved continuous growth in demand since Q1 2009. It is good to see the market ADR realized strong growth pushed by newly opened high-end hotels and the rapid growth of the local economy.

QINGDAO

The Qingdao market followed the same pattern as the Tianjin market for the first quarter of 2010. Although it achieved a growth of 21.9 percent in market wide occupancy, ADR fell by 11.7 percent compared with Q1 2009. Accordingly, RevPAR slightly increased by 7.7 percent in comparison to Q1 2009. For March 2010, market wide occupancy went up by 41 percent while market wide ADR decreased by 23 percent. Such big up and down reflects that the top-tier market had to scarify room rates in order to capture a reasonable share of demand due to the soft market situation and still weak export-oriented industries.

GUANGZHOU

From January to March 2010, the overall market occupancy in Guangzhou stayed above 60 percent with the exception of February, which reported slightly above 40 percent occupancy. The market wide ADR reduced by 8.4 percent, relatively better than the ADR reductions for Tianjin and Qingdao markets. As a result, RevPAR achieved a positive growth of 24.3 percent. The market shows positive signs in demand growth though market wide ADR remains on a downward trend. We expect the market's ADR to recover and return to positive growth in the next couple of months if market demand continues to remain strong especially considering the city will host the 2010 Asian Games.

HAINAN

The first quarter is always the strongest season for hotels in Hainan. The hotel market achieved unbelievable out-performance particularly in Q1, 2010. According to STR Global's statistics data, the overall market achieved about 20 percent growth in occupancy and about 31 percent growth in ADR, which pushed market wide RevPAR to increase by 57 percent. Many of you might have heard about some interesting stories about how hotels in Hainan (in particular in Sanya) sold their rooms during the Chinese new year, which was a special period for the hoteliers to gain significant revenue growth. We believe the market wide performance growth should slow down for the next two quarters considering the impact of shoulder seasons and the cooling down of residential sales in Hainan after the Chinese New Year. The hot property market, along with the government announcement that Hainan would be developed as "an international tourism island", has been pushing market performance growth in Q4 2009 and Q1 2010.



HOTEL MARKET SENTIMENT REPORT CHINA

By Damien Little, Director, 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 coming 12 months. The survey focuses on the outlook for occupancy, average room rates, and total revenue.

SHARE OF RESPONDENTS BY REGION

Of the 383 respondents, 26 percent of them came from North China (Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia), followed by East China (Shanghai, Zhejiang, Jiangsu, Anhui, Fujian, and Shandong) at 32 percent, then Central & South China (Guangdong, Guangxi, Hainan, Hubei, Hunan, and Henan) at 29 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 31 percent. The 3-star and budget sections only accounted for a small portion of respondents at 5 percent and 6 percent respectively.

After the current point in time, most of the Chinese hoteliers believe that the market reached bottom in 2009 and things are on the way up in 2010. This is in line with our survey findings of the Global Hotel Market Sentiment Survey conducted concurrently. The following analysis provides some useful insight as to the expectations for different hotel markets across China.

MARKET PERFORMANCE

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 and 20 percent expect that performance will be as same as 2009.

Most respondents expect that ADR will be slightly worse than our other two performance gauges. 60 percent stated that ADR will be better than 2009, 20 percent expect it to stay the same, while 20 percent worried that ADR will perform worse compared to 2009.

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

HOTEL PERFORMANCE

When asked if they still expect growth in their properties performance in 2010, all hoteliers expected the occupancy to increase in 2010, with 60 percent expecting that to be in excess of 5 percent. Meanwhile, 60 percent of hoteliers expect to see an improvement in revenue growth of at least 5 percent while 60 percent of respondents expected ADR to increase no more than 5 percent.

MARKET SEGMENT PERFORMANCE

In response to expectations to primary market demand segments, the majority of respondents think performance across all segments will improve in 2010. Over 60 percent of respondents expected better future performance of domestic corporate, domestic leisure FIT, domestic leisure group, and MICE demand segments. In comparison, the participants believe that international demand sources will not show much improvement.

CONCLUSION

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. 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.

Note:

- The full version of the China, Beijing, Shanghai and Shenzhen Market Sentiment Reports can be downloaded from Horwath HTL website www.horwathHTL.com
- The mid-year Market Sentiment Survey will be undertaken in July and the Survey Reports should be released in August.



HHTL

UPDATE NEWS

UPDATE NEWS OF THE 6TH ANNUAL CHINA HOTEL DEVELOPMENT & FINANCIAL CONFERENCE

The 2010 China Hotel Development and Financing Conference was held successfully from the 24th of March to the 26th of March 2010. It attracted over 500 delegates of which 42% were owners / developers, 29% came from corporate level hotel management companies, 5% were lawyers, 11% were from architecture and design companies, 8% were from other consulting companies, and 5% were from media and other associations. The winner of 2010 China Hotel Development of the Year Award is Peninsular Shanghai, developed by Shanghai SPG Hotel Development Co., Ltd. For more information about the conference, please visit the conference's website: www.chinahotelseminar.com.cn

CHINA HOTEL INDUSTRY STUDY

China Tourism & Hotels Association (CTHA) and Horwath HTL jointly will launch the annualized 2010 China Hotel Industry Study Survey for the 8th time. The 2010 China Hotel Industry Study received more than 630 survey respondents covering 31 provinces, municipalities, and autonomous regions. This time, the 2010 China Hotel Industry Study will be published by the end of July, 2010. For the latest information, please visit our website: <http://www.horwathhtl.com>

ABOUT HORWATH HTL

Horwath HTL (Asia Pacific) is the regional arm of Horwath International's Hotel, Tourism and Leisure Group. As a 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 office 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

CONTACT INFORMATION

Beijing

Tel: (86 10) 8518 1833

Email: Beijing@horwathhtl.com

Shanghai

Tel: (86 21) 5170 8545

Email: Shanghai@horwathhtl.com

Hong Kong

Tel: (852) 2524 6073

Email: Hongkong@horwathhtl.com

Singapore

Tel: (65) 6735 1886

Email: Singapore@horwathhtl.com

www.HorwathHTL.com