



HORWATH HTL NEWSLETTER CHINA  
EDITION 3, 2011

浩华中国资讯

2011年第3期



Horwath HTL™ 浩華

Hotel, Tourism and Leisure 酒店及旅遊業顧問

## CHINA MARKET OVERVIEW

# Harbin

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### GENERAL MARKET REVIEW

Harbin is the provincial capital of Heilongjiang Province in Northeast China and plays a pivotal role in Sino-Russian trade. It is also called the "Ice City", well-known for its beautiful ice sculpture in winter. Harbin ranks top in land conditions and mineral resources among cities in China. It has developed a wide range of industries, including extraction of natural resources, agriculture and food processing, pharmaceuticals, building materials, aeronautical and mobile manufacturing. In 2010, GDP of the city reached RMB 367 billion, with a compound annual average growth (CAAG) of 16 percent from 2006 to 2010. Significant double-digit growth rates were also recorded for other economic indicators such as industrial output, fixed asset investment, retail sales, imports and exports, and foreign direct investment.

### SUPPLY, DEMAND & OCCUPANCY

Interestingly, room supply in the upper-tier hotel market has not changed much while room demand has recorded a stable increase since 2009. Market wide occupancy performance has increased slightly from 63 percent in 2009 to 66 percent in 2010. During the first quarter of 2011, market occupancy hit its peak during the city-wide Winter Ice and Snow Festival and remained strong in the first half of 2011 at the level of 67 percent.

### RATE PERFORMANCE

Average room rates of the upper-tier hotel market have grown dramatically over the past three years, with a CAAG of 11 percent since 2009, reaching approximately RMB 1,050 by the second quarter of 2011. On the other hand, the room rates of the mid-to-upper-tier hotel market have remained more stable at an average of RMB 456 by the first half of 2011. Harbin has long been known as a tourist city and has shown strong market performance during winter and summer seasons. However, to date, there are limited international upper-tier hotels, which has created a clear rate performance gap of about RMB 500 between the international and domestic hotels.

### MARKET SEGMENTATION

The Harbin hotel market captures a good mix of a number of demand segments. This is due to the city's abundant tourism resources, a growing reputation in the MICE market and a solid

base of corporate demand. Corporate demand represents the largest portion of total demand, accounting for 51 percent. Many corporate travellers visit the city with a mixed purpose of business and leisure activities. The leisure segment, comprising both individual and group demand, accounts for 28 percent of the total. MICE demand comes in third at 15 percent and mainly comprises of in-house meeting groups or incentive groups from sizable corporations who stay in the hotels but attend city-wide leisure activities. Other segments such as government, long-stay and walk-in travellers generate roughly 6 percent of total market demand. In 2010, approximately 89 percent of total demand was generated by domestic guests.

### NEW SUPPLY

Upper-tier hotel market competition in the metropolitan area of Harbin will dramatically intensify by 2014. The recent strategic moves to enter the Harbin market by international brands, such as Marriott, Shangri-La, Hilton, and Radisson Blu, implied that the future room supply may double over the next five years to approximately 3,700 rooms. A relatively large amount of upper-tier new supply is located in Songbei District, where the new Municipal Government block and state-level Harbin High and New Technological Industrial Development Zone are located. The influx of new supply will inevitably place a strain on market-wide occupancy levels until the surplus can be fully absorbed by the market.

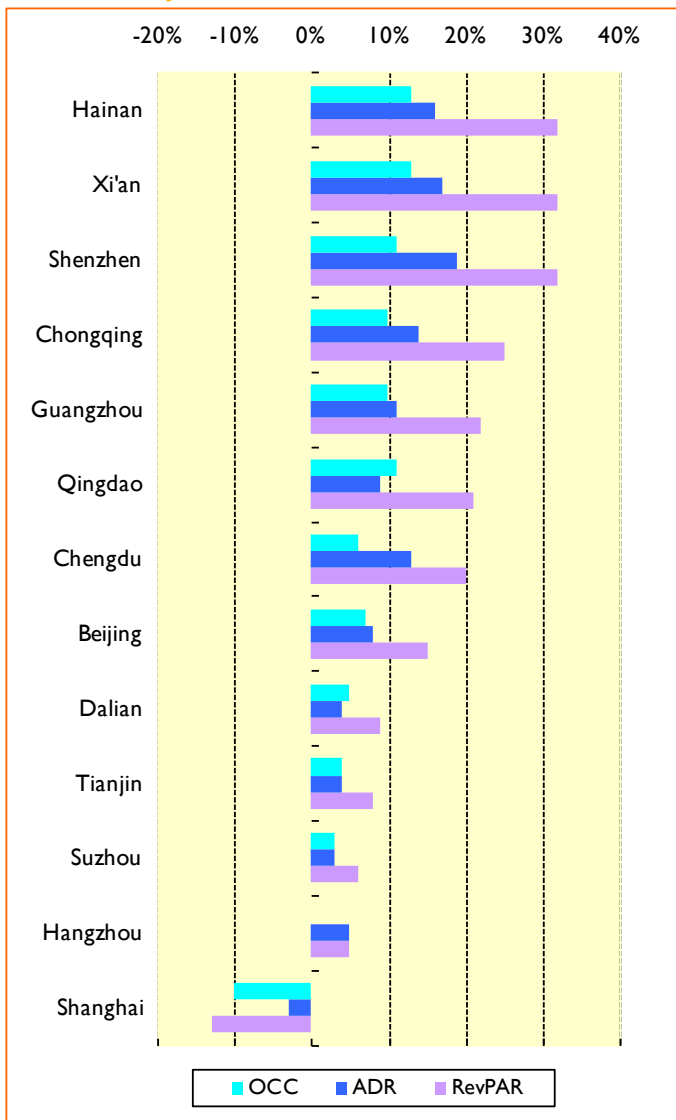
### MARKET OUTLOOK

Given that Harbin is strategically paramount to the economic development in Northeast China, strong support from the government and substantial investment interest from the private sectors are expected to further develop its economy, tourism resources and infrastructure. This augurs well for room night demand growth across all market segments although occupancy levels are expected to slightly decrease from 2015 as supply growth outpaces that of demand. All in all, the entry of new international 5-star hotels is expected to help raise the quality and average rates of the upper-tier hotel market on the long term.



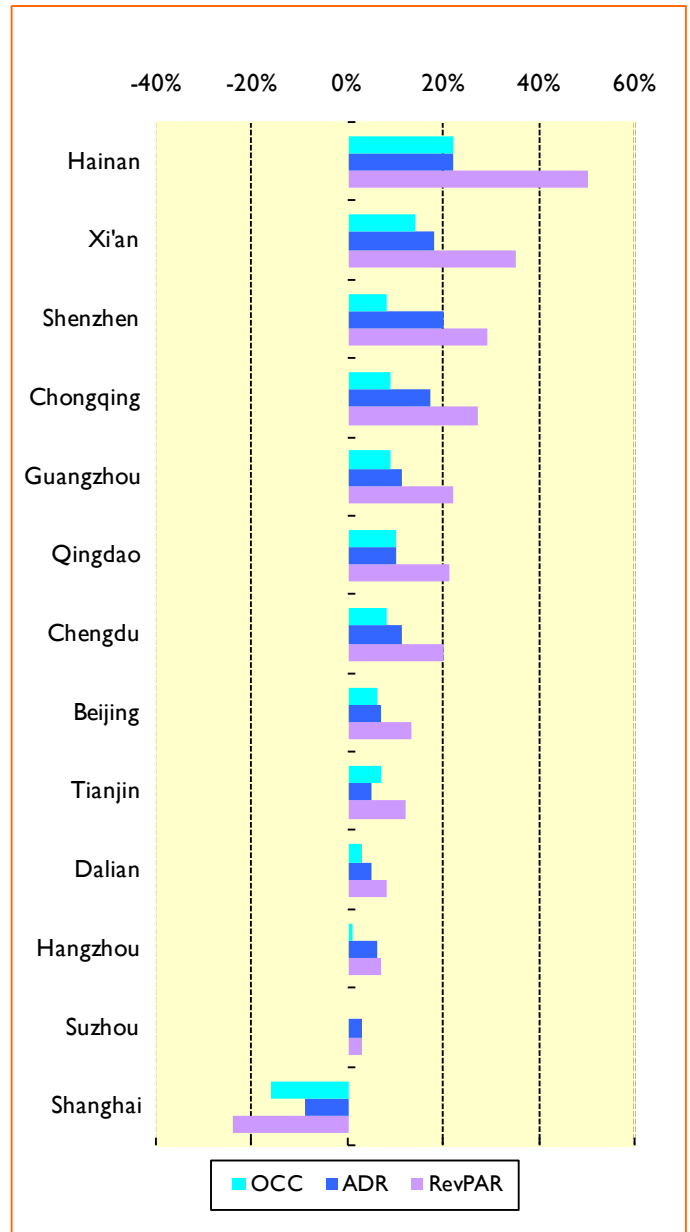


KEY MARKETS PERFORMANCE UPDATE  
YTD JUNE GROWTH, 2011 VERSUS 2010



Source: STR Global

KEY MARKETS PERFORMANCE UPDATE  
YOY GROWTH, Q2 2011 VERSUS Q2 2010



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

Following the strong growth in demand and a relatively stable supply base, the Beijing hotel market continued to see positive growth in occupancy for Q2 2011. Market-wide occupancy recorded 70 percent for Q2 2011, an increase of 6 percent over the same quarter of 2010. Stronger growth was seen in rate performance with market-wide ADR increased by 7 percent from RMB 648 for Q2 2010 to RMB 693 for Q2 2011. Accordingly, market-wide RevPAR recorded RMB 488 for Q2 2011, an increase of 13 percent versus Q2 2010. The overall market achieved increases of 7 percent, 8 percent, and 15 percent respectively for occupancy, ADR, and RevPAR performance for the 1<sup>st</sup> half of 2011 versus the same period of 2010, according to the data provided by STR.

### SHANGHAI

Among 13 selected city hotel markets, the Shanghai hotel market was the only one that experienced significant drops for all three major performance indicators in Q2 2011. Market-wide occupancy remained at around 60 percent, a decrease of 16 percent over the Q2 2010 level due to the significant decrease in demand of approximately 15 percent. Market-wide ADR also experienced a significant decrease of 9 percent over the Q2 2010 level. As a result, market-wide RevPAR was only RMB 507, representing a significant decline of 24 percent over the Q2 2010 level. The overall market recorded significant decrease of 10 percent, 3 percent, and 13 percent respectively for occupancy, ADR, and RevPAR performance for the 1<sup>st</sup> half of 2011 versus the same period of 2010 according to the data provided by STR Global.

### SHENZHEN

Benefiting from hosting the Universiade 2011, the Shenzhen hotel market continued to see improvement in occupancy performance for Q2 2011. Market-wide occupancy recorded approximately 70 percent, an increase of 8 percent versus Q2 2010. Encouraged by the rapid growth in demand and the recovery in occupancy, Shenzhen hoteliers made efforts to increase the ADR with 20 percent growth for Q2 2011 versus Q2 2010. Accordingly, RevPAR recorded a strong growth of 29 percent for Q2 2011. For the 1<sup>st</sup> half of 2011, the overall market recorded increases of 11 percent in occupancy, 19

percent in ADR, and 32 percent in RevPAR versus the same period of 2010 according to the data provided by STR Global.

### HANGZHOU

The Hangzhou hotel market continued to see a positive growth in rate performance for Q2 2011. Market-wide ADR improved to RMB 685, an increase of 6 percent over Q2 2010. In comparison with ADR, market-wide occupancy also recorded positive growth but at a slower pace with a slight increase of only 1 percent versus Q2 2010. Accordingly, RevPAR has seen a positive growth of 7 percent for Q2 2011 over the same quarter of 2010. According to the data provided by STR Global, for the 1<sup>st</sup> half of 2011, market-wide occupancy was in line with the same period of 2010, while both market-wide ADR and RevPAR increased by 5 percent.

### SUZHOU

For Q2 2010, the Suzhou hotel market did not experience any significant improvement. Market-wide occupancy did not change too much in comparison with Q2 2010 and still remained at a low level of 51 percent. ADR presented a slight improvement with an increase of 3 percent versus Q2 2010, recording RMB 578. Accordingly, RevPAR improved by 3 percent as well. Looking at the overall market performance for the 1<sup>st</sup> half of 2011, market-wide occupancy, ADR, and RevPAR achieved increases of 3 percent, 3 percent, and 6 percent respectively. Considering a large amount of new supply additions are expected to enter the market in the 2<sup>nd</sup> half of 2011 and in the coming years, we remain cautious on the outlook for the future growth of performance in occupancy and ADR.

### DALIAN

The Dalian hotel market continued to see a positive growth trend for the second quarter of 2011. Given the strong growth in demand, market-wide occupancy increased rapidly since April and peaked at 68 percent in June, recording an average of 58 percent for Q2 2011, an increase of 3 percent versus the same quarter of 2010. ADR also experienced an improvement, increasing by 5 percent. Benefiting from the growth in occupancy and ADR, RevPAR improved by 8 percent during the same period. According to the data provided by STR Global,

the Dalian hotel market recorded increases of 5 percent, 4 percent, and 9 percent respectively for occupancy, ADR, and RevPAR for the 1<sup>st</sup> half of 2011.

### CHENGDU

For Q2 2011, the Chengdu hotel market continued the strong growth trend as seen in Q1. Given the strong increase in demand (13 percent versus Q2 2010), market-wide occupancy improved to 74 percent, an increase of 8 percent in comparison with Q2 2010. Market wide ADR also presented a notable recovery, improving by 11 percent. Accordingly, RevPAR improved by 20 percent, recording RMB 499 for Q2 2011. The overall market experienced increases of 6 percent in occupancy, 13 percent in ADR, and 20 percent in RevPAR for the 1<sup>st</sup> half of 2011 versus the same period of 2010 according to the data provided by STR Global. As the 3<sup>rd</sup> quarter is typically the high business season, we expect the market to continue with positive growth; however, the new supply additions entering the market in the second half of the year might place pressure on the overall market occupancy performance.

### XI'AN

Following the strong growth in demand for Q1 2011, market-wide occupancy continued with good performance in Q2 2011, increasing by 14 percent in comparison with Q2 2010. A more significant growth was seen in the rate performance. Market wide ADR recorded RMB 597 for Q2 2011, improved by 18 percent over Q2 2010. Accordingly, market-wide RevPAR presented a significant improvement, increasing by 35 percent during the same period. For the 1<sup>st</sup> half of 2011, the Xi'an hotel market recorded 13 percent growth in occupancy, 17 percent growth in ADR, and a 32 percent increase in RevPAR over the same time period of 2010 according to the data provided by STR Global. The opening of new hotels in 2011 is expected to continue to push the market rate ceiling; however, they might also place pressure on the occupancy performance.

### TIANJIN

Compared with other city hotel markets, the Tianjin hotel market has seen a slower pace of growth for Q2 2011. Although market-wide occupancy increased by 7 percent, recording 51 percent for Q2 2011, it was still lower than that

achieved by the other city hotel markets. The slow recovery was also seen in ADR with moderate growth of 5 percent for Q2 2011 versus Q2 2010. Accordingly, RevPAR increased by 12 percent. For the 1<sup>st</sup> half of 2011, the market recorded 4 percent growth in occupancy, 4 percent growth in ADR, and 8 percent increase in RevPAR over the same time period of 2010.

### CHONGQING

For Q2 2011, the Chongqing hotel market has seen continuous improvement for the three major performance indicators. Occupancy recorded 66 percent, an increase of 9 percent versus Q2 2010. In comparison, ADR has seen a more aggressive improvement. It recorded RMB 510, an increase of 17 percent over Q2 2010. Benefiting from the strong growth in both occupancy and ADR, RevPAR improved by approximately 30 percent during the same period. However, it should be noted that although the market has seen a strong improvement for Q2 2011, the market-wide occupancy and ADR for the Chongqing hotel market remain low compared with many city hotel markets in China, especially in comparison with nearby Chengdu. Considering the large influx of new supply additions to the market in 2011 and beyond, we remain cautious for the growth in performance for occupancy and ADR. The overall market recorded increases of 10 percent, 14 percent, and 25 percent respectively for occupancy, ADR, and RevPAR performance for the 1<sup>st</sup> half of 2011 versus the same period of 2010 according to the data provided by STR Global.

### QINGDAO

Following the strong growth in demand, the Qingdao hotel market continued to see growth in occupancy. Market-wide occupancy recorded approximately 65 percent for Q2 2011, an increase of 10 percent versus Q2 2010. ADR increased by 10 percent over the same period. Accordingly, market-wide RevPAR increased by 21 percent. Given the fact that July and August are typically the high business seasons for the Qingdao hotel market, we expect the market to continue with strong growth in performance for the third quarter. For the 1<sup>st</sup> half of 2011, the market recorded 11 percent growth in occupancy, 9 percent growth in ADR, and a 21 percent increase in RevPAR over the same time period of 2010 according to the data provided by STR Global.

## GUANGZHOU

Similar to most other city hotel markets, the Guangzhou hotel market also experienced strong growth in demand, which pushed market-wide occupancy to be above 65 percent, with an increase of 9 percent over Q2 2010. In comparison, ADR has seen a faster pace of growth, increasing by 11 percent during the same period. The strong growth in occupancy and ADR resulted in a significant growth in RevPAR, an increase of 22 percent over Q2 2010. The overall market recorded increases of 10 percent, 11 percent, and 22 percent respectively for occupancy, ADR and RevPAR performance for the 1<sup>st</sup> half of 2011 versus the same period of 2010 according to the data provided by STR Global. The local hotel market is expected to continuously benefit from the rapid growth of the city's economy and the increasing business activities.

## HAINAN

Among 13 selected city hotel markets, the Hainan hotel market has seen the most significant growth for Q2 2011. Given the government's continuous efforts to develop Hainan as "an international tourism island" and the promotions such as the duty free shopping policy for tourists, demand has seen strong growth for Q2 2011, with an increase of 30 percent over Q2 2010. Given the strong growth in demand, market-wide occupancy increased by 22 percent for Q2 2011 versus Q2 2010. Market-wide ADR increased from RMB 888 for Q2 2010 to RMB 1,086 for Q2 2011, with a significant increase of 22 percent. Accordingly, RevPAR improved by RMB 200 during the same period, recording RMB 580 for Q2 2011. For the 1<sup>st</sup> half of 2011, the market recorded 13 percent growth in occupancy, 16 percent growth in ADR, and a 32 percent increase in RevPAR over the same time period of 2010 according to the data provided by STR Global.

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

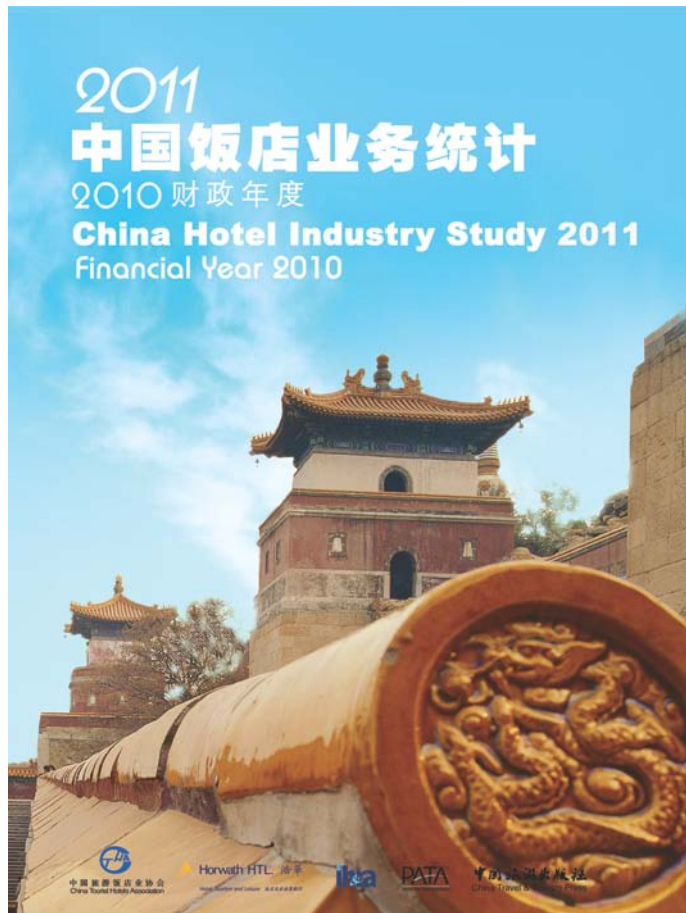
## PARTICIPATED HOTELS FOR KEY MARKETS, Q2 2011

Key Markets	Total Participated		Participated Hotel Count by Class					
	Hotels		Economy	Midscale	Upper Midscale	Upscale	Upper Upscale	Luxury
Beijing	188		35	17	44	43	27	22
Shanghai	131		9	19	26	28	32	17
Dalian	17		2	5	1	5	1	3
Suzhou	18		1	3	3	2	6	3
Guangzhou	22		2	4	3	5	5	3
Shenzhen	39		3	2	11	12	4	7
Chengdu	20		2	3	5	4	2	4
Hangzhou	37		9	5	10	6	4	3
Xi'an	22		5	6	1	3	2	5
Tianjin	29		7	4	9	2	6	1
Chongqing	14		2	3	4	0	2	3
Qingdao	15		1	1	4	6	1	2
Hainan	29		1	5	4	2	10	7
<b>Total</b>	<b>581</b>		<b>79</b>	<b>77</b>	<b>125</b>	<b>118</b>	<b>102</b>	<b>80</b>

Source: STR Global

# CHINA HOTEL INDUSTRY STUDY 2010

By Damien Little, Director, Horwath HTL

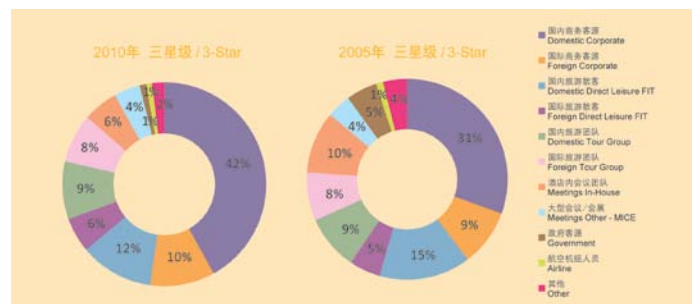
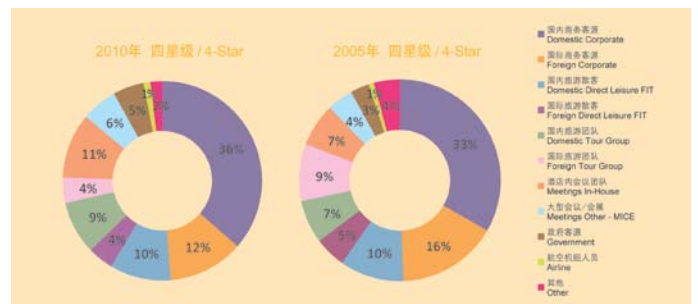
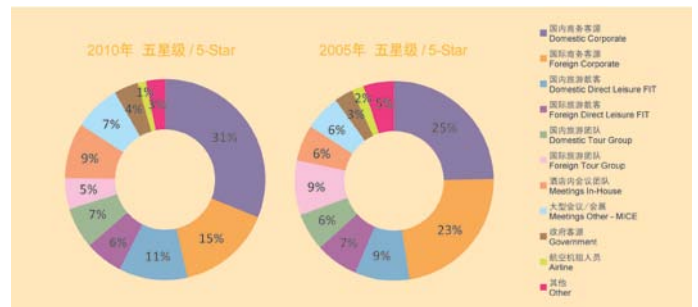


## DEMAND SEGMENTATION & ADR CONTRIBUTION

I thought that it might be interesting this year to profile the changes that have occurred in the market over the last 5 years to the demand segmentation of the different star rating categories. The following charts compare the segmentation of the 3, 4 and 5-Star categories in 2005 and 2010. While there have not been any significant changes to overall demand segmentation, some important changes have taken place over this 5 year period.

### A SHIFT TO DOMESTIC DEMAND

Domestic demand sources now account for a larger share of total in the 4 and 5 star categories. Domestic corporate demand has increased from 25 percent to 31 percent in the 5 star market and from 33 percent to 36 percent in the 4 star market. At the same time foreign corporate demand has declined from 23 percent to 15 percent in the 5 star market and from 16 percent to 12 percent for the 4 star market.



In the leisure segment, domestic demand has also increased its share of total, while foreign leisure demand has declined. In the 5 star market, foreign leisure guests (both FIT and groups) have declined from 16 percent in 2005 to 11 percent in 2010, while in the 4 star market, foreign leisure has declined from 14 percent to 8 percent.

An increasingly important segment for the China hotel industry over the last 5 years has been the MICE demand segment. In 2005, total MICE demand accounted for 12 percent of demand in 5 star hotels and 11 percent of demand in 4 star hotels. By 2010, this had increased to 16 percent in the 5 star market and 17 percent in the 4 star market. As the majority of MICE demand across the country is domestic, this again points to the growing importance of domestic demand sources for hotels in

# CHINA HOTEL INDUSTRY STUDY

# 2010

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China. Also, most of the MICE demand growth has been in the form of in-house meetings, as opposed to externally driven convention and exhibition demand.

While the above trends are surely reflective of a changing market environment in China, it should also be noted that the number of hotels in smaller secondary cities has grown (both generally in China and as a share of the contributing hotels of the China Study), which has had an influence on the overall demand segmentation as the smaller cities have more of a reliance on domestic demand sources in comparison to the primary markets.

## SEGMENT RATE CHANGES

Along with changes in segmentation itself, ADR levels by demand segment have also been changing, and often not necessarily for the better. Domestic corporate ADR levels, along with their share of total demand, have been increasing. Domestic corporate demand for the 5 star market has seen ADR increase from RMB 708 in 2005 to RMB 759 in 2010. For the 4 star market it has increased from RMB 446 to RMB 455. While growth has been positive, it should also be pointed out that it has been marginal.

In contrast, foreign corporate average room rates have declined considerably over the last 5 years. In the 5 star market, rates have declined from RMB 1,134 in 2005 to RMB 950 in 2010 (a 21 percent decline) and in the 4 star market from RMB 750 in 2005 to RMB 565 in 2010 (a 25 percent decline). While certainly some of this decline is a result of the weakness of the foreign demand base itself, particularly since the global financial crisis, it has also been influenced by a greater number of international hotels in smaller secondary markets as well as an oversupply situation in many markets that has resulted in price discounting among competing hotels.

The MICE demand segment has also recorded negative growth in ADR over the last 5 years, particularly in the 5 star market, with the average rate for In-House Meetings declining from RMB 729 to RMB 645, and the average rate for MICE Other from RMB 915 to RMB 775. These represent declines of 12 percent and 15 percent respectively. The 4 star market has

not fared so badly, but overall has recorded negative growth for this demand segment.

## THE 3 STAR MARKET

Changes in the 3 star market are more a reflection of the changes to the profile of the participating 3 star hotels, as opposed to changes in the demand base itself. For the 2011 China Study, more of the 3 star hotels are internationally branded, limited service models. This is opposed to the more prevalent full service 3 star model in the 2006 China Study. As a result, both domestic and foreign corporate demand feature more heavily in the 2010 data, while MICE demand accounts for a smaller share of total. On the whole, average room rates for the 3 star market have increased over the 5 year period, although individual segment rates have recorded declines. However, the greater share of corporate demand, which is the highest yielding demand segment, has allowed for overall growth in ADR.

## SOME OTHER STATISTICS

To finish off, I thought it might be interesting to have a look at some other numbers that are not presented in this report, but give an indication of the reach of this important study:

Total Hotels	664
Total Guest Rooms:	206,517
Total Revenue:	RMB 55.4 billion
Cities Covered:	138



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# UPDATE NEWS

## CHINA HOTEL INDUSTRY STUDY 2011

China Tourism & Hotels Association (CTHA) and Horwath HTL jointly published the 9<sup>th</sup> annual China Hotel Industry Study Survey. The 2011 China Hotel Industry Study received more than 660 survey respondents covering 31 provinces, municipalities, and autonomous regions. For the latest information, please visit our website: <http://www.horwathhtl.com>.

## HOTEL INVESTMENT CONFERENCE ASIA PACIFIC (HICAP)

HICAP is the most established hotel investment conference for the hotel investment and development community. Since 1989, HICAP is where the region's preeminent players and executives gather to meet and network, explore opportunities, exchange ideas, and learn. The upcoming HICAP will be hosted in the InterContinental Hong Kong from 12 to 14 October 2011. For more information, please visit the conference website [www.hicapconference.com](http://www.hicapconference.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 100 countries and an annual combined turnover in excess of USD 2 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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