

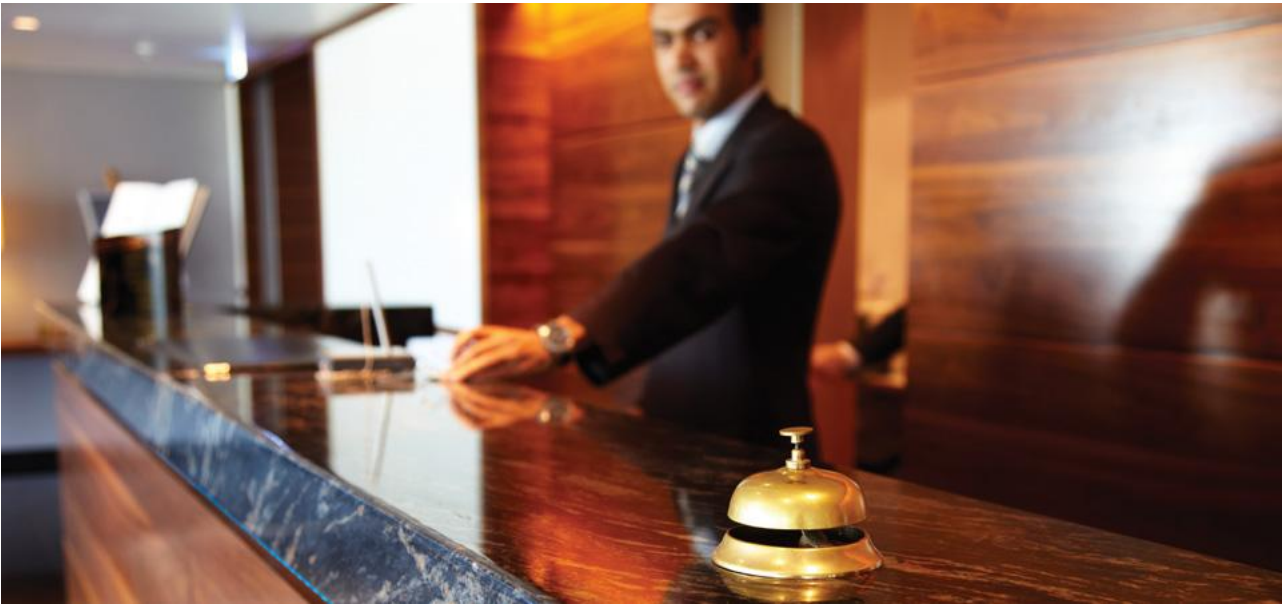


Horwath HTL™

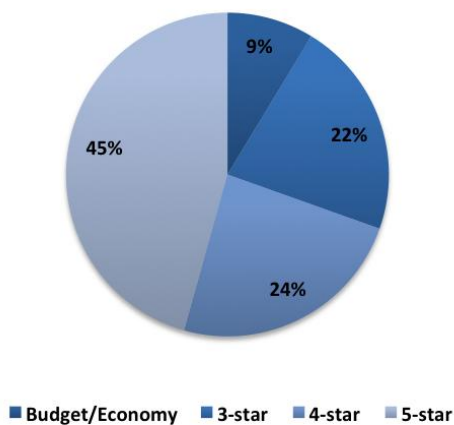
Hotel, Tourism and Leisure

Global leader in
hospitality consulting

Beijing Hotel Market
Sentiment Survey
March 2014



SHARE OF RESPONDENTS
BY STAR CLASSIFICATION



INTRODUCTION

The Horwath HTL Beijing Hotel Market Sentiment Survey, part of a national assessment, has been designed to provide the Beijing 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 survey, hoteliers have also been asked to make comments on the impact of key factors that drive room night demand growth as well as the outlook for each major demand segment.

This report summarizes the outcome of the survey and compares the Beijing market sentiment with that of other markets across China. Of the 46 respondents from Beijing, the majority of them were from 5-star hotels (45 percent), followed by 4-star hotels at 24 percent. The number of respondents from the 3-star sector was 22 percent; and the budget/economy sector only accounted for a small portion of respondents at 9 percent.

Following the general conservative outlook for China’s macro economic development this year, Beijing is showing a mutual assessment of the hotel market outlook in 2014. The following analysis provides some useful insights as to the expectations for Beijing hoteliers.

SENTIMENT RANKINGS

BY KEY CITY	SCORE				
	MAR 2012	JUL 2012	MAR 2013	JUL 2013	MAR 2014
Shenzhen	51	8	17	-8	10
Shanghai	30	4	15	-16	3
Beijing	57	31	0	-45	-22
Chongqing	56	24	-5	-55	-19
Tianjin	59	-1	-32	-49	-22
Sanya	-13	-49	-3	-7	-5
China Average	38	-3	-4	-38	-9

“Hoteliers in Beijing expected to see limited change in hotel performance levels of 2014”.

RANKING SCORE KEY

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

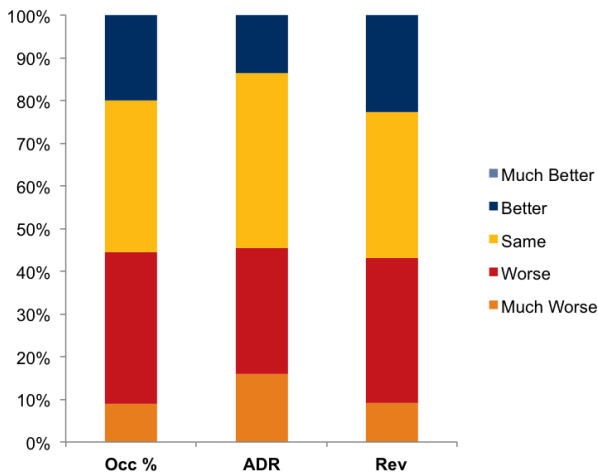
SENTIMENT RANKINGS

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.

General sentiment of the China hotel industry recorded a positive trend improving than that of last period, with a national average score of negative 9. While Sanya showed a similar expectation for hotel performance comparing to the outlook in 2013, the most key cities in China have turned optimistic, visible from the results. In contrast, Chongqing recorded the most improvement among the selected key cities, as the market demand is driven by dynamic development of the local economy.

Of the selected key cities, Beijing recorded the most negative sentiment result with a score of -22, more pessimistic than the overall China hotel market sentiment (negative 9). Though hoteliers expected future growth from certain domestic sourced segments in 2014, most participants worried that the hotel performance would experience continuous negative impact given the crack-down on government spending.

Within the Beijing market, the 5-star submarket registered the highest score of -11, while the 3-star and below submarket scored a lower score of -29; 4-star had the most pessimistic sentiment with a score of negative 36. In general, the Beijing market expects to see limited change in performance levels in 2014.



“Significantly, more than 40 percent Beijing hoteliers expect all performance indexes to decline in 2014”.

MARKET PERFORMANCE EXPECTATION

	Avg	Occ	ARR	Rev
Beijing	-28	-25	-36	-22
Shanghai	-5	14	-19	-12
Shenzhen	11	17	8	8
Hangzhou	-29	-11	-54	-21
Sanya	-13	11	-50	0
Xi'an	-17	0	-38	-13
Xiamen	-8	-13	0	-13
Wuxi	-13	0	-25	-13
Chongqing	-25	0	-56	-19
Tianjin	-38	0	-75	-38
Wuhan	-31	-38	-56	0

2014 MARKET PERFORMANCE OUTLOOK

QUESTION 1: WHAT IS YOUR ASSESSMENT OF THE HOTEL MARKET OUTLOOK FOR 2014 VS. 2013?

OCCUPANCY

In response to expectations on market-wide occupancy performance, only 20 percent of Beijing hoteliers replied that occupancy would get better than the previous year, 36 percent felt that performance would remain the same. 44 percent expected occupancy to decline in 2014.

AVERAGE ROOM RATE

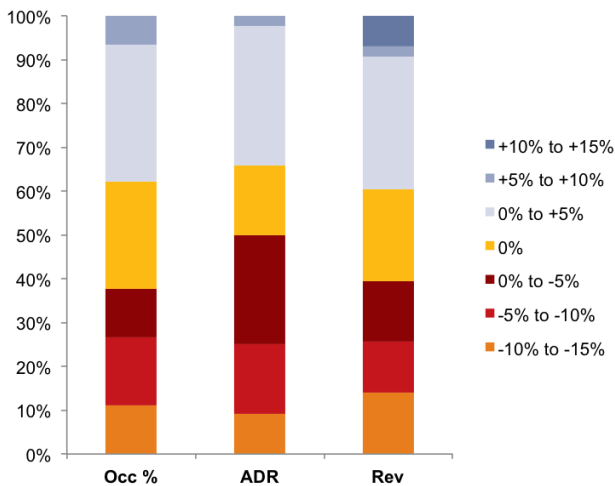
In terms of ARR performance, only 14 percent of respondents expected market-wide ARR performance to get better than the previous year. About 41 percent stated that ARR would achieve the same results compared to 2013, yet 45 percent believed that ARR would perform worse or much worse in 2014.

REVENUES

Total revenue following similar trend with occupancy, wherein 23 percent of hoteliers in Beijing expect higher revenues in 2014 compared with 2013. 34 percent of respondents expect the revenue level to remain the same and another 43 percent expect the revenue to be worse or much worse compared to the previous year.

Hoteliers in the Beijing 5-star submarket had more pessimistic expectations for both occupancy and total revenue performance indexes. While the 4-star market generally expect occupancy and average room rate to decline, the 3-star and below showed strong confidence on all performance indexes remain the same.

All cities we listed showed a negative outlook for 2014, except for Shenzhen, which had a positive expectation due to a strong confidence on all performance indexes to increase or remain stable. Besides Shenzhen, most positive cities were Shanghai (-5), Xiamen (-8), Sanya (-13), Wuxi (-13) and Xi'an (-17) with an average score above negative 20.



“38 percent of Beijing hoteliers expect to see an increase in occupancy in 2014”.

HOTEL PERFORMANCE EXPECTATION

	Avg	Occ	ARR	Rev
Beijing	-17	-16	-24	-12
Shanghai	10	24	-3	10
Shenzhen	9	11	6	11
Hangzhou	12	36	-14	14
Sanya	3	57	-57	8
Xi'an	3	17	-8	0
Xiamen	-3	8	-17	0
Wuxi	19	33	-8	33
Chongqing	-13	25	-38	-25
Tianjin	-7	13	-50	17
Wuhan	-33	-50	-38	-13

HOTEL PERFORMANCE EXPECTATION

QUESTION 2: FOR YOUR HOTEL, WHAT IS YOUR EXPECTATION FOR GROWTH / DECLINE IN 2014 VS. 2013?

Different from the negative perspective in 2013 (-45), Beijing hoteliers’ sentiment outlook for 2014 was at a more optimistic score at negative 22.

OCCUPANCY

38 percent of Beijing hoteliers expect their occupancy to grow in 2014; with around 7 percent of respondents expecting occupancy performance to increase by more than 5 percent. Another 38 percent of hoteliers expect their occupancy to decline, of which the majority (27 percent of respondents) expect a decrease by more than 5 percent.

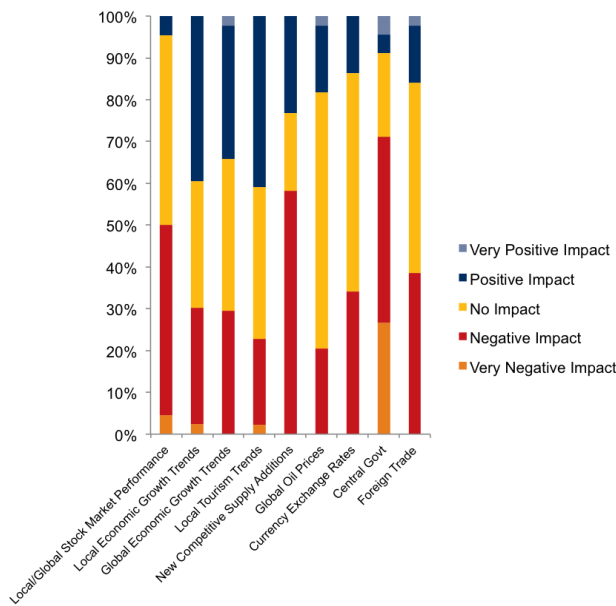
AVERAGE ROOM RATE

Beijing’s average sentiment score for occupancy was higher than that for ARR, with only 2 percent of respondents expecting their hotel’s room rates to grow by more than 5 percent, while 32 percent of respondents expect ARR to increase slightly by less than 5 percent.

REVENUES

The sentiment score for hotel revenues in Beijing was -12, with 9 percent of respondents expecting total revenues to grow in excess of 5 percent, 21 percent expecting it to remain the same, and 40 percent expecting it to decrease. Of this, 14 percent of hoteliers expect to see their revenue decline in excessive of 10 percent. Another, 14 percent of respondents expect total revenue to decline by less than 5 percent.

Amongst key cities, Beijing hoteliers hold the second least optimistic expectation on average, with a relatively low sentiment score in regard to occupancy and hotel revenues.



“More than 71 percent of Beijing hoteliers expect a negative impact on hotel performance from central government policy in 2014”.

FACTORS AFFECTING PERFORMANCE RANKING

1. Local/Global Stock Market	-38
2. Local Economic Growth Trends	5
3. Global Economic Growth Trends	5
4. Local Tourism Trends	12
5. New Supply Additions	-26
6. Global Oil Prices	0
7. Currency Exchange Rates	-15
8. Central Government Policy	-63
9. Growth/Decline in Foreign Trade	-15

FACTORS AFFECTING PERFORMANCE

QUESTION 3: HOW ARE EACH OF THE FACTORS BELOW EXPECTED TO INFLUENCE HOTEL MARKET PERFORMANCE IN 2014?

Each hotelier was also asked to gauge their attitude towards 9 factors and how these will impact their hotels' performance in 2014.

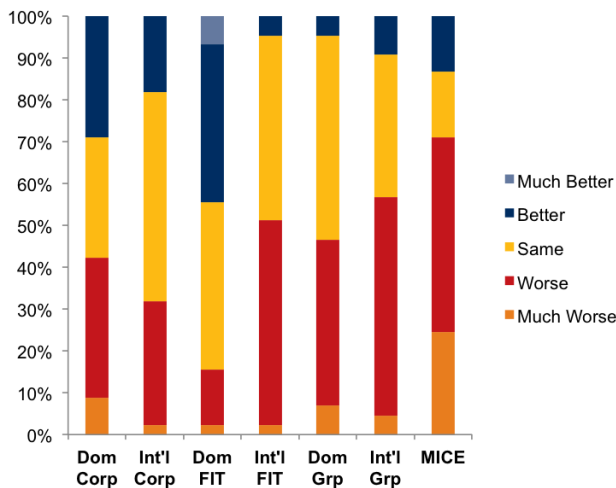
- F1. Local/global stock market performance
- F2. Local economic growth trends
- F3. Global economic growth trends
- F4. Local tourism trends
- F5. New competitive supply additions
- F6. Global oil prices
- F7. Currency exchange rates
- F8. Central government policy
- F9. Growth/decline in foreign trade

Beijing hoteliers ranked local tourism trends to be the most positive of the 9 factors listed for 2014 with 41 percent of respondents expecting a positive impact.

Again, as remarked in the corresponding sentiment report in March 2013, central government policy is regarded as a severely negative factor. 71 percent of respondents expecting it to have negative or very negative impact on hotel performance in 2014, while only 9 percent indicating it would have some positive impact. The pessimistic outlook results in a negative score of 63, which was much more negative compared to other Tier I cities such as Shanghai.

Local / global stock market situation, intensified competition, growth / decline in foreign trade and currency exchange rates, are all regarded as negative factors for hotel performances in 2014.

Local and global economic growth trends are expected to have certain positive impact on performance levels in 2014; whereas global oil prices sector is considered to have no impact at all.



MARKET SEGMENT OUTLOOK

QUESTION 4: HOW ARE EACH OF THE MAJOR DEMAND SEGMENTS EXPECTED TO PERFORM IN 2014 VS. 2013?

The last question dealt with each participant’s opinion with regard to primary market demand segments, which were Corporate, Leisure FIT, Leisure Group and MICE (Meeting, Incentive, Conference, and Exhibition) and how they are expected to perform in 2014.

The majority of Beijing hoteliers had a neutral outlook for the future growth of domestic sourced demand segments, with 40 percent and 49 percent of respondents feeling that performance will be in line with 2013 respectively for domestic FIT and domestic leisure Group sectors.

On the other hand, local hoteliers expressed a less pessimistic expectation towards demand growth from foreign corporate and foreign leisure group demand sources, with all scoring similar sentiment rankings comparing to their respective domestic counterparts. The foreign leisure FIT, by contrary, recorded a negative score -37 in 2014, much lower than its domestic counterpart. More than 71 percent of respondents in Beijing believe the MICE segment should experience declination, which is mostly affected by the restrictions of government spending on both meetings and banquets.

Among all the demand segments, Beijing hoteliers had the most optimistic outlook for domestic leisure FIT segment and expected it to continue to bring positive impact on hotel performance in 2014.

Amongst the various submarkets in Beijing, 5-star hoteliers were more confident in growth of domestic leisure FIT demand segment as they expect to see increased individual consumption power.

“5-star hoteliers in Beijing had the most optimistic outlook for domestic corporate and MICE segments”.

MARKET SEGMENT PERFORMANCE

1. Domestic Corporate	-17
2. Foreign Corporate	-12
3. Domestic Leisure FIT	25
4. Foreign Leisure FIT	-37
5. Domestic Leisure Group	-37
6. Foreign Leisure Group	-39
7. MICE	-62

OTHER MARKET SENTIMENT REPORTS

BY REGION

ASEAN
Benelux
Europe
South East Europe

BY COUNTRY

Austria
Brazil
China
Hungary
Indonesia
Ireland
Italy
Japan
Norway
Poland
Switzerland

BY CITY/DESTINATION

Beijing
Hong Kong
Shanghai

CONCLUSION

In conclusion, the outlook for both occupancy and total revenue growth in Beijing is more positive than the outlook for ADR. While sentiment remains negative, the overall sentiment scores show a rising trend indicating a more positive outlook for hotel performance in 2014.

While recording a positive trend improving from July 2013, Beijing's market sentiment remains one of the most negative in China due to a negative expectation of both occupancy and average room rates.

Hoteliers there are optimistic that local tourism trends will continue to drive performance and have strong expectations on the ability of domestic leisure FIT segment to continue to grow strongly.

Central government's restriction on government spending is considered the significantly negative factor for Beijing in 2014, which was much more negative compared to most Tier I cities.



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