

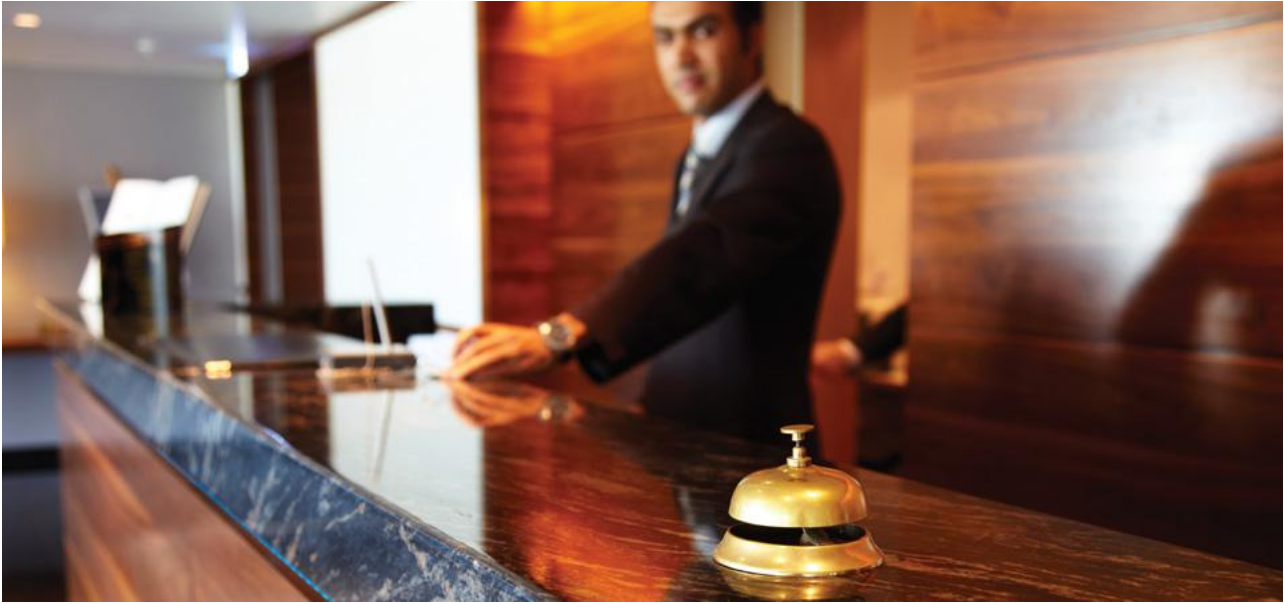


Horwath HTL™

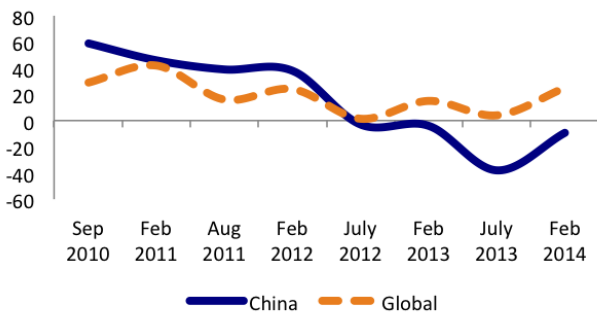
Hotel, Tourism and Leisure

Global leader in
hospitality consulting

China Hotel Market
Sentiment Survey
March 2014



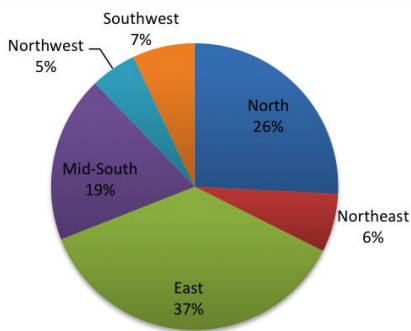
CHINA V.S. GLOBAL SENTIMENT TRENDS



INTRODUCTION

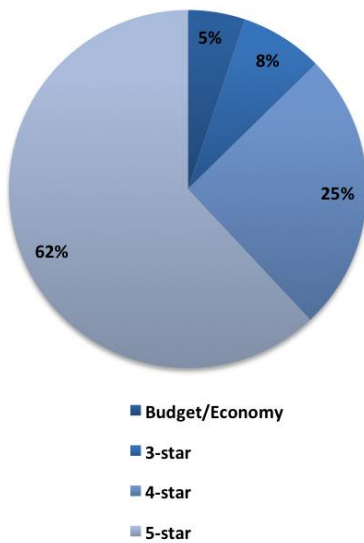
The Horwath HTL China Hotel Market Sentiment Survey, part of a global initiative, has been designed to provide the China hotel industry with a quick assessment of the future market outlook. The four-question survey focuses on the outlook for occupancy, average room rate and total revenue. In this survey, hoteliers have also been asked to make comments on their expectations for the coming year in comparison to 2013, as well as identify key factors of growth/decline, assessing the outlook for key demand segments.

SHARE OF RESPONDENTS BY REGION



This report summarizes the outcome, gathered from responses across 25 provinces and municipalities. Of the 213 respondents, 37 percent of them came from East China (Shanghai, Zhejiang, Jiangsu, Anhui, Fujian and Shandong), 26 percent from North China (Beijing, Tianjin, Hebei and Shanxi), 19 percent from Mid-South China (Henan, Hubei, Hunan, Jiangxi, Guangdong, and Hainan), followed by Southwest China (Chongqing, Sichuan, Yunnan) at 7 percent, Northeast China (Liaoning, Jilin and Heilongjiang) at 6 percent, and Northwest China (Shaanxi, Xinjiang and Ningxia) at 5 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 (62 percent), followed by 4-star hotels at 25 percent. The 3-star and budget/economy sections only accounted for a small portion of respondents at 8 percent and 5 percent respectively.

As at the report time, with anaemic economic growth in the country and the great impact on hospitality industry the central government policy had, it is not surprising to find the most markets across China have a conservative assessment of the outlook for 2014. Horwath HTL's Global Hotel Market Sentiment Survey, by contrary, with sentiment this time rising up to 25, shows a positive improvement result for the 2014 outlook. The following analysis provides some useful insight as to the expectations for different hotel markets across China.

This is the eleventh 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					
	JUL 2011	MAR 2012	JUL 2012	MAR 2013	JUL 2013	MAR 2014
North	59	56	20	-6	-51	-19
Northeast	67	11	-6	-24	-72	-33
East	10	34	-2	7	-32	1
Mid-South	52	35	-20	-4	-24	-8
Northwest	69	-5	-71	13	-15	-29
Southwest	68	61	8	-7	-55	-6
China Average	39	38	-3	-4	-38	-9

BY KEY CITY	SCORE					
	JUL 2011	MAR 2012	JUL 2012	MAR 2013	JUL 2013	MAR 2014
Beijing	64	57	31	0	-45	-22
Shanghai	-33	30	4	15	-16	3
Shenzhen	71	51	8	17	-8	10
Chongqing	64	56	24	-5	-55	-19
Tianjin	36	59	-1	-32	-49	-22
Sanya	-50	-13	-49	-3	-7	-5

“General sentiment of the China hotel industry recorded a positive trend improvement from July 2013.”

RANKING SCORE KEY

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

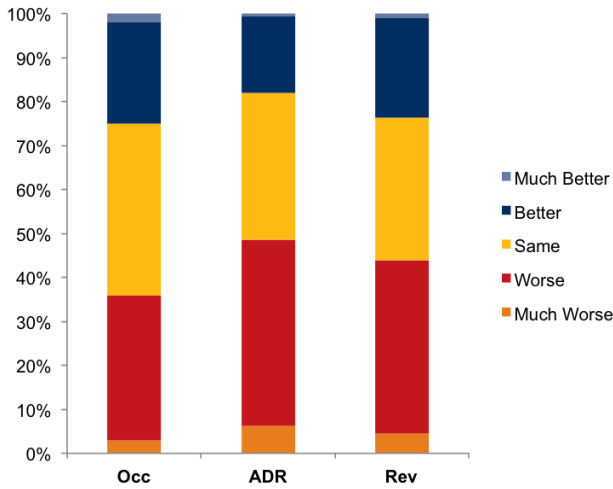
SENTIMENT RANKINGS

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 the first two 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 allow trends to be observed over time.

More negative than the global hotel market sentiment (positive 25), general sentiment of the China hotel industry recorded a positive trend improving from July 2013 (negative 38), with a national average score of negative 9. The sentiments of hoteliers across most inland regions and key cities in China have turned optimistic, visible from the results. In addition, the outlook for 2014 is a much more similar one compared with the corresponding outlook in March 2013.

Only Northwest China shows a more subdued outlook in 2014. Market sentiment in East China registered the highest at 1 after a U-turn from last period's negative 32, while Northeast China recorded the lowest score of negative 33.

Among the key cities across China, the top four cities which recorded the highest scores were Shenzhen (10), Shanghai (3), Sanya (-5), and Hangzhou (-8), while Beijing (-22), Tianjin (-22), and Chongqing (-19) rounded the bottom three.



“About 44 percent of respondents stated that they expect total revenue to be worse in 2014 in comparison to 2013, while one third expected it to remain stable”.

2014 HOTEL MARKET OUTLOOK

Question 1: What is your assessment of the hotel market outlook for 2014 versus 2013?

OCCUPANCY

In response to expectations on market-wide occupancy performance, 36 percent of the hoteliers replied that occupancy in 2014 should be worse or much worse than that recorded in 2013, 39 percent feel that performance will be in line with 2013 results; while only 25 percent feel that it will be better or much better.

AVERAGE ROOM RATE

The outlook for ARR is more negative than the occupancy outlook, with 49 percent worried that ARR would perform worse or much worse in 2014 compared to 2013, 34 percent expecting ARR to remain stable, while only 17 percent of hoteliers replying that ARR would be better or much better.

TOTAL REVENUE

The outlook for total revenue in 2014 remains negative while comparing with other two indicators, with 44 percent of hoteliers indicating total revenue would be worse or much worse than that recorded in 2013. 24 percent expected total revenue to increase and the remaining 32 percent expected it to remain stable.

INDEX SCORE

On average, East China holds the highest sentiment for general market performance in 2014 with a sentiment score of negative 10 for this question, with Shanghai and Fuzhou leading the sentiment outlook. Northeast recorded the lowest score, which was negatively impacted from the bleak outlook in terms of ADR and total revenue performance in Shenyang.

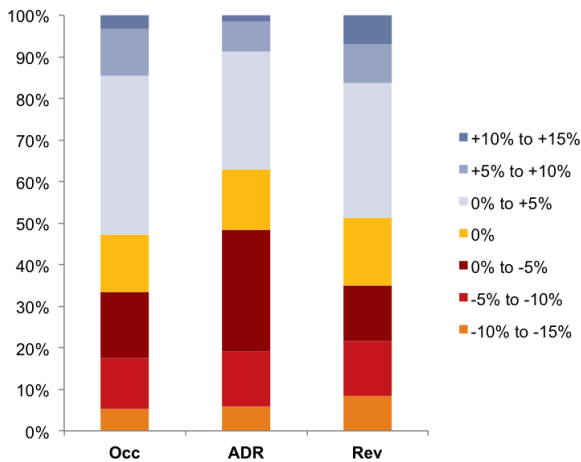
MARKET PERFORMANCE RANKING

	Avg	Occ	ARR	Rev
North	-25	-19	-34	-20
Northeast	-48	-38	-54	-54
East	-10	4	-21	-14
Mid-South	-14	-8	-20	-13
Northwest	-36	-27	-41	-41
Southwest	-14	-10	-32	0
China Average	-18	-9	-27	-18

Comparing the key cities across China, Shenzhen (11), Shanghai (-5), Xiamen (-8) were the top three in the category, while Tianjin was last at negative 38.

2014 HOTEL PERFORMANCE EXPECTATION

Question 2: For your hotel, what is your expectation for growth / decline in 2014 versus 2013?



“Occupancy growth is expected to be stronger than average room rate growth in 2014”.

OCCUPANCY

About 53 percent of hoteliers expect some growth in occupancy in 2014 with only around 15 percent expecting growth to exceed 5 percent, and a national average sentiment of 7 was scored. The most optimistic region was the East, with a highest rating of 23. This is followed by Southwest (10), Mid-South (5), Northeast (-4), North (-10), with the most pessimistic being Northwest at negative 14.

AVERAGE ROOM RATE

The national average sentiment score for ARR was -13 with about 9 percent of respondents expecting room rates to increase in excess of 5 percent. East China had the highest score of -5, followed by Mid-South China (-9), Southwest China (-11), Northwest China (-23), and North China (-24). While Northwest China was the most negative in regards to occupancy, the Northeast region was the most pessimistic with the lowest score of negative 31.

TOTAL REVENUE

Hotel revenue scored positive with an average national sentiment score of 3. Over 16 percent of hoteliers expected revenues to increase by at least 5 percent. Again, East China has the highest score of 19, followed by Southwest China (7), Mid-South China (-1), North China (-8), Northeast China (-18), and the Northwest China with negative occupancy, ARR, and revenue outlook recorded the lowest at negative 27.

HOTEL PERFORMANCE RANKING

	Avg	Occ	ARR	Rev
North	-14	-10	-24	-8
Northeast	-17	-4	-31	-18
East	13	23	-5	19
Mid-South	-2	5	-9	-1
Northwest	-21	-14	-23	-27
Southwest	2	10	-11	7
China Average	-1	7	-13	3

Hangzhou (12), Shanghai (10), and Shenzhen (9) were the top three cities with the most positive expectation on their respective hotel’s performance for occupancy, ARR, and total revenue.

FACTORS AFFECTING PERFORMANCE

Question 3: How are each of the factors below expected to influence hotel market performance in 2014?

Each hotelier was asked to gauge their attitude towards nine factors and their impact.

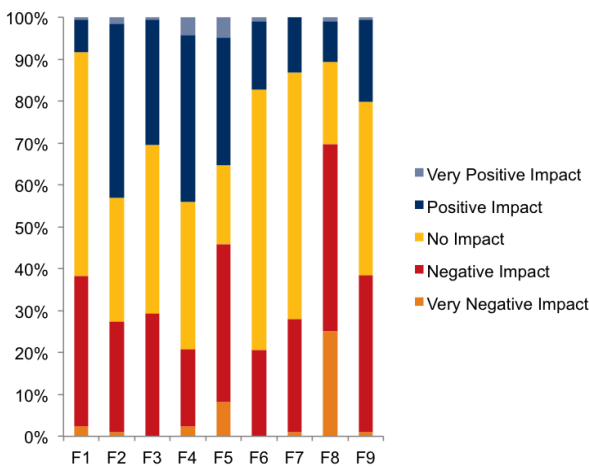
- F1. Local / global stock market
- F2. Local economic growth trends
- F3. Global economic growth trends
- F4. Local tourism trends
- F5. New competitive supply additions
- F6. Global oil prices
- F7. Currency exchange rates
- F8. Central government policy
- F9. Growth / Decline in Foreign Trade

Only 3 of the 9 listed factors recorded a positive score. Local tourism trends scored the highest sentiment score among the nine factors at 19 and around 44 percent of respondents expected a positive impact, highlighting a strong reliance on local demand sources for many hotel markets. Also positive were local economic growth trends, with around 43 percent of respondents feeling that local economic trends would continue to have a positive impact on hotel performance.

Similar to the corresponding outlook in March 2013, central government policy is regarded as a severely negative factor. 70 percent of respondents expecting it to have negative impact on hotel performance in 2014, while only 11 percent thinking it would have some positive impact. The crack-down on government spending is driving this.

Local / global stock market, growth / decline in foreign trade, currency exchange rates, and new competitive supply additions, are all regarded as negative factors for hotel performances in 2014.

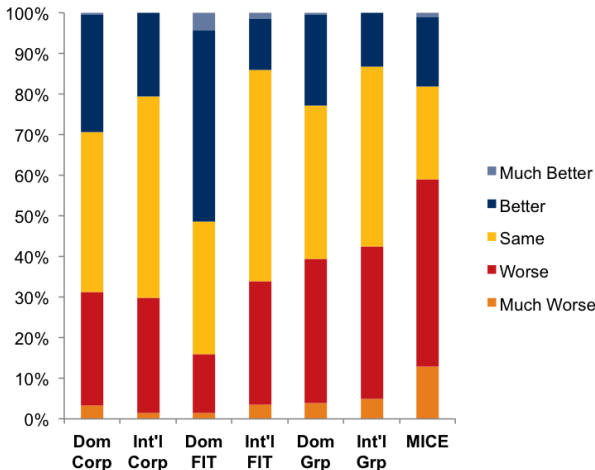
The global economic recovery trends and global oil prices are considered to have moderate impacts on performance levels in 2014.



“The China market is clearly looking towards local growth to keep the hotel market moving in the coming year and is pessimistic in regards to policy environment, stock market situation and intensified competition”.

DEMAND DRIVER RANKING

	Score
1. Local / global stock market	-24
2. Local economic growth trends	12
3. Global economic growth trends	1
4. Local tourism trends	19
5. New competitive supply additions	-11
6. Global oil prices	-2
7. Currency exchange rates	-12
8. Central Government Policy	-62
9. Growth / Decline in Foreign Trade	-14



“Chinese hoteliers generally expressed an optimistic outlook for domestic sourced demand segments, the domestic leisure FIT sector in particular, but held a pessimistic view of growth in international sourced demand sectors”.

DEMAND SEGMENT RANKING

	Score
Domestic Corporate	-4
Foreign Corporate	-8
Domestic Leisure FIT	29
Foreign Leisure FIT	-16
Domestic Leisure Group	-15
Foreign Leisure Group	-26
MICE	-40

MARKET SEGMENT PERFORMANCE

Question 4: How are each of the major demand segments expected to perform in 2014 versus 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 (Meetings, Incentive, Conference, and Exhibition) and how they are expected to perform in 2014.

The majority of hoteliers had a moderate outlook for the future growth of domestic sourced demand segments, with 40 percent of respondents feeling that performance will be in line with 2013 results for the domestic corporate. Around 51 percent of the hoteliers believe domestic leisure FIT should experience growth. Overall, we think this should be attributed to the overall optimistic expectation of China’s macro economy and the structural advancement of individual consumption. It should also be noted that this is a continuing decline from the corresponding survey since 2011. Yet most respondents believe all the foreign demand segments are expected to remain the same. The MICE segment demand is believed to hold continuous declination given the Central Government’s restrictions of government spending on meetings and banquets.

Hoteliers managing 5-star properties are generally less pessimistic about both demand growth from international demand sources and domestic sourced demand segments. However, hoteliers are equally negative about MICE demand.

Comparing across regions, over 73 percent of hoteliers in Southwest China believe performance in domestic leisure FIT will be better or much better than 2013, which recorded the highest score of domestic corporate at 55.

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
Shanghai
Hong Kong

CONCLUSION

In conclusion, the negative yet rather optimistic sentiment in China was lightened with the outlook for occupancy, ADR and total revenue growth less pessimistic than that of last session. Yet hoteliers were more conservative with the outlook for ADR. While sentiment remains slightly negative, the overall sentiment scores have been increasingly showing a more positive outlook and continued growth will stay in 2014.

Hoteliers expect local economic and tourism trends to continuously drive hotel demand growth in 2014. Demand is again expected to be driven by domestic demand segments, particularly domestic leisure FIT demand.

East region, which mainly includes Shanghai and Hangzhou, have the most positive outlook for 2014, while Northeast region has the most pessimistic outlook, which was negatively influenced by the worries about central government policy and intensified competition.

Key cities such as Shenzhen, Shanghai and Sanya and Hangzhou, had greater than average national scores in terms of market sentiment for the hotel industry. Beijing scored a negative 22.



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