



Horwath HTL™

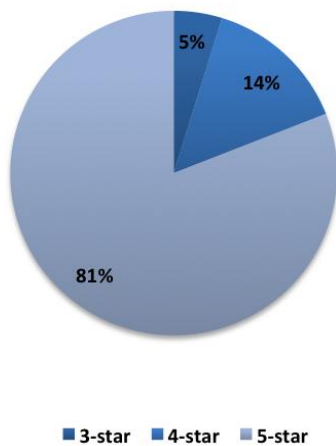
Hotel, Tourism and Leisure

Global leader in
hospitality consulting

Shanghai Hotel Market
Sentiment Survey
March 2014



SHARE OF RESPONDENTS BY STAR CLASSIFICATION



INTRODUCTION

The Horwath HTL Shanghai Hotel Market Sentiment Survey, part of a national assessment, has been designed to provide the Shanghai 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 Shanghai market sentiment with that of other markets across China. Of the respondents from Shanghai, the majority of them were from 5-star hotels (81 percent), followed by 4-star hotels at 14 percent. The number of respondents from the 3-star only accounted for a small portion at 5 percent.

Having seen the noticeable increasing in terms of market-wide occupancy throughout the second half of 2013, many hoteliers hold a slightly positive outlook for 2014. While given a generally conservative outlook for China and global macro economy this year, most of the Shanghai hoteliers are showing a less conservative assessment of the hotel market performance, and recorded a sentiment score of 3. The following analysis provides some useful insights as to the expectations for Shanghai 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 Shanghai and surrounding areas expected to see some positive improvement in hotel performance levels in 2014”.

RANKING SCORE KEY

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

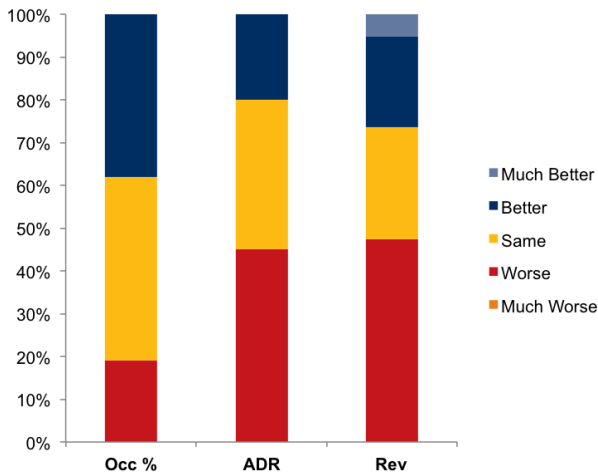
SENTIMENT RANKINGS

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.

While most key cities in China still recorded negative expectations for the hotel performance in 2014, the improvement in general sentiment scores indicated that most hotel markets have turned optimistic, visible from the results. Following a slightly positive trend of the general hotel market, the outlook in Shanghai and some surrounding areas has increased to 3 for 2014.

With that being said, Shanghai recorded the second highest sentiment score (positive 3) amongst the selected key cities across China. In contrast, the sentiments of hoteliers across most of the other selected key cities in China, except for Shenzhen, have remained rather pessimistic with most sentiment scores below zero. Though mentioned a few limiting factors concerning macro economy, the majority of hoteliers in Shanghai have expected much less impact of the central government’s restriction on government spending.

Within the Shanghai market, the 5-star submarket registered the highest score of 4, while the 4-star and below submarket scored a lower score of -2.



“Significantly, almost half Shanghai hoteliers expect ARR and total revenue performance sectors 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, more than 38 percent of Shanghai hoteliers replied that occupancy would get better than that of previous year, about 43 percent felt that performance would remain the same. Only 19 percent expected occupancy to decline in 2014.

AVERAGE ROOM RATE

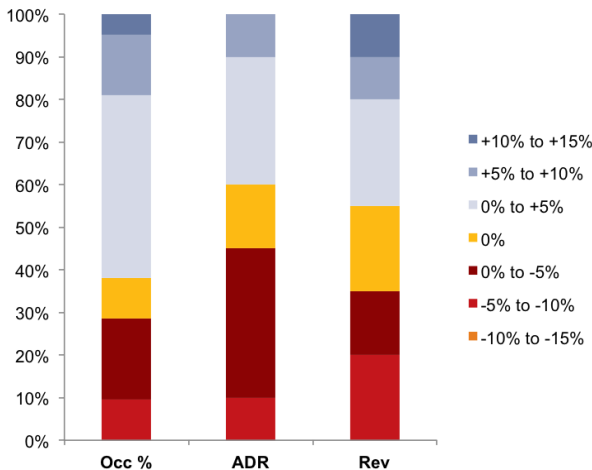
In terms of ARR performance, 20 percent of respondents expected market-wide ARR performance to get better than the previous year. 35 percent stated that ARR would achieve the same results compared to 2013, yet 45 percent believed that ARR would perform worse or much worse in 2014.

REVENUES

Total revenue follows a similar trend with ARR. 26 percent of hoteliers in Shanghai expect higher revenues in 2014 compared with 2013, of which 5 percent of respondents expect it would be much better. About 26 percent of respondents expect the revenue level to remain the same and another 48 percent expect the revenue to be worse compared to the previous year.

Hoteliers in the Shanghai 5-star submarket had more pessimistic expectations for both ARR and total revenue performance indexes. While the 4-star and below market generally expect all performance indexes remain the same.

Most cities we listed showed a negative outlook for 2014. Most positive cities were Shenzhen (11) Shanghai (-5), Xiamen (-8), Sanya (-13), and Wuxi (-13) with an average score above negative 15.



“Significantly, 62 percent of Shanghai hoteliers expect their occupancy to grow 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 (-16), Shanghai hoteliers’ sentiment outlook for 2014 was at a more optimistic score at 3.

OCCUPANCY

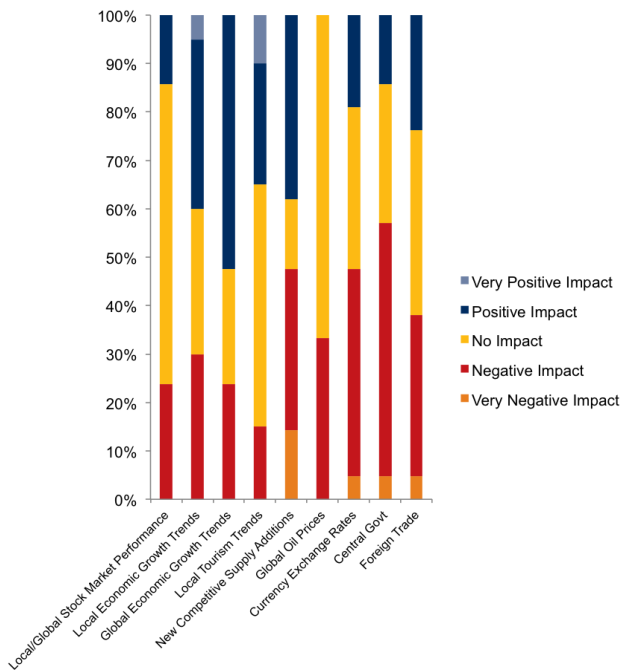
About 62 percent of Shanghai hoteliers expect their occupancy to grow in 2014; with 19 percent of respondents expecting occupancy performance to increase by more than 5 percent. About 29 percent of hoteliers expect their occupancy to decline, of which the majority (19 percent of respondents) expect a decrease by less than 5 percent.

AVERAGE ROOM RATE

Shanghai’s average sentiment score for ARR was lower than that for both occupancy and total revenue, with 10 percent of respondents expecting room rates to grow by more than 5 percent, while 30 percent of respondents expect ARR to increase slightly by less than 5 percent.

REVENUES

The sentiment score for hotel revenues in Shanghai was 10, with 25 percent of respondents expecting total revenues for their hotel to grow by less than 5 percent. While another 10 percent of hoteliers are more optimistic looking forward to growth by 5 to 10 percent, 10 percent of hoteliers even expect to see a strong increase in their total revenue by more than 10 percent. About 15 percent of respondents expect hotel revenues to decline by less than 5 percent, while 20 percent anticipate a higher decline in excess of 5 percent.



“Though considered a negative factor, central government policy is not regarded to have significantly negative impact in Shanghai as in other key cities”.

FACTORS AFFECTING PERFORMANCE RANKING

1. Local/Global Stock Market	-7
2. Local Economic Growth Trends	11
3. Global Economic Growth Trends	21
4. Local Tourism Trends	23
5. New Supply Additions	-18
6. Global Oil Prices	-25
7. Currency Exchange Rates	-25
8. Central Government Policy	-36
9. Growth/Decline in Foreign Trade	-14

FACTORS AFFECTING PERFORMANCE

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

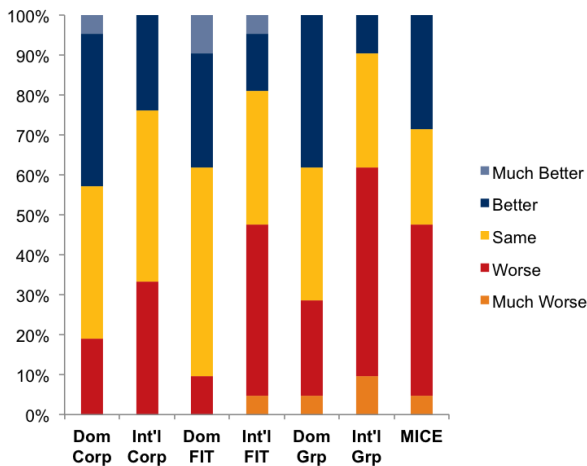
Each hotelier was also asked to gauge their attitude towards 9 factors and how these will impact their hotels’ performance in 2014.

- 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

Shanghai hoteliers ranked local tourism trends and global economic growth trends to be the most positive of the 9 factors listed for 2014 with 35 and 52 percent of respondents expecting a positive impact.

Though considered a negative factor, central government policy is not regarded to have significantly negative impact in Shanghai as in other key cities, with 57 percent of respondents expecting it to have negative impact on hotel performance in 2014, among which only 5 percent expecting it to be a very negative factor; and 14 percent indicating it would have some positive impact. In contrast, in Beijing, 44 percent of hoteliers considered it negative and 27 percent commented “very negative”.

Shanghai hoteliers paid more attention to global economy and related factors. Both global oil prices and currency exchange rates are regarded as the second most negative factors for hotel performances in 2014. Intensified competition, growth / decline in foreign trade and local / global stock market situation are also considered as negative factors.



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

MARKET SEGMENT PERFORMANCE

1. Domestic Corporate	21
2. Foreign Corporate	-7
3. Domestic Leisure FIT	29
4. Foreign Leisure FIT	-21
5. Domestic Leisure Group	4
6. Foreign Leisure Group	-46
7. MICE	-18

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 Shanghai hoteliers had a strong positive outlook for the future growth of domestic sourced demand segments, with 43 and 38 percent of respondents looking forward to better performance respectively for domestic corporate and domestic leisure FIT sectors. Also, another 38 percent of respondents in Shanghai believe the domestic leisure group segment should experience steady growth as well.

On the other hand, local hoteliers are less optimistic towards demand growth from international demand sources, with all scoring much lower sentiment rankings than their respective domestic counterparts. The foreign corporate, foreign leisure FIT and foreign leisure group are the three out of four segments with negative scores in 2014.

Among all the demand segments, Shanghai 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. The positive outlook for domestic leisure FIT segment growth was also the highest among all the key cities. On the other hand, the general outlook for the domestic leisure group segment was relatively conservative.

Amongst the various submarkets in Shanghai, 5-star hoteliers were more confident in growth of domestic corporate and MICE demand.

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, hoteliers in Shanghai have turned slightly positive in their sentiment towards outlook for 2014. Though remaining negative, respondents from Shanghai expected less impact by central government policy and recorded a much higher score than in other key cities in China.

Amongst the selected key cities, Shanghai hoteliers hold cautious optimistic expectation in terms of performance measures, with sentiment score in regards to occupancy continuing to be moderate positive. Having seen the noticeable increasing in terms of market-wide occupancy throughout the second half of 2013, hoteliers think the growth will continue into 2014. The outlook for total revenue growth was more positive than that for ARR. Overall, in terms of performance outlook for 2014, approximately 27 percent of respondents expect to see increase in total revenue.

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

While central government's restriction on government spending is considered the significantly negative factor for Shanghai in 2014, the expectation was much more positive compared to most Tier I cities.



ASIA PACIFIC

AUCKLAND, NEW ZEALAND
auckland@horwathhtl.com

BANGKOK, THAILAND
ishweder@horwathhtl.com

BEIJING, CHINA
beijing@horwathhtl.com

HONG KONG, SAR
hongkong@horwathhtl.com

JAKARTA, INDONESIA
jakarta@horwathhtl.com

KUALA LUMPUR, MALAYSIA
kl@horwathhtl.com

MUMBAI, INDIA
vthacker@horwathhtl.com

SHANGHAI, CHINA
shanghai@horwathhtl.com

SINGAPORE, SINGAPORE
singapore@horwathhtl.com

SYDNEY, AUSTRALIA
jsmith@horwathhtl.com

TOKYO, JAPAN
tokyo@horwathhtl.com

AFRICA

CAPE TOWN, SOUTH AFRICA
capetown@horwathhtl.com

LATIN AMERICA

BUENOS AIRES, ARGENTINA
cspinelli@horwathhtl.com

SÃO PAULO, BRAZIL
mcarrizo@horwathhtl.com

MEXICO CITY, MEXICO
mjgutierrez@horwathhtl.com

DOMINICAN REPUBLIC
sotero.peralta@crowehorwath.com.do

SANTIAGO, CHILE
cspinelli@horwathhtl.com

BOGOTA, COLOMBIA
mjgutierrez@horwathhtl.com

EUROPE

AMSTERDAM, NETHERLANDS
info@horwathhtl.com

ANDORRA LA VELLA, ANDORRA
vmarti@horwathhtl.com

BARCELONA, SPAIN
vmarti@horwathhtl.com

BUDAPEST, HUNGARY
mgomola@horwathhtl.com

DUBLIN, IRELAND
ireland@horwathhtl.com

FRANKFURT, GERMANY
rknospe@horwathhtl.com

ISTANBUL, TURKEY
merdogdu@horwathhtl.com

LISBON, PORTUGAL
drodrigues@horwathhtl.com

LONDON, UK
eheiberg@horwathhtl.com

MADRID, SPAIN
vmarti@horwathhtl.com

MOSCOW, RUSSIA
mohare@horwathhtl.com

OSLO, NORWAY
pewinther@horwathhtl.com

PARIS, FRANCE
pdoizelet@horwathhtl.com

ROME, ITALY
zbacic@horwathhtl.com

SALZBURG, AUSTRIA
gkroell@horwathhtl.com

WARSAW, POLAND
jmitulski@horwathhtl.com

ZAGREB, CROATIA
scizmar@horwathhtl.com

ZUG, SWITZERLAND
hwerhle@horwathhtl.com

NORTH/CENTRAL AMERICA

ATLANTA, USA
mbeadle@horwathhtl.com

ATLANTA, USA
pbreslin@horwathhtl.com

ATLANTA, USA
pgrayboff@horwathhtl.com

DALLAS, USA
jbinford@horwathhtl.com

CHICAGO, USA
tmandigo@horwathhtl.com

DENVER, USA
jmontgomery@horwathhtl.com

LOS ANGELES, USA
ynathraj@horwathhtl.com

LAS VEGAS, USA
lboll@horwathhtl.com

MONTREAL, CANADA
pgaudet@horwathhtl.com

MEXICO CITY, MEXICO
mjgutierrez@horwathhtl.com

NEW YORK, USA
sdavis@horwathhtl.com

PHOENIX, USA
jreigle@horwathhtl.com

SAN FRANCISCO, USA
jhiser@horwathhtl.com

DOMINICAN REPUBLIC
sotero@horwathhtl.com

TORONTO, CANADA
horwath@horwathhtl.com