



Horwath HTLTM

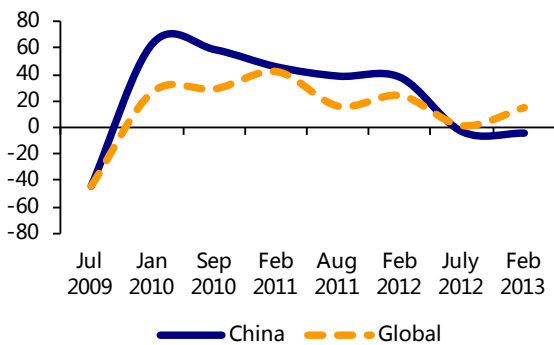
Hotel, Tourism and Leisure

The global leader in
hospitality consulting

China Hotel Market
Sentiment Survey
March 2013



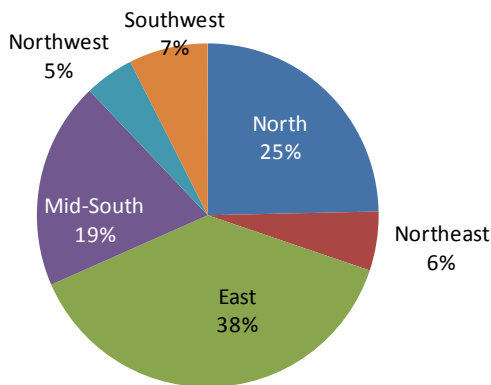
CHINA V.S. GLOBAL SENTIMENT TRENDS



INTRODUCTION

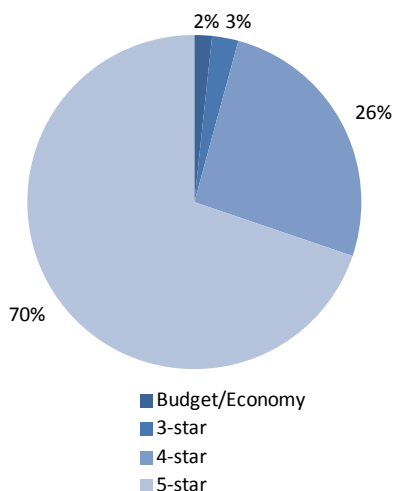
The Horwath HTL China Hotel Market Sentiment Survey, part of a global initiative, has been designed to provide the China hotel industry with a quick assessment of the future market outlook. The four-question survey focuses on the outlook for occupancy, average room rate and total revenue. In this survey, hoteliers have also been asked to make comments on their expectations for the coming year in comparison to 2012, 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 23 provinces and municipalities. Of the 257 respondents, 38 percent of them came from East China (Shanghai, Zhejiang, Jiangsu, Anhui, Fujian and Shandong), 25 percent from North China (Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia), 19 percent from Mid-South China (Henan, Hubei, Jiangxi, Guangdong, Guangxi, Hainan), followed by Southwest China (Chongqing, Sichuan, Yunnan) at 7 percent, Northeast China (Liaoning and Jilin) at 6 percent, and Northwest China (Shaanxi) 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 (70 percent), followed by 4-star hotels at 26 percent. The 3-star and budget/economy sections only accounted for a small portion of respondents at 3 percent and 2 percent respectively.

As at the report time, with an officially admitted economic slowdown and the influx of high star-rated new supply in major cities of China, it is not surprising to find most markets across China have a slightly conservative assessment of the outlook for 2013, continuing from late 2012. Horwath HTL’s Global Hotel Market Sentiment Survey, by contrary, shows a moderate positive improvement result for the 2013 outlook. The following analysis provides some useful insight as to the expectations for different hotel markets across China.

This is the ninth 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					
	SEP 2010	FEB 2011	JUL 2011	MAR 2012	JUL 2012	MAR 2013
Northwest	69	74	69	-5	-71	13
East	70	21	10	34	-2	7
Mid-South	53	56	52	35	-20	-4
North	61	65	59	56	20	-6
Southwest	49	61	68	61	8	-7
Northeast	8	32	67	11	-6	-24
China Average	59	46	39	38	-3	-4

BY KEY CITY	SCORE					
	SEP 2010	FEB 2011	JUL 2011	MAR 2012	JUL 2012	MAR 2013
Shenzhen	57	74	71	51	-1	17
Shanghai	95	-33	-33	30	8	15
Guangzhou	48	42	52	15	24	1
Beijing	64	76	64	57	4	0
Chongqing	46	65	64	56	31	-5
Tianjin	31	26	36	59	-49	-32

“General sentiment of the China hotel industry was almost the same as that of last period, with a national average score of negative 4.”

RANKING SCORE KEY

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

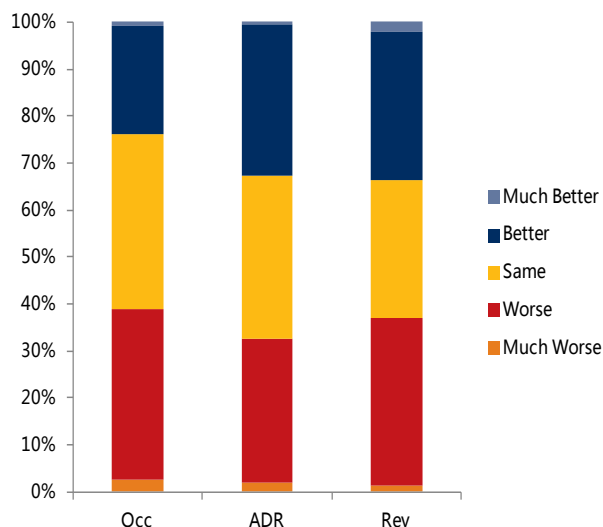
SENTIMENT RANKINGS

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.

Slightly differed from the global hotel market sentiment (positive 15), general sentiment of the China hotel industry was almost the same as that of last period, with a national average score of negative 4. The sentiments of hoteliers across most inland regions and key cities in China have turned negative, visible from the results. In addition, the outlook for 2013 is obviously a much more a negative one compared with the corresponding outlook at March 2012.

Except for East and Northwest China, hoteliers in all the other regions have a more subdued outlook in 2013, due to relatively inactive economic growth. Worth noting is that market sentiment in Northwest China registered the highest at 13 after a U-turn from last period’s negative 71. Local hoteliers put away last session’s disappointment with the drop after the International Horticulture Exhibition 2011. In addition, the Samsung project started to set an example for corporate demand driven by attracting new industrial clusters. “Go west” is viewed to be within reach among regional hoteliers.

Among the key cities across China, the top three cities which recorded the highest scores were Shenzhen (17), Suzhou (17), Shanghai (15), and Xi’an (13), while Tianjin (-32), Hangzhou (-17), and Chengdu (-12) rounded the bottom three.



“Opinion on the outlook is divided. Over 37 percent of respondents stated that they expect total revenue to be worse in 2013 in comparison to 2012, while one third hold optimistic opinions”.

MARKET PERFORMANCE RANKING

	Avg	Occ	ARR	Rev
East	2	-2	2	5
Southwest	-12	-22	-15	0
Mid-South	-5	-11	-5	0
North	-10	-22	-1	-6
Northwest	0	6	6	-13
Northeast	-20	-35	-5	-21
China Average	-5	-13	-1	-2

2013 HOTEL MARKET OUTLOOK

Question 1: What is your assessment of the hotel market outlook for 2013 versus 2012?

Occupancy

In response to expectations on market-wide occupancy performance, 39 percent of the hoteliers replied that occupancy in 2013 should be worse or much worse than that recorded in 2012, 37 percent feel that performance will be in line with 2012 results; while only 24 percent feel that it will be better or much better.

Average Room Rate

The outlook for ARR is more positive than the occupancy outlook, with 33 percent of hoteliers replying that ARR would be better or much better, 35 percent expecting ARR to remain stable, while only 33 percent worried that ARR would perform worse or much worse in 2013 compared to 2012.

Total Revenue

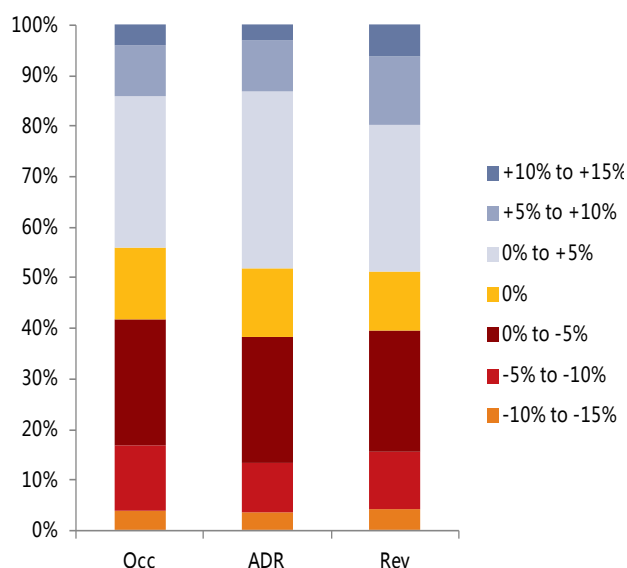
The outlook for total revenue in 2013 is more positive than the other two indicators with less respondents having a neutral outlook. 37 percent of respondents expect total revenue to be worse or much worse in 2013, while about 34 percent expected total revenue to increase and the remaining 29 percent expected it to remain stable.

Index Score

On average, East China holds the highest positive sentiment for general market performance in 2013 with a sentiment score of 2 for this question, mainly influenced by positive outlook in Suzhou and Shanghai. Northeast recorded the lowest score, which was negatively impacted from the bleak outlook in terms of occupancy and total revenue performance in Dalian and Changchun.

Comparing the key cities across China, Shenzhen (13), Shanghai (12), Suzhou (8) were the top three in the category, while Tianjin was last at negative 42.

2013 HOTEL PERFORMANCE EXPECTATION



Question 2: For your hotel, what is your expectation for growth/decline in 2013 versus 2012?

Occupancy

About 44 percent of hoteliers expect some growth in occupancy in 2013 with only around 14 percent expecting growth to exceed 5 percent, and a national average sentiment of zero was scored. The most optimistic region was the Northwest, with a highest rating of 35. This is followed by East (12), Mid-South (-4), North (-9), Southwest (-18), with the most pessimistic being Northeast at negative 38.

Average Room Rate

The national average sentiment score for ARR was 4 with about 13 percent of respondents expecting room rates to increase in excess of 5 percent. Northwest China had the highest positive score of 19, followed by Southwest China (11), East China (9), North China (3), and Mid-south China (-5). While Northeast China was the most negative in regards to occupancy, the Northeast region was the most pessimistic with the lowest score of negative 21.

Total Revenue

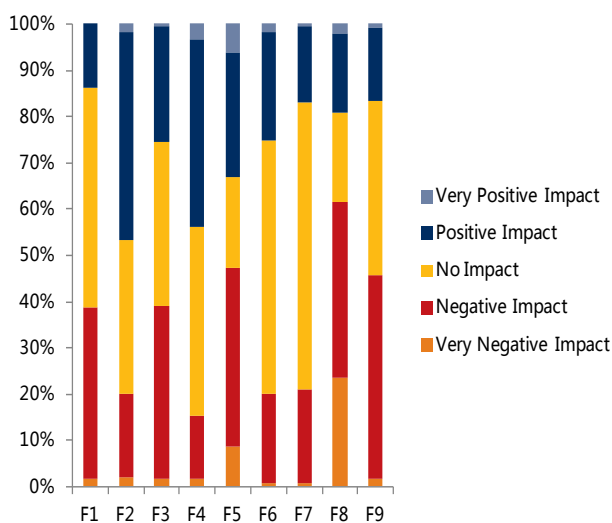
Hotel revenue scored the most positive with an average national sentiment score of 8. Over 20 percent of hoteliers expected revenues to increase by at least 5 percent. Again, Northwest China has the highest score of 27, followed by East China (18), North China (2), Southwest China (0), Mid-south China (-1), and the Northeast China with negative occupancy, ARR, and revenue outlook recorded the lowest at negative 25.

Xi'an (27), Suzhou (26), and Shenzhen (22) were the top three cities with the most positive expectation on their respective hotel's performance for occupancy, ADR, and total revenue.

“Average room rate growth is expected to be stronger than occupancy growth in 2013”.

HOTEL PERFORMANCE RANKING

	Avg	Occ	ARR	Rev
Northwest	27	35	19	27
East	13	12	9	18
North	-2	-9	3	2
Southwest	-2	-18	11	0
Mid-south	-4	-4	-5	-1
Northeast	-28	-38	-21	-25
China Average	4	0	4	8



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

DEMAND DRIVER RANKING

	Score
1. Local/global stock market	-20
2. Local economic growth trends	20
3. Global economic growth trends	-11
4. Local tourism trends	22
5. New competitive supply additions	-12
6. Global oil prices	4
7. Currency exchange rates	-3
8. Central Government Policy	-48
9. Growth / Decline in Exports	-22

FACTORS AFFECTING PERFORMANCE

Question 3: How are each of the factors below expected to influence hotel market performance in 2013?

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

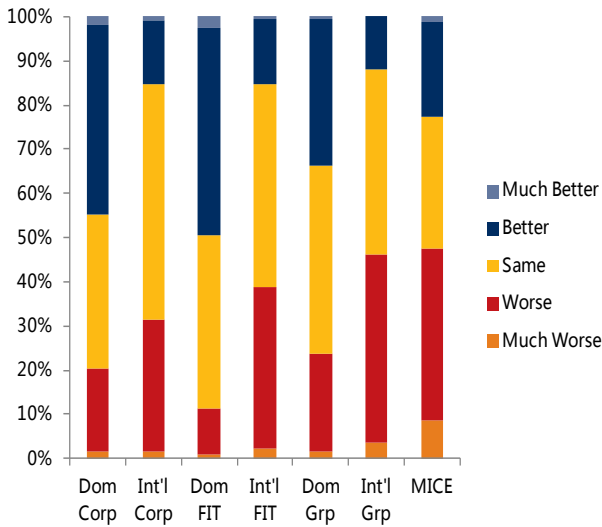
- F1. Local/global stock market
- F2. Local economic growth trends
- F3. Global economic growth trends
- F4. Local tourism trends
- F5. New competitive supply additions
- F6. Global oil prices
- F7. Currency exchange rates
- F8. Central government policy
- F9. Growth / Decline in Exports

Only 3 of the 9 listed factors recorded a positive score. Local tourism trends scored the highest sentiment score among the nine factors at 22 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 47 percent of respondents feeling that local economic trends would continue to have a positive impact on hotel performance.

For the first time in the survey history, central government policy is regarded a severely negative factor, with 61 percent of respondents expecting it to have negative impact on hotel performance in 2013 and only 19 percent thinking it would have some positive impact. The change in government and crack-down on government spending is driving this.

Growth / Decline in exports, local stock market, new competitive supply, and the still struggling global economic situation, are all regarded as negative factors for hotel performances in 2013.

Currency exchange rates and global oil prices are considered to have moderate impacts on performance levels in 2013.



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

DEMAND SEGMENT RANKING

	Score
Domestic Corporate	19
Foreign Corporate	-13
Domestic Leisure FIT	30
Foreign Leisure FIT	-19
Domestic Leisure Group	7
Foreign Leisure Group	-28
MICE	-24

MARKET SEGMENT PERFORMANCE

Question 4: How is each of the major demand segments expected to perform in 2013 versus 2012?

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 2013.

The majority of hoteliers had a moderate to positive outlook for the future growth of domestic sourced demand segments, with 45 percent of respondents looking forward to better performance from the domestic corporate sector. Around 49 percent of the hoteliers believe domestic leisure FIT should experience growth as well. Overall, we think this should be attributed to the overall optimistic expectation of China’s macro economy and the structural advancement of individual consumption. While positive, it should 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. Going against previous trends, the MICE segment demand is believed to decrease given the restraining order about local governments’ and SOEs’ banqueting / meetings in hotels at the end of 2012.

Hoteliers managing 5-star properties are generally less pessimistic about demand growth from international demand sources, while 4-star hotel managers hold more positive perspectives towards domestic sourced demand segments. However, hoteliers are equally negative about MICE demand.

Comparing across regions, over 62 percent of hoteliers in Northwest China believe performance in domestic corporate will be better or much better than 2012, which recorded the highest score of domestic corporate at 35. Similarly, over 50 percent of East China hoteliers hold positive perspectives towards domestic leisure FIT, recording the highest score at 34.

OTHER MARKET SENTIMENT REPORTS**BY REGION**

ASEAN
Benelux
Europe
South East Europe

BY COUNTRY

Australia
Austria
Canada
China
Hungary
Indonesia
Ireland
Italy
Japan
Norway
Poland
South Africa
Switzerland

BY CITY/DESTINATION

Beijing
Shanghai
Hong Kong
Québec

CONCLUSION

In conclusion, the negative sentiment in China was lightened with the outlook for both occupancy and total revenue growth less pessimistic than that of last session. Yet hoteliers were more conservative with the outlook for ADR. Overall, with both the sentiment scores for total revenue and the overall sentiment scores remaining slightly negative, the caution in the outlook for continued growth will stay in 2013.

Hoteliers expect local economic and tourism trends to continuously drive hotel demand growth in 2013. Demand is again expected to be driven by domestic demand segments, particularly domestic corporate and domestic leisure FIT demand.

Northwest and East regions, which mainly includes Xi'an, Suzhou and Shanghai, have the most positive outlook for 2013, while Northeast region has the most pessimistic outlook, which was negatively influenced by the worries about central government policy, local/global economy growth trends and various factors associated with global economic conditions and issues with Japan.

Key cities such as Shenzhen, Suzhou, Shanghai and Xi'an, had greater than average national scores. Beijing scored a neutral zero.

ASIA PACIFIC

AUCKLAND, NEW ZEALAND
auckland@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.au

TOKYO, JAPAN
tokyo@horwathhtl.com

EUROPE

AMSTERDAM, NETHERLANDS
info@horwath.nl

ANDORRA LA VELLA, ANDORRA
vmarti@horwathhtl.com

BARCELONA, SPAIN
vmarti@horwathhtl.com

BUDAPEST, HUNGARY
mgomola@horwathhtl.com

DUBLIN, IRELAND
post@horbc.ie

FRANKFURT, GERMANY
rknospe@horwathhtl.com

LONDON, UK
eheiberg@horwathhtl.com

MADRID, SPAIN
vmarti@horwathhtl.com

MOSCOW, RUSSIA
mohare@horwathhtl.com

OSLO, NORWAY
per-erik.winther@horwathhtl.com

PARIS, FRANCE
pdoizelet@horwathhtl.fr

ROME, ITALY
vnaschi@horwathhtl.com

SALZBURG, AUSTRIA
kploberger@horwathhtl.com

ZAGREB, CROATIA
sanja.cizmar@horwathhtl.com

NORTH/ CENTRAL AMERICA

ATLANTA, USA
mbeadle@horwathhtl.com

DALLAS, USA
jbinford@horwathhtl.com

DENVER, USA
jmontgomery@horwathhtl.com

LOS ANGELES, USA
ynathraj@horwathhtl.com

LAS VEGAS, USA
lboll@horwathhtl.com

MONTREAL, CANADA
pgaudet@horwathhtl.com

SAN FRANCISCO, USA
jhiser@horwathhtl.com

SANTO DOMINGO, DOMINICAN
REPUBLIC
sotero@horwath.com.do

TORONTO, CANADA
horwath@hhgi.com

SOUTH AMERICA
BUENOS AIRES, ARGENTINA
mcarrizo@horwathhtl.com

SANTIAGO, CHILE
pramirez@horwathhtl.com

AFRICA
CAPE TOWN, SOUTH AFRICA
capetown@horwathhtl.co.za

MIDDLE EAST
BEIRUT, LEBANON
kamelac@horwathac.com

DUBAI, UNITED ARAB EMIRATES
hscheid@horwathhtl.com