

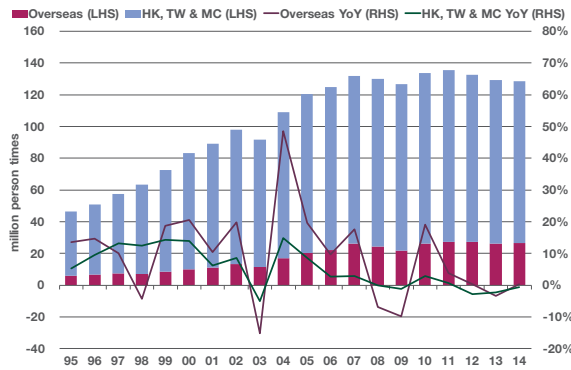
Asian Cities Report

Shanghai Hospitality

2H 2015

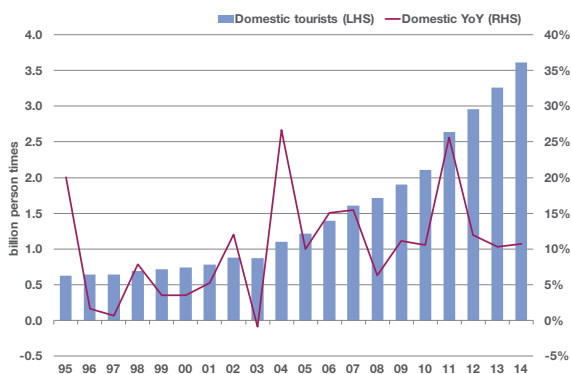


GRAPH 1
China overseas and compatriot tourism, 1995–2014



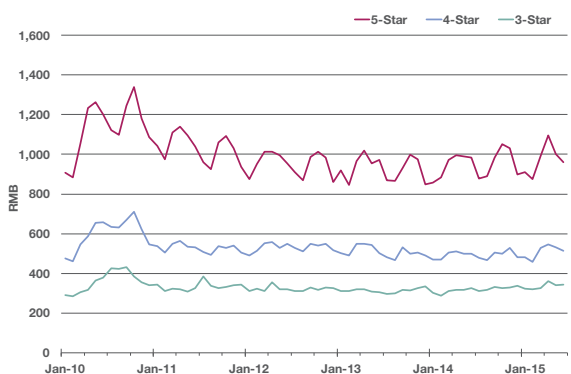
Source: Shanghai Statistics Bureau, Savills Research & Consultancy

GRAPH 2
China domestic tourism, 1995–2014



Source: Shanghai Statistics Bureau, Savills Research & Consultancy

GRAPH 3
Shanghai five-, four- and three-star hotel ADR, Q1/2010–Q2/2015



Source: Shanghai Statistics Bureau, Savills Research & Consultancy

China hotel market overview

The hotel market in China has seen remarkable growth over the last decade. According to 2013 figures provided by the United Nations World Tourism Organisation (UNWTO), China has propelled itself into its new position as the largest tourism hub in Asia and the fourth largest in the world. This can be attributed to key events, such as the Olympics and the Expo. This increase in demand in recent years has led to a diversification in the types of hotels entering the China market.

An increase in domestic tourism, driven by growth in disposable income and a larger middleclass, has allowed management companies to begin diversifying their offerings across various cities in China.

An anti-corruption campaign by the government has restricted and changed the spending habits of government officials across the country. Where F&B previously accounted for a major proportion of a hotel's total revenue, restrictions have shifted consumption habits and prompted upscale hotels to look for improved opportunities to transform and position themselves in new target markets in order to recreate the same profit margins.

In contrast to other international markets, where the luxury hotels tend to have fewer numbers of rooms for more guest exclusivity and to ensure an unparalleled service level, China luxury hotel developments on average tend to have larger room sizes, more room inventory, larger function spaces and more facilities, irrespective of the potential demand level for the city. This can partly be explained by the fact that the cost of development and construction time is significantly lower than in other markets. However, this impacts the guest experience, resulting in sub-par provisions and inconsistent service levels at many of the larger hotels, leading to low occupancy and RevPar in various cities across China.

Demand drivers

Historically, the biggest driver in China's luxury hotel market was international tourism. International and compatriot (citizens of Hong Kong, Taiwan and Macau) tourism in China increased from 44 million person times in 1994 to 131 million person times in 2007, a CAGR of 8.9%. Since then, the numbers have plateaued, remaining relatively flat through to 2014 – a trend that is expected to continue.

Impacted by the global economic slowdown, international business travellers have begun opting for more affordable hotels as companies continue to be cost-conscious, with efforts across the board being made to cut business expenses.

At the same time, domestic tourism has accelerated, accounting for 524 million person times in 1994, and with a CAGR of 9.0%, reached 1.6 billion by 2007, echoing the growth trend seen by the international segment. However, unlike the international segment, domestic tourism has grown at a CAGR of 12.5% since 2007 and accounted for 3.3 billion person times by 2013. The figures point to significantly increased mobility in the last seven years which correlates with the rise of the middle class and increased available disposable income. While the vast majority of this domestic tourism will not be captured by the hotel market and certainly not the luxury market, the growth of tourism as a whole has had a significant impact on a whole range of accommodation and service providers of all levels.

Shanghai hotel market

As one of China's most significant economic centres and the financial hub, Shanghai has long been a major gateway to China for businesses and travellers alike. As a result, the hotel market saw rapid development in the late 1990s and early 2000s as internationally-renowned brands looked to capitalise on the city's growth. A surge in supply was seen in the years leading up to 2010 as the World Expo added credibility to

Shanghai as a top destination for large-scale international events.

There is also a significant amount of demand from the MICE sector in Shanghai, with more expected upon the completion of the 500,000 sq m exhibition centre in the Hongqiao Transportation Hub. In addition, the development of year-round attractions such as China's first Disneyland and Oriental DreamWorks Studios should continue to draw in tourists and business travellers throughout the year.

Shanghai hotel market performance

City-wide ADR for star-rated hotels stood at RMB747 in Q2/2015, up 13% year-on-year (YoY). Three-, four- and five-star markets have remained relatively stable over the last three years, with a slight increase recorded towards the end of 2014. However, rates remain below levels seen during the Expo in 2010, as Shanghai is yet to recover from the influx of supply launched in the lead up to the Expo. Prior to the supply splurge Shanghai had some of the highest ADRs in the country, however, the premium that Shanghai can now charge over other cities is more limited.

City-wide occupancy rates for star-rated hotels stood at 70.3% in Q2/2015, an increase of 4.3 percentage points (ppts) YoY. Five-, four- and three-star rated hotels were up 2.8 ppts, 5.8 ppts and 5.0 ppts YoY, respectively.

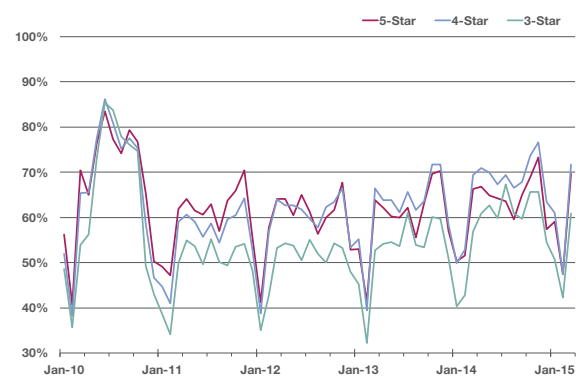
China hotel market outlook

Domestic tourism is expected to continue growing due to rising wealth, more diversified tastes and continuous improvement in both the overall hotel/resort market and its supporting infrastructure. Operators are exploring new ways to strengthen their brand in China, not only to capture further market share in China, but also to secure partnerships with local developers as they go overseas and capture a share of the increasing outbound market.

While markets such as Shanghai are already fairly mature, diversification in terms of consumption trends is expected to see these markets shift focus to projects that wouldn't traditionally have been introduced, such as spa and themed hotels. However, markets where tourism is a pillar industry, such as Sanya, are expected to see a less diversified supply as similar operators enter the market in an effort to capitalise on the growing domestic tourism market.

As hotel markets are sensitive to seasonality, occupancy rates will always fluctuate over the course of a year. However, due to increasing numbers of domestic tourists and the beginning of a recovery in the Chinese economy, overall occupancy rates are expected to start to trend upwards. Where traditionally higher occupancy rates were seen in five-star hotels, this may shift towards the four-star market, as seen in Shanghai in recent years, due to the continued crackdown on extravagant spending and a shift in consumer habits. ■

GRAPH 4
Shanghai five-, four- and three star hotel occupancy rates, Q1/2010–Q2/2015



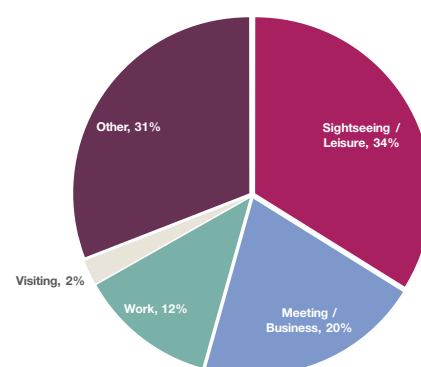
Source: Shanghai Statistics Bureau, Savills Research & Consultancy

TABLE 1
Selected future supply in Shanghai, 2015–2017E

Project name	Hotel group	Location	Launch date	No. of rooms
Bulgari Hotel Shanghai	Bulgari Hotels	Zhabei	2015	20
Le Méridien Shanghai Jiading	Starwood	Jiading	2016	270
Hyatt Regency Shanghai Expo	Hyatt	Pudong	2016	650
W-Shanghai The Bund	Starwood	Hongkou	2016	600
Mövenpick Hotel Shanghai	Mövenpick Hotels & Resorts	Jiading	2017	300

Source: HVS Research, Savills Research & Consultancy

GRAPH 5
China international (incl. compatriot) tourism by purpose, 2013



Source: Shanghai Statistics Bureau, Savills Research & Consultancy

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2888 4386

Robert McKellar - CEO, Asia Pacific
Raymond Lee - CEO, Greater China
Chris Marriott - CEO, South East Asia
Christian Mancini - CEO, North East Asia
Charles Chan - MD, Valuation & Professional Services, Greater China



HONG KONG SAR

Savills (Hong Kong) Limited

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited

28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited

8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1628 Fax: (852) 2508 1883
Contact: Johnnie Chan E-mail: jckchan@savills.com.hk
EA Co. Licence: C-002955

Savills Guardian (Holdings) Limited

7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3699
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk
EA Co. Licence: C-004089

MACAU SAR

Savills - Macau

Savills (Macau) Limited
Suite 1309-10, 13/F Macau Landmark, 555 Avenida da Amizade, Macau
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai

20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: Albert.Lau@savills.com.cn

Savills - Beijing

2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: Billy.Chau@savills.com.cn

Savills - Guangzhou

Room 906, R & F Centre, 10 Hua Xia Road, Zhu Jiang New Town
Guangzhou, 510623, China
Tel: (86) 3892 7168 Fax: (86) 3892 7030
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn

Savills - Shenzhen

Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Qingdao, Shenyang, Tianjin, Xiamen, Zhuhai

ASIA

Savills - Indonesia

PT Savills Consultants Indonesia
Panin Tower – Senayan City
16th Floor, Unit C
Jl. Asia Afrika Lot. 19
Jakarta 10270, Indonesia
Tel: +62 (21) 293 293 80 Fax: +62 (21) 293 293 81
Contact: Jeffrey Hong Email: jeffrey.hong@propertyconnection.co.id

Savills - Japan

Savills Japan Co., Ltd
15/F Yurakucho ITOCiA
2-7-1 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan
Tel: (81) 03 6777-5150 Fax: (81) 3-6777-5105
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea

Savills Korea
13/F Seoul Finance Center, 84 Taepyungro-1-ga
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: K.D. Jeon E-mail: kdjeon@savills.co.kr

Savills - Malaysia

Savills (Malaysia) Sdn Bhd
Level 9, Menara Milenium, Jalan Damanlela, Bukit Damansara
50490 Kuala Lumpur, Malaysia
Tel: +603 2092 5955
Contact: Christopher Boyd Email: chris.boyd@savills.com.my

Savills - Myanmar

Savills Myanmar Limited
192 Bo Myat Htun Street (Middle Block)
Pazundaung Township, Yangon, Myanmar
Tel: +95 1 122 3341
Contact: Richard Emerson Email: remerson@savills.asia

Savills - Philippines

KMC MAG Group
8/F Floor Sun Life Centre, 5th Ave
Bonifacio Global City 1634, Philippines
Tel: (632) 403-5519
Contact: Michael McCullough Email: michael@kmcmaggroup.com

Savills - Singapore

Savills (Singapore) Pte Ltd.
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712
Tel: (65) 6836 6888 Fax: (65) 6836 2668
Contact: Chris Marriott E-mail: cjmarriott@savills.asia

Savills - Taiwan

Savills (Taiwan) Limited
17F-1, Exchange Square, 89 Sung Ren Road
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu E-mail: cchu@savills.com.tw
Office in Taichung

Savills - Thailand

Savills (Thailand) Limited
26/F Abdulrahim Place, 990 Rama IV Road
Silom, Bangrak, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Robert Collins E-mail: rcollins@savills.co.th

Savills - Vietnam

Savills Vietnam Ltd. Co.
18/F, Fideco Tower, 81-85 Ham Nghi Street
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Neil MacGregor E-mail: nmacgregor@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia

Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul McLean E-mail: pmclean@savills.com.au
Offices throughout Sydney, Parramatta, Canberra, Melbourne, Notting Hill, Adelaide, Perth, Brisbane, Gold Coast and Sunshine Coast.

NEW ZEALAND

Savills - New Zealand

Level 8, 33 Shortland Street, Auckland NZ 1010
Tel: (64) 9 951 5910 / (64) 9 951 5911
Contact: Doug Osborne E-mail: dosborne@savills.co.nz
Contact: Paddy Callesen E-mail: pcallesen@savills.co.nz

NORTH AMERICA

Savills - New York

Savills Studley
399 Park Avenue, 11th Floor, New York, NY 10022
Tel: (1) 212 326 8610 Fax: (1) 212 326 1034
Contact: Mitchell Steir E-mail: msteir@savills-studley.com

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe

33 Margaret Street, London W1G 0JD
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
Offices throughout the United Kingdom, Belgium, France, Germany, Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate offices in Austria, Greece, Norway, Portugal, Russia, Turkey and South Africa.

Savills, the international real estate advisor established in the UK since 1855 with a network of over 600 offices and associates globally.

This document is prepared by Savills for information only. Whilst reasonable care has been exercised in preparing this document, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract; interested parties should seek independent professional advice from lawyer, accountant and surveyor and should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No person in the employment of the agent or the agent's principal any authority to make any representations or warranties whatsoever in relation to these particulars and Savills cannot be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. This publication may not be reproduced in any form or in any manner, in part or as a whole without written permission of the publisher, Savills. © Savills (Hong Kong) Limited. 2015 (IX/15)