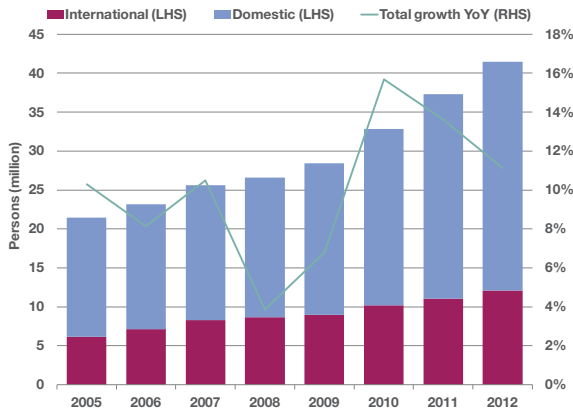


Asian Cities Report
Shenzhen Hospitality

1H 2014

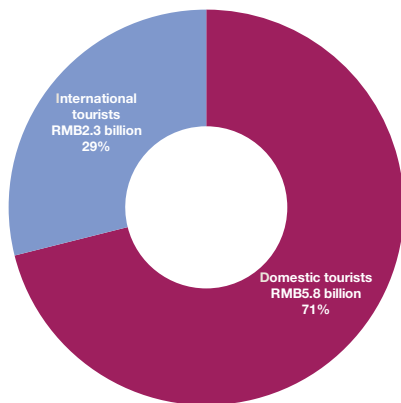


GRAPH 1
Overnight tourists, 2005–2012



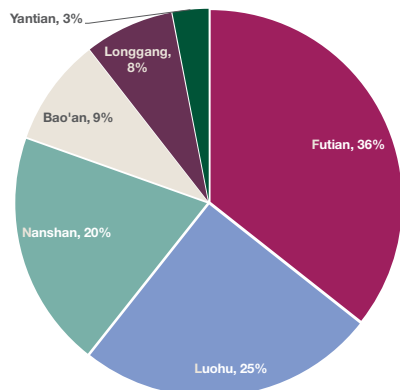
Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

GRAPH 2
Breakdown of tourist accommodation consumption, 2012



Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

GRAPH 3
Five-star hotel distribution by room number*, 2013



Source: Savills Research & Consultancy

*Total number of rooms = 12,073

Market overview

Shenzhen, as one of China’s Special Economic Zones, serves as an important economic and international trade centre in southern China. Due to its proximity to Hong Kong, Shenzhen is often thought of as China’s window to the world.

As its economy developed, Shenzhen’s hospitality industry experienced substantial growth. According to the Shenzhen Statistics Bureau, the number of tourists entering the city has grown by a CAGR of 10% between 2005 and 2012, receiving 12.1 million international overnight visitors and 29.4 million domestic visitors in 2012, up 9.2% and 11.9% respectively year-on-year (YoY).

In 2012, international tourists generated a total consumption of RMB2.3 billion, an increase of 15.56% YoY. In terms of expenditure categories, spending on hotels represented 8.7% of the total or around RMB2.3 billion, while domestic tourists spend 10.2% of their travel budget on accommodation or around RMB5.8 billion.

Five-star hotel supply

The hospitality industry saw a considerable increase in supply in 2012 and 2013, with four five-star hotels completed, bringing the total number to 33 hotels and 12,073 rooms. Among these five-star hotels, international brands, including Starwood, Intercontinental and Shangri-La, account for 56%.

Although the entrance of many upscale hotels has intensified competition, it has also helped improve the overall business environment in Shenzhen and has provided a wide range of options for travellers.

The majority of five-star hotels are located in three core districts, namely Futian, Luohu and Nanshan. Luohu hosts 25% of the city’s five-star hotels, totalling about 3,020 rooms. Most of the older hotels, such as the Luohu Shangri-La hotel and Crowne Plaza Hotel & Suites Landmark, are situated in Luohu district. Luohu is Shenzhen’s first CBD as its proximity to the border attracted a number of tourists from Hong Kong in the 90s.

Futian hosts more international branded hotels, including the Ritz-Carlton Shenzhen and the Four Seasons, focusing on business travellers, as the city’s office and retail development is shifting towards this district. Futian district represents 36% of the city’s five-star hotels, which accounts for around 4,300 rooms. The hotels in this area cater to corporate travellers and business free individual travellers, as they are surrounded by a substantial number of office buildings. Meetings, conferences, events and leisure groups also account for a significant portion, due to the nearby Shenzhen Conference and Exhibition Center.

As Nanshan continues to transform into a leisure, shopping and business hub, it now has eight five-star hotels, with roughly 2,390 rooms, or 20% of the city’s stock. Domestic hotel operator, Overseas Chinese Town, hosts two five-star hotels totalling 20% of Nanshan’s stock. OCT Harbour, a multi-functional resort comprising aquariums, theatres, resorts, outdoor activities and shopping malls on wetlands and beaches, has attracted a great many tourists since its completion.

The largest hotel operators are Starwood, InterContinental and Shangri-La, all of which have no

expansion plans until 2018. Their leading positions may be overtaken in the short term.

Five-star hotel performance

Shenzhen's five-star hotel market saw stable growth in the past three years regarding average daily rates (ADR) and occupancy. According to Shenzhen Statistics Bureau, the ADR of five-star hotels reached RMB766 at the end of 2012, up 3% YoY – the lowest when compared with other first-tier counterparts such as Beijing, Shanghai and Guangzhou. Meanwhile, revenue per available room (RevPAR) reached RMB491 per night.

Despite the lowest ADRs, Shenzhen's hospitality market enjoys high occupancy rates. Five-star hotel occupancy rates averaged 64%, down marginally from 67% in 2011. However, this figure ranks as the highest occupancy in five-star hotels among first-tier cities.

International trends

2012 witnessed an increase in the number of overseas tourists coming through Shenzhen. Seventy-four percent of overnight tourists stayed in five-star hotels during their visit. The driving forces behind the surge in overseas tourists are Japan, Korea and the US. Due to the ease of access to Shenzhen from Hong Kong, however, only 9% of tourists from Hong Kong chose to stay in hotels when travelling across the border.

International brands have been flooding the market since 1994 and are now operating more than 80% of the five-star hotels in Shenzhen. The quality of catering and business facilities provided by these international brands has greatly satisfied the demand of most overseas visitors.

Market outlook

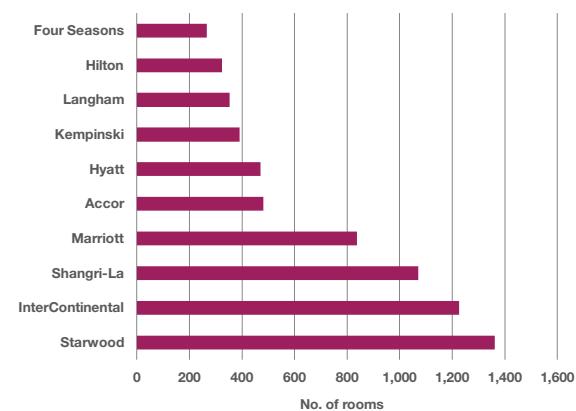
Competition between operators is expected to continue to mount. It is expected that at least 2,000 five-star rooms managed by international hotel operators will enter the market in the next five years, 80% of which will be provided by Marriott International and Global Hyatt Corp, the most ambitious among the leading global hotel operators.

The supply of new internationally branded hotels will continue to change the landscape of Shenzhen's hospitality market, as nearly all are planned to be located in mixed-use projects and will provide a boost to the sector. Additionally, a number of new five-star hotels are scheduled to open in fringe business and remote areas, as Shenzhen continues accelerating its urbanisation process, closing the gap between urban and suburban areas.

On the demand side, the increasing number of leisure travellers will present opportunities for hoteliers over the next decade, with the development of theme parks and resorts. The H.Brothers Movie City and Cartoon-nation International cultural tourist town in Pingshan new district is expected to support the growth in tourism.

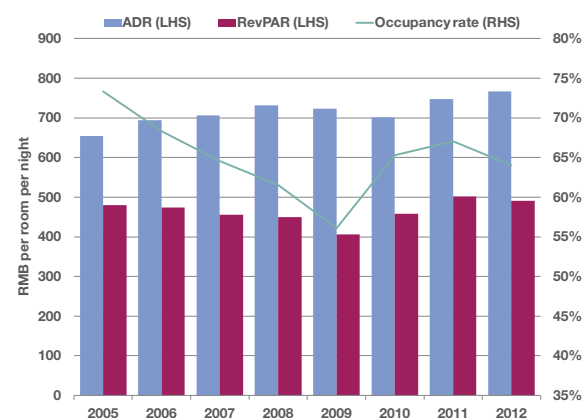
Aside from tourism, the city is expected to become increasingly competitive in attracting business travellers. A number of large financial institutions have established their presence in Qianhai, helping to further one of the city's pillar industries. Moreover, the completion of the Express Rail Link between Hong Kong and Shenzhen is expected to further stimulate Shenzhen's hospitality market. ■

GRAPH 4 International five-star hotel stock, 2013



Source: Savills Research & Consultancy

GRAPH 5 Five-star hotel performance, 2005–2012



Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

TABLE 1 Selected future supply, 2014–2018

Hotel chain	Parent group	No. of rooms	Location
JW Marriott Hotel	Marriott International	353	Bao'an Center
Hyatt Regency	Global Hyatt Corp	305	Shatoujiao, Yantian
Mandarin Oriental Hotel	Mandarin Oriental Hotel Group	190	Xiasha, Futian
Raffles Hotel	Raffles Hotels	200	Shenzhen Bay, Nanshan
Park Hyatt	Global Hyatt Corp	223	Futian CBD

Source: Savills Research & Consultancy

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