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Briefing
Hotel sector

May 2016

Image: Chimelong Hengqin Bay Hotel

SUMMARY

Occupancy rates continue to rise in the leading cities as increasing leisure tourism supplements steady demand from business travellers.

- China's hotel market in 2015 remained stable on the whole, according to government data. First-tier cities recorded an improvement in occupancy rates in the three-, four- and five-star segments; lower-tier cities continued to drag on the wider market.

- Occupancy rates have been trending up in first-tier cities now for close on three years and hotel operators are starting to feel comfortable enough to begin to raise average daily rates (ADRs).

- The emergence of theme parks and tourist attractions is expected to result in an increasing rise in Chinese domestic leisure tourism, helping to buoy associated hotels.

- Mainland China saw 11 theme parks make the top 20 most visited Asia Pacific parks in the annual TEA/AECOM 2015 report. This can be seen as a direct result of increasing domestic travel within China.

"Theme park development in China, with the active support of the government, is expected to spur growth in domestic tourism in China's key cities and help to catalyse the economic shift to the service and entertainment sectors."

James Macdonald, Savills Research

China-wide hotel market overview

The Chinese hotel market has to continually evolve, as generally revenues remain low and competition continues to mount from new, mixed-use developments. Traveller profiles have also shifted dramatically in recent years, with a shift from business travellers and tour groups to more solo and family leisure travellers. This has presented challenges for some owners and operators – and opportunities for others. The rapidly enlarging middle class, and rising income levels that have shifted consumption from essentials to non-essentials, and products to experiences, will favour some hotels and locations over others.

One more recent and notable add to the mix is the emergence of theme parks and the increasing commercialisation of existing tourist attractions – and the development of new ones. China is currently home to 11 theme parks that made it into the top 20 most attended theme parks in Asia, according to analysis from TEA & AECOM. Combined, they recorded over 39.5 million visitors in 2014.

Five-star hotel occupancy rates over the last four quarters have risen to their highest levels in recent history, having increased by 4.6 percentage points (ppts) since the trough of the market in Q3/2013. Second- and third-tier cities, on the other hand, are still way below their recent peaks in Q4/2011, down 7.7 ppts and 10.4 ppts respectively. However, second-tier city markets have clawed back some of their lost occupancy over the last few quarters, and strong growth was seen in Nanjing, Hangzhou and Xiamen in particular.

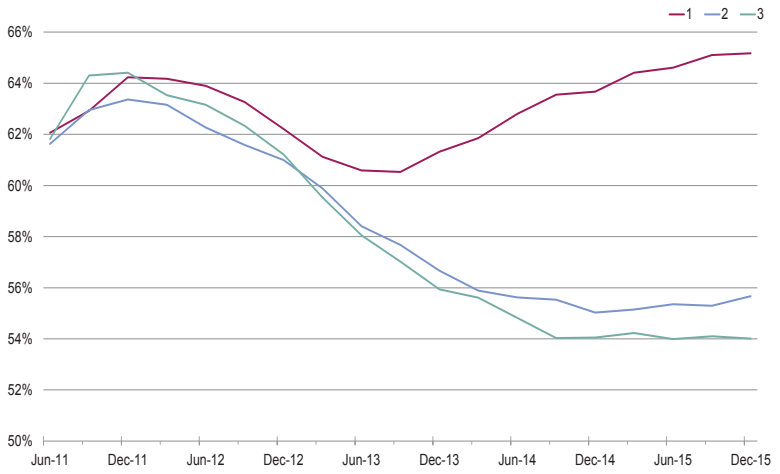
Nanjing and Hangzhou, the provincial capitals of Jiangsu and Zhejiang, are the two most economically active and vibrant cities in the Yangtze River Delta after Shanghai. They are also key tourist destinations for those living in their respective provinces and from further afield. Both cities have recently also seen a recovery in residential prices.

ADRs have in large part responded to the trends seen in occupancy rates, with hotels in the second- and third-tier cities continuing to reduce ADRs in an attempt to win more business from competing projects. First-tier cities have seen ADRs largely stabilise over the last two years, with some hotels starting to apply moderate hikes to ADRs over the last year. As hotels shift from business to leisure travellers, ADRs are likely to remain under pressure as Chinese tourists are renowned for their frugality when it comes to accommodation. They are, however, willing to expend large sums of money on local products and delicacies.

This trend is changing as the younger generation puts more emphasis on experiences. Hotels have begun to introduce brands which cater to this market who are looking for more than a traditional hotel stay and want to avoid spending money on unnecessary services. These types of hotels have more communal spaces, fresh, trendy decor and have altered their offerings in order

GRAPH 1

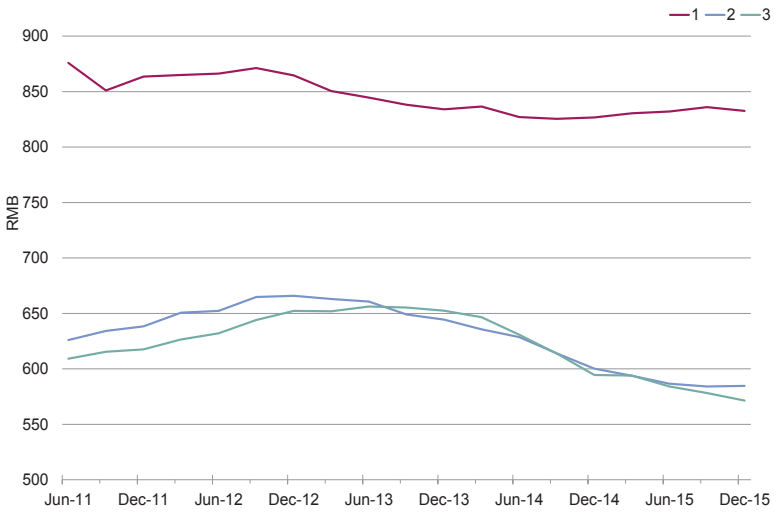
4QMA* five-star occupancy rates by tier city, Q2/2011-Q4/2015



Source: China National Tourism Administration; Savills Research
*4QMA: four quarter moving average, which eliminates seasonal and accidental effects and shows the overall trend. The figure is based on the average four-quarterly turnover over a period which each time shifts 1 quarter.

GRAPH 2

4QMA five-star ADR by tier city, Q2/2011–Q4/2015



Source: China National Tourism Administration; Savills Research

to provide targeted services desired by their guests, such as combining their front desk, concierge and lobby bar into one which frees up capital to upgrade room offerings. Shimao launched MiniMax (Q4/2014) which has integrated social media and e-commerce platforms into their end-to-end booking process; they also provide smart rooms which include regulated airflow and water systems. The Artyzen Hospitality Group (Shuntak Group) has introduced citizenM, which focuses on providing wifi, movies on demand and integrates technology to their in-room services. Chinese brands such as A-tour Hotels follow a similar formula where services are modified in order to cater to this market of younger generation travellers.

Shanghai continues to lead the pack, with the highest ADR of the top ten largest markets. The city also has the third highest occupancy rate after Shenzhen and Xiamen, giving it a RevPAR of RMB674. Guangzhou is the next highest at RMB556. The third and fourth largest five-star hotel markets, Suzhou (28 hotels) and Chongqing (27 hotels) continue to suffer from over supply, with occupancy rates of 59% and 55% respectively, and ADRs below RMB600.

The four first-tier cities showed varying year-on-year (YoY) RevPAR changes: Shanghai and Beijing were both up 1.4% to RMB674 and RMB536 respectively; Shenzhen and Guangzhou both showed a decline of 0.6% to RMB540 and 6.8% to RMB556 respectively, resulting in RevPARs below RMB350, or lower than Shanghai's four-star market (RMB366).

Theme parks in China

Background

For at least the last five years, China has been attempting to transition itself from a manufacturing and fixed asset investment model of growth to

TABLE 1

China hotel key metrics by star rating

	ADR (RMB)			Occupancy rate			RevPAR (RMB)		
	15Q4	YoY	Vs 3 yr ave	15Q4	YoY	Vs 3 yr ave	15Q4	YoY	Vs 3 yr ave
5 star	640	-3.0%	-6.5%	58.6%	0.7 ppts	-0.4 ppts	375	-1.9%	-7.2%
4 star	342	-1.2%	-3.9%	56.9%	-0.8 ppts	-2.3 ppts	195	-2.6%	-7.6%
3 star	234	3.9%	5.2%	53.8%	-1.0 ppts	-2.9 ppts	126	2.0%	-0.1%

Source: China National Tourism Administration; Savills Research

TABLE 2

China five-star hotel key metrics by city tier

	ADR (RMB)			Occupancy rate			RevPAR (RMB)		
	15Q4	YoY	Vs 3 yr ave	15Q4	YoY	Vs 3 yr ave	15Q4	YoY	Vs 3 yr ave
1st tier	850.7	-1.6%	-1.8%	67.9%	0.3 ppts	1.6 ppts	576.2	-1.2%	0.7%
2nd tier	583.0	0.4%	-6.6%	57.7%	1.5 ppts	-1.2 ppts	336.8	2.7%	-8.6%
3rd tier	541.1	-4.8%	-13.2%	55.7%	-0.4 ppts	-1.7 ppts	302.8	-6.3%	-16.8%

Source: China National Tourism Administration; Savills Research

TABLE 3

China four-star hotel key metrics by city tier

	ADR (RMB)			Occupancy rate			RevPAR (RMB)		
	15Q4	YoY	Vs 3 yr ave	15Q4	YoY	Vs 3 yr ave	15Q4	YoY	Vs 3 yr ave
1st tier	470.8	-0.1%	-1.9%	67.9%	0.5 ppts	1.7 ppts	319.5	0.7%	0.6%
2nd tier	361.1	-1.3%	-3.7%	59.6%	-0.7 ppts	-2.6 ppts	216.1	-2.2%	-7.6%
3rd tier	335.9	-0.1%	-1.5%	57.9%	-0.9 ppts	-2.5 ppts	194.5	-2.2%	-5.8%

Source: China National Tourism Administration; Savills Research

one driven by consumer demand and services. Efforts have been met with mixed success. Outbound tourism and the search for lowest priced goods and services have held back the transition of the economy. The latest attempt is to develop the tourist attractions on offer domestically. The hope is that recapturing some of the outbound tourism will increase tax revenues and create a new nexus for the development of the services industry, with attractions such as theme parks tending to have quite significant multiplier effects in local economies.

Specific to the hospitality sector, increased tourism of the sort generated by theme parks will facilitate the development of new hotels in the surrounding locations as well as support the demand for other hotels in more central locations as tourists might be prone to tag on a couple of city-stay nights.

China market size
China already has a relatively developed theme park market in terms of total attendance. When looking at the top 20 parks in Asia, it ranks second after Japan (excluding Hong Kong), and top if we include Hong Kong. Nevertheless, when gauged relative to its population, the market remains diminutive.

China's leading theme parks
Mainland China saw 11 theme parks make the top 20 ranked Asia Pacific parks in the annual TEA/AECOM 2015 report, though most of these appear in the latter half of the table. The largest theme park by attendance is actually Songcheng Park in Hangzhou, which recorded 5.8 million visitors through its gates in 2014, up from 4.2 million the year before.

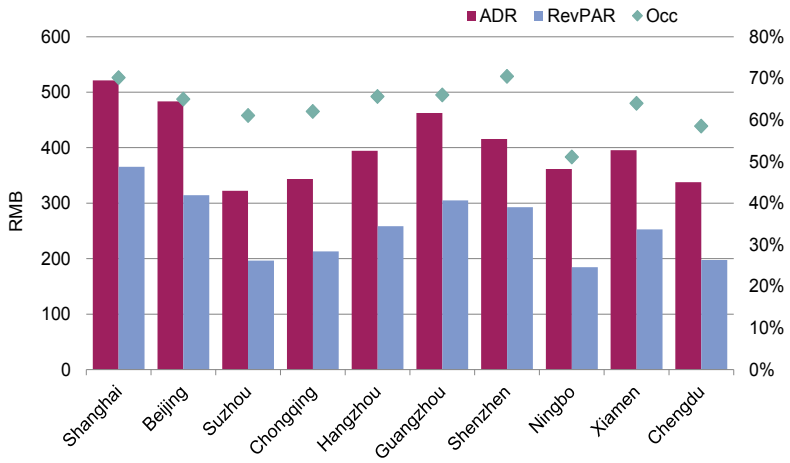
Newcomer Chimelong Ocean Kingdom on Hengqin Island, in Zhuhai, Guangdong Province, made the tenth spot in its first year of operation, pulling in over 5.5 million visitors since opening in January 2014.

What it means for the hospitality sector
Existing hotels in cities home to major theme parks will be looking for ways in which to capitalise upon the number of visitors flocking to these parks each year, which as we can see from Table 4 is substantial and is expected to continue to rise. However, many of the larger theme parks incorporate their own hotels into the actual park. In some cases, such as Disneyland in Shanghai, in addition to hotels in the park (Toy Story Hotel and the Shanghai Disneyland Hotel), hotels in the surrounding areas will crop up and predominantly target visitors to the parks.

As Disneyland is located outside the main hotel districts, existing hotels are unlikely to directly capitalise on the tourist windfall it is likely to reap. There will, however, be some leakage as visitors to Disneyland may decide to add on a couple of day's sightseeing to their Shanghai trip. In order to capitalise on these visitors, tweaks to their strategies would need to be made, such as becoming more family-oriented by offering services to directly target families visiting the resort, for example family-sized rooms, babysitting services or discounts.

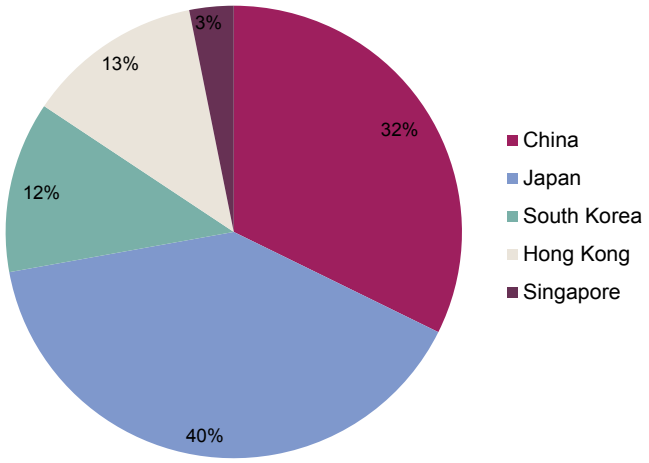
Disneyland is not unique in this, as the larger domestic theme park brands

GRAPH 3
Ten largest markets key metrics, Q4/2015



Source: China National Tourism Administration; Savills Research

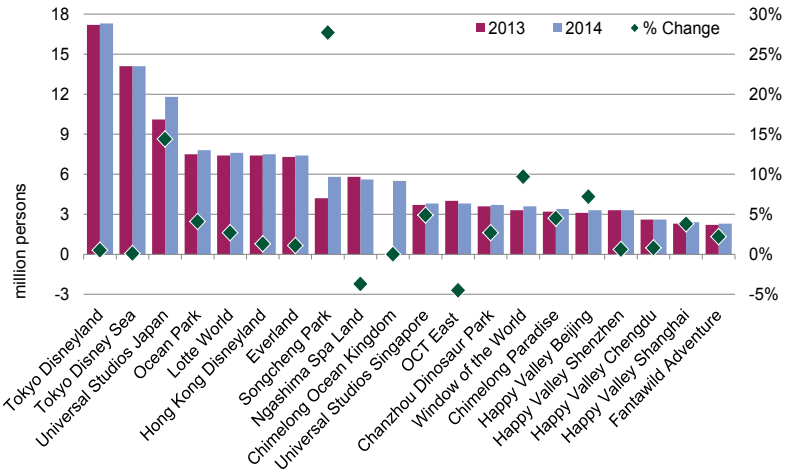
GRAPH 4
Top 20 visited Asia Pacific theme park distribution by county, 2014



Source: TEA/AECOM, Savills Research

GRAPH 5

Top 20 theme parks in Asia Pacific, 2014



Source: TEA/AECOM, Savills Research

TABLE 4

Top 20 theme parks in Asia Pacific, 2014

(Million attendees)	2013	2014	% Change
Tokyo Disneyland	17.2	17.3	0.5%
Tokyo Disney Sea	14.1	14.1	0.1%
Universal Studios Japan	10.1	11.8	14.4%
Ocean Park	7.5	7.8	4.1%
Lotte World	7.4	7.6	2.7%
Hong Kong Disneyland	7.4	7.5	1.3%
Everland	7.3	7.4	1.1%
Songcheng Park	4.2	5.8	27.7%
Ngashima Spa Land	5.8	5.6	-3.7%
Chimelong Ocean Kingdom	N/A	5.5	N/A
Universal Studios Singapore	3.7	3.8	4.9%
OCT East	4.0	3.8	-4.5%
Chanzhou Dinosaur Park	3.6	3.7	2.7%
Window of the World	3.3	3.6	9.7%
Chimelong Paradise	3.2	3.4	4.5%
Happy Valley Beijing	3.1	3.3	7.2%
Happy Valley Shenzhen	3.3	3.3	0.6%
Happy Valley Chengdu	2.6	2.6	0.8%
Happy Valley Shanghai	2.3	2.4	3.8%
Fantawild Adventure	2.2	2.3	2.2%
TOTAL	**112.1**	**122.5**	**4.2%**

Source: Real Capital Analytics; Savills Research

also include hotels within the park. In Guangzhou, Chimelong operates the Chimelong Hotel, while in Zhuhai, Chimelong has a number of hotels to serve its theme parks, including the Hengqin Bay Hotel, Penguin Hotel and Circus Hotel. Theme parks look to capture the full attention of the visitor by providing all the services that they might require for a two to three day stay. Songcheng Park in Hangzhou, about 30 minutes drive from the city centre, features two themed hotels, the Romance Theme Hotel and The First World Hotel. OCT East in Shenzhen houses six themed hotels in the park, all catering for varying budgets and each offering a unique experience for visitors. The Fantawild brand, owned by the Huaqiang Group, also boasts a number of theme parks and hotels around the country.

Operators

Operators of Chinese theme parks are mainly domestic companies, the largest being OCT Parks China, which was ranked the fourth largest theme park group worldwide in terms of attendance after Walt Disney Attractions, Merlin Entertainments, and Universal Parks and Resorts. Other rising stars include Chimelong Group and Songcheng Worldwide, ranked ninth and tenth globally. However, many international operators are eyeing opportunities in the China market, with Walt Disney, Universal Studios and Atlantis having already committed to China.

Comcast unit, the owners of Universal Studios, is partnering with Beijing Shouhuan Cultural Tourism Investment Co. Ltd., a consortium of four state-owned companies, to invest in and operate the project in Beijing. The project will be situated on a 120-hectare site in Tongzhou, about 20km east of the city centre, and will incorporate an entertainment complex and the first ever Universal-branded hotel. Subsequent phases will grow the park to 400 hectares.

Walt Disney is partnering with Shanghai Shendi Group to develop the Shanghai Disney Resort, scheduled to complete in June 2016. The site covers 963 hectares and is estimated to have cost US$5.5 billion. The resort will include Shanghai

Disneyland, an entertainment district, two themed hotels, recreational facilities, a lake and associated parking and transportation hubs.

Kerzner International Holdings is partnering up with Fosun International to develop a 62-hectare resort in Sanya, estimated to cost US$1.6 billion and incorporating the ultra luxury One&Only branded hotel.

Accessibility & location
While existing domestic theme parks are generally situated out of the city centre (albeit accessible by metro or car, for example Happy Valley in Beijing, operated by Beijing OCT, which is part of the Shenzhen OCT Holding Group, is situated adjacent to metro line 7), ease of access to these parks can be a crucial element to their success, with visitors needing to find it relatively convenient to access the facilities. Once there, visitors are immersed in the theme park and all it has to offer, finding little need to see the 'outside world' during their visit. With the arrival of international theme parks, well-timed developments to their respective transport systems will be a welcome infrastructure support to tourists visiting the parks, as well as the city as a whole.

City infrastructure
Theme parks, especially the more recently announced ones by international operators, will tend to require large sums of capital and significant coordination with local planning bureaus. As most, if not all, are located far from the city centre, they will often require investment in new infrastructure to facilitate transportation of park visitors. In China, this is likely to be in the form of direct metro access. Shanghai Disney Resort will be linked to metro line 11, while Universal studios in Beijing will have line 7 and the Batong Line extended.

In addition, the airports in Shanghai and Beijing will receive increased capacity, with Pudong International receiving a new satellite terminal and fifth runway, while Beijing will have a second international airport based in the Daxing district, due for completion in 2019.

Aside from the development of new infrastructure, the government has also extended the visa-free entry period in Shanghai, Jiangsu and Zhejiang provinces from 72 hours to 144 hours, aiming to boost tourism and business traveller numbers.

Market News

Chinese investors, developers and operators seek opportunities overseas
Increased outbound tourism by Chinese nationals, global ambitions by Chinese companies, and an outflow of Chinese capital seeking yield driven investment to diversify Chinese holdings, has led to a surge in interest by Chinese firms for buying overseas hotel assets and managers. Recent deals have included the acquisition of Louvre Hotels by the Jinjiang group, as well as the acquisition of Strategic Hotels by the Anbang group and the Waldorf Astoria New York, although their bid for Starwood hotels recently failed.

Luxury fashion and jewellery brands dive into China's hospitality
Luxury fashion and jewellery brands have been looking for ways to diversify their operations by opening cafés and restaurants, however, more recently they have also been exploring options in the real estate sector and particularly hospitality and luxury residential. In China, this is expected to culminate with a number of hotel openings in 2017, including: Bulgari Hotels in Beijing and Shanghai, Versace Residences Chengdu, Armani/Casa Residences Beijing and Karl Lagerfeld Macau.

Greenland to inject hotel assets into RMB21 billion Singapore REIT
Greenland, as part of its asset light approach that is becoming increasingly popular in China, announced plans set up a REIT with investment firm Amare to purchase 19 hotels developed by Greenland for RMB21 billion, and then list on the Singapore exchange. The plan is still subject to regulatory approval.

Market outlook

With domestic tourism having grown by a CAGR of 13.7% over the last five years, reaching 4 billion person times by 2015, the opportunities within the hospitality sector remain numerous. Nevertheless, as the nature and make up of this tourism changes and shifts, and as new sources of competition emerge, landlords and operators will have to continually change their offering to suit the different needs and tastes of guests. While this may be true in any country, the scale and pace of change in China is, and will continue to be, more dramatic.

Overbuild and the anti-corruption campaign have sorely impacted high-end business travel. However, with a concerted effort to build the domestic tourism industry and raise the quality of offering, new sources of demand will emerge. Hotels will need to adapt to the new environment: positioning and marketing strategies to target individuals or families may be appropriate from some hotels that are outside the main business districts; others may look at trimming down service provision, lowering costs and ADRs to target the more cost-conscious business traveller.

International hotel chains are also developing more localised brands to better accommodate Chinese travellers both at home and overseas, and fend off competition from emerging Chinese hotel chains. All hotels should be looking at how loyalty programmes, OTAs and new technology offerings change how people research and book hotel accommodations, as well as how the rise of Airbnb or its Chinese equivalents may affect their business models.

Project focus

Shanghai Disneyland Hotel

The Shanghai Disneyland Hotel is a water taxi or short walk away from the Shanghai Disney Resort, the company's third theme park resort in Asia. The art-nouveau inspired Shanghai Disneyland Hotel will offer 420 rooms as well as themed dining experiences, a gift shop, fitness centre, indoor swimming pool, banquet and meeting facilities as well as a wedding pavilion. Slated for launch in June 2016, the project will be a key component of the Shanghai Disney Resort, owned by Walt Disney and the Shanghai Shendi Group.

Location	Shanghai Disneyland Hotel, Chuansha New Town, Pudong New District
Brand	Disney
Operator	Shanghai International Theme Park & Resort Management Company Ltd.
No. of rooms	420
Transport links	10km Pudong International Airport 35km from Hongqiao Railway Station 35km from Hongqiao Airport 1 minute walk to nearest metro station
Handover date	Q2/2016
Rates starting from	RMB1,650 excluding service charges

Source: Savills Research

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