



Hotel



China leads APAC in transaction consideration

China's hotel industry continued to grow and reflected increased interest from both developers and private equity in 2018.

- Occupancy rates for hotels in first-, second- and third-tier cities stood at 71.9%, up 1.6 percentage points (ppts) year-on-year (YoY), 64.5% (up 1.5 ppts YoY) and 59.6% (2.1 ppts YoY), respectively.
- First-tier cities recorded an increase in Average Daily Rates (ADRs) to RMB841.3 (up 6.2% YoY) while second-tier cities fell to RMB537.1 (down 0.8% YoY) and third-tier cities increased slightly to RMB515.2 (up 0.3% YoY) by Q2/2018.
- Revenue per available room (RevPar) for five-star hotels saw significant gains on a YoY basis across all city tiers by Q2/2018, with first-tier city RevPar rising to RMB594.9 (up 8.4% YoY), second tier increasing to RMB339.4 (up 5.5% YoY) and third tier moving up to RMB310.8 (up 1.1% YoY).
- Wuhan recorded the highest RevPar growth among the 20 key cities while Zhengzhou saw highest growth in occupancy.
- China investment volume stood at RMB25.9 billion by Q3/2018, up 65.3% YoY.
- There are approximately 177,000 rooms in three-star and above hotels expected to be handed over to the market in the coming five years.
- Glamping, red tourism and wellness retreats are becoming emerging tourism trends.

“Business travel may suffer from the ongoing economic uncertainty, but China’s tourism sector saw upticks in arrivals indicating that there is still solid demand from both domestic and international travellers.”

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HOTELS

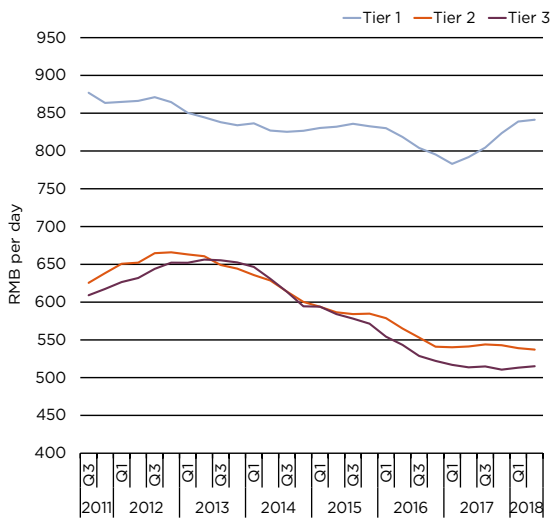
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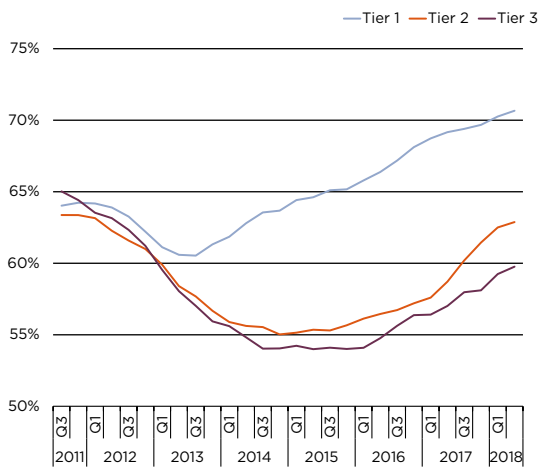
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GRAPH 1: ADRs (Four Quarters Moving Average) By City Tier, Q3/2011 to Q2/2018



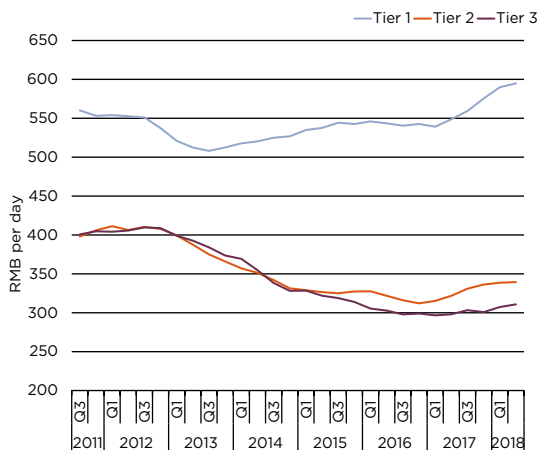
Source: China Ministry of Culture and Tourism; Savills Research

GRAPH 2: Occupancy Rates (Four Quarters Moving Average) By City Tier, Q3/2011 to Q2/2018



Source: China Ministry of Culture and Tourism; Savills Research

GRAPH 3: RevPar (Four Quarters Moving Average) By City Tier, Q3/2011 to Q2/2018



Source: China Ministry of Culture and Tourism; Savills Research

CHINA-WIDE FIVE-STAR HOTEL MARKET OVERVIEW

The gap between first-tier cities and second- and third-tier cities widened in 2018 as first-tier cities recorded an increase in ADRs to RMB841.3 (up 6.2% YoY) while second-tier cities fell to RMB537.1 (down 0.8% YoY) and third-tier cities increased slightly to RMB515.2 (up 0.3% YoY).

Occupancy rates for five-star hotels increased across the board on a YoY basis with first-tier cities at 70.7% (up 1.5 ppts YoY), second-tier cities at 62.5% (4.2 ppts YoY) and 59.8% in third-tier cities (up 2.8 ppts YoY).

RevPar for five-star hotels saw significant gains on a YoY basis across all city tiers, with first-tier rising to RMB594.9 (up 8.4% YoY), second-tier increasing to RMB339.4 (up 5.5% YoY) and third-tier moving up to RMB310.8 (up 1.1% YoY).

CHINA HOTEL MARKET OVERVIEW

Occupancy rates saw an uptick across all city tiers both on a YoY basis and vs the three-year average. However, second-tier cities ADRs suffered across the country with declines in both YoY and vs the three-year average.

The highest RevPar growth for the 20 cities was in Wuhan with a 24.2% increase over its three-year average, showcasing the emergence of the central China hospitality market. The highest growth in occupancy was for another central China city, Zhengzhou, with an 11.3 ppts increase (though this coincided with a sharp fall of 29.8% in ADRs). Nanjing had the strongest showing in ADRs with a 9.4% increase over the three-year average.

Outbound tourism is estimated at 162 million in 2018 (and is expected to exceed 180 million in 2019), with 84 million trips to locations outside of Greater China (i.e. excluding trips to Hong Kong, Taiwan, and Macau). The most popular destinations were all Asia-Pacific countries, namely Thailand, Japan, Vietnam and South Korea.

CITY SPOTLIGHT: CHANGSHA

Changsha, the capital of Hunan province and the home of the young Mao Zedong, is

emerging as a multi-faceted powerhouse in central China. With a famous, fiery cuisine and an increasingly industrial and commercial base, Changsha is seeing an increase in business travellers from around the region—most of which are alighting to four-star hotels (with a 1.4 ppts increase in occupancy rates YoY).

Changsha is also one of the cities leading the economic surge in central China. As central and western regions of the country catch up with the coastal mega-cities, Changsha is seeing its tertiary industry grow to take up a larger and larger slice of its economy.

As a portion of total industry, Changsha's tertiary industry has increased 20.6 ppts from 2010 to Q3/2018. The service sector for the city is increasing at a rapid pace and is replacing the city's manufacturing sector as the main economic driver. This and the improving city infrastructure—including a maglev line, six metro lines by 2021 and a high-speed railway link (Wuhan can be reached in only one hour)—is causing an uptick in business travellers to the city, as seen by the increased occupancy rates for four-star hotels across the city. Additionally, Changsha is also home to Changsha Huanghua International Airport, the country's 14th busiest airport based on passenger numbers. The airport is also undergoing two expansions (one to be finished in 2020 and one in 2030) and will eventually be able to support 71 million passengers annually.

Changsha's mid-to high-end hotel market over the next few years—up until 2022—will see around 3,000 keys from international-branded hotels launch onto the market to join the nine five-star, 21 four-star and 18 three-star hotels in the city. Hilton is increasing its exposure to the Changsha market, bringing several Hampton-branded hotels to the upper-midscale market and opening the luxury Conrad Changsha in 2019. The hotel market will continue to develop in the city as city- and region-wide infrastructure improves and central China continues to develop as an economic power.

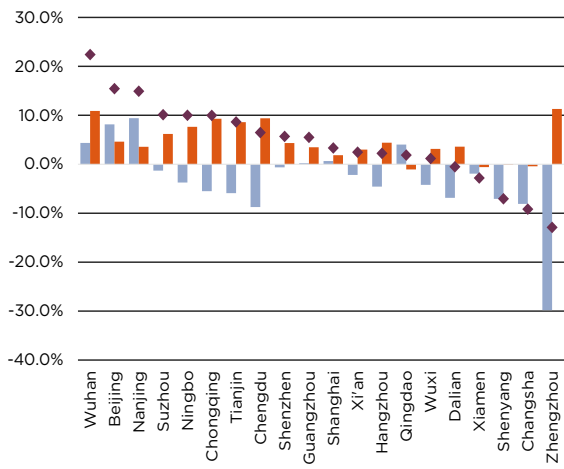
TABLE 1: Top Five Chinese Cities' Five-Star Hotels Ranked By ADR*, Q2/2018

CITIES	NO. OF HOTELS	ADR	RevPAR	OCCUPANCY
Shanghai	72	1,004	734	73%
Beijing	61	884	643	73%
Guangzhou	22	817	565	69%
Shenzhen	24	738	534	72%
Sanya	14	727	482	66%

*With at least five hotels in the market.

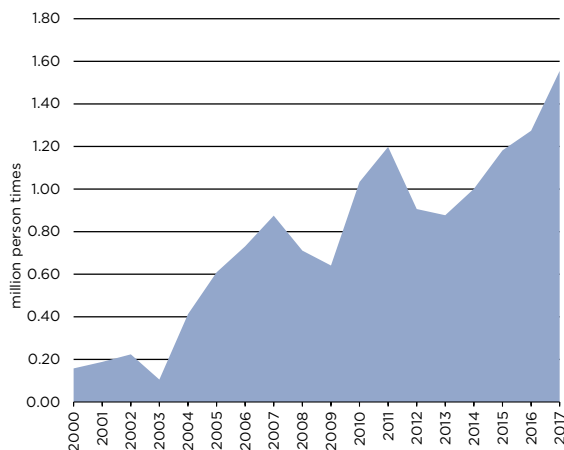
Source: China Ministry of Culture and Tourism; Savills Research

GRAPH 4: First- And Second-Tier City Five-Star Metrics Vs Three-Year Average Growth, Q2/2018



Source: China Ministry of Culture and Tourism; Savills Research

GRAPH 5: Hunan International Visitor Arrivals, 2000 to 2017



Source: China Ministry of Culture and Tourism; Savills Research

TRANSACTIONS AND INVESTMENTS

The largest deal of the year in the Chinese hotel market came from Vanke’s purchase of Banyan Tree’s portfolio in three cities in western China (one in Chengdu, one in Dali, Yunnan, and one in Lijiang, Yunnan) for a total consideration of RMB1,348 million. Recently Vanke has been shifting its focus to the residential leasing market, but the developer’s purchase of Banyan Tree’s high-end hotel portfolio shows a further diversification of its business model.

China leads the Asia-Pacific region in transaction value and had a significant jump in 2018. By the end of Q3/2018, figures were at RMB25.9 billion, up 65.3% from 15.6 billion for the full year 2017. China overtook Japan—with RMB16.5 million as of Q3/2018 (a 0.6% increase YoY)—as the largest market in Asia.

The majority of hotel deals focused on first- and second-tier cities, with a couple of tourist hotspots in Yunnan thrown in for good measure. Most of the properties will continue to be hotels, so there is a slight slowdown in conversions from 1H/2018. One interesting transaction was the purchase of the Ascendas Hospitality portfolio in Beijing, bought by a JV between TPG Capital, one of the largest private equity firms in the world, and Huazhu Hotels (also known as China Lodging Group) for a total consideration of RMB1,156 million. The JV (with TPG Capital as an 80-20 majority partner) picked up a total of 703 rooms from both the Novotel (306 rooms) and Ibis (397 rooms) brands. Moving forward, TPG is expected to continue searching for other hotel assets to pick up across the country.

Jinjiang’s Giant Appetite - A consortium led by Jinjiang International Holdings (which is controlled by the Shanghai government) acquired a 51.21% stake in Radisson Hospitality from HNA Group in Q3/2018, adding to its minority shares in Accor Hotels and Huazhu. With this purchase, Jinjiang became the largest hotel group in China and the seventh-largest hotel group in the world in terms of room count (344,000 rooms globally), according to STR. This acquisition will help Jinjiang target Chinese customers around the world through the Radisson brand, tailoring and extending the hotel services that Chinese tourists have come

to expect to international Chinese tourists.

MARKET TRENDS

Glamping - a portmanteau between “glamour” and “camping”, is beginning to take hold across China, as white-collar workers in polluted big cities are looking to get out and reconnect with nature. Glamping sites are popping up in faraway places in Yunnan, Gansu, and Inner Mongolia. The quality of glamp sites varies, from yurts on Inner Mongolian grasslands to a luxury mountain safari tent on the border with Myanmar, but the impact on Chinese domestic tourism industry remains the same—a desire to go off the beaten track and travel outside the normal veins of tourist destinations across the country. The ability to share these adventures on social media (but not rough it too much) also provides a strong incentive to travellers—especially younger and more mobile travellers—to look towards glamping as a holiday alternative.

Red Tourism-The spotlighted city above, Changsha, is near the homes of several prominent historical leaders and icons—including Mao Zedong, Yang Kaihui (Mao’s first wife), Liu Shaoqi, Zhu Rongji, Lei Feng (a People’s Liberation Army’s cultural icon), and Hu Yaobang—and is home to an increasingly popular section of China’s tourism industry—Red Tourism.

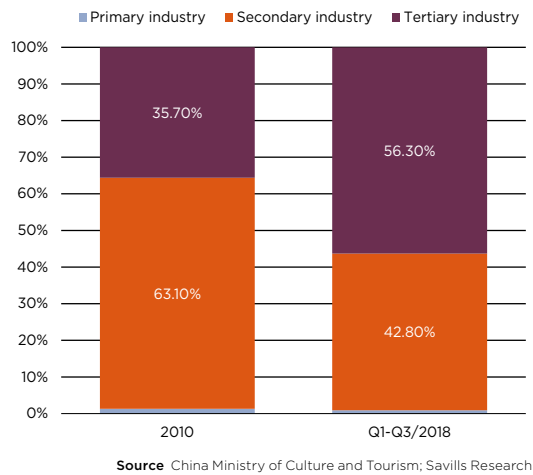
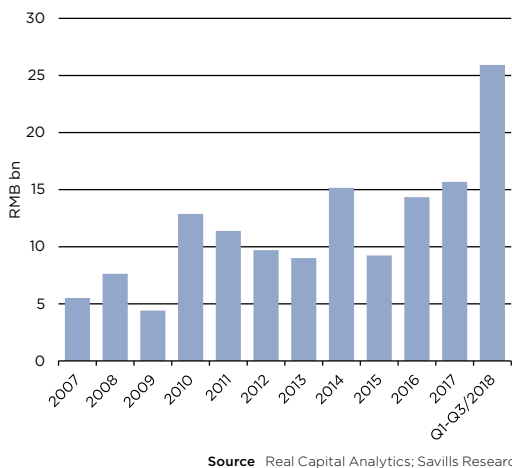
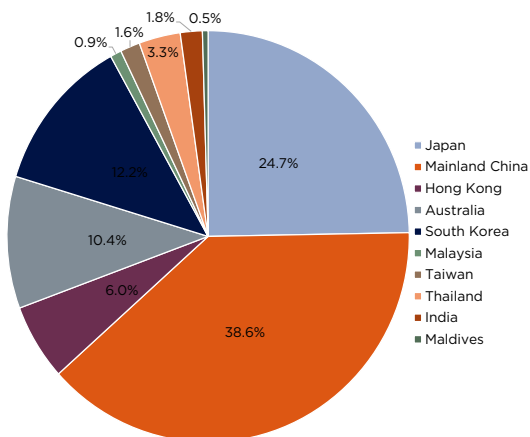
Red Tourism is the surge of interest in the mid-20th century founding of the People’s Republic of China. This type of tourism mainly appeals to domestic tourists, but also to international visitors interested in modern Chinese history, bringing many to cities that would have otherwise gone unvisited—Yan’an (Shaanxi, near the endpoint of the Long March), Jingtangshan (Jiangxi, area where the first rural Communist base was established) and Zunyi (Guizhou, site of the congress where Mao assumed power).

As China ascends the world stage, many across the country look towards the historical foundations of the country with interest and national pride. This manifests itself not only in museums and guided tours of 33,000 registered revolutionary sites around the country but also

TABLE 2: China Five-Star Hotel Key Metrics By City Tier, Q2/2018

	Q2/2018 ADR (RMB)	YoY	VS THREE-YEAR AVERAGE	Q2/2018 AVERAGE OCCUPANCY RATE	YoY	VS THREE-YEAR AVERAGE	Q2/2018 REVPAR (RMB)	YoY	VS THREE-YEAR AVERAGE
First tier	860.9	1.1%	2.1%	71.9%	1.6 ppts	3.6 ppts	619.2	3.3%	7.3%
Second tier	534.2	-1.4%	-4.1%	64.5%	1.5 ppts	4.9 ppts	346.1	1.0%	4.0%
Third tier	516.4	1.5%	-2.9%	59.6%	2.1 ppts	4.6 ppts	308.4	4.7%	4.7%

Source: China Ministry of Culture and Tourism; Savills Research

GRAPH 6: Changsha GDP By Industry, 2010 Vs Q3/2018**GRAPH 7: Hotel Transaction Value In China, 2007 to Q3/2018****GRAPH 8: Value of Asia-Pacific Deals By Location, 2018 YTD**

marathons (Shaoshan's Redrun International Marathon), historical reenactments, tank tours and even a Wanda "red" theme park to be built in Yan'an.

Wellness retreats - Similar in spirit to glamping above, but with a much greater focus on revitalisation of body and mind, wellness retreats are springing up across China (and Asia-Pacific) to cater to stressed-out city-dwellers. For hotels, the wellness movement has true potential. Retreats have always been a classic element of many hotels in coastal or mountainous regions, but in China, these retreats have seen a surge in interest from domestic and international travellers.

One benefit of the new wave of wellness retreats is that more and more are located within short distances of large population centres. For example, Amanyangyun is located in a "relocated forest" roughly an hour's drive from Shanghai, while Sangha by Octave is less than 45 minutes by car from downtown Suzhou. This proximity allows exhausted business executives to make a quick weekend trip to these resorts for a recharge and be back in time for work on Monday.

Whether tourists go for a weekend or for a two-week retreat, wellness is becoming a lifestyle choice for many across China and many in the hospitality business are adjusting to help meet this demand.

MARKET OUTLOOK

There are approximately 177,000 keys in three-star and above hotels expected in the China hotel pipeline between 2019 and 2022, with roughly 22,000 keys in the four first-tier cities. This shows that there is not only an appetite for higher-end hotels in these first-tier cities, but also there are a great many opportunities in the lower-tiered cities. Many of these are major international operators like Marriot and Hilton, but there are also brands relatively newer to China like Rosewood and Jumeirah. Emerging second-tier cities like Hangzhou (24 hotels expected), Sanya (14 hotels expected), and Chongqing (12 hotels expected) will continue to see new hotels come into their markets as their tourism infrastructure upgrades in the next few years.

TABLE 3: Changsha Hotel Market, Q2/2018

CHANGSHA	HOTELS	ADR	ADRYoY CHANGE	OCCUPANCY	OCCUPANCY YoY CHANGE	REVPAR	REVPAR YoY CHANGE
Five-star	9	498	-5.1%	63.8%	-1 pts	318	-6.6%
Four-star	21	338	-0.4%	70.6%	1.4 pts	238	1.5%
Three-star	18	235	0%	67.7%	-8.1 pts	160	-0.7%

Source: China Ministry of Culture and Tourism; Savills Research

TABLE 4: Selected China Hotel Transactions, 2018

PROPERTY	CITY	SELLER	PURCHASER	TOTAL CONSIDERATION (RMBMn)	PUPORSE
Banyan Tree China Hotel Portfolio	Chengdu, Dali, Lijiang	Banyan Tree	China Vanke	1,348	Lease
Ascendas Hospitality Beijing Hotel Portfolio	Beijing	Ascendas Hospitality	TPG Capital, Huazhu Hotels Group	1156	Lease
Ascott Residence Trust China Hotel Portfolio	Shanghai, Xi'an	Ascott Residence Trust	Yango Group	980	Lease
Senlan Ascott Hotel	Shanghai	An unidentified Anhui private company	Landsea Properties	977	Convert and lease
Beijing BFS International Hotel	Beijing	Beijing Capital Land Ltd	ICBC	667	Lease

Source: Real Capital Analytics; Savills Research