China – February 2021

MARKET IN MINUTES

Savills Research

Hotel

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Tourism bounces back

Despite the unprecedented headwinds earlier in 2020, hospitality metrics are nearly back to last year's levels.

- First-tier cities' five-star hotel's average daily rates (ADRs) stood at RMB717.9 in Q3/2020, a decrease of 8.5% year-on-year (YoY), revenue per available room (RevPAR) stood at RMB349.5, down 37.2% YoY while occupancy rates stood at 49.1%, down 21.8 percentages points (ppts) YoY.
- For five-star hotels across all of China, ADRs stood at RMB522, down 12.7% YoY, while RevPAR stood at RMB274, down 28.8% YoY in Q3/2020. Occupancy for five-star hotels declined 11.9 ppts YoY to 52.5% in Q3/2020.
- Sanya proved to be a bright spot, with many metrics higher in 2020 than in 2019, thanks in part to an expansion of duty-free shopping in Hainan. In Q3/2020, Sanya's ADR's stood at RMB692.36, an improvement of 15.6% YoY, while its RevPAR stood at RMB455, an increase of 28.6% YoY. Sanya occupancy also moved to 66%, an increase of 6.6 ppts YoY.
- China's domestic tourism market has largely recovered. During Golden Week (Oct. 1 to Oct. 8), China saw 637 million trips made domestically, which generated RMB466 bn in tourism revenue. This was approximately 79% of 2019 levels (though the holiday in 2020 was one day longer).
- Hotel investment deals in China reached a total consideration of RMB8.15 bn in 2020.

"China is one of the few bright spots in the global hospitality industry. Despite limited international visitor numbers due to travel restrictions, China is benefitting from large domestic traveller demand that is eager to explore its own backyard."

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MARKET OVERVIEW

2020 has not been kind to the global tourism market, but China fared better than most. The beginning of the year was historically bad for the Chinese tourism market, but it rebounded quickly and by the end of 2020 stands near last year's levels and, in some cases, even exceeds the numbers from 2019. At the end of 2020, China was practically the only bright spot for hoteliers around the globe. International travel in 2020 was virtually non-existent, and COVID-19 cases surged in many continues, strangling domestic tourism markets. China also saw outbreaks pop up in 2020, most notably in Beijing, Tianjin, Qingdao, Shanghai, Chengdu, and other cities, but the government was able to quickly lockdown and contain these outbreaks before they severely affected the wider economy. Major hotels brands now must rely on their China operations to bring them forward into 2021, with much of their worldwide operations stalled or shut completely.

In 2H/2020, China returned to some sense of normalcy in terms of domestic travel. The National Day holiday (Oct. 1st to 8th, and eight days compared to the normal seven) saw a rebound in the domestic tourism market. According to the China Tourism Academy (CTA), China saw 637 million trips (79% of 2019 numbers) and RMB466 billion in tourism revenue generated across the country during the eight-day holiday. While still low compared to historical averages, these numbers reflected the improving national economy and the returning travel and consumer sentiment. Tourism is not only important for the hospitality sector but also the broader economy. Over the course of the National Day holiday total retail and restaurant sales for China reached RMB1.6 trillion, with daily sales up 4.9% compared to 2019, according to the Ministry of Commerce. This indicates that even if many did not travel during the holiday, consumption demand proved resilient as people spent more in their home cities.

TRENDS

Digitalisation

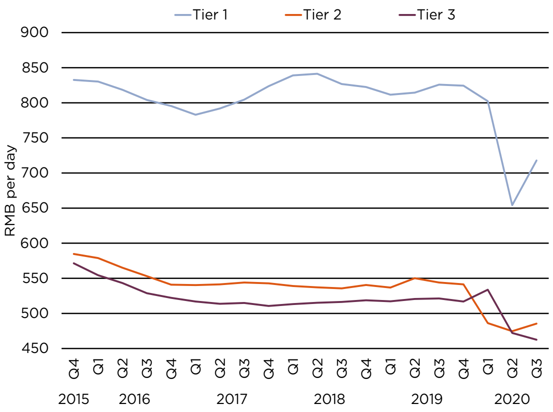
As much as is possible, hotels are moving online and onto social media. Hotels are still 'in-person' businesses, but the COVID-19 pandemic has forced operators to become increasingly clever in their promotions and revenue streams. One aspect of this change is the increasing number of live streamers that are cooperating with hotels in China. The live streamers, with large online followings, are utilising hotel's luxury interior decorations as a backdrop for their shows. For the hotels, this helps bring attention to their properties in the hopes that viewers—who get a free 'property tour'—will remember them when it comes time to travel. Additionally, hotels are showcasing other aspects of their properties, notably the F&B facilities, to serve their surrounding catchment areas; though they may not fill rooms, local populations can help support other revenue streams for hotels if the properties are unique or instagrammable enough.

Outside of online promotional activities, hotels in China are also upgrading their on-site technological capabilities. In some major hotels in China, visitors can go through the entire check-in process—from the lobby to their room—and never see hotel staff. A guest can arrive at the lobby to scan a QR code to check-in, leave their bags in the designated area for the staff to deliver later, go to their room and open the door with a QR code or electronic key. With COVID-19 effectively contained in the country, these measures may not be necessary or cost-effective for some hotels, but it provides an extra layer of security and privacy for more cautious guests.

Flexibility

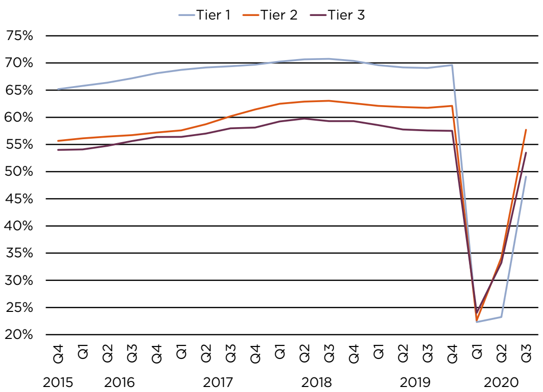
Flexibility in booking also proved to be

GRAPH 1: ADRs (4QMA) By City Tier, Q4/2015 to Q3/2020



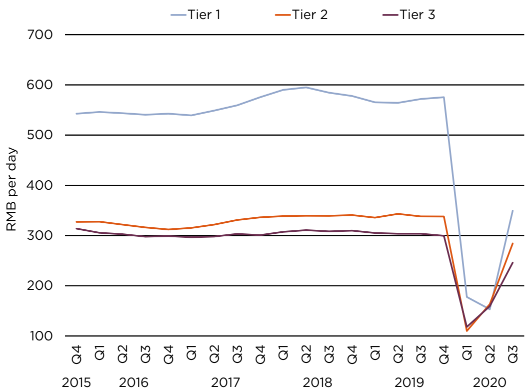
Source China Ministry of Culture and Tourism; Savills Research

GRAPH 2: Occupancy Rates (4QMA) By City Tier, Q4/2015 to Q3/2020



Source China Ministry of Culture and Tourism; Savills Research

GRAPH 3: RevPAR (4QMA) By City Tier, Q4/2015 to Q3/2020



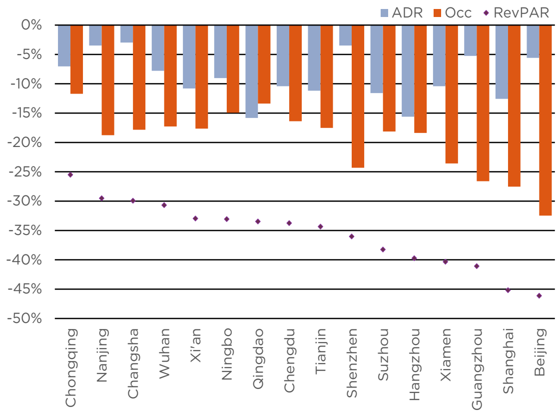
Source China Ministry of Culture and Tourism; Savills Research

TABLE 1: Top Five Chinese Cities' Five-star Hotel Metrics Ranked By ADR, Q3/2020

Cities	ADR (RMB)	Occupancy rate	RevPAR (RMB)
Beijing	773	32.1%	248
Shanghai	763	56.1%	428
Sanya	751	74.9%	562
Shenzhen	675	55.9%	378
Guangzhou	659	52.1%	334

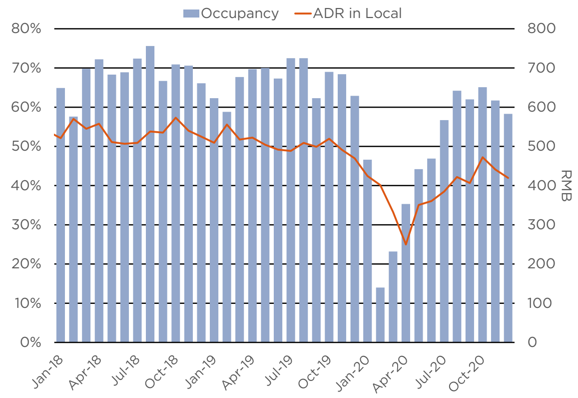
Source China Ministry of Culture and Tourism; Savills Research

GRAPH 4: Select First- And Second-Tier City Metrics 12-Month Average Versus Previous Three Years, Q3/2020



Source China Ministry of Culture and Tourism; Savills Research

GRAPH 5: China Monthly Occupancy And ADR, Jan 2018 to Dec 2020



Source STR; Savills Research

a key concern for hoteliers and tourists throughout 2020. With the uncertainty of when and where a COVID-19 outbreak might occur, travellers are now prioritizing flexibility and ease of room cancellations. Hotels, responding to market demand, offered free, short-notice cancellations to attract customers in a fierce market. This was reflected throughout the year when COVID-19 cases popped up in cities like Beijing in June, Shanghai in November and Chengdu in December, occupancy dropped quickly. Now, many travellers and event planners are unwilling to book unless it is easy for them to cancel their bookings and at a minimal cost. This has had a significant effect on hoteliers' ability to plan and forecast revenues and could well result in a wider market shift in hotel operations that last beyond COVID-19.

Travel Retail

In order to boost the domestic consumer market, the Chinese government issued an increase on duty-free quotas on July 1st, 2020 for the island province of Hainan. The tax-free quota increased from RMB30,000 to RMB100,000 per person per year, while tax-free categories expanded from 38 to 45, including electronic products and wine. With international travel practically non-existent, this policy proved wildly successfully—duty-free sales in Hainan exceeded RMB30 bn from Jan. 1st to Dec. 14th at the four duty-free stores on the island (at the time, two in Haikou, one in Qionghai and one in Sanya, though a further three have opened by the end of 2020). According to Haikou Customs, the four duty-free stores saw a total of 1.78 million customers and sold approximately 12.87 million units of duty-free merchandise, up 58.8% and 139.7% YoY, respectively.

Demand on the tropical island surged in 2H/2020. Hainan saw 9.6 million arrivals in October 2020, exceeding 2019's numbers by 3.1%. These arrivals were almost exclusively domestic as international passport holder numbers slumped 87%. Additionally, Sanya boasted the strongest hotel metrics of any city in the country in December 2020, with occupancy reaching above 80% and RevPAR at RMB929, according to STR.

INVESTMENTS

COVID-19 had a massive impact the domestic tourism industry in 1H/2020 and continues to plague the market despite the improving fundamentals in the last half of the year. 2020 is a low point for hotel transactions in China, with just RMB8.15 bn trading hands, the lowest level since 2013. China fell behind Japan (RMB17.4 bn) and Korea (RMB8.19 bn), accounting for just 17% of Asia Pacific sales. The hotel investments that did occur in China often involve limited service and extended stay properties, developments are sometimes converted to other uses including multifamily properties and offices. The most significant deal recorded in 2020 was the disposal of 442-key Shanghai Guoman hotel in Changfeng park by Guocco Land to Dahua Group for a reported RMB1.44 bn, the acquisition included 256 car parking units.

Despite a challenging start to 2020, a growing domestic tourism sector, a swift recovery in the domestic market, significantly improved infrastructure and continued government support could provide growth opportunities for correctly positioned projects. Moving forward, counter-cyclical investors may focus on boutique hotels in popular tourist areas such as Qiandaohu and Moganshan or resorts in Sanya and Badaling rather than chain hotels. As domestic tourism rebounds, investors will inevitably turn to hotels are underlying financial fundamentals improve.

OUTLOOK

Thanks to the swift lockdown at the beginning of the year and China's sizeable

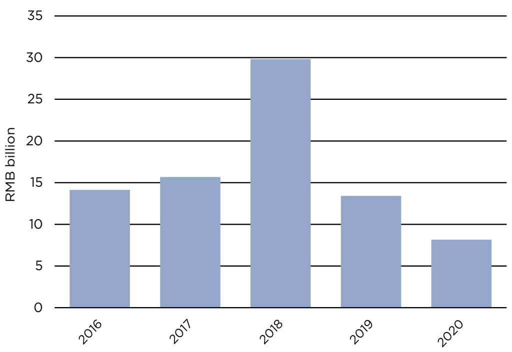
TABLE 2: China Five-star Hotel Key Metrics (Absolute) By City Tier, Q3/2020

	Q3/2020 ADR (RMB)	YoY	VS THREE-YEAR AVERAGE*	Q3/2020 AVERAGE OCCUPANCY RATE	YoY	VS THREE-YEAR AVERAGE	Q3/2020 REVPAR (RMB)	YoY	VS THREE-YEAR AVERAGE
First-tier	717.9	-8.5%	-7.2%	49.1%	-21.8 ppts	-22.0 ppts	349.5	-37.2%	-36.5%
Second-tier	485.5	-10.7%	-10.9%	57.7%	-8.8 ppts	-8.9 ppts	284.3	-21.9%	-22.3%
Third-tier	462.5	-13.4%	-12.8%	53.5%	-10.3 ppts	-11.4 ppts	246.1	-28.5%	-29.2%

*Vs three-year average: This indicator looks at the latest quarter's worth of data and compares it to the average of the same quarter in the three preceding years. For Q3/2020, the data is compared to the averages of Q3/2017, Q3/2018 and Q3/2019.

Source China Ministry of Culture and Tourism; Savills Research

GRAPH 6: China Hotel Transaction Consideration, 2016 to 2020



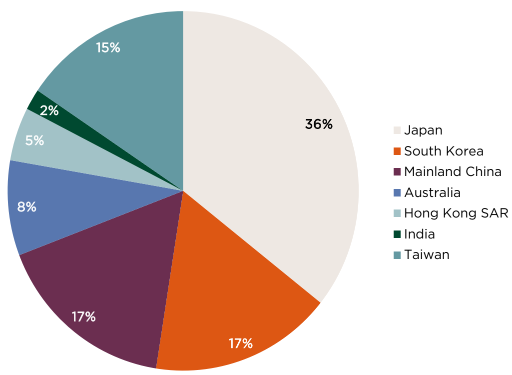
Source Real Capital Analytics; Savills Research

domestic market, international hotels in China are now carrying their counterparts in harder-hit countries. Despite the rollout of a COVID-19 vaccine, some are estimating that it could take until 2023 for international travel to return to pre-COVID levels, if they do so at all, so the China-dependency will likely continue for the foreseeable future.

However, 2021 is still likely to be a slow year compared to historical numbers due to surging virus cases around the country in the winter. Already, COVID-19 has severely curtailed travel plans for the Spring Festival (Feb. 11th to 17th) with the Ministry of Transport estimating around 1.152 billion trips in 2021, nearly 60% lower than that of 2019. So, hotel metrics are expected to dip in 1H/2021, though not as dramatically as in 2020 during the worst of the COVID-19 crisis. However, if 2020 is any guide, China's tourism market should recover quickly after a cold winter thanks to the vaccine rollout across the country and COVID cases dropping in-step.

Hainan will play an important role in the domestic tourism sector and luxury sales segment of the government's "Dual Circulation" policy. Hainan has grown its stable of duty-free stores to nine by the end of January 2021, adding three stores towards the end of 2020 and another two in the first month of 2021. The two projects completed in January include GDF Plaza in Mova Mall, Haikou by Hainan Development Holdings and Dufry, the other was Haikou Mission Hills by Shenzhen Duty Free Group and DFS. More locations are planned in the coming years. With tourism dollars diverted away from international destinations, retailers in Hainan will likely ride this inflow of spending to new heights in 2021. Outbound tourism's loss will be China's domestic hospitality market's gain.

GRAPH 7: Asia-Pacific Hotel Transactions By Consideration, 2020



Source Real Capital Analytics; Savills Research

TABLE 3: Hotel Metrics (Actual) And YoY Change, Dec 2020

Area	Occ.	YoY Change	ADRs (RMB)	YoY Change	RevPar (RMB)	YoY Change
China	58.3%	- 6.8 ppts	419	-8.9%	244	- 15.1%
Beijing	60.0%	-15.3 ppts	542	- 8.0%	325	- 22.1%
Shanghai	55.4%	- 17.1 ppts	497	- 16.7%	275	- 30.9%
Sanya	80.6%	4.5 ppts	1,152	42.4%	929	48.7%

Source STR; Savills Research