This report analyses the performance of Greater China's Hotel Market

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Greater China Hotel Report

May 2021

OVERVIEW

The COVID-19 pandemic has caused devastating disruption to the travel and hospitality industry across the world, leading to unprecedented economic and social consequences. In the face of the pandemic, most countries around the world imposed partial or complete border closures, with travel restrictions affecting the majority of the world's population.

China was the first country affected by the health crisis, so its hotel industry was the first to see the effect. With strict travel restrictions in various parts of Chinese mainland, the hotel business was badly shaken in the absence of inbound tourists in 2020. However, the impact among cities was uneven.

Because of the pandemic, the number of international visitor arrivals to Beijing plummeted by 91% YoY to 341,000 in 2020. As a result, the hotel industry was severely affected. In 2020, the average occupancy rate of five-star hotels in Beijing dropped significantly by 41.1 percentage points to 29.9%. The Average Daily Rate (ADR) plunged by 6.5% YoY to RMB850. On the whole, the hotel industry started to pick up in 2H 2020. Six luxury hotels were opened in Beijing in 2020, adding 1,692 rooms to Beijing's hotel market. The US-based Hilton Hotels continued its quick expansion in China even during the pandemic. The group opened two upscale hotels in Beijing in 2H 2020: the Hilton Beijing Daxing and the Hilton Beijing Tongzhou Beitou.

With no end in sight to the COVID-19 pandemic and the resumption of international cross-border tourism activity, the pandemic will continue to be a drag on business performance in the hotel industry in the Greater China region in 2021 and beyond.

In Shanghai, the number of international visitor arrivals decreased sharply from 8.9 million in 2019 to 1.3 million in 2020, a decline of 85.7% YoY. Business travellers made up the lion's share of total visitor arrivals because of the implementation of strict entry quarantine regulations. The average occupancy rate of five-star hotels in 2020 fell to the lowest level in the past 15 years, especially in February and March, with the figure dropping to single digits. It was also the first time in 15 years the ADR of five-star hotels dropped below RMB900. Despite the pandemic, seven luxury hotels opened in Shanghai in 2020, adding 1,491 guest rooms to the market. The local tourism market gradually rebounded in 2H 2020, boosting the recovery of the hotel sector.

Guangzhou received 2.1 million international overnight visitor arrivals in 2020, plummeting by 76.7% YoY, and total revenue for the tourism industry dropped by 39.9% YoY to RMB267.9 billion. The ADR of five-star hotels in Guangzhou dropped by 21.3% YoY to RMB629.4 in 2020. The occupancy rate in 2020 dropped by 14 percentage points to 61.2%. Three luxury hotels were opened in Guangzhou in 2020: the Southern Airlines Pearl Hotel, the Elegant Hotel, and the Guangzhou Aoyuan Sheraton Hotel. The domestic economy gradually recovered, and the pent-up desire to travel was released when the pandemic-related restrictions were eased.

Table 1. Economic indicators (2020)

	Beijing	Shanghai	Guangzhou	Shenzhen	Hong Kong	Macau	Taipei
GDP growth (YoY)	1.2%	1.7%	2.7%	3.1%	-6.1%	-56.3%	3.0%
GDP per capita	RMB167,640	RMB159,384	RMB 133,959	RMB205,898	HK$362,310	MOP 285,314	NT$837,742
Retail sales value (billion)	RMB1,371.64	RMB1,593.25	RMB 921.9	RMB 866.5	HK$326.5	MOP45.2	NT$4,639.2
Retail sales value growth (YoY)	-8.9%	0.5%	-3.5%	-5.2%	-24.3%	-41.5%	-0.5%
Foreign direct investment growth (YoY)	1.3%	6.2%	7.5%	11.8%	-34.4% (2019)	21.2% (2019)	-18.3%
Unemployemnt rate	5.2%	4.3%	2.5%	2.5%	5.5%	2.7% (Q4)	3.7%
Inflation	1.7%	1.7%	2.6%	2.3%	0.3%	0.8%	0.1%

Source: Local statistics departments / Knight Frank Research

Shenzhen's hotel industry was severely affected by the pandemic, with a massive drop in visitor arrivals. In 2020, the total number of international overnight visitors in Shenzhen fell by 90.1% YoY to 1.2 million. Despite the poor market, some luxury hotel brands maintained a positive long-term outlook. During the year, 13 new luxury hotels were opened in Shenzhen, providing an additional 3,209 rooms. Among these five-star hotels were The Renaissance Shenzhen Bay Hotel (293 rooms), The Hilton Garden Inn Shenzhen International Convention and Exhibition Center (407 rooms), and the Andaz Shenzhen Bay (220 rooms), a brand under the Hyatt Hotel Group. In 2021, two five-star hotels are expected to open in Shenzhen, the Shenzhen Conrad Hotel (298 rooms in total) and the W hotel, Shenzhen Jinsha Bay (350 rooms).

Hong Kong's inbound tourism collapsed in 2020 because of the pandemic. The city had only 1.4 million international overnight visitors, a significant plunge of 94.3% YoY. Amid the devastating market situation, some hotel operators in Hong Kong transformed their business models and accepted long-term rentals, while others considered converting their properties to other uses, such as coworking or residential space, to increase rental income. Given the poor market conditions, many hotel operators put their opening plans on hold. Only two new High Tariff A hotels opened in 2020 – The Hari Hong Kong (210 rooms) and The Sheraton Tung Chung (218 rooms). In 2021, three more High Tariff A hotels are scheduled to open – The Hotel Alexandra (840 rooms), The Silveri, MGallery by Sofitel (206 rooms) and the Regala Skycity Hotel (1,208 rooms).

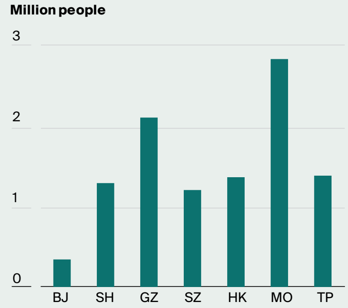
In Macau, the number of international inbound visitors plunged 85% YoY to 5.9 million in 2020. The city received only 2.8 million international overnight visitors, a sharp decrease of 84.9% YoY. In 2020, the overall five-star hotel occupancy rate was only 25.1%, and the ADR for five-star hotels was MOP1,351, a 17.8% drop YoY. Macau's overall market sentiment was weak in 1H 2020 because of the pandemic. But with the gradual relaxing of travel restrictions and removal of the mandatory quarantine requirement for Chinese tourists in 2H, Macau recorded a quarterly surge of 150.3% in visitor arrivals in Q4 2020.

However, amid the market uncertainty, several hotel projects that were originally scheduled to open in 2020 delayed their openings, including The Lisboeta Macau (820 rooms), The Grand Lisboa Palace (1,900 rooms), and the Galaxy Macau (3,000 rooms).

Taipei's tourism industry was severely hit with unprecedented challenges in 2020. According to the Tourism Bureau of Taiwan, international visitor arrivals to Taipei dropped significantly to 1.4 million in 2020, down 88.4% YoY as a result of border controls. The average occupancy rate of Taipei international tourist hotels fell to 38% from 75% in 2019, and ADR was down 25% YoY to NT$3,464. The total operating income of Taipei international tourist hotels in 2020 plummeted by 46% YoY to NT$32.2 billion. In 2020, despite the pandemic, three new luxury hotels opened, adding 621 rooms: the Hotel Indigo Taipei North (149 rooms), the Mitsui Garden Hotel Taipei Zhongxiao (297 rooms), and the Hotel Resonance Taipei (Tapestry Collection by Hilton) (175 rooms).

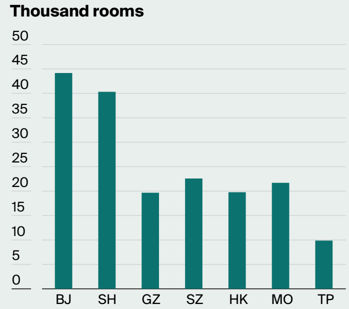
With no end in sight to the COVID-19 pandemic and the resumption of international cross-border tourism activity, the pandemic will continue to be a drag on business performance in the hotel industry in the Greater China region in 2021 and beyond. Nonetheless, we are cautiously optimistic about the outlook for hotel industry performance, as domestic leisure tourism, which restarted in Chinese mainland, has already provided good support for the recovery of the industry in the Mainland. In the post-COVID-19 era, fuelled by the expansion of China's middle class and the overall upgraded consumption capacity of Chinese consumers, we remain confident in the long-term outlook for the Greater China hotel industry.

Chart 1. International overnight visitor arrivals, 2020



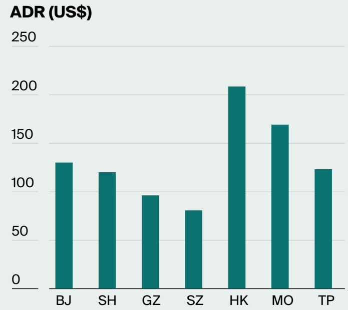
Source: Knight Frank Research

Chart 2. Five-star hotel stock, 2020



Source: Knight Frank Research

Chart 3. Five-star hotel room rate in 2020



Source: Knight Frank Research

> "The hotel sector globally is facing unprecedented challenges, as the travel restrictions and lockdown measures have resulted in a halt to international tourist arrivals. Nonetheless, on the back of the huge pent-up travel demand in the post-COVID era, coupled with the strong potential demand for both leisure and business travel generated by the Greater Bay Area initiative, the longer-term prospects for tourism in the Greater China region remain positive."
>
> **Martin Wong**
> Director, Head of Research & Consultancy, Greater China

No. of 5-star hotel rooms by 2020 (room)	New supply of 5-star hotel rooms in 2020 (room)	Average daily rate (ADR) in 2020	Hotel o ccupancy rate in 2020
44,163	**1,692**	**RMB 850** (-6.5% YOY)	**29.9%** (-41.1ppt)

OVERVIEW

As a result of travel restrictions around the world due to the COVID-19 pandemic, the number of visitor arrivals to Beijing dropped massively in 2020. The total number of inbound tourists plummeted by 91% year-on-year (YoY) to 341,000; and international tourism revenue was only US$480 million, a decrease of 90.8% YoY. There were 183.5 million domestic tourists in 2020, a decrease of 42.3% YoY, and total domestic tourism revenue was RMB288.1 billion, down 50.9% YoY. Due to the pandemic, during the Spring Festival in 2020, nearly 10,000 cultural activities were cancelled, and 9,000 cultural and entertainment venues and 181 tourist attractions were closed to reduce the risk of spreading COVID-19.

SUPPLY AND DEMAND

In 2020, six luxury hotels opened in Beijing, adding 1,692 rooms to Beijing's hotel market. All six new hotels are situated in non-core areas and opened in 2H 2020. At the end of December 2020, there were 44,163 luxury hotel rooms in Beijing.

With the completion of Beijing Daxing Airport, the ancillary facilities in the surrounding area have been gradually improved. In 2020, two luxury hotels opened in Daxing District. On 17 August, the Hilton Beijing Daxing was officially opened, filling the gap in the full-service international hotel market in Daxing District, promoting the construction of ancillary facilities and the business environment of Beijing Daxing International Airport. On 14 November, the Mumian, at Beijing Daxing International Airport, opened. Located in the finger corridor in the north, the hotel is only 300 metres away from the domestic arrivals hall on level two of the terminal.

The Hilton Beijing Tongzhou Beitou, which opened on 30 September 2020, is the first five-star hotel in Tongzhou District. The hotel features a unique location, convenient transport, and rich tourism resources in the surrounding area. With the opening of Universal Studio in 2021, Tongzhou District is expected to soon usher in a new era of tourism, providing huge opportunities for the hotel market. On 10 October 2020, the Narada Hotel opened. Located in Haidian District, the hotel is adjacent to natural and humanistic tourist attractions, including Yangtai Mountain and Phoenix Mountain, and Space Discovery Park.

As the hospitality and tourism industry was hit hard in 2020, demand for hotel accommodation was significantly reduced. By the end of the fourth quarter of 2020 (Q4 2020), the average occupancy rate of five-star hotels in Beijing decreased significantly by 41.1 percentage points to 29.9%. The Average Daily Rate (ADR) plunged by 6.5% YoY to RMB850. However, on the whole, with effective control of the epidemic, the tourism market started to pick up in 2H 2020. During the May Day Golden Week holiday, Beijing received 4.6 million tourists, bouncing back to 55% of that in the same period in 2019; and total tourism revenue was RMB4.18 billion, returning to 36% of that in the same period in 2019. During the National Day and Mid-Autumn Festival holidays in 2020, residents' desire to travel was strong. From 1 to 8 October, one million tourists visited the city, returning to 71.6% of the figure in the same period in 2019, and accumulated tourism revenue was RMB129 million, reaching 61.7% of that in the same period in 2019.

OUTLOOK

In 2021, seven five-star-rated hotels with a total of 2,566 guest rooms are expected to open in Beijing, including the Universal Studio Grand Hotel (800 rooms), the Nuo Resort Hotel (400 rooms), the Shangri-La Beijing Shougang (282 rooms), the Beijing Hilton Garden Inn (230 rooms, estimated by Knight Frank), the Hualuxe Beijing (380 rooms), the Prime Hotel Beijing (399 rooms), and the Beijing Qianmen Oriental Mandarin Hotel (75 rooms). It is estimated that Beijing will have 46,729 luxury hotel rooms in 2021.

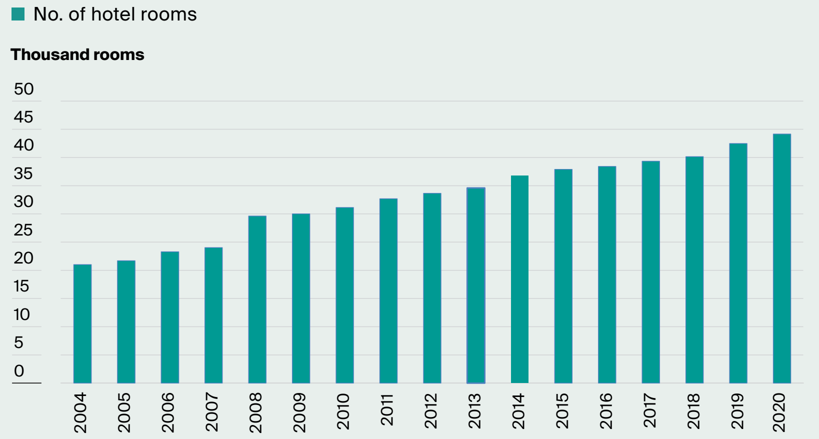
In the short term, although the spread of COVID-19 was gradually contained in China, the pandemic situation across the world is very negative. Therefore, domestic tourism is expected to remain the main driving force behind Beijing's hospitality and hotel industry in the next year, as international tourism still faces tremendous uncertainty.

According to the Key Working Points 2021, issued by the Beijing Municipal Bureau of Culture and Tourism, Beijing's hotel industry will enjoy vast opportunities in the mid to long term. First, the government will actively support "red tourism". Beijing will focus on the 100th anniversary of the founding of the Communist Party of China (CPC), taking advantage of the rich red tourism resources in Beijing, developing red tourism products and red tourism routes. This is expected to attract a large number of domestic tourists. Second, Beijing will develop Winter Olympics cultural tourism. For example, a series of Winter Olympics city cultural activities will be held, ice and snow cultural tourism routes will be developed, and a Beijing-Zhangjiakou sports cultural tourism belt will be constructed. Benefitting from the 2022 Winter Olympic Games, all these activities will attract more tourists from all over the world. In addition, Phase I of Beijing Universal Studio is almost completed and will start trial operations in May 2021. The opening of Beijing Universal Studio will inject new vitality into Tongzhou District and Beijing and drive the development of hotel industry to a new stage.

CHART 4. Beijing's international overnight visitor arrivals

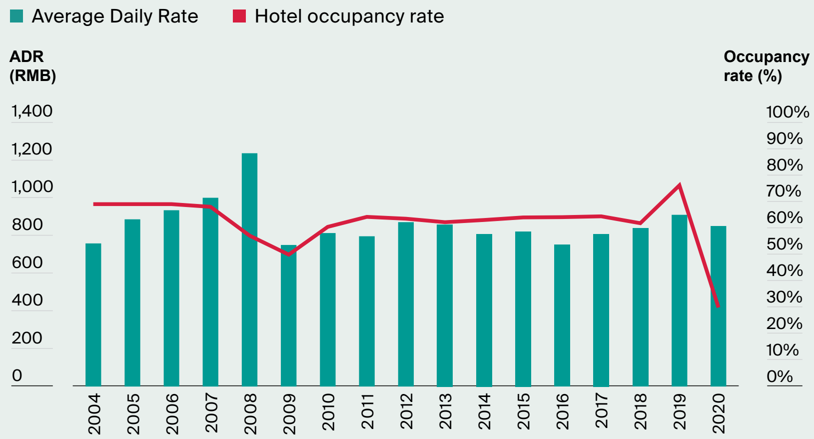
Source: Beijing Tourism Bureau / Knight Frank Research

CHART 5. Beijing's five-star hotel stock



Source: Beijing Tourism Bureau / Knight Frank Research

CHART 6. Beijing's five-star hotel performance



Source: Beijing Tourism Bureau / Knight Frank Research

No. of 5-star hotel rooms by 2020 (room)	New supply of 5-star hotel rooms in 2020 (room)	Average daily rate (ADR) in 2020	Hotel occupancy rate in 2020
40,316	1,491	RMB 785 (-18.1% YoY)	37.8% (-30.6 ppt)

OVERVIEW

As a result of the COVID-19 pandemic, the number of international business travellers and tourists in Shanghai decreased sharply to 1.3 million in 2020, a drop of 85.7% YoY. The number of overseas visitors dropped 88% YoY to 830,010, and the number of visitors from Hong Kong, Macao and Taiwan dropped 77.8% YoY to 456,100. In 2020, business travellers made up the lion's share of total overseas visitors because of the implementation of strict entry quarantine regulations.

The unexpected outbreak caused a tremendous disruption to the tourism and hotel industries. According to government statistics, the occupancy rate for five-star rated hotels in 2020 fell to the lowest level in the past 15 years, especially in February and March, when the occupancy rate dropped to single digits. It was the first time in 15 years the Average Daily Rate (ADR) of five-star rated hotels dropped below RMB900.

However, thanks to quick and efficient virus prevention and control measures, the pandemic's influence on Shanghai's economy gradually tapered off. In the second half of 2020, domestic trips in China during the holidays increased significantly. As an important tourist city, Shanghai's hotel sector showed obvious signs of recovery.

SUPPLY AND DEMAND

In 2020, seven luxury hotels were opened in Shanghai, adding 1,491 guest rooms to the market. At the end of 2020, the number of luxury guest rooms in Shanghai totalled 40,316, up 4% YoY. Because of the pandemic, many hotel investors delayed new hotel openings. Therefore, fewer hotels were opened in 2020 than in any year since 2016. The new luxury hotels were located mainly in areas with strong accommodation demand from tourists and business travellers, such as Shanghai International Resort, the Lingang Special Area and the Hongqiao CBD.

In January 2020, Narada Hotel, of Narada Hotel Group, opened. Located in the core area of Shanghai International Resort, the 234-room hotel was the only luxury hotel that opened in the first half of 2020 in Shanghai. With the effective prevention and control of COVID-19 in the second half of 2020, the hotel sector witnessed some new openings of luxury hotels in Shanghai. The Grand Mercure Hotel Lingang Shanghai, located in the Lingang Special Area, was opened in September 2020. Managed by Accor Group, this luxury hotel added 212 rooms to the market. In November 2020, the Crowne Plaza Shanghai Hongqiao, managed and operated by InterContinental Hotels Group, opened. The hotel has 330 rooms and is located in the core area of the Hongqiao CBD, adjacent to the Hongqiao transportation hub.

Owing to the pandemic, accommodation demand dropped to the freezing point, and the occupancy rate and gross revenue fell off a cliff in the first half of 2020. The overall occupancy rate of five-star rated hotels in 2020 dropped significantly by 30.6 percentage points to 37.8%, and the ADR of five-star rated hotels in Shanghai decreased 18.1% YoY to RMB785.

The local tourism market gradually rebounded in the second half of 2020, boosting the recovery of the hotel sector. Shanghai Disney Resort reopened on 11 May, making it the first reopened Disney Resort in the world in 2020. It is estimated that Shanghai

International Resort received 14 million visitors in 2020, bouncing back to 80% of that in 2019. During the National Day and Mid-Autumn Festival holidays, Shanghai received 8.8 million tourists and generated tourist revenue of RMB13.5 billion, picking up to 75% and 80% of the 2019 figures, respectively. From 1 to 7 October, the occupancy rate of hotels in Shanghai reached 66%, 16 percentage points higher than that in the same period in 2019. In December, the occupancy rate in Shanghai's five-star rated hotels rose to 47%, an increase of 15.5 percentage points, from 31.5% in June.

OUTLOOK

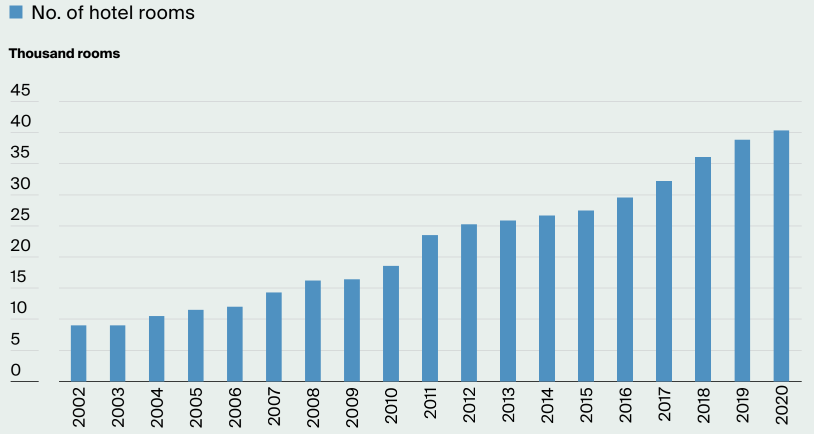
Shanghai's measures to contain the spread of COVID-19 gave confidence to domestic and international investors and hotel operators in China's hotel and tourism market, and many international hotel groups chose to expand against the trend in the Shanghai market. Twelve hotels with over 3,000 rooms are scheduled to open in 2021. New hotels that have confirmed that they will open include the JW Marriott Shanghai Fengxian in the Oriental Beauty Valley (265 rooms), the Westbund Hotel Shanghai (219 rooms) in Xuhui Binjiang, the J Hotel (258 rooms) in Shanghai Tower, and the Shangri-la Hotel in Qiantan (604 rooms) in Pudong. In the next few years, several theme parks are scheduled to open, including Wintastar in Lingang (2022), Lego Land in Jinshan (2024), Discovery Theme Park in Baoshan, and the Shanghai Disney Resort Expansion Project.

The impact of the COVID-19 pandemic on Shanghai's economy has tended to be limited, given the effective control measures. Driven by demand from domestic tourists, the tourism sector's recovery exceeded market expectations. We expect that both the tourism and hotel markets will recover in a stable manner. Looking ahead, the occupancy rate of Shanghai's hotel market in 2021 is expected to increase by 5 to 8 percentage points YoY, while the ADR is expected to remain stable or increase slightly. Demand will be mainly from business travellers and local tourists.

CHART 7. Shanghai's international overnight visitor arrivals

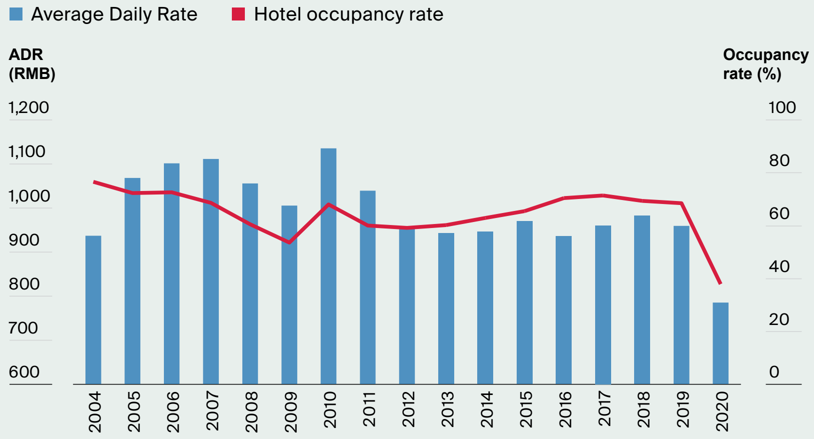
Source: Shanghai Municipal Tourism Administration / Knight Frank Research

CHART 8. Shanghai's five-star hotel stock



Source: Shanghai Municipal Tourism Administration / Knight Frank Research

CHART 9. Shanghai's five-star hotel performance



Source: Shanghai Municipal Tourism Administration / Knight Frank Research

GUANGZHOU

No. of 5-star hotel rooms by 2020 (room)	New supply of 5-star hotel rooms in 2020 (room)	Average daily rate (ADR) in 2020	Hotel occupancy rate in 2020
19,667	1,362	RMB629 (-21.3% YoY)	61.2% (-14ppt)

OVERVIEW

Guangzhou's economy remained stable amidst the COVID-19 outbreak and the volatile external environment. Guangzhou's Regional GDP grew by 2.7% YoY, reaching RMB2,501.9 billion in 2020, ranking second among the four first-tier cities.

The tourism industry in Guangzhou was badly affected by the pandemic. According to the Guangzhou Bureau of Statistics, in 2020, the number of international overnight visitors plummeted by 76.7% YoY to 2.1 million, and total revenue from tourism industry dropped by 39.9% YoY to RMB267.9 billion.

However, Guangzhou's role as one of the most important transportation hubs in the Greater China region was not undermined by the pandemic. Annual passenger throughput in Guangzhou Baiyun International Airport ranked first in the world in 2020, reaching 43.8 million, exceeding that of Hartsfield-Jackson Atlanta International Airport. The third phrase of the expansion plan of Guangzhou Baiyun International Airport has remained on schedule to meet the growing need for transportation in the Greater Bay Area.

Impacted by the COVID-19, some developers with high-end hotel projects on the outskirts of Guangzhou were eager to sell off their projects to maintain sufficient cash flow. However, several high-end hotel brands were still looking for expansion in Guangzhou, with Zhujiang New Town the preferred choice. Developers also prioritised newly developed districts such as Pazhou and Scientific City, Luogang for their projects. Also, some landlords of office buildings in the emerging CBDs chose to cooperate with high-end hotel brands to diversify the usage of space in their properties.

SUPPLY AND DEMAND

In 2020, three luxury hotels opened in Guangzhou, adding 1,362 rooms to the local hotel market. By the end of 2020, there were a total of 19,667 high-end hotel rooms in Guangzhou, an increase of 7.4% YoY.

The Southern Airlines Pearl Hotel, which opened in January 2020, offers 701 rooms and suites. It is located in the core area of the Guangzhou Airport Economic Zone, near Guangzhou Baiyun International Airport and the Guangzhou Aerotropolis Development District.

The Elegant Hotel, which opened in June 2020, is located in Tiande Plaza, a new business and entertainment landmark in Guangzhou. The hotel offers 387 rooms and suites. It is the first signature, high-end hotel project from the Mehood Hotel Group in Guangzhou.

The Sheraton Guangzhou Panyu Hotel, which opened in August 2020, is located next to the Aoyuan International Center, which is in the heart of the Wanbo CBD of Panyu district. The China Aoyuan Group invested in the hotel, and it is operated by Marriott International Hotel Group. It offers 274 rooms and is the first international hotel brand to operate in Panyu.

Owing to COVID-19 pandemic, the Average Daily Rate (ADR) of five-star hotels in Guangzhou dropped by 21.3% YoY to RMB629.4 in 2020. The average occupancy rate in 2020 dropped by 14 percentage points to 61.2%. Once the COVID-19 situation improved in mid-2020, the local hotel industry started to recover, along with five-star hotels in Guangzhou, with the growing number of domestic travellers.

OUTLOOK

Two more new luxury hotels are scheduled to open in 2021, the Kempinski Hotel (261 rooms) in Yuexiu district, one of the oldest CBDs in Guangzhou, and the Narada Hotel (316 rooms) in Huangpu, which is known as the second CBD of Guangzhou. With these two new hotels, 557 extra luxury hotel rooms will be added to the hotel market, bringing the total number of available luxury hotel rooms to 20,244.

The Evergrande Cultural Tourism City in Nansha was one of the key development projects in Guangdong Province in 2020. With an investment value of RMB20 billion, the project covered a construction area of 967 acres (3.9 million sqm), including a 783-acre (3.1 million sqm) amusement park. Upon its completion, it will be the first amusement park project in Nansha. It is expected to drive the number of overnight visitors and demand for hotel rooms for the local market in the long run.

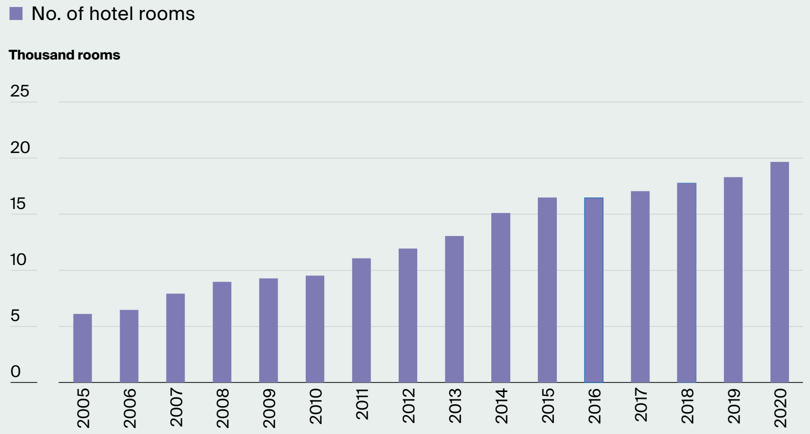
The 14th "Five-year Plan" of Guangdong province was announced in December 2021. Highlighted in the plan were emerging businesses districts in Guangzhou, like Nansha, Pazhou, and the Sino-Singapore Guangzhou Knowledge City project. The establishment and development of new districts are expected to increase demand for hotel rooms from business visitors.

Despite the short- and medium-term impact of the pandemic, Guangzhou's hotel industry will be supported by various positive factors, including policies emphasising domestic consumption as a national strategic plan, and the further containment of the coronavirus with the successful launch of vaccines. As the domestic economy has gradually recovered, and pent-up demand for travel has been unleashed with the easing of COVID-related restrictions, the overall market for high-end hotels in Guangzhou is expected to improve in 2021.

CHART 10. Guangzhou's international overnight visitor arrivals

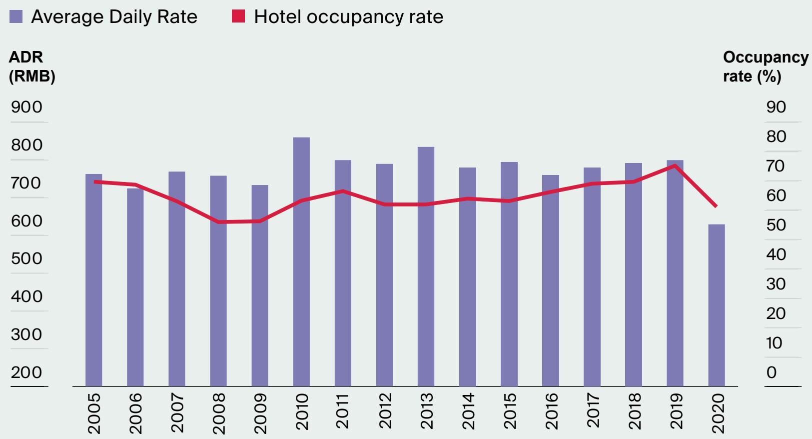
Source: Guangzhou Tourism Bureau / Knight Frank Research

CHART 11. Guangzhou's five-star hotel stock



Source: Knight Frank Research

CHART 12. Guangzhou's five-star hotel performance



Source: Knight Frank Research

No. of 5-star hotel rooms by 2020 (room)	New supply of 5-star hotel rooms in 2020 (room)	Average daily rate (ADR) in 2020	Hotel occupancy rate in 2020
22,588	**3,209**	**RMB528** (-29.9% YoY)	**61%** (-13.3 ppt)

OVERVIEW

Despite the COVID-19 pandemic and external uncertainties, Shenzhen demonstrated its resilience to the mounting pressure with positive results. Its gross domestic product (GDP) grew by 3.1% YoY, reaching RMB2.77 trillion in 2020, ranking first among top-tier Chinese metropolises in terms of GDP growth rate.

Shenzhen's tourism industry suffered significantly during the pandemic. In 2020, the total number of international overnight tourists in the city dropped by 90.1% YoY to 1.2 million. The number of passengers using Shenzhen Baoan International Airport dropped by 28.4% YoY to 37.9 million, but its passenger throughput for the entire year remained third-highest in China, after Shanghai Pudong International Airport and Guangzhou Baiyun International Airport.

Notwithstanding the poor market conditions, some luxury hotel brands maintained a positive long-term market outlook. Some operators with existing hotel properties in the city were still seeking potential new proprieties to expand their portfolios. As Nanshan District in Shenzhen is promoted as a cluster for various industries and headquarters under the government's supporting policy, the district has become an important location for many high-end hotel brands when they consider setting up new hotel projects.

While the entire luxury hotel industry was hit hard by the pandemic, some hotel operators reported that in mid-2020, with the release of pent-up demand from domestic tourism, the high-end hotel market in Shenzhen gradually recovered.

SUPPLY AND DEMAND

During 2020, 13 new luxury hotels opened in Shenzhen, providing an additional 3,209 rooms: the Andaz Shenzhen Bay Hotel, the Crowne Plaza Shenzhen WECC, the Renaissance Shenzhen Bay Hotel, the Crowne Plaza Shenzhen Nanshan, the Hilton Garden Inn Shenzhen WECC, the Genpla Hotel Shenzhen NanShan, the Hamps Hotel, the ICON LAB Hotel Shenzhen Futian, the Atour S Hotel Nanshan Shenzhen, the Grand Mercure Nanshan Shenzhen, the Kyushu Joycheng Hotel, the Haituo Shenzhenair Sky Park, and the ICON LAN Hotel Shenzhen Sea World. At the end of 2020, the total number of luxury hotel rooms increased by 16.5% YoY to 22,588.

The Renaissance Shenzhen Bay Hotel, which opened in October 2020, is located in the centre of Nanshan Science and Technology Park. It has 293 rooms and suites and is the 16th hotel of the Marriott International Group in Shenzhen.

The Hilton Garden Inn Shenzhen International Convention and Exhibition Center, adjacent to the Shenzhen International Exhibition and Convention Center, was opened in December 2020, with 407 rooms and suites. It is the second Hilton Garden Inn hotel in Shenzhen and has the highest number of rooms of all Garden Inn hotels.

The Andaz Shenzhen Bay Hotel, under the Hyatt Hotel Group, was opened in December 2020. This 220-room hotel is the third Andaz Hotel in the Chinese mainland. The project is located in the centre of the Shenzhen Houhai Financial Headquarters Base, right next to landmarks such as the China Resource Tower and the MixC shopping mall.

Owing to the impact of the Covid-19 pandemic, the Average Daily Rate (ADR) of five-star hotels in Shenzhen dropped by 29.9% YoY to RMB528 in 2020, and the occupancy rate of Shenzhen's five-star hotels dropped drastically by 13 percentage points YoY to 61%.

OUTLOOK

In 2021, two five-star hotels are expected to open in Shenzhen, the Shenzhen Conrad Hotel (298 rooms), located in the CBD of Shezhen Qianhai, and the W hotel, Shenzhen Jinsha Bay (350 rooms), in Kaisa International Resort. With the opening of those two hotels, offering approximately 648 more high-end hotel rooms, there will be about 23,236 high-end hotel rooms in the market.

Kaisa's Jinsha Bay International Resort, the largest coastal resort in Shenzhen, is expected to be partially opened in 2021. The project will cover about 1.5 million sqm, including five different theme parks, with themes such as Ice and Snow, Aquarium and the Future. There will also be ecological parks, costal sidewalks, and various other attractions. Upon completion, the resort park is expected to attract both local and international tourists to Shenzhen.

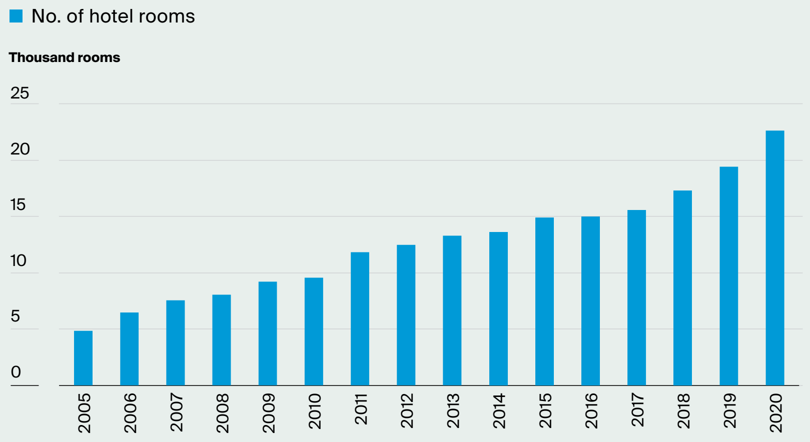
In October 2020, the General Office of the Central Committee of the Communist Party of China issued and released the "Implementation Plan for the Comprehensive Reform Pilot Program of Building a Pilot Demonstration Zone of Socialism with Chinese Characteristics in Shenzhen (2020-2025)". The plan reinforces Shenzhen's role as a pilot for business at the national strategic level. Therefore, it may further promote the development of high-end, high-tech industries in Shenzhen, such as finance, commerce and technology, and attract more business visitors to Shenzhen.

In 2021, as the COVID-19 pandemic is gradually getting under control in China, along with government policy support and the opening of the large-scale tourism attractions, the tourism market in Shenzhen is expected to continue to recover, with demand from business travellers and medium and long-distance travellers. These positive indicators are promising factors that will continue to promote a significant recovery for the high-end hotel industry in Shenzhen.

CHART 13. Shenzhen's international overnight visitor arrivals

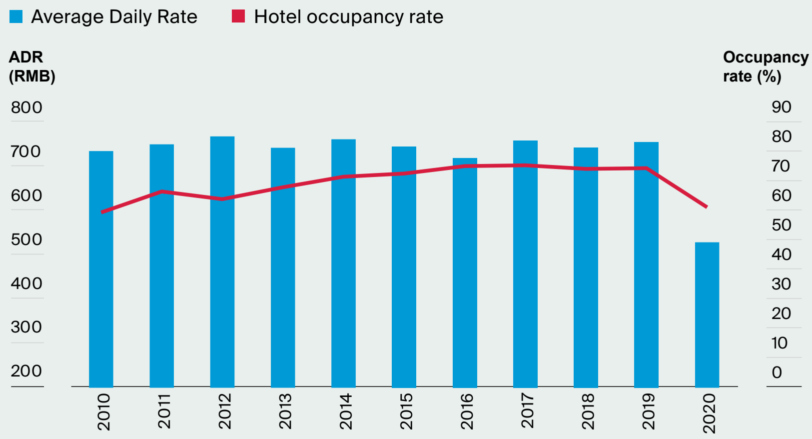
Source: Shenzhen Tourism Bureau / Knight Frank Research

CHART 14. Shenzhen's five-star hotel stock



Source: Knight Frank Research

CHART 15. Shenzhen's five-star hotel performance



Source: Knight Frank Research

HONG KONG

No. of 5-star hotel rooms by 2020 (room)	New supply of 5-star hotel rooms in 2020 (room)	Average daily rate (ADR) in 2020	Hotel occupancy rate in 2020
19,766	**428**	**HK$1,617** (-18.4% YoY)	**24%** (-50 ppt)

OVERVIEW

Hong Kong's inbound tourism collapsed after the COVID-19 outbreak. With the rigorous border restrictions since March 2020, which prohibited the entry of non-Hong Kong residents, tourists basically disappeared. As a result, Hong Kong received only 1.4 million international overnight visitors in 2020, compared to 23.8 million in 2019, a drop of 94.3% year-on-year (YoY), according to the Hong Kong Tourism Board. Visitors from the Chinese mainland, which constituted 65% of the total visitor arrivals, also dropped significantly by 94.5% YoY to 884,985.

Amid the devastating market situation, hotel operators in Hong Kong struggled to remain afloat. In the absence of inbound tourism, many hotel operators had to readjust their business models and switch their focus to local residents. Some hotels took the opportunity to accommodate people who were required to quarantine. After a government assessment, 30 hotels were shortlisted to provide about 8,300 rooms for people arriving in Hong Kong from places outside China for quarantine purposes. As a strategy to boost occupancy, many hotel operators offered staycation packages with cut-throat discounts to provide local residents with a local vacation alternative.

Some hotels adjusted their business models to accept long-term guests or offer long-stay packages. They offered monthly-rental packages at a competitive rate compared to the private residential leasing market. Although the rates are much lower than the daily rates, they help fill rooms and generate stable income.

While some operators temporarily suspended their businesses to reduce losses, others grabbed the opportunity to renovate or rebrand their hotels, which will allow them to raise their Average Daily Rate (ADR) in the long run. One example is the InterContinental Hotel, in Tsim Sha Tsui, which stopped its hotel operations in April 2020 for a large-scale renovation. It will be rebranded as the Regent Hong Kong when it reopens in 2022. Another example is the Prince Hotel, which closed in February 2020 and plans to reopen as the Marco Polo Prince Hotel in 2021 after a full 15-month renovation. A third example is the Four Seasons Hotel, which commenced a major enhancement plan in October 2020, including the redesign of all hotel guestrooms by phases and the refurbishment of the hotel lobby. The hotel aims to unveil the new experience for its hotel guests in Spring 2021.

A number of hotel properties had to find alternative sources of income, including converting their property to other uses. Some examples include Kerry Hotel's collaboration with theDesk, leasing 6,600 sq ft to the co-working company. Tang's Living Group leased its rooms as working area during day, providing office facilities, meeting rooms, and complimentary lunch and afternoon tea. Some hotel operators converted their properties into residential buildings, as there is no recovery in sight for the tourism industry. Some recent cases include the Horizon Suite Hotel, in Ma On Shan, and the Novotel Nathan Road, Kowloon. Their applications for conversion to residential use were approved by the Town Planning Board in March 2021.

SUPPLY AND DEMAND

Given the poor market outlook, many hotels with plans to open in 2020 have seen delays. Only two new High Tariff A hotels opened in 2020, The Hari Hong Kong in Wan Chai, with 210 rooms, and The Sheraton Tung Chung (218 rooms). As at the end of 2020, the total stock of High Tariff A hotel rooms reached 19,766.

As overnight visitor arrivals plunged, in 2020, the occupancy rate of hotels plummeted 50 percentage points YoY to 24% for High Tariff A hotels and 34 percentage points to 45% for High Tariff B hotels. The occupancy rate of Medium Tariff hotels dropped 20 percentage points to 62%.

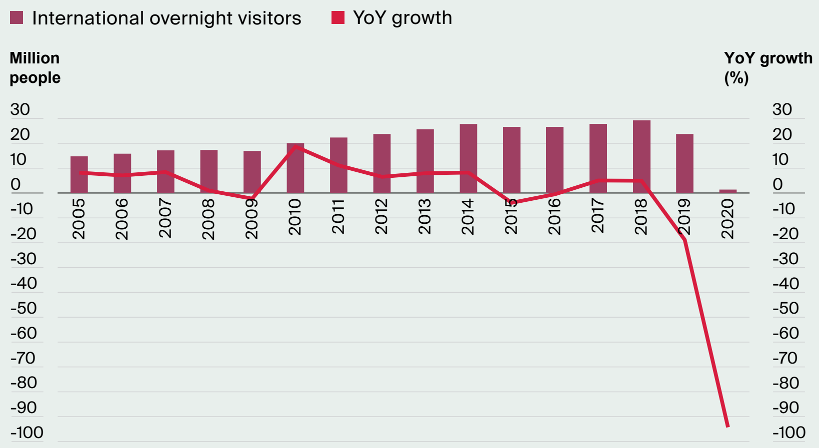
The ADR of High Tariff A hotels plunged 18.4% YoY to HK$1,617. In other hotel categories, the drop in ADR was more significant. The ADR of High Tariff B and Medium Tariff hotels fell 38.7% and 32.3% YoY, respectively, to HK$608 and HK$436.

OUTLOOK

In 2021, three High Tariff A hotels are scheduled to open, providing about 2,300 rooms: Hotel Alexandra (840 rooms) in North Point, The Silveri, MGallery, by Sofitel (206 rooms) in Tung Chung, and the Regala Skycity Hotel (1,208 rooms) in SKYCITY, Chek Lap Kok. The total stock of High Tariff A hotel rooms will reach about 21,500 by the end of the year.

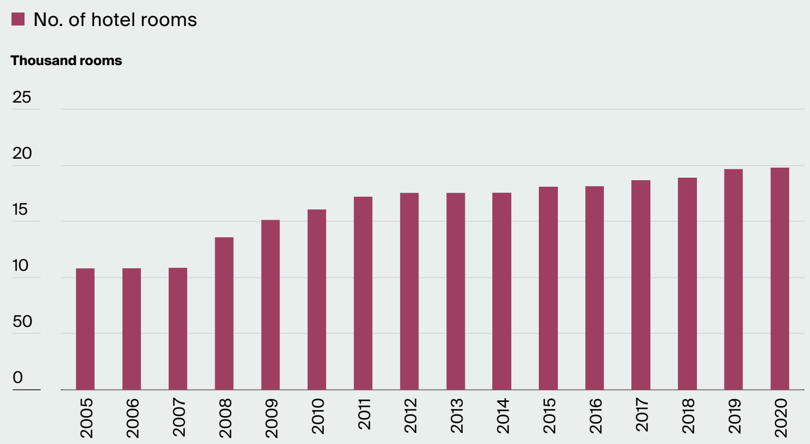
Given the lingering impact of the pandemic, the hotel market is still facing mounting challenges. Until the border reopens, hotel operators will continue to rely on local demand, given the lack of tourists. The occupancy level and ADR of High Tariff A hotels are expected to remain at low levels in 2021, given limited domestic demand. However, in the longer-term, the pent-up demand for travel from both international and business travellers is expected to support a U-shaped recovery and the revival of the hotel industry in Hong Kong.

CHART 16. Hong Kong's international overnight visitor arrivals



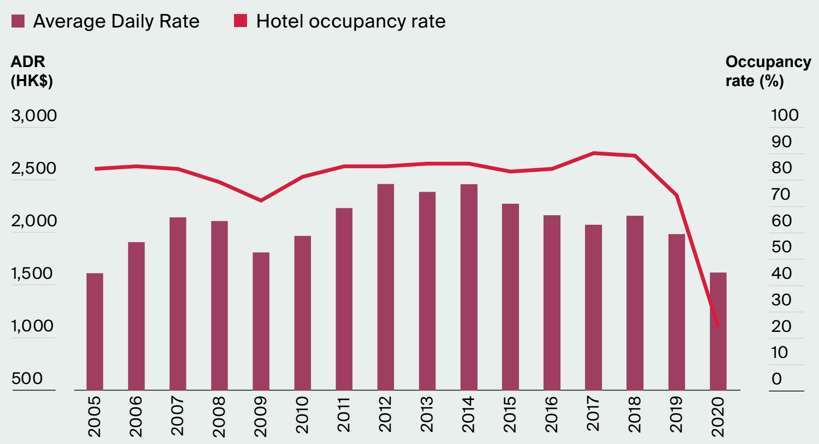
Source: Hong Kong Tourism Board / Knight Frank Research

CHART 17. Hong Kong's high tariff A hotel stock



Source: Hong Kong Tourism Board / Knight Frank Research

CHART 18. Hong Kong's high tariff A hotel performance



Source: Hong Kong Tourism Board / Knight Frank Research

MACAU

No. of 5-star hotel rooms by 2020 (room)	New supply of 5-star hotel rooms in 2020 (room)	Average daily rate (ADR) in 2020	Hotel occupancy rate in 2020
21,700	0	MOP1,351 (-17.8% YoY)	25.1% (-67.2 ppt)

OVERVIEW

The coronavirus pandemic impacted the tourism industry across the world, and Macau was no exception. According to the Statistics and Census Service of Macau SAR government, the number of inbound visitors plunged 85% year on year (YoY) to 5.9 million in 2020. Visitors from Chinese mainland accounted for 80.6% of overall visitor arrivals. In 2020, Macau had 2.8 million international overnight visitors, a sharp decrease of 84.9% YoY. The number of package tour visitors dropped 96.8% YoY to 262,500. Despite the drastic fall in visitor arrivals, the average length of stay of visitors increased slightly by 0.2 days to 1.4 days.

Macau's hotel sector suffered severely from the collapse of inbound tourist arrivals. In 2020, the overall five-star hotel occupancy rate was only 25.1%, while the Average Daily Rate (ADR) for five-star hotels was MOP1,351, a drop of 17.8% YoY. Amid the pandemic, Macau's casinos had to shut down for two weeks in February 2020, resulting in a sharp decline in gambling revenue.

Macau's overall market sentiment was weak in 1H 2020 due to the COVID-19 outbreak. However, with the gradual relaxing of travel restrictions and the removal of the mandatory quarantine requirement for Chinese mainland tourists in 2H, Macau recorded a quarterly surge of 150.3% in visitor arrivals in the fourth quarter of 2020 (Q4 2020), and the average length of stay of visitors went up by 0.3 day YoY to 1.5 days.

SUPPLY AND DEMAND

As at the end of December 2020, 120 hotels were in operation, about 61.8% of which were five-star hotels. There were a total of 35,100 guest rooms in the market, down 8.2% YoY.

Over the same period, there were 17 new hotel projects under construction, which will add an additional 8,607 guestrooms to the local market, according to statistics from the Land, Public Works and Transport Bureau. Twenty hotel projects were in the design stage, involving 2,268 rooms.

Amid the global pandemic and economic uncertainty, several hotel projects that were originally scheduled to open in 2020 delayed their openings, including The Lisboeta Macau (820 rooms), The Grand Lisboa Palace (1,900 rooms), and the Galaxy Macau (3,000 rooms). The Lisboeta Macau comprises three hotel brands, the Lisboeta Hotel, the Maison L'occitane Hotel, and the LINE Friends Casa d'Amigo. Another large-scale hotel project – The Grand Lisboa Palace – also comprises three hotel brands: the Grand Lisboa Palace, the Palazzo Versace and the Karl Lagerfeld. The opening dates have yet to be confirmed.

The launch date of Phase 3 and 4 of the Galaxy Macau is also expected to be delayed. For Phase 3, which comprises The Andaz Macau Hotel (700 rooms), Raffles Hotel (450 suites), a 16,000-seat arena and approximately 40,000 sqm of MICE space and casino area, the launch date will be push back from 1H to 2H 2021.

OUTLOOK

In 1Q 2021, Sands China Ltd unveiled a large-scale luxury hotel, the Londoner Macao (600 suites), on the Cotai Strip, in February 2021. Representing an investment of US$1.9 billion (MOP 15.2 billion), The Londoner Macao will continue to introduce additional integrated resort offerings by phrases throughout 2021, including the Suites by David Beckham, Londoner Court, a luxury residential-style all-suite hotel, the re-themed Shoppes at Londoner, and the Londoner Arena.

Dampened by a sharp plunge in overall visitor arrivals, Macau's tourism, gambling and hospitality industries were all under heavy pressure in 2020. On the positive side, the city's coronavirus situation was quickly brought under control, leading to a fast recovery in visitor arrivals in Q4 2020, when Macau announced that tourist visas would be reinstated for Chinese visitors starting in September 2020.

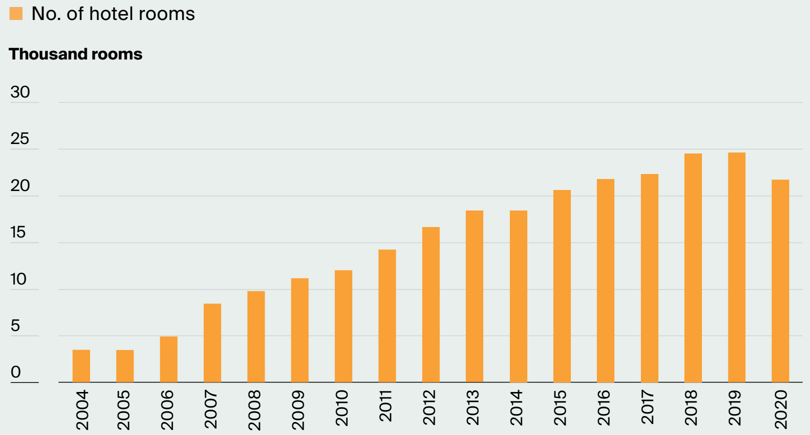
Macau's Chief Executive, Mr. Ho Iat Seng, delivered his Policy Address for the Fiscal Year 2021 in November 2020. His address pointed out the need to promote stable and healthy development of the gaming industry, and to commence work on new gaming concessions. With regard to a modern services sector, Mr. Ho said that Macao had a well-developed hotel industry with advanced management systems. He expected Macau to enjoy tremendous opportunities under the Greater Bay Area initiative.

Looking ahead, local market sentiment is expected to improve, given the stabilized pandemic situation in Macau and the government's relief measures, which helped boost local businesses and the economy. With the easing of travel restrictions and relaxation of visa policies for Chinese mainland visitors, the tourism industry has already shown signs of recovery. The number of visitors recorded a monthly increase of 76.7% to 754,541 in March 2021. The number of visitors is expected to gradually increase, and the momentum of the hospitality and tourism sector is expected to pick up.

CHART 19. Macau's international overnight visitor arrivals

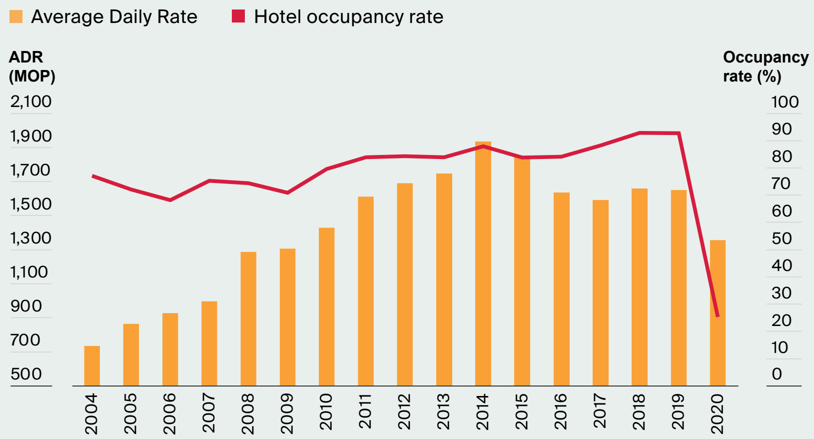
Source: Macau DSEC / Knight Frank Research

CHART 20. Macau's five-star hotel stock



Source: Macau DSEC / Knight Frank Research

CHART 21. Macau's five-star hotel performance



Source: Macau Hotel Association / Knight Frank Research

No. of 5-star hotel rooms by 2020 (room)	New supply of 5-star hotel rooms in 2020 (room)	Average daily rate (ADR) in 2020	Hotel occupancy rate in 2020
9,867	**492**	**NT$3,464** (-25% YoY)	**38%** (-37 ppt)

OVERVIEW

Against the backdrop of Taipei's successful approach to the COVID-19 pandemic, the city became Asia's top-performing economy in 2020, outstripping the other three big economies in the region – Singapore, South Korea, and Hong Kong. Taipei's economy achieved a growth rate of 2.9% in 2020, attributable mostly to the semiconductor and manufacturing industries. Despite the overall economic stability, the local tourism and hotel sectors was badly affected because of the frozen inbound tourism.

According to official statistics, visitor arrivals to Taipei dropped significantly to 1.4 million in 2020, down 88.4% YoY as a result of the border controls. Of these, 34% were from New Southbound countries, 20% were from Japan, 13% were South Korean nationals, 13% came from Hong Kong and Macau, and 8% were from the Chinese mainland. In short, the tourism industry was severely hit with unprecedented challenges in 2020.

For hotels in Taipei City, 2020 was the toughest year in recent history. The average occupancy rate of Taipei international tourist hotels fell to 38% from 75% in 2019, and the Average Daily Rate (ADR) was down 25% YoY to NT$3,464. The total operating income of Taipei international tourist hotels in 2020 plummeted by 46% YoY to NT$32.2 billion, with room income decreasing by 70%, and food and beverage income declining by 25%. The number of employees dropped by 10%.

At the beginning of the outbreak, large-scale events and gatherings, such as exhibitions and sports events, were completely cancelled and banned in Taipei, so shopping malls and restaurants saw a drastic decline in patronage. Most companies adopted a remote work strategy, which allowed employees to work from home, and banned domestic business trips. As a result, hotel reservations in Taipei City were cancelled completely, causing extremely low hotel occupancy. To cope with the predicament amid the pandemic, some of the following measures were taken by hotel operators to reduce operating expenses: 1. suspending operations, and placing employees on furlough until the pandemic situation improved; 2. closing down most of the operating space and using a skeleton crew; 3. ceasing operations permanently; and 4. accommodating people who were required to self-quarantine, a measure taken by the S Hotel and the Leofoo Hotel. The government provided hotels with salary compensation and tax exemptions, and landlords offered rent reductions or allowed delayed rent payments to help hoteliers weather the crisis.

Taipei managed to contain the coronavirus successfully because of strict enforcement of border controls. Domestic social gathering restrictions were lifted, and economic activity gradually recovered, resulting in an economic growth rate of 2.9% in a tumultuous 2020. To stimulate the domestic tourism industry, the government launched a number of tourism initiatives, which helped to reinvigorate the hotel business in central and southern Taiwan. Hotels in Taipei, on the other hand, were highly reliant on international tourists and business travellers. To increase sales, hotels in Taipei launched various promotions, including dining and accommodation discounts, two nights with one night free, and working with key opinion leaders and influencers on social media.

SUPPLY AND DEMAND

In 2020, despite the COVID-19 pandemic, three luxury hotels opened, adding 621 rooms: Hotel Indigo Taipei North (149 rooms) in January, the Mitsui Garden Hotel Taipei Zhongxiao (297 rooms) in August, and the Hotel Resonance Taipei (Tapestry Collection by Hilton) (175 rooms) in December. On the other hand, the Capital Hotel (129 rooms) ceased operations in 2020, bringing the actual supply of international tourist hotels in Taipei in 2020 to 492 rooms. The overall supply of five-star hotels reached 9,867 rooms.

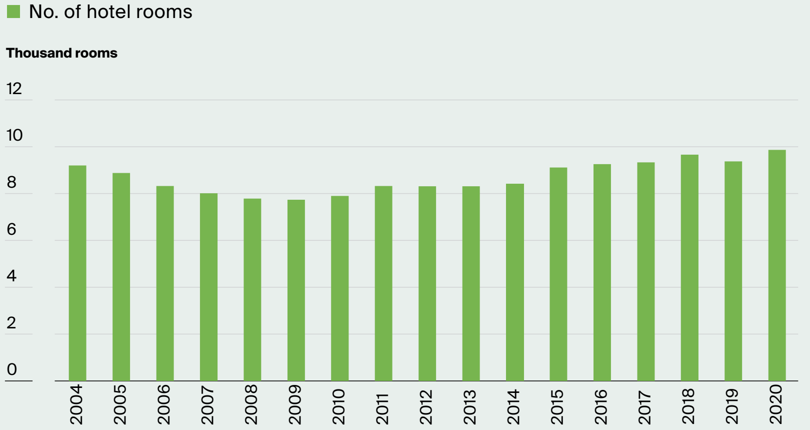
OUTLOOK

The World Tourism Organization (UNWTO) predicted that it will take about three years for the global tourism industry to fully recover. Since Taipei is highly dependent on international travellers, a lot of hotel development plans have been suspended. New supply in 2021 will include only the Gracery Hotel Taipei (248 rooms) and the Hotel Metropolitan Premier Taipei (288 rooms). Some hotels, such as the Leofoo Hotel, the San Want Hotel and The Ambassador Hotel Taipei, are being rebuilt amid the pandemic, reducing room supply by 900. They are expected to reopen with a new image within three to five years when the pandemic eases.

CHART 22. Taipei's international overnight visitor arrivals

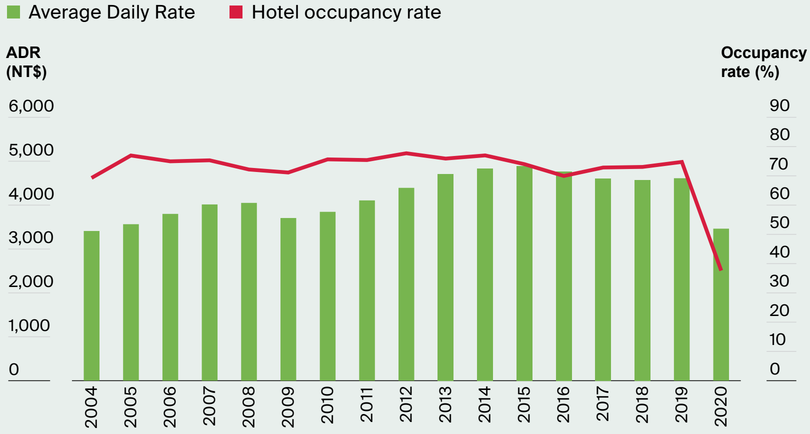
Source: Tourism Bureau, Republic of China, Taiwan / Knight Frank Research

CHART 23. Taipei's five-star hotel stock



Source: Tourism Bureau, Republic of China, Taiwan / Knight Frank Research

CHART 24. Taipei's five-star hotel performance



Source: Tourism Bureau, Republic of China, Taiwan / Knight Frank Research

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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