

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



Greater China Hotel Report

May 2020

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OVERVIEW

Against the backdrop of a slowing domestic economy, coupled with global economic uncertainties and the protracted China-US trade war, the hotel industry in the Greater China region demonstrated weak performance in 2019. Among all major cities, including Beijing, Shanghai, Shenzhen, and Hong Kong, the Average Daily Rate (ADR) of five-star hotels shrank, and the occupancy rate dropped in Shanghai, Shenzhen and Hong Kong. Macau still managed a slight increase in ADR, but the occupancy rate fell. The weak growth trajectory of the hotel industry was further dragged down by the COVID-19 outbreak and this is expected to continue in the first half of 2020.

In Beijing, the number of tourist arrivals declined, and demand for tourism accommodation weakened in 2019. The weak global economy, keen competition and huge amount of new supply have exerted heavy pressure on the local hotel market. In 2019, nine new luxury hotels opened in Beijing, providing an additional 2,315 rooms. Three five-star hotels are expected to open in Beijing in 2020, including the Beijing Qianmen Oriental Mandarin Hotel, the Beijing Tongzhou Hilton Hotel, and the Beijing Daxing Hilton Hotel. With these new hotels, the total number of luxury hotel rooms in Beijing will increase by 492, reaching 42,903 rooms in 2020.

In 2019, the annual growth rate of visitor arrivals to Shanghai slowed down. Shanghai received approximately 8.97 million international tourists, a slight increase of 0.4% YoY. However, the

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The Chinese government has managed to control the spread of the virus in mainland China so far, we expect domestic tourism to regain its momentum in Q3 2020
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number of overnight visitors dropped 1% YoY to 7.34 million. As a result of the decline in overnight visitors, more stringent cost controls in business travel and the huge amount of new supply, the average occupancy rate dropped 0.9 percentage points YoY to 68.4% and the ADR of five-star hotels in Shanghai decreased 2.3% YoY to RMB959 in 2019. Eight luxury hotels were opened in Shanghai in 2019, adding 2,811 guest

rooms to the market. By the end of 2019, the number of luxury guest rooms in Shanghai totaled 38,825, up 8% YoY.

In Guangzhou, strong economic fundamentals and good performance in the tourism and transportation sectors fostered the positive development of the hotel industry in 2019. According to the Guangzhou Bureau of Statistics, the number of overnight tourists increased 3.7% YoY in 2019, and total tourism revenue increased 11.1% YoY. In 2019, three five-star hotels were opened in Guangzhou – the Marriott International, the Rosewood Guangzhou Hotel and the Jumeirah Guangzhou – adding 534 rooms to the local hotel market. Looking ahead, with the future completion of several large-scale tourism projects, we expect that Guangzhou's attractiveness a tourism destination will be enhanced, driving stronger demand for its hotel market.

Table 1. Economic indicators (2019)

	Beijing	Shanghai	Guangzhou	Shenzhen	Hong Kong	Macau	Taipei
GDP growth (YoY)	6.1%	6.0%	6.8%	6.7%	1.2%	-8.1%	2.7%
GDP per capita	RMB164,000	RMB157,297	RMB154,435	RMB206,682	HK\$382,046	MOP645,438	NT\$801,037
Retail sales value (billion)	RMB1,227.0	RMB1,349.7	RMB997.8	RMB 658	HK\$431.2	MOP77.2	NT\$4,664
Retail sales value growth (YoY)	4.4%	6.5%	7.8%	6.7%	-11.1%	0.5%	3.3%
Foreign direct investment growth (YoY)	-18.9%	10.1%	8.1%	-1.6%	1.0% (2018)	9.8% (2018)	-2.1%
Unemployment rate	4.0%	3.6%	2.2%	2.2%	3.0%	1.7%	3.7%
Inflation	2.3%	2.5%	3.0%	3.4%	2.9%	2.8%	1.1%

Source: Local statistics departments / Knight Frank Research

In 2019, eight new five-star hotels opened in Shenzhen, adding 2,100 rooms in total. Owing to the large amount of new supply, the overall hotel market in Shenzhen had a lower occupancy rate in 2019 compared with that in 2018. In 2019, the occupancy rate dropped 4.2% YoY to 68.5%. The ADR of five-star hotels in Shenzhen was RMB741, flat YoY. The next three years will witness a remarkable growth in the supply of luxury hotels in the Shenzhen market. With abundant new supply, both the occupancy rate and ADR of the hotel market in Shenzhen are expected to face downward pressure.

Impacted by the social unrest since June, Hong Kong witnessed a significant drop in visitor arrivals. According to the Hong Kong Tourism Board, Hong Kong received 23.8 million international overnight visitors in 2019, down 18.8% YoY. Of these, 16.2 million were from the Chinese Mainland, down 18.5% YoY. As a result, the hotel industry was severely affected. The occupancy rate of High Tariff A hotels fell 7 percentage points YoY to 74% in 2019, while the ADR dropped 8.0% YoY to HK\$1,982. During the year, 15 new hotels were opened, including the Rosewood Hong Kong, K11 Artus, the Hotel St. Regis Hong Kong, and the ALVA Hotel.

Macau recorded 39.4 million visitor arrivals in 2019, up 10.1% YoY, attributable in large part to improved connectivity with other Mainland Chinese cities via the Hong Kong–Zhuhai–Macau Bridge. Nonetheless, despite the double-digit jump in visitor arrivals, its five-star hotel market was clouded with a range of macro-economic and social factors that impacted growth. The hotel industry saw weaker performance in 2019 than in 2018, with the cumulative five-star hotel occupancy rate dropping 0.9% YoY to 92.3% in 2019. The average hotel room price for five-star hotels was MOP1,644.0 in 2019, representing an increase of a mere 1% compared to MOP1,627.9 recorded in 2018.

Taiwan’s hotel industry has been supported by a stable economy and healthy tourism development. Thanks to the government’s successful efforts to reinvigorate its tourism industry through the “Tourism 2020” initiative, visitor arrivals to Taiwan in 2019 hit a record 11.84 million, up 7.2% YoY and the sharpest annual jump since 2014. In 2019, the occupancy rate of five-star hotels in Taipei increased slightly by 1.7 percentage points to 74.7%, and the ADR increased slightly by 0.9% YoY to NT\$4,612. However, total operating income of international tourist hotels in Taipei in 2019 dropped 2.1% YoY to NT\$265.7 billion.

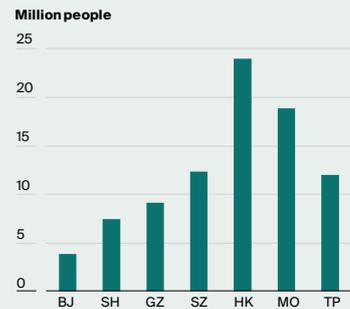
Since the beginning of 2020, the COVID-19 outbreak has impacted the domestic tourism and hotel sectors severely, as it brought the travel boom to a screeching halt. As the COVID-19 epidemic escalated into an unprecedented global pandemic in Q1 2020, it grounded travel and tourism, and impacted all segments of the hotel market, budget, midscale and luxury.

As the COVID-19 pandemic appears likely to last well into Q2 2020, we expect 2019’s weak growth trajectory of China’s hotel industry to continue in first half of 2020. Since the Chinese government has managed to control the spread of the virus in mainland China so far, we expect domestic tourism to regain its momentum in Q3 2020. Together with the policies to boost economy being released by the government, the domestic travel and hotel market will also see a turnaround. However, the recovery in international tourism will take longer.

The COVID-19 pandemic has been a wake-up call for many businesses as how digital transformation and an update to the status quo were required. In the short run, hotel operators in the Greater China region should capitalise on the emerging trend of staycations and other new trends in domestic travel by targeting the local market. In the long run, we expect to see the transformation and upgrading of the

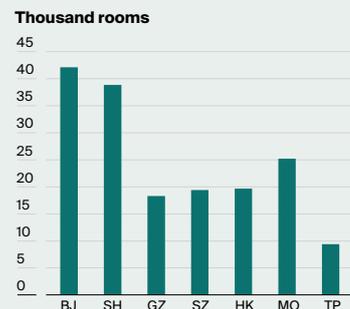
hotel industry in embracing advanced technology such as artificial intelligence (AI) and robotics in their operations.

Chart 1. International overnight visitor arrivals, 2019



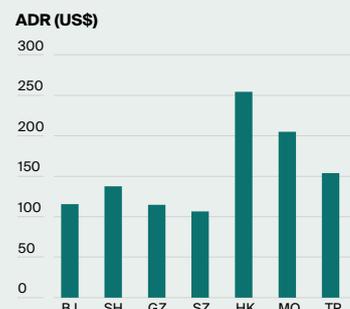
Source: Knight Frank Research

Chart 2. Five-star hotel stock, 2019

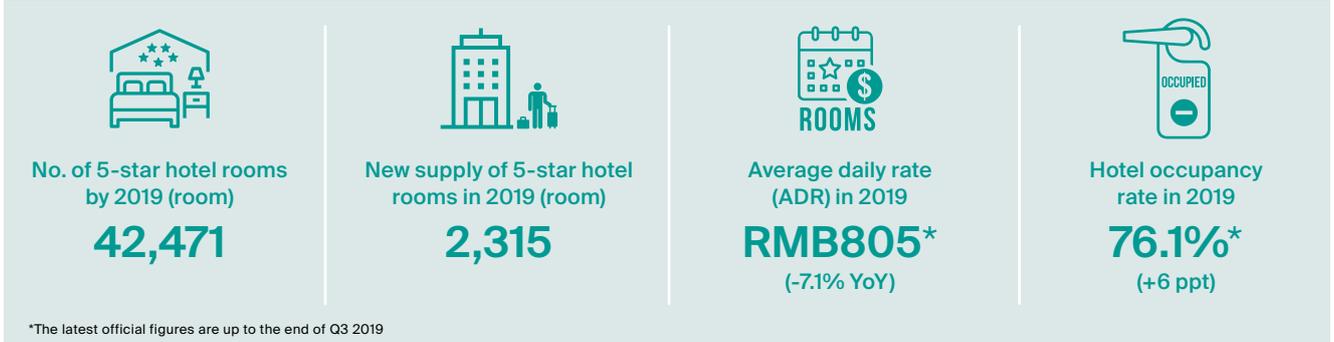


Source: Knight Frank Research

Chart 3. Five-star hotel room rate in 2019



Source: Knight Frank Research



OVERVIEW

Affected by global economic uncertainty and the China-U.S. trade war, the number of tourist arrivals in Beijing declined, and demand for tourism accommodation weakened in 2019. The number of inbound tourists decreased 5.9% YoY to 3.769 million, which included 3.207 million foreign

tourists (-5.6% YoY) and 562,000 tourists from Hong Kong, Macau and Taiwan (-7.3% YoY). International tourism revenue dropped by 5.9% YoY to US\$5.19 billion.

Accommodation demand from the active exhibition and convention

industry remained stable. In 2019, 292 exhibitions were held in Beijing, accounting for 8.2% of the total in China, an increase of 5.4% YoY. Overall, the occupancy rate of five-star hotels in Beijing increased by 6 percentage points YoY to 76.1% at the end of Q3 2019*.

SUPPLY AND DEMAND

As at the end of Q3 2019*, the Average Daily Rate (ADR) of five-star hotels fell by 7.1% YoY to RMB805. This decline was affected not only by the poor global economic condition, but also by the huge amount of new supply. In 2019, nine new luxury hotels opened in Beijing, providing an additional 2,315 rooms. Six of them are located in the core business districts of Beijing, while the other three are located in the surrounding non-core areas. There were 42,471 luxury hotel rooms in Beijing at the end of 2019.

The Mandarin Oriental Wangfujing (73 guest rooms), located on the top two floors of WF Central, opened in March

2019, making it the first Mandarin Oriental Hotel in Beijing. The hotel is only a 15-minute walk from Tiananmen Square, which meets the needs of tourists for luxury hotels in the city centre of Beijing.

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The connection between Beijing and Zhangjiakou will form a new “Winter Olympics Tourism Route”, which will attract tourists from all over the world.

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The Beijing Shiyuan Hyatt Regency (283 guest rooms) opened in the Beijing World Horticultural Exposition Zone in April 2019, making it the first international hotel brand in Yanqing District. Located adjacent to the main venue for the Beijing 2022 Winter Olympic Games, the hotel is expected to benefit from the large number of tourists attending the Winter Olympics.

The Sheraton Beijing Lize Hotel (325 guest rooms) opened in December 2019. A luxury hotel in the financial business district, it targets mainly business travellers in the Lize Financial Business District.

OUTLOOK

Three five-star hotels are expected to open in Beijing in 2020: the Beijing Qianmen Oriental Mandarin Hotel (75 rooms), the Beijing Tongzhou Hilton Hotel (313 rooms), and the Beijing Daxing Hilton Hotel (104 rooms). With these additional 492 rooms, the total number of luxury hotel rooms in Beijing is estimated to reach 42,903 in 2020.

In the short term, the COVID-19 pandemic led to a sharp drop in the number of tourists during the first quarter of 2020. Approximately 13,525 travel groups cancelled their trips to Beijing during the Spring Festival Golden Week in 2020, involving approximately 242,000 tourists.

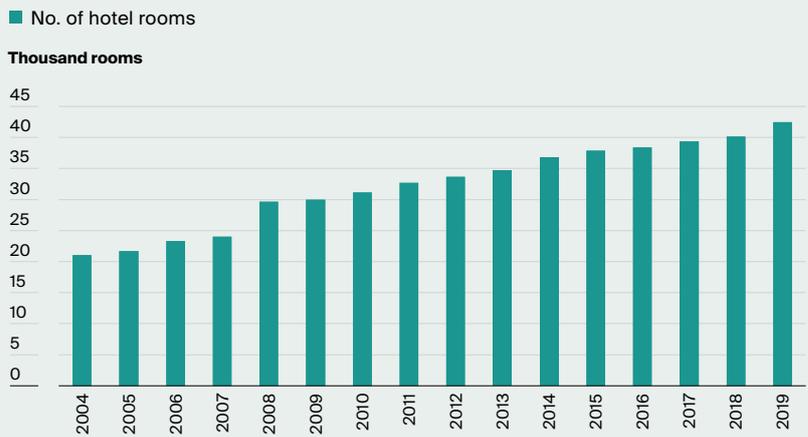
In the mid to long term, Beijing's hotel market is expected to see optimistic development, as there will be tremendous opportunities with the support of new infrastructure. The completion of Beijing Daxing International Airport and the improvement of infrastructure of the City Terminal will provide more business opportunities and business travellers, for the Lize FBD. The hotel market will also be buttressed by new tourist attractions and large-scale international events. Universal Studios Beijing will officially open in the first half of 2021. As the world's largest Universal Studios site, it will attract a large number of tourists. Lastly, benefitting from the 2022 Winter Olympic Games, the connection between Beijing and Zhangjiakou will form a new "Winter Olympics Tourism Route", which will attract tourists from all over the world. Looking ahead, we expect demand for Beijing's hotel industry to be strong in the coming years.

CHART 4. Beijing's international overnight visitor arrivals



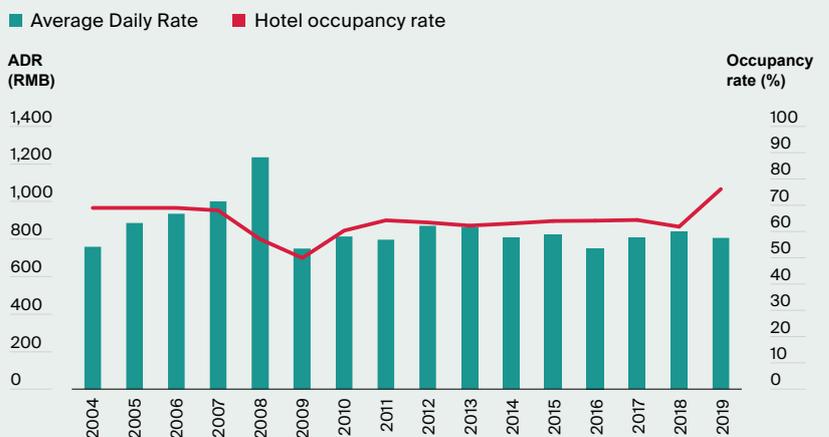
Source: Beijing Tourism Bureau / Knight Frank Research

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

*Footnote: The latest official figures are up to the end of Q3 2019



No. of 5-star hotel rooms
by 2019 (room)

38,825



New supply of 5-star hotel
rooms in 2019 (room)

2,811



Average daily rate
(ADR) in 2019

RMB959
(-2.3% YoY)



Hotel occupancy
rate in 2019

68.4%
(-0.9 ppt)

OVERVIEW

In 2019, the annual growth rate of visitor arrivals to Shanghai slowed down. Shanghai received approximately 8.97 million international tourists, a slight increase of 0.4% YoY. The number of overseas visitors reached 6.92 million, up 0.9% YoY, whilst the number of visitors from Hong Kong, Macau and Taiwan dropped 1.3% YoY to 2.05 million. Among the international tourist arrivals, the number of overnight visitors dropped 1% YoY to 7.34 million. The fell in number of overnight visitors, more stringent cost controls in business travel and the huge amount of new supply have negatively impacted the occupancy rate and Average Daily Rate

(ADR) of Shanghai's five-star hotels, which dropped 0.9 percentage points YoY to 68.4% and 2.3% YoY to RMB959, respectively.

The exhibition and convention market remained active. In 2019, 310 international conventions and exhibitions were held in Shanghai with total exhibition area of approximately 15.03 million sqm, an increase of 7.02% YoY. In November, the second China International Import Expo attracted approximately 910,000 visitors, more than in 2018. The increasing number of exhibitors and visitors boosted demand for hotels.

The COVID-19 outbreak at the end of December 2019 dealt a serious blow to the local hotel market. The occupancy rate of hotels in Shanghai was only 14% during the Spring Festival holidays in 2020, with cancellations reaching approximately 450,000 guest rooms. In the first three weeks of February, the average occupancy rate of 8,000 hotels in Shanghai reached only 6%. Hotel demand in the first half of 2020 is expected to be mainly from business travellers instead of international tourists owing to the COVID-19 pandemic.

SUPPLY AND DEMAND

In 2019, eight luxury hotels were opened in Shanghai, adding 2,811 guest rooms to the market. At the end of 2019, there were 38,825 luxury guest rooms in Shanghai, up 8% YoY. Three of the new luxury hotels are located downtown and the others are distributed in the suburban areas outside the Outer-Ring Road, including the Jiading, Qingpu, Fengxian and Minhang districts. There are many industrial parks in these districts, which attract a huge

number of business travellers. The new hotels are expected to meet the accommodation needs of these business travellers.

The JW Marriott Marquis Hotel Shanghai Pudong (515 guest rooms), Marriott International's third JW Marriott Marquis Hotel in the world and the first in China, opened in August 2019 in Lujiazui, Pudong. In January 2019, the Radisson Blu Forest Manor

Shanghai Hongqiao (439 guest rooms), the second hotel operated by Radisson Hotels Group, opened in the Hongqiao CBD. At present, there are 10 luxury hotels in the Hongqiao CBD, providing approximately 3,400 guest rooms. In April 2019, the Pullman Shanghai Qingpu Excellence Hotel, with 284 rooms, opened in Qingpu Industrial Park, targeting business travellers visiting the industrial park.

In 2019, as a result of the decline in overnight visitors, more stringent cost controls in business travel and the huge amount of new supply, the ADR of five-star hotels in Shanghai decreased 2.3% YoY to RMB959. The average occupancy rate dropped 0.9 percentage points YoY to 68.4% as a result of business travel cost controls and the huge amount of new supply.

OUTLOOK

The number of visitors and exhibition activities dropped significantly in Shanghai in the first quarter of 2020 because of the COVID-19 pandemic. As a result, demand for hotels fell off the cliff. The tourism and hotel sectors are expected to face tremendous challenges in the short term. Overall, the average occupancy rate in Shanghai is expected to decrease sharply by 10–15%, and the ADR is expected to drop by 8% YoY in 2020.

The COVID-19 pandemic has prompted many hotel operators to delay new openings. Five new hotels with no less than 1,200 rooms that had planned to open in 2020 will likely delay their openings. These hotels include the Westbund Hotel Shanghai (219 rooms), in Xuhui Binjiang, the J Hotel (258 rooms), in the Shanghai Tower, and the Ritz-Carlton Hongqiao (282 rooms), in the Hongqiao CBD. The huge amount of new hotel supply will put further pressure on Shanghai’s hotel market.

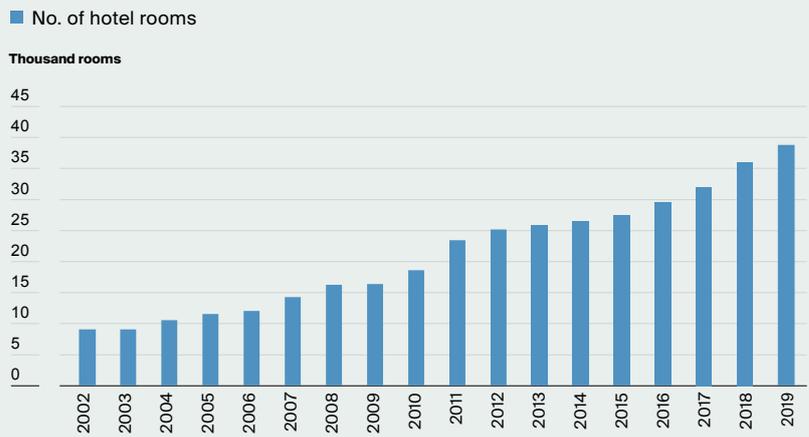
Looking ahead, the opening of several theme parks after 2020 will become a driving force boosting future hotel demand in Shanghai. These theme parks include DreamCity Phase Two (2020), adjacent to Intercontinental Shanghai Wonderland, Wintastar, in Lingang (2022), Lego Land, in Jinshan (2023), and the Shanghai Disney Resort Expansion Project. These theme parks are expected to attract a large number of tourists and will support the rapid recovery of the local hotel market.

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



OVERVIEW

Strong economic fundamentals and good performance in the tourism and transportation sectors laid a strong foundation for the positive and steady development of the hotel industry in Guangzhou in 2019. Guangzhou's GDP growth rate in 2019 ranked first among the four first-tier cities, reaching RMB2,362.86 billion, an increase of

6.8% and 0.6 percentage points over that of the previous year. The tourism industry in Guangzhou saw steady growth in 2019. According to the Guangzhou Bureau of Statistics, the number of overnight visitors increased 3.7% YoY in 2019, and total tourism revenue increased by 11.1% YoY.

As one of the core cities in the Greater Bay Area, Guangzhou's function as an international transportation hub and an international business centre was enhanced in 2019. Annual passenger throughput in Guangzhou Baiyun International Airport exceeded 70 million in 2019, for YoY growth of 5.2%.

SUPPLY AND DEMAND

In 2019, three five-star hotels opened in Guangzhou, adding 534 rooms to the local hotel market. At the end of 2019, there were 18,305 five-star hotel rooms in Guangzhou, up 3% YoY.

Marriott International opened its Guangzhou Tianhe Fairfield Hotel in February 2019, with 157 rooms. This was the first hotel project of the Fairfield brand in Guangzhou and the second Fairfield brand hotel in Guangdong province after the Fairfield Hotel in Dongguan Xinghui Plaza.

Located on the top 16 floors of the landmark Chow Tai Fook Financial Center, the Rosewood Guangzhou Hotel is currently one of the tallest hotels in

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Given Guangzhou's strategic position as a national central city and a comprehensive gateway city promoted by the Central government, we expect good prospects for the development of the luxury hotel market in Guangzhou.

mainland China. The hotel opened in September 2019, providing 251 rooms and suites.

In October 2019, Jumeirah Guangzhou (126 guest rooms and suites), opened its third luxury hotel in the Chinese mainland in Zhujiang new town, a core business district in Guangzhou. The hotel is operated by global luxury hotel management company Jumeirah Group,

and is the first project of Jumeirah Group in southern China.

The ADR for five-star hotels in Guangzhou rose 3.5% YoY to RMB758 as at the end of Q3 2019*. The occupancy rate of the overall five-star hotel segment fell by 0.17 percentage points to 68% YoY, as new five-star hotels opening in Guangzhou increased the supply of five-star hotel rooms during the period.

OUTLOOK

Three five-star hotels are scheduled to open in 2020: the Guangzhou Nansha Jinmao Marriott Hotel, in the new CBD of Nansha district (290 rooms), the Panyu Minjie Hilton Hotel (300 rooms) and the Guangzhou Aoyuan Sheraton hotel (270 rooms), both in the Panyu Wanbo CBD. These three new luxury hotels are expected to add 860 high-grade rooms to the Guangzhou hotel market, bringing the total number of five-star hotel rooms in Guangzhou to 19,165 in 2020.

Seriously affected by the COVID-19 pandemic, the hotel market in Guangzhou was subdued during Q1 2020. We expect the negative impact of the pandemic on Guangzhou's hotel market to continue until the end of the Q2 2020. It may begin to recover in Q3 with strong support from the government. To support the hotel industry's recovery, the Guangzhou municipal government revealed that hotels and other cultural tourism enterprises will be rewarded for their outstanding contribution to the recovery of the cultural tourism market after the pandemic.

In the medium to long term, given Guangzhou's strategic position as a national central city and a comprehensive gateway city promoted by the Central government through its announcement of the "Development Plan Outline for the Guangdong-Hong Kong-Macau Greater Bay Area" in February 2019, we expect good prospects for the development of the luxury hotel market in Guangzhou.

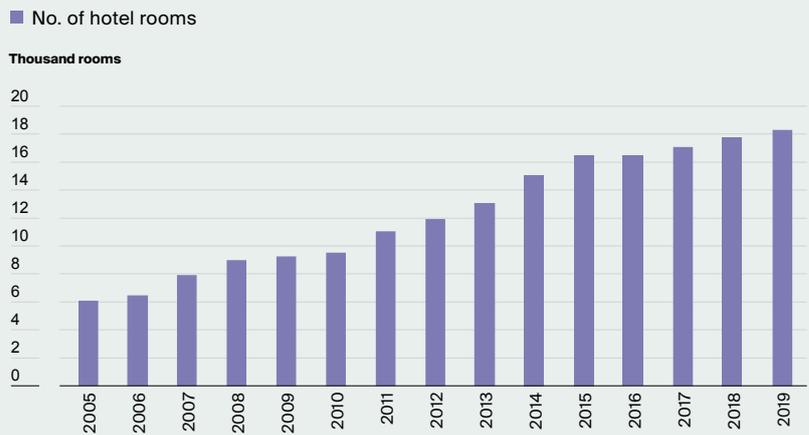
Last but not least, with the future completion of several large-scale tourism projects, such as the Nansha Evergrande Children's World theme park and the Guangzhou Chime-Long International Eco-Tourism Resort, which will both be completed in 2020, we expect Guangzhou's attractiveness as a tourism destination to be enhanced, driving stronger demand for its hotel market.

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

*Footnote: The latest official figures are up to the end of Q3 2019



OVERVIEW

In 2019, Shenzhen's economy continued its rapid growth. The city's GDP reached RMB2,692.7 billion, with an annual growth rate of 6.7%, exceeding both the national and provincial level. Shenzhen Airport opened 26 new air routes in 2019, driving a rapid increase in passenger throughput. According to the Shenzhen Tourism Bureau, passenger

throughput grew by 7.26% YoY to 53 million in 2019. Also, benefiting from the city's geographical advantage and its vicinity to Hong Kong, Shenzhen received 12.17 million international overnight visitors in 2019, down 0.3% YoY, but still first among first-tier cities in Mainland China.

Against the backdrop of increased global economic uncertainty and a local economic slowdown, however, the overall hotel market in Shenzhen was affected, with a lower occupancy rate in 2019 compared with 2018.

SUPPLY AND DEMAND

In 2019, eight new five-star hotels opened in Shenzhen, adding 2,100 rooms in total. Accor's co-brand Raffles opened the Raffles Shenzhen Hotel on 16 May. Located in One Shenzhen Bay, the 168-room hotel is Raffles' second hotel in China. Hyatt Hotels Corporation opened two hotels in the second half of 2019 – the Park Hyatt Shenzhen (195 rooms, which opened on 29 July), in the Futian CBD, and the Hyatt Regency Shenzhen Yantian (293 rooms, which

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The next three years will see remarkable growth in the supply of luxury hotels in the Shenzhen market, including famous hotel brands, such as Andaz, Edition and Renaissance.

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opened on 8 Aug), in the Yantian coastal area. At the end of 2019, the total number of rooms in five-star hotels in Shenzhen reached 19,379.

In 2019, the Average Daily Rate (ADR) of five-star hotels in Shenzhen was about RMB741, flat YoY. The occupancy rate dropped to 68.5% in 2019 from 72.7% in 2018 due to the large amount of new supply.

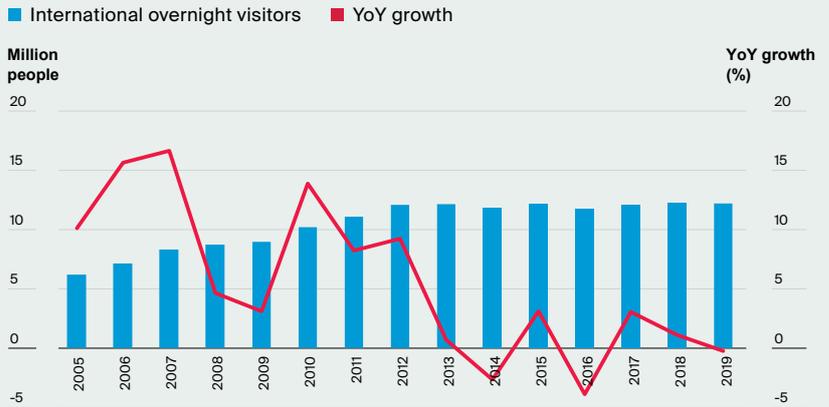
OUTLOOK

The next three years will see remarkable growth in the supply of luxury hotels in the Shenzhen market, including famous hotel brands, such as Andaz, Edition and Renaissance. Three luxury hotels with a total of 786 hotel rooms are scheduled to open in 2020: the Mandarin Oriental Hotel (190 rooms), in Upper Hills, the Conrad Qianhai Hotel (298 rooms), and the Crowne Plaza Shenzhen World Exhibition & Convention Centre (298 rooms). By the end of 2020, there will be about 20,165 luxury hotel rooms in Shenzhen.

Owing to the COVID-19 pandemic, Shenzhen, like all cities of China, is expected to face tremendous pressure in its hotel industry in the short term. Both the ADR and occupancy rate will be severely suppressed in 2020.

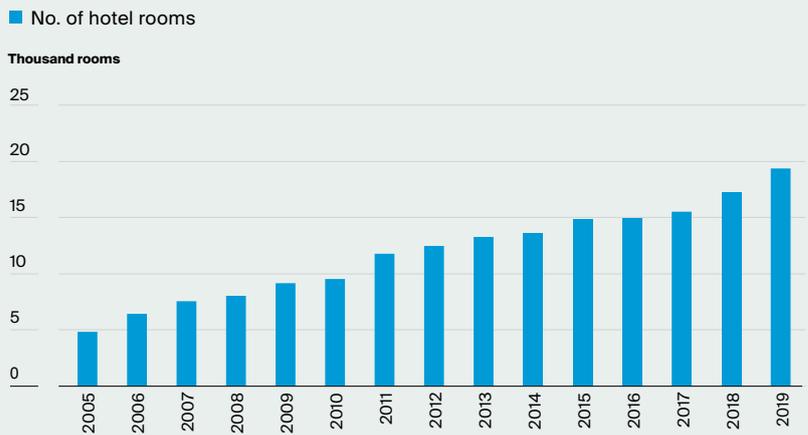
In the mid to long term, the Greater Bay Area plan and the action plan for Shenzhen to become a pioneering model city with Chinese characteristics are expected to benefit Shenzhen's finance, technology, media, and telecom (TMT) sectors, among others, and drive demand for business travel. As the city attracts more investment and promotes the development of its eastern area, the Qianhai and Shenshan Special Cooperation Zone will receive an increasing number of business conferences, exhibitions and tourists, which is good news for Shenzhen's hotel sector.

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



OVERVIEW

In 2019, Hong Kong's tourism industry was severely affected by the protracted social unrest, with a significant drop in visitor arrivals. According to the Hong Kong Tourism Board, Hong Kong received 23.8 million international overnight visitors in 2019, down 18.8% year on year (YoY). Of these, visitors

from the Chinese Mainland, the major source of Hong Kong's visitor arrivals, dropped 18.5% YoY to 16.2 million. Visitors arrivals of other source markets also plunged, falling 19.6% to 7.5 million, impacted mainly by a drop in the number of visitors from South Korea (-30.1% YoY) and Taiwan (-26.0% YoY).

Amid the poor market conditions, hotel operators offered deep discounts on room rates to attract customers. They also launched more promotion campaigns, such as accommodation packages with buffets included and cross-selling with nearby shopping malls.

SUPPLY AND DEMAND

Fifteen new hotels opened in 2019, the most notable including the Rosewood Hong Kong (540 rooms) and K11 Artus (287 rooms), in Tsim Sha Tsui, the Hotel St. Regis Hong Kong (129 rooms), in Wan Chai, and ALVA Hotel by Royal (618 rooms), in Sha Tin. The Excelsior Hotel in Causeway Bay was closed down in March 2019 and planned to redeveloped into Grade-A offices. As at the end of 2019, the total stock of High Tariff A hotel rooms reached 19,644.

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Given months of social unrest, followed by the COVID-19 pandemic, the hotel market has faced mounting challenges.

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As the number of overnight visitor arrivals dropped, the occupancy rate of hotels decreased, falling 7 percentage points YoY to 74% for High Tariff A hotels in 2019, and 12 percentage points to 79% for High Tariff B hotels. The occupancy rate of Medium Tariff hotels dropped 11 percentage points to 82%. The Average Daily Rate (ADR) of High Tariff A hotels fell 8.0% YoY to HK\$1,982, making this drop the lowest among all hotel categories. The ADR of High Tariff B and Medium Tariff hotels fell 15.7% and 19.1% YoY, respectively, to HK\$992 and HK\$645.

OUTLOOK

In 2020, seven High Tariff A hotels are scheduled to open, providing about 2,300 rooms. These include the luxury hotel The Silveri, MGallery by Sofitel (206 rooms), in Tung Chung, Hotel Alexandra (840 rooms) in North Point, and the Sheraton Hong Kong Tung Chung Hotel (about 300 rooms). However, some of them might postpone their openings due to the current epidemic situation.

Given months of social unrest, followed by the COVID-19 pandemic, the hotel market has faced mounting challenges. Since the pandemic began, some jurisdictions around the globe have issued travel advisories against visiting Hong Kong. Many hotels have suffered under the pressure of weakened inbound tourism and the cancellation of major events, like Art Basel. In February, the occupancy rate of some hotels was reported to have fallen below 10% despite their offering competitive room rates. The occupancy level and ADR of High Tariff A hotels are expected to remain at low levels if the global pandemic continues.

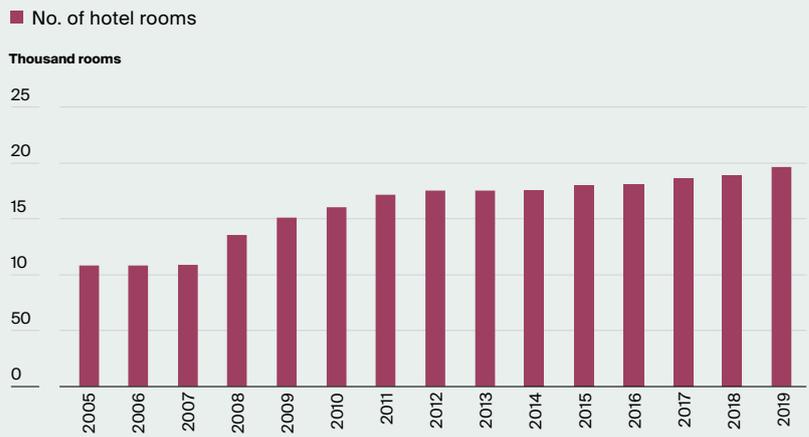
While some hotels may take the opportunity to accommodate people who are required to self-quarantine, other hotel operators are expected to temporarily suspend their businesses to reduce losses. They may take this opportunity to renovate their hotels, which would allow them to raise their ADR in the long run. In fact, the tourism industry landscape of the city has changed in the past few years, with more same-day visitors rather than overnight visitors. More hotel owners are expected to redevelop their hotels into commercial properties or converting them into co-living spaces.

CHART 16. Hong Kong's overnight visitor arrivals



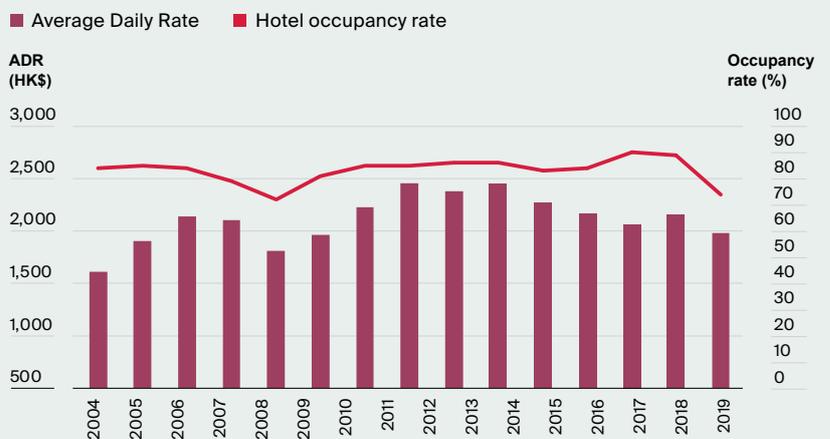
Source: Hong Kong Tourism Board / Knight Frank Research

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

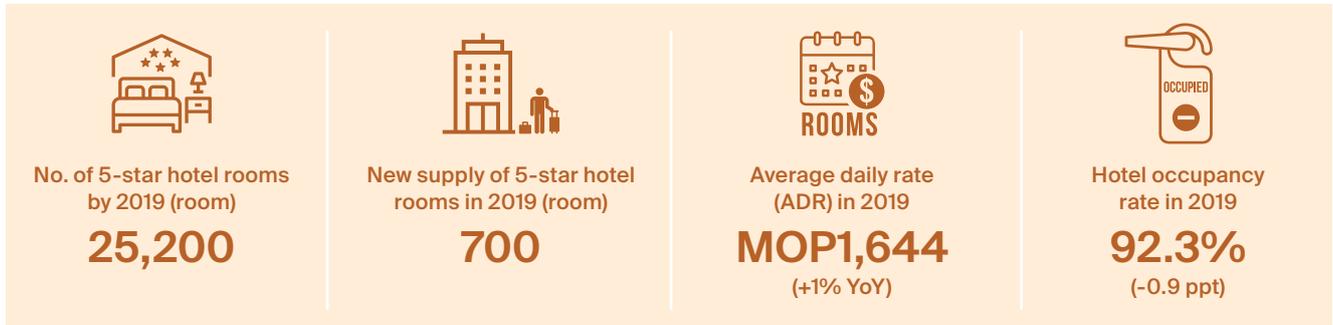


Source: Hong Kong Tourism Board / Knight Frank Research

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



Source: Hong Kong Tourism Board / Knight Frank Research



OVERVIEW

Owing to the improved connectivity with other Mainland Chinese cities via the Hong Kong–Zhuhai–Macau Bridge, Macau recorded 39.4 million visitor arrivals in 2019, up 10.1% YoY, according to the Statistics and Census Service. Despite the double-digit jump in visitor arrivals, however, its five-star hotel segment was affected by a range of macro-economic and social factors that impacted its growth, including a slowing world economy, RMB fluctuation, continuing competition from regional markets, and disruption in Hong Kong. The hotel sector had a

weaker performance than in 2018, with the overall five-star hotel occupancy rate dropping 0.9% YoY to 92.3% in 2019. The average hotel room price for five-star hotels was MOP1,644.0 in 2019, representing an increase of mere 1% compared to the MOP 1,627.9 recorded in 2018.

Owing to the social unrest in Hong Kong starting in June 2019, many package-tour travellers who used to visit both Hong Kong and Macau on a single trip no longer visited Macau. The unrest

also impacted low-budget regional tours and the MICE sector. Overnight visitors started the negative growth trend in August (-5.8% YoY), followed by consecutive months of negative growth.

In full year 2019, Macau received 18.6 million international overnight visitors, an increase of 0.8% YoY, according to Macau's Statistics and Census Bureau. Of this, 13.2 million (71%) were from the Chinese Mainland, a decline of 0.6% YoY. The average length of stay of visitors held steady at 1.2 days.

SUPPLY AND DEMAND

At the end of December 2019, Macau had 123 hotels, with 38,300 rooms, of which 61.8% were five-star hotels. By end of 2019, 16 new hotel projects, with 6,814 rooms, were under construction, and 25 projects, with 4,368 rooms, were in the planning stage. Most of these new hotel projects are located in the city's peninsula and are small in scale, according to Macau's Land, Public Works and Transport Bureau. In terms of hotel rooms under construction and

planning, the Cotai district will have the highest inventory, all together adding 7,955 rooms to the city.

The Grand Lisboa Palace hotel project, located on Cotai, which was originally scheduled to open in 2019, was delayed and is now expected to open in late 2020. Once completed, the hotel towers, which will bear the brands "Grand Lisboa Palace", "Palazzo Versace" and "Karl Lagerfeld", will provide approximately 1,900 rooms in total.

The resort Lisboaeta Macau, now under construction, adjacent to Grand Lisboa Palace, will have 820 rooms in a 12-storey complex. It will comprise three hotels, the Lisboaeta Hotel, the Maison L'occitane Hotel and the LINE Friends Casa d'Amigo, and is scheduled to open in 2020.

Another upcoming large-scale hotel which will open in 2020–2021 is the Londoner Macau Hotel, which will add 962 rooms to the market, along with the

Londoner Hotel (594 luxury suites) and the Londoner apartment-hotel (368 apartments).

OUTLOOK

The COVID-19 pandemic is threatening to impact the short to medium-term recovery of Macau's hotel industry. As the virus was declared a pandemic, it has led to a sharp decline in visitor arrivals, resulting in a severe contraction of the tourism, gaming and MICE industries.



Owing to the social unrest in Hong Kong many package-tour travellers who used to visit both Hong Kong and Macau on a single trip no longer visited Macau.



In the longer term, however, Macau's hotel sector will be bolstered by improved infrastructure. For instance, the Macau Light Rail Transit System, located on Taipa Island, which opened in December 2019, has improved the local transportation system in the Taipa area, so it is likely to bring more foot traffic and benefit the casino resorts, especially the Galaxy Macau, The Venetian Macau, the MGM Cotai, Wynn Palace, City of Dreams and the upcoming Grand Lisboa Palace.

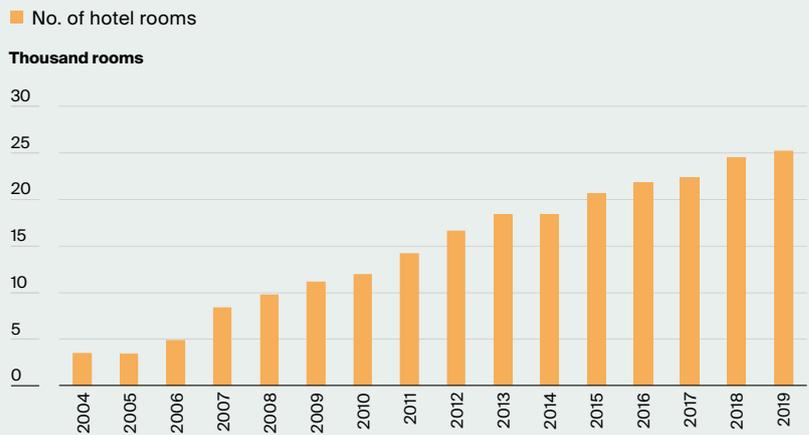
Looking ahead, Macau's new Chief Executive, Mr. Ho Iat Seng, was sworn in in December 2019. Subsequently, the central government announced measures to further support financial cooperation between Macau and the Chinese mainland. Together with the promulgation of the Greater Bay Area initiative, this will help Macau's economy gradually become more diversified, thus reducing its dependence on the gambling industry.

CHART 19. Macau's international overnight visitor arrivals



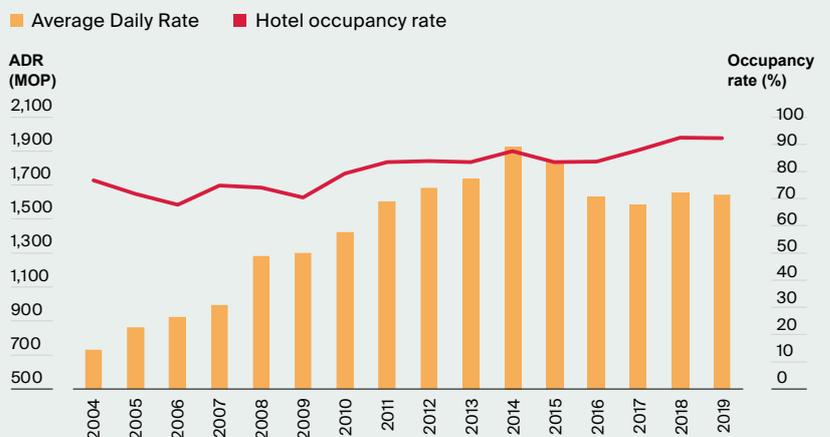
Source: Macau DSEC / Knight Frank Research

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



OVERVIEW

In 2019, Taiwan’s hotel sector was supported by a stable economy and healthy tourism development. Owing to the trade diversionary effect of the China–U.S. trade war, Taiwan enjoyed stable economic development in 2019. Its GDP grew 2.73% YoY, just slightly behind the pace of 2.75% in 2018.

According to the Taiwan Tourism Bureau, visitor arrivals to Taiwan in

2019 hit a record 11.84 million, up 7.2% YoY and the sharpest annual jump since 2014. Visitors from Mainland China increased slightly by 0.7% YoY, reaching 2.7 million. Thanks to the government’s successful efforts to reinvigorate its tourism industry through Tourism 2020, an initiative spearheaded by Taiwan’s Tourism Bureau to boost international tourism and diversify the source of visitors, the number of

visitors from new southbound countries jumped 6.3%, reaching 2.77 million in 2019. This market is expected to surpass the number of visitors from the Chinese mainland and become the most important source of momentum for the Taiwan tourism industry, with significant growth in the number of visitors from Japan (up 10.1% YoY) and South Korea (up 21.6% YoY).

SUPPLY AND DEMAND

In 2019, the occupancy rate of five-star hotels in Taipei increased slightly by 1.7 percentage points to 74.7%, and the average daily room rate increased slightly by 0.9% YoY to NT\$4,612. Although there was an increase in the number of tourism arrivals, the average length of stay of overnight visitors was 6.2 nights in 2019, a YoY decline of 0.3 nights. The total operating income of

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Thanks to the government’s successful “Tourism 2020” initiative, the number of visitors from new southbound countries jumped 6.3%.

◆ ◆

international tourist hotels in Taipei in 2019 dropped 2.1% YoY to NT\$265.7 billion.

With the official closure of the five-star Lefoo-Westin Taipei in December 2018, the number of rooms of five-star tourist hotels fell by 288. With no new five-star hotels in 2019, the total number of five-star hotel rooms fell 3%, to 9,375.

OUTLOOK

Three five-star hotels, Hotel Indigo Taipei North, the Regent Hotel, and the Mitsui Garden Hotel, are due to open in 2020. After the closure of the Leefoo-Westin Taipei, Cathay Life, which is the owner of the Leefoo-Westin premises, leased the premises of former Leefoo-Westin to JR East, Japan's largest railway company in October 2019. JR East plans to introduce the "Hotel Metropolitan" brand in Taipei as the group's first overseas hotel. The Hotel Metropolitan Taipei will provide 288 rooms after refurbishment and decoration.

New supply in 2021 will include the Tapestry Collection, by Hilton, the Gracery Hotel, and the JR East Hotel Taipei. It is estimated that this will add 1,500 rooms to Taipei's hotel stock.

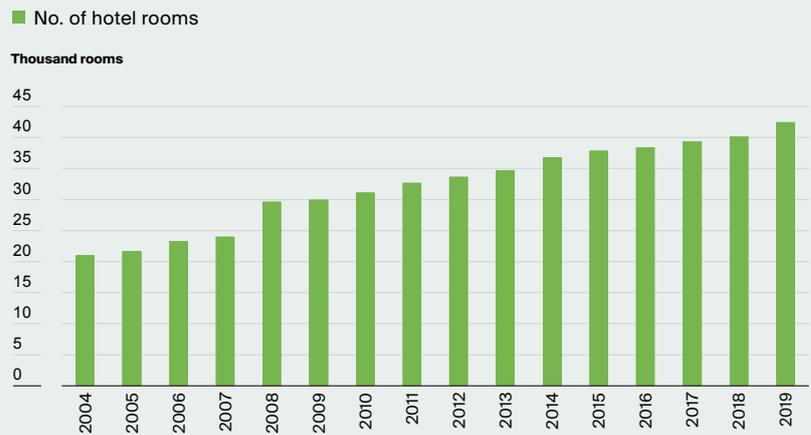
The hotel industry in Taipei has been deeply shaken by the COVID-19 outbreak since early 2020. The pandemic has resulted in a severe plunge in the global economy, especially the transportation and tourism sectors. Taiwan has imposed entry restrictions for foreigners to Taiwan since January 2020 as part of its preventive measures to combat the virus. As of 19 March, all foreigners are banned from entering Taiwan, resulting in a severe halt to international and business travel. The number of tourists to Taiwan is expected to hit a record low in 2020, and the occupancy rate of international tourist hotels is expected to drop drastically. The hotel industry in Taipei is facing an extremely challenging environment, with a long-lasting impact from the pandemic.

CHART 22. Taipei's overnight visitor arrivals



Source: Tourism Bureau, Taiwan / Knight Frank Research

CHART 23. Taipei's five-star hotel stock



Source: Tourism Bureau, Taiwan / Knight Frank Research

CHART 24. Taipei's five-star hotel performance



Source: Tourism Bureau, 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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