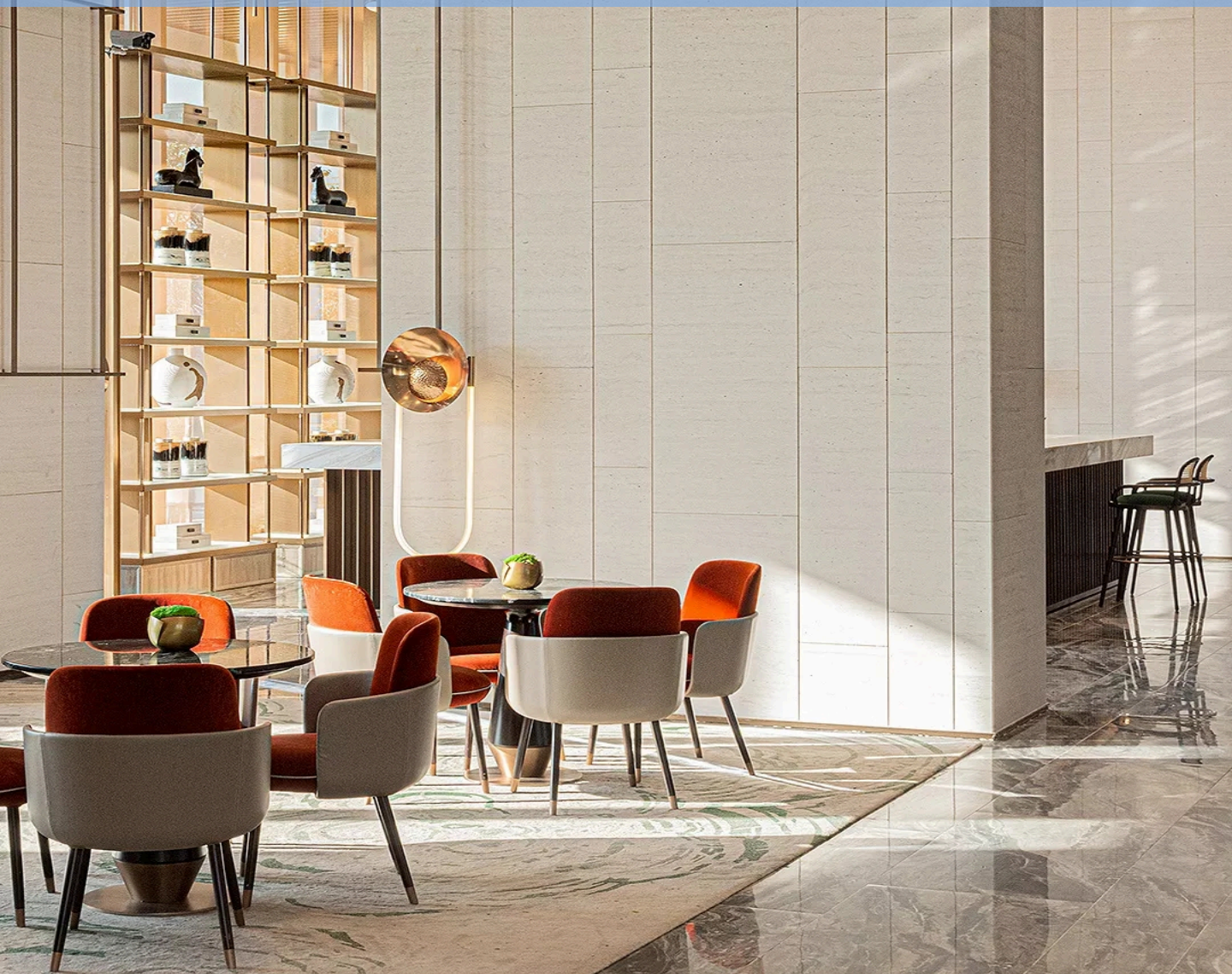




2020 Feb.

China Hotel Market Sentiment Survey on the Influence of the Novel Coronavirus Outbreak



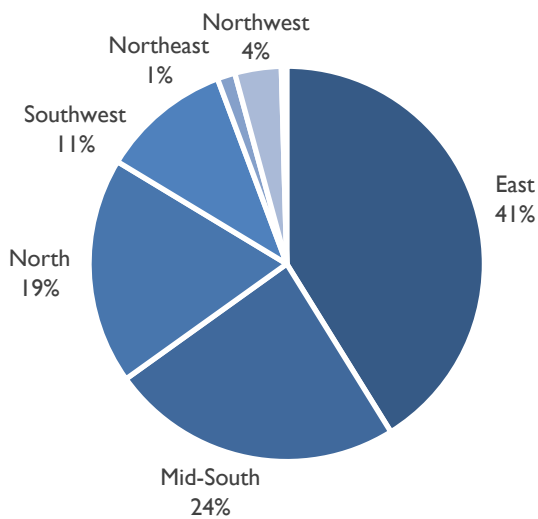


Introduction

China Hotel Market Sentiment Survey is designed to provide the China hotel industry with a quick assessment of the future market prediction. We have conducted the sentiment survey regarding the influence of the coronavirus outbreak in order to assess its impact on the market.

PERCENTAGE OF RESPONDENTS

By Region

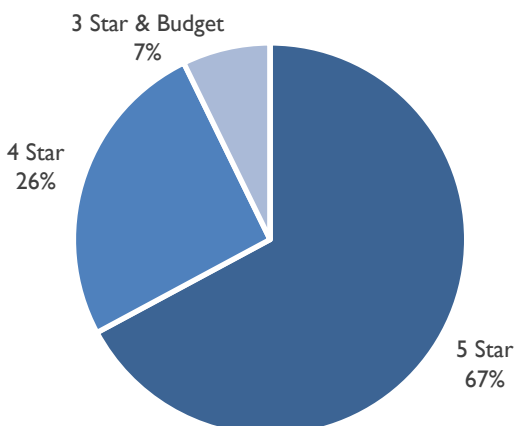


The five-question survey focused on the assessment of the duration and degree of the influence on the hotel market by the Coronavirus Disease 2019(COVID-19) outbreak, as well as the future outlook on occupancy, ADR and total revenue for the first half of 2020. To measure and compare hotel markets across different regions and cities in China, we created an index to formulate an overall average sentiment score from the survey data, so as to better reflect hoteliers' expectations toward the hotel market performance.

Sentiment score is applied to questions three to five of the survey and it reflects the respondents' outlook of the hotel market. The sentiment score ranges from negative 150 to positive 150, in which a score of negative 150 indicates a state of absolute pessimism, a score of zero indicates unchanged expectations, and a score of positive 150 indicates a highly optimistic prediction. All participants are asked to make predictions for the first half of 2020's hotel market based on the performance in 2019, and are also invited to predict the recovery on major market demand segments.

PERCENTAGE OF RESPONDENTS

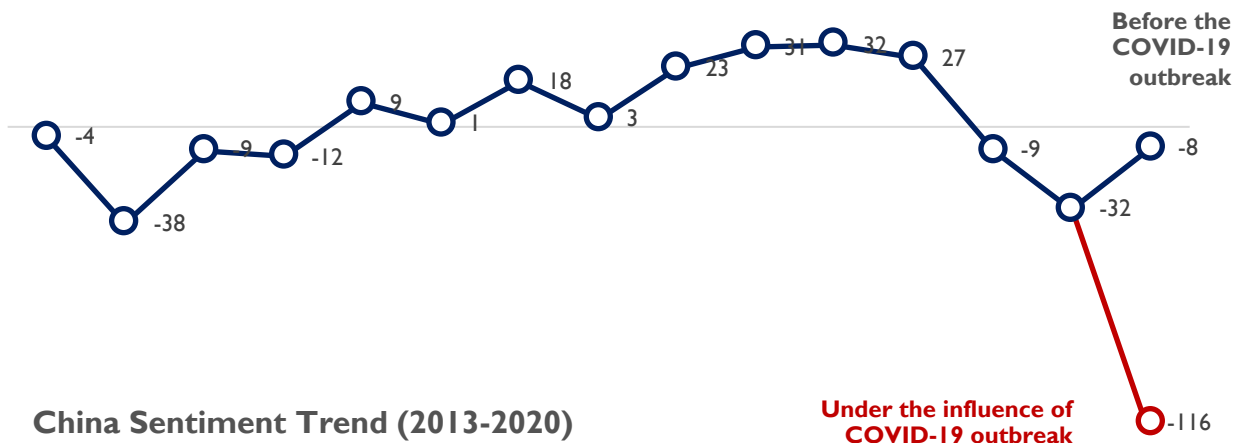
By Star Classification



This report is based on the findings of Horwath HTL's 19th China Hotel Market Sentiment Survey, and the additional survey on the influence of the coronavirus outbreak. Therefore, we have combined the sentiment scores before the outbreak, in order to provide a more comprehensive understanding of the influence on hoteliers' expectations toward market performances.

This survey covers **685** hotels from 28 provinces and municipalities.

Sentiment Analysis



13 Feb 13 July 14 Feb 14 Aug 15 Mar 15 Aug 16 Apr 16 Sep 17 Apr 17 Sep 18 Apr 18 Sep 19 Apr 19 Aug 20 Jan & Feb

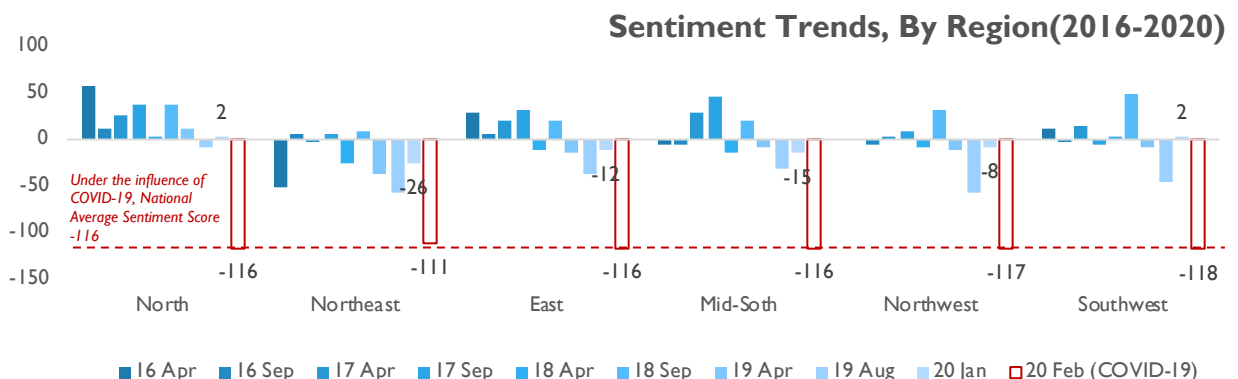
In the original 2020 China Hotel Market Sentiment Survey conducted in January, the sentiment score was -8, which is almost at the same level as the first half of 2019, but a 24% increase compared to the second half of 2019. The score indicated that the respondents were still cautious, but were more confident about 2020's hotel market. This was before the coronavirus outbreak however.

Before the virus, market sentiment scores were rising slowly since rock bottom in July 2013. The overall trend was moving in a positive direction and peaked in 2017 and 2018. However, after a decline throughout 2019, the index dropped to the lowest point in the past six years. The instability of the overall international environment, including the uncertainty of the Sino-US relationship, combined with a slowdown in China's economy, meant hoteliers lacked confidence in the overall performance.

However, a rebound in market confidence was shown in early 2020 prior to the coronavirus outbreak, indicating increased optimism compared to the second half of 2019. The slowdown in economy was expected to continue, but hoteliers had gradually accepting the circumstances and were actively finding new ways to improve performances.

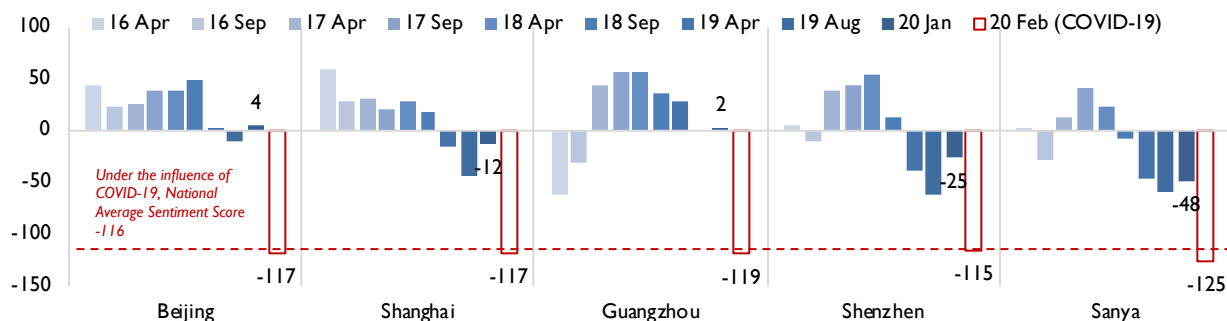
But the impact of the outbreak in January has resulted in the overall market sentiment score's dramatic decrease to -116, a historic low point. Given that the minimum score is -150, the impact on market confidence is self-evident. As the Spring Festival travel rush sped up the spread from Hubei province to the rest of the country, travel became strictly controlled, causing a huge impact on the tourism industry. As a result, demand for accommodation decreased rapidly and most hotels across different regions are facing significant threats. Additionally, it is still unclear how long the epidemic will last; leading hoteliers to lose confidence in the first half of 2020.

Before the outbreak, regional sentiment scores of Southwest China, Northwest China, East China, and Northeast China in January increased compared to last year. Although the scores for most regions remained negative, overall pessimism was easing up. And as the sentiment score of Southwest China turned positive, the market showed a positive outlook. But the appearance of the coronavirus has caused sentiment scores of all regions to fall below -110, resulting in a significant loss in market confidence.

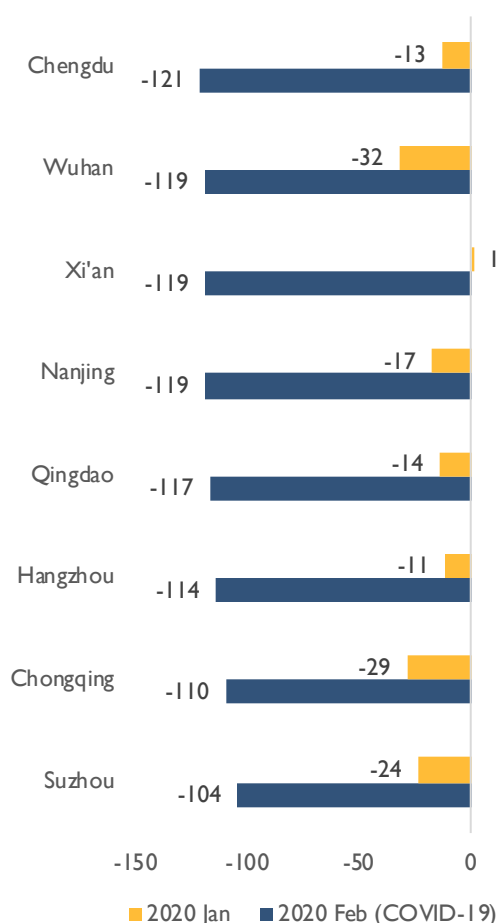


» Sentiment Scores of Major Cities

Market Sentiment Scores of First-tier Cities (2016-2020)



Market Sentiment Scores of Second-tier Cities (the First Half of 2020)



Looking at the first-tier cities, only Beijing and Guangzhou achieved positive sentiment scores before the outbreak. By holding the “One Belt and One Road International Forum”, the International Horticultural Expo and the 70th National Day in 2019, Beijing has successfully driven demands in both business and leisure markets. In addition, the limited new supply also helped hoteliers to regain positive attitudes toward market performances in 2020. Compared to Shenzhen, Guangzhou is more dependent on the domestic market and is relatively less influenced by external economic conditions. Therefore, Guangzhou maintained optimism under the pre-coronavirus economic conditions. However, impacted by the outbreak, sentiment scores of all cities declined significantly. Beijing, Shanghai, Guangzhou and Shenzhen have similar sentiment scores. But Sanya encountered a dramatic drop to -125, ranking last among first-tier cities. Although the outbreak in Sanya is not as severe compared to the other four first-tier cities, its tourism industry was acutely affected as tourists stayed home during the Spring Festival holiday, therefore inevitably causing negative impact on the overall performance of the first half of 2020, and further worsened Sanya’s tourist market.

Likewise, for the first half of 2020, sentiment scores of second-tier cities indicated the lack of confidence in hotel performances even before the outbreak. Only Xi’an reached the sentiment score of 1, ranking first among second-tier cities. Compared to its pessimistic expectation in the second half of 2019, Xi’an regained confidence due to its growth potential in economy and tourism. After the coronavirus outbreak, second-tier cities encountered significant drop in sentiment scores, most of which range from -115 to -119. The similarity in sentiment scores across different regions represents a blow to market confidence throughout the country. As most hoteliers hold pessimistic attitudes, market performance in the first half of 2020 is believed to have dropped significantly compared to the same time last year.



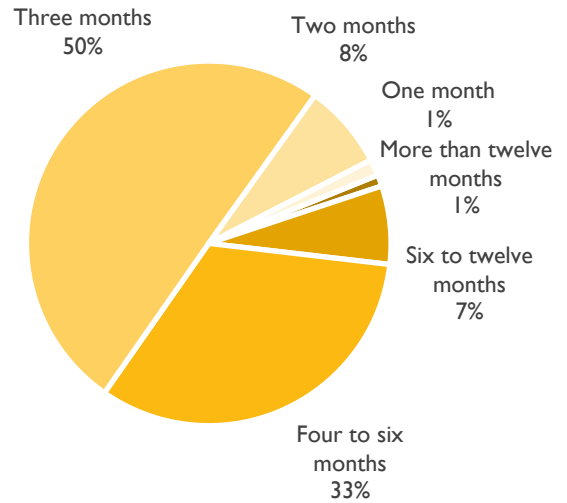
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Hotel Market Outlook under the Novel Coronavirus Outbreak

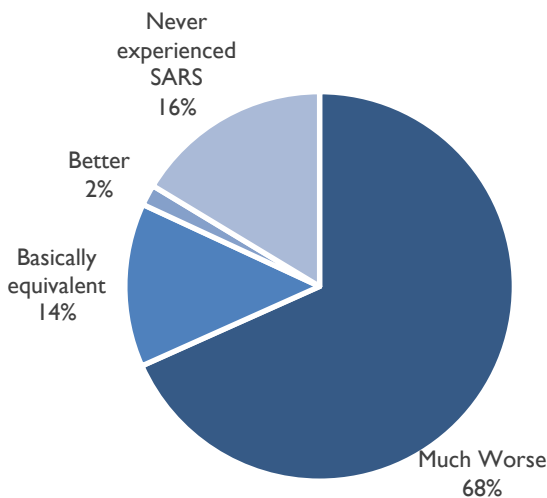
Question 1: Based on the current situation, in regard to hotels' operating performances, since Spring Festival 2020, how long do you expect the impact of this outbreak to last?

In terms of the impact duration of the outbreak on hotels' operating performances, only 1% of the respondents believed it will last for 1 month; 8% suggested 2 months; and 50% considered 3 months; 33%, 7% and 1% of the respondents stated that the impact period would last for 4-6 months, 6-12 months, and more than 12 months respectively. Overall, more than 90% of the hoteliers believe that this impact would not last longer than 6 months.

As a comparison, the first SARS confirmed case was in December 2002 and then the outbreak was in April 2003. In July 2003, the virus was controlled and the overall duration was about eight months. The COVID-19 first appeared in December 2019 and the outbreak appeared in late January 2020. Based on the prediction submitted by the majority, the impact of COVID-19 will last 3-6 months. Therefore, it is assumed that the impact will last until sometime in May to August, leading to great pressure on hotels' operating performances for the first half of 2020.



Question 2: Compared to the SARS outbreak in 2003, do you think the impact of the coronavirus outbreak will be better or worse, in regard to hotels' performances?



16% of the respondents state they did not experience SARS in 2003, so it is difficult to compare and predict the impact of COVID-19 with SARS. Respectively, 2% and 14% of the respondents expect that the situation will be better or basically the same. On the other side, 68% of the respondents believe that the influence of COVID-19 on hotel performances will be more severe than that of SARS, due to its rapid and wider spread. According to statistics, the confirmed cases of COVID-19 has far exceeded that of SARS, which totaled at around 5,000+ cases. Meanwhile, China's current economic scale is also much larger than during the SARS period, therefore the market would require a longer period to recover, which explains why respondents would think that the current impact would be much more severe.

Half of the respondents believe that the impact of the coronavirus outbreak will last for 3 months. More than 90% of respondents expect that the impact will end within 6 months. Most hoteliers claim that the impact on hotel performances this time will be more severe than the impact of the SARS outbreak.

Question 3: Under the impact of the coronavirus outbreak, what is your prediction on the overall market performances for the first half of 2020, in comparison to the first half of 2019?

Occupancy

Looking at occupancy, the market’s overall feedback shows extreme negativity. 71% of hotels surveyed stated that the occupancy in the first half of 2020 would be much worse compared to the same period in 2019; 1% of hotels replied that the occupancy would remain the same; while only 0.4% of all respondents believed that the occupancy would increase.

Average Daily Rate

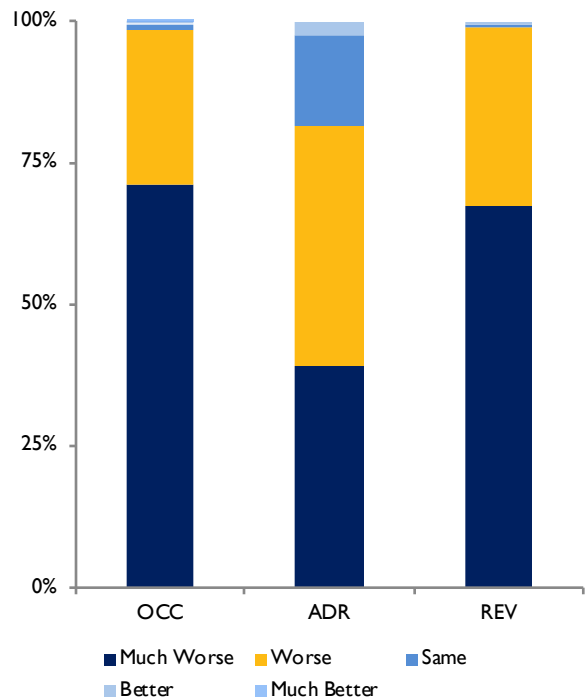
The outlook for ADR is slightly more positive than the expectation on occupancy and total revenue. 39% hoteliers expected that the ADR would be much worse than that in 2019; 42% respondents indicated that the ADR would be lower than that in 2019, while only 19% held the view that the performance of ADR would remain stable or increase in 2020.

Total Revenue

The negative occupancy and ADR expectations resulted in a pessimistic view on total revenue for 2020. Nearly 67% of hotels surveyed predicted that the revenue would be much worse in the first half of 2020, compared to the same time last year; 31% expected that it would get worse. Only about 1% of hotels believed that the total revenue would remain the same or be even higher.

Area Analysis

Under the impact of coronavirus, most hoteliers across the country are pessimistic regarding the overall performance in the first half of 2020. The degree of negativity is consistent across the different regions. The Mid/Southern China area, as the severely affected area, held the most negative view on all indicators, with a total sentiment index of -118, and an occupancy index of -132.



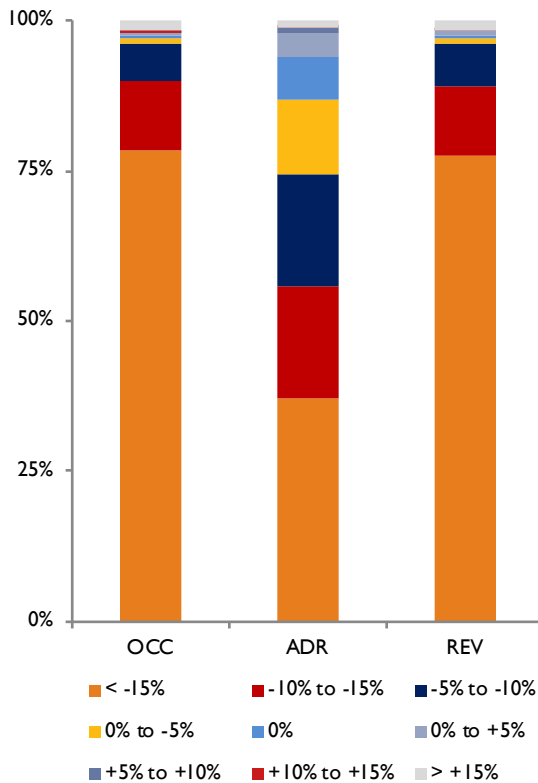
Market Outlook Sentiment Score Index under the Impact of Coronavirus Outbreak, by Region

	AVG	OCC.	ADR	REV.
North	-112	-126	-87	-124
Northeast	-113	-120	-90	-128
East	-112	-126	-86	-123
Central-South	-118	-132	-96	-127
Southwest	-112	-124	-88	-124
Northwest	-113	-130	-81	-127
China	-113	-127	-89	-124

The majority of hoteliers are pessimistic on all market indicators. More than 98% of respondents believed that the occupancy rate and total revenue would be much worse compared to last year, but ADR is expected to be relatively moderate.

Results from the regional market of Mid/Southern China is expected to be the lowest, as this area is severely affected by the coronavirus outbreak.

Question 4: Under the impact of the coronavirus outbreak, do you expect your hotel's performance to increase or decrease in the first half of 2020, in comparison to the first half of 2019?



Occupancy

For individual hotel performances, 97% predicted that the hotel occupancy rate would drop in the first half of 2020 compared to the same period in 2019, of which about 78% believed that this decline in occupancy would exceed 15%. The remaining 3% of hotels surveyed stated that the hotel occupancy rate in the first half of 2020 would remain the same or become better than the same period last year. Also, the northwest region has the most negative expectations where its industry is weak, therefore its corporate demand is not as strong as other regions. In the next question, corporate demand is expected to be the segment with the quickest recovery, thus the confidence in occupancy rate in the northwestern region is relatively low.

Average Daily Rate

The overall feedback on ADR is slightly more positive, comparing to occupancy and total revenue. Nearly 87% stated that the ADR would decline. 7% of them believed that the ADR would remain the same as last year. The remaining 6% of respondents expected the ADR would increase, of which 4% believed that the increase would be somewhere in between 0% and 5%. Looking at the ADR outlook across different regions, the southwestern region holds the most pessimistic view.

Total Revenue

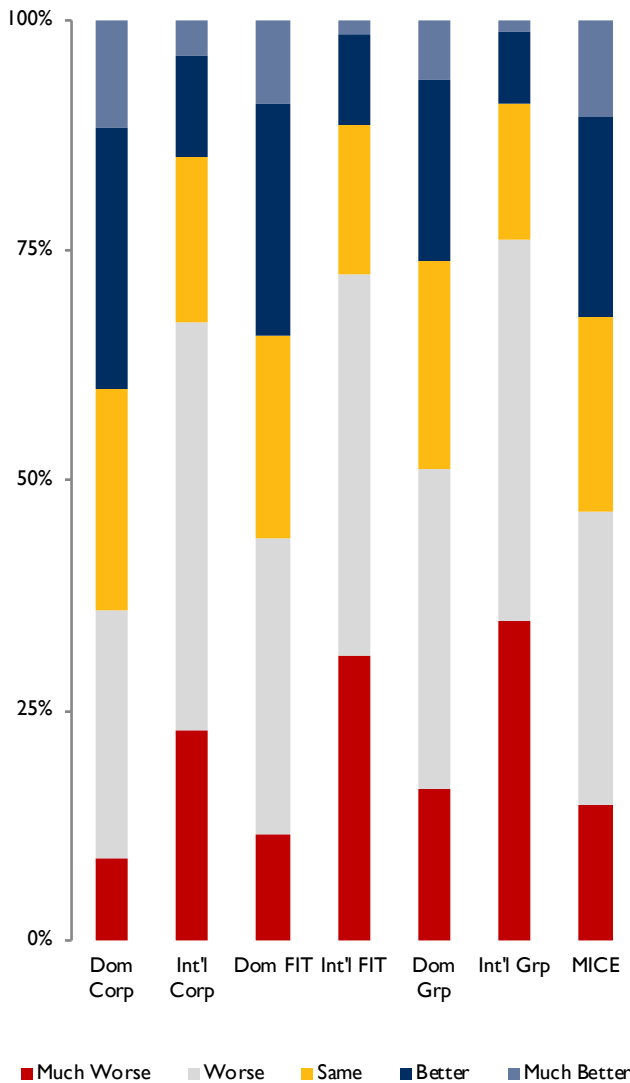
Negative expectations on occupancy and ADR resulted in a pessimistic view on total revenue for the first half of 2020. 97% expected that the total hotel revenue would decline, of which nearly 78% believed that the decline would be more than 15%. Less than 1% of respondents believed that the total revenue would remain the same as 2019; only about 2.5% expected the total revenue to have a certain degree of growth.

Market Outlook Sentiment Score Index under the Coronavirus Outbreak by Region

	AVG	OCC.	ADR	REV.
North	-119	-134	-90	-134
Northeast	-109	-128	-79	-120
East	-120	-134	-90	-135
Central-South	-114	-125	-90	-125
Southwest	-124	-136	-100	-135
Northwest	-122	-141	-88	-136
China	-119	-132	-91	-132

Most hotels surveyed, believe that their performances on all indicators would be worse compared to the first half of 2019, with more pessimistic expectations on occupancy and total revenue.

Question 5: Once the outbreak is over, what is your prediction on the level of recovery for the following market segments?



The final question asks individual hotels for their views on the level of recovery in different market segments – corporate, leisure FIT, leisure group and MICE.

Among all segments, hoteliers have only shown relatively optimistic view on the recovery of domestic corporate demand, of which 40% stated that this segment would show good or excellent recovery, whereas 12% replied that it would show excellent recovery.

However, respondents are lacking confidence in all other segments. Nevertheless, leisure FIT is expected to be relatively better, but with only 34% respond that the recovery level would be prominent. Next, for MICE and domestic leisure group, only 32% and 26% of respondents respectively, think that the recovery level would be prominent. Looking at overall index, the market generally believes that the recovery of leisure FIT and MICE would be better than that of leisure group.

Respondents generally held very negative views toward the recovery of international market, with 70% expected that the recovery would be weak or very weak. Currently, under the announcement of “public health emergency of international concern” by World Health Organization (WHO), the demand from foreign markets is greatly impacted by the outbreak, and is expected to require a much longer recovery period than the domestic market. The index of recovery in international demand is about 50 points lower than that of domestic demand.

The Recovery Degree of Major Demand Segment

DEMAND MARKET

Domestic Corporate	5
Foreign Corporate	-54
Domestic Leisure FIT	-9
Foreign Leisure FIT	-68
Domestic Leisure Group	-26
Foreign Leisure Group	-75
MICE	-14

Respondents are relatively optimistic on the recovery of domestic corporate demand; however their views toward the foreign market demands are extremely pessimistic.

Impact of SARS on Hotel Performances

In order to provide a reference for Chinese hoteliers to predict on the impact of the coronavirus outbreak, we have incorporated the "China Hotel Industry Study" (CHIS) released by Horwath HTL between 2002 and 2004 in order to analyze the impact of SARS on hotel performances.

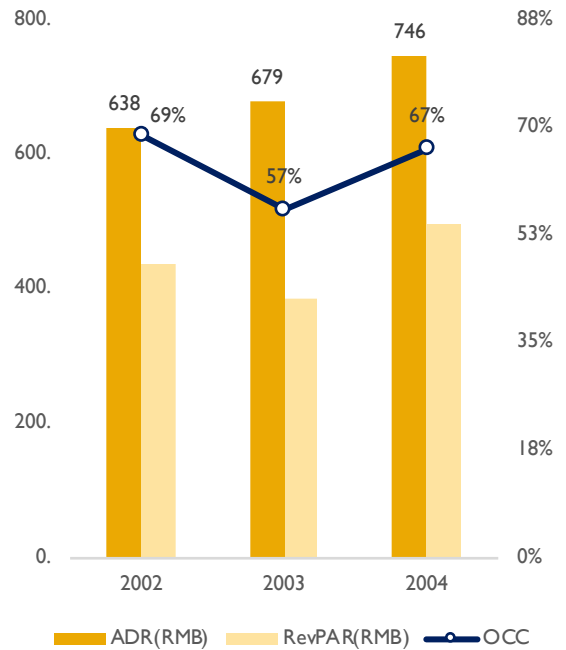
As can be seen from historical data of five-star hotels in China between 2002 and 2004, the occupancy rate fell from 69% in 2002 to 57% in 2003, a decline of 18 percentage points, but occupancy quickly recovered to 67% in 2004. However, the ADR was not affected as much by SARS and maintained a good upward trend, with a compounded annual growth rate of 8%. This was mainly due to the fact that China was in a growing period within the economic cycle. Overall, the REVPAR under the impact of SARS in 2003 decreased by 12%, while the total revenue dropped by 11%. Since Beijing was a dominant affected area, domestic tourists in Beijing fell by 24% that year; international tourist dropped by 40%. As a result, the occupancy rate of five-star hotels in Beijing declined 22 percentage points, whereas the ADR increased by 6%. Therefore, the REVPAR dropped by 27% year on year in 2003, while total revenue fell by 29% year on year. Nevertheless, after the end of the SARS outbreak in 2003, the operating performance of hotels in Beijing recovered rapidly in 2004, with a better performance of ADR and total revenue than those in 2002, before SARS outbreak.

Considering the coronavirus outbreak is affecting the whole country, and the degree of regional blockade is worse than SARS, occupancy rate has fallen sharply. In addition, under the environment of global economic downturn and the slowdown of domestic economy, ADR is in a down-cycle trend. This outbreak may, as predicted by most hoteliers in the second question, have a more serious impact on hotel performances than SARS. However, after the severe hit by SARS in 2003, overall hotel performances quickly recovered in 2004, and even achieved certain level of growth, indicating that once the outbreak has ended, recovery would follow immediately.

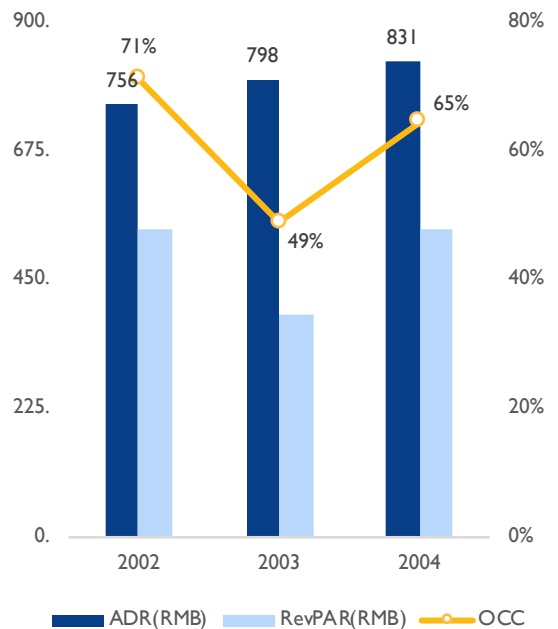
Hotel occupancy rate was hit hard by SARS. But ADR remained relatively stable due to the overall economic development.

Once the outbreak is over, recovery in hotel performances is expected to follow immediately.

2002-2004 Hotel Performances of Five-Star Hotels in China



2002-2004 Hotel Performances of Five-Star Hotels in Beijing



Conclusion

In this sentiment survey, due to the “black swan” event, we have incorporated a special report on the impact of the COVID-19. The sentiment index (-8) in early January before the outbreak was a relatively positive improvement, compared to the second half of 2019 (-32). Unfortunately, after the outbreak, the market sentiment index plummeted to a historic low of -116, with the degree of pessimism was similar throughout the country. Looking at market forecasts and individual hotel performance, hoteliers in most regions believe that occupancy and total revenue would be worse or much worse than those of last year, but their view on ADR is relatively moderate. On a regional basis, the central and southern China markets have shown the most negative views as they are the most affected by the outbreak.

In predicting the duration of the impact, half of the respondents predicted that it would last for three months; more than 90% predicted that it would end within six months. Comparing the impact of COVID-19 with SARS, nearly 70% of respondents stated that this new outbreak will cause more severe impact on hotel performance. Meanwhile, the study on the impact of SARS on hotel performance indicates that the most direct impact was the sharp drop in occupancy rate, leading to the decline in total revenue. This is consistent with the overall survey. Although the outbreak has temporarily destroyed the confidence of the hotel industry throughout the country, we believe that the tourism and hospitality industry is resilient and will recover quickly once the epidemic ends.

Every cloud has a silver lining. Under the impact of this outbreak, artificial intelligence, “contactless services” trends have emerged. In addition, hotels are actively exploring chances to integrate with other forms of business and avoid limitations in traditional profit models in order to become more flexible and resilient during times of change. During the performance downturn as a result of the outbreak, hotels should take this opportunity to fully prepare themselves for the upcoming market rebound.



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