



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Suzhou, China:
Jinji Lake CBD
Hotel Market

NOVEMBER 2019



Introduction

As a historical tourism city located in the central area of the Yangtze River Delta in Southern Jiangsu Province, Suzhou is renowned for its classical Chinese gardens and canals, recognized as the ‘Venice of the East’. Over the last few decades, Suzhou has been able to attract a solid foundation of foreign investments with its mature manufacturing industry. The industry structural optimization and upgrade which happened over the last five years is considered a factor that continues to drive the city’s economic growth.

Specifically, advanced manufacturing such as: semiconductor manufacturing, artificial intelligence, new information, nano technology, biopharmaceutical engineering and new materials are some key areas that contribute to the increased industrial outputs in the city and gradually replaced many traditional heavily-polluted manufacturing factories. Thus, benefiting the overall performance of the hotel market in key downtown areas.

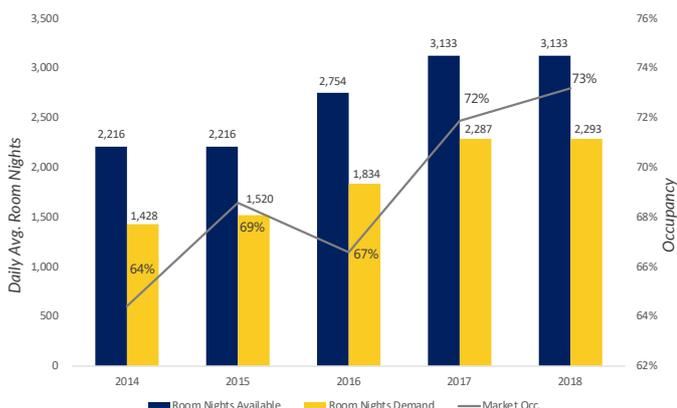
The Suzhou Jinji Lake Central Business District (refers as “Jinji Lake CBD” in this report) is located within the core area of the Suzhou Industrial Park. Suzhou Industrial Park was initially modelled as a flagship economic cooperation project between the Chinese and Singapore governments.

After the successful development over the past 20 years, it has become a major contributor of the city’s GDP and continues to progress and immerse into a core CBD area by integrating a comprehensive array of modern city functions such as grade-A offices, mix-use complexes, mega shopping malls as well as state-of-the-art research and development centres.

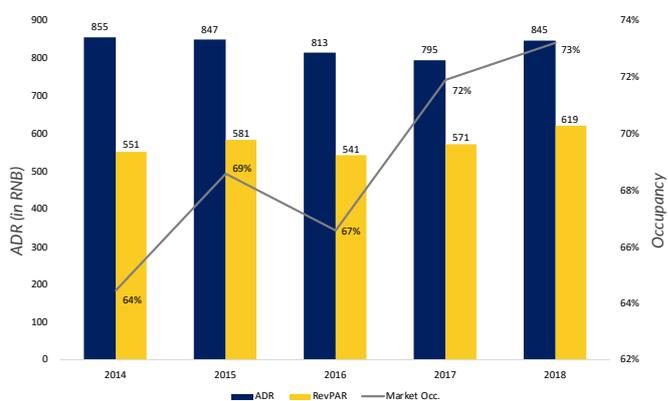
The hotel market we are reviewing in this report is represented by major upscale and upper-upscale hotels found within the Jinji Lake CBD area. The hotel performance of this market is indicative of the overall upscale and upper-upscale hotel market performance for Suzhou City as a whole.

Hotel	Opening Year/ Renovation	Room Count
1 Renaissance	2005/2017	365
2 Kempinski	2008/2016	458
3 Crowne Plaza	2009/2015	344
4 Courtyard	2010	267
5 Intercontinental	2010	427
6 Hyatt Regency	2014	355
7 Hilton	2016	538
8 W Hotel	2017	379
Room Count (Avg)		3,133 (392)

Supply and Demand, 2014-2018



ADR, Occupancy and RevPAR Performance, 2014-2018



Historical Market Performance

Thanks to the continuous advancement in the manufacturing industry and structural transition, strong growth in demand has outpaced growth in supply over the past 5 years, driving market occupancy to a new height of over 73 percent in 2018. However, growth in market-wide ADR level remains stagnant. The following highlights the key market dynamics that affected the overall market occupancy of the selected hotels in the past 5 years.

2014 - 2016

The market occupancy experienced fluctuations caused by new supply entries: In 2014, a sudden surge in supply began as Hyatt Regency opened. The market was able to absorb this influx of new supply as occupancy recorded an increase from 2014 to 2015.

This occupancy growth can also be explained by the recovery of China's regulations that limited the government travel budgets, combined with the "New Three Year Financial Prosperity Plan" scheduled by the officials that accelerated economic activities in Suzhou Industrial Park. In 2016, demand was unable to achieve a growth strong enough to match the supply increase caused by the sudden increment of 538 rooms added to the market. As a result, occupancy recorded a drop.

2017

Demand declined in 2016 but restored with demand from new supply in 2017, driving growth in market occupancy. Despite new supply, the market occupancy recovered in 2017 due to the following:

- The pick up of Suzhou leisure demand in the area of Jinji Lake CBD: Jinji Lake's tourism industry gradually gained popularity as entertainment facilities such as Shin Kong Place and Eslite Mall established themselves in the market, not to mention the opening of Suzhou Center in 2017, attracting locals and tourists from Shanghai and cities around Suzhou to visit.
- Continued Industrial structure optimization mainly triggered by the government planning bureau and increased rent in Suzhou Industrial Park, shifting from traditional manufacturing to electronic information and pharmaceutical industries with high added values that boosted investments and economic activities.
- Strong induced demand from the opening of W hotel: With a solid corporate base and growing leisure demand, Suzhou W hotel entered the market in 2017. Despite this new supply only opened two thirds of its inventory to the market, the induced demand impact was effective and stimulated the market occupancy to 72 percent in 2017, indicating a strong demand growth. It is reported that this hotel, due to its brand reputation and design feature, has successfully attracted not only corporate but leisure travellers from neighbouring cities such as Shanghai to stay at the hotel over the weekend.



2018 to Present

The market demand remained relatively stable in 2018. As new supplies gradually entered matured phases with fully operating inventories, demand stabilized and was able to absorb the previous new hotel additions.

We observe that there are a few noticeable hotels in the representing set that achieved year-round occupancy level over 80 percent, indicating a rather healthy utilization level and strong demand in the area.

Despite demand has been continuously growing, there were no significant rate increment in the market ADR over the past few years because of the following reasons:

The opening of high-end hotels has created a noticeable competitive pressure on the market's ADR. As can be seen in 2016, when new supply entered the market, market ADR dropped by RMB 34 compared to the previous year.

Similarly, in 2017 the new supply enhanced market tension that triggered a further drop in ADR to RMB 795. This indicates that the existing hotels tend to reduce rates in order to maintain their fair share of demand from the market. Thus, prioritizing a healthy occupancy level rather than raising ADR and risking low occupancy is the common practice observed in the hotel market.

Industrial structural change has yet to bring a tremendous increase of higher-yielding corporate demand to the city. Due to the proximity to Suzhou Industrial Park, representing hotels in Jinji Lake CBD primarily rely on corporate demand both within the CBD area as well as the greater Suzhou Industrial Park area.

Based on our research, we found that the industrial structure transition has brought more technology advanced companies to set foot in the area, however, their travel budgets remained similar to previous corporate clients from manufacturing factories. This is mainly because the new technology companies are domestic firms that are relatively small. Therefore, in the short term, it is difficult to observe a significant increment in the corporate rates.



Market Segmentation

Demand in the market can be generally categorized into five segments – Corporate, MICE (meeting, incentive travel, convention, and exhibition), leisure group, FITs as well as others. Other demand refers to airport related demand which is usually the stayover demand from airport-related demand.

As expected, due to the industrial nature of the area, corporate demand has been and still is the leading segment, dominating a significant fraction of 46 percent out of the total demand. With the current undergoing industrial structural change, many enterprises with manufacturing backgrounds as well as factories that cannot afford the surging rent are relocating to other countries or cities. In replacement, pharmaceutical and technology based companies are gaining presence and contributing to increasing corporate demand in the market. Attracting both domestic and foreign expertise, specifically North American nationals.

The in-house meeting demand also arise from companies within the Industrial Park, covering an extensive array of topics, ranging from panel discussions, product launches to company internal trainings and more, resulting in 19 percent of the total demand as MICE demand.

Moreover, the FIT transient segment sums up to 28 percent of the total demand. The majority of this segment is represented by Shanghainese tourists that visit Suzhou during Fridays and Saturdays for the weekend getaway. Suzhou Industrial Park remains as one of the most reputed tourist destinations with its well established Jinji Lake and surrounding entertainment facilities. Notably, this segment has been constantly expanding in the recent years.

Since the selected hotel set has higher ADR than most of the leisure group budgets, this demand typically avoid staying at hotels surrounding Jinji Lake. Moreover, tour groups mainly visit Suzhou for its irreplaceable tourism resources such as the historical gardens that are located in Suzhou old downtown areas. Thus, leisure group account for only 1percent of the overall market demand.

The others segment is mainly represented by long stay corporate demands such as expats with managerial roles, usually assigned to overlook the operation of factories in Suzhou for a longer time period. This type of demand used to be strong and contributed to a larger composition of market mix; however, the relocation of factories and the declining Japanese and Korean staff due to staff localization have resulted in a decline in long-stay demand in the market.

The following tables detail demand characteristics:

	Corporate Demand	MICE (Meeting, Incentives, Convention and Exhibitions) Demand
Ratio	46%	19%
Major Characteristics / Demographics	<ul style="list-style-type: none"> The major industries that contribute to corporate demand are pharmaceutical manufacturing organizations, telecommunication related companies, artificial intelligence companies, research and development centers. Major corporate demand is driven by project support teams, engineers, local business owners and expat managerial positions. The industrial structural change and booming rent have forced companies such as Samsung to relocate some of their business units to countries with lower costs, such as Vietnam. This affects the nationality mix of business travelers, as Koreans used to represent a recognizable portion of corporate demand in Suzhou, nowadays the foreigners are more versatile, with North Americans being the dominant nationality. Domestic corporate clients enjoy staying with hotels that have spacious rooms, lake views and a formal business hotel environment. 	<ul style="list-style-type: none"> Despite having one of the most iconic 8,000 sqm column free meeting space at Suzhou International Expo Center, the relatively high room rate of hotels has forced away many meeting hosts, and in replacement choosing Hangzhou or Ningbo as a higher value for money meeting destination. Taking Suzhou International Expo Center as an example, the common beneficiaries are Hyatt Regency and Intercontinental due to their proximity. However, with exhibitions that attracts more than 1,000 participants, hotels located in Jinji Lake east are able to absorb the demand. There are occasionally a few major exhibitions with over 5,000 participants. At this scale, the entire Suzhou hotel market benefits and the impact radiates to hotels on the west side of Jinji Lake with spill-over demand. In-house meeting demand arise from companies rooted in the area, usually at a smaller scale with around 50 to 80 people. Larger in-house meetings includes training sessions and product launch events, these events can attract 100 to 200 people and can be international or domestic brands from a variety of industries.
Average Length of Stay	2 to 3 days, sometimes project related demand can stay up to 2 to 3 weeks depending on the project requirement.	1 to 2 days
ADR level	RMB 540 to 990	<ul style="list-style-type: none"> RMB 600 to 850 (international exhibition spill over demand) RMB 500 to 650 (local corporations)
Seasonality	Driven by the intensity and amount of business activities, typically low during public holidays and popular during April to November.	April to September with large exhibitions. Year-end months from November to January when companies need to conduct mid-year or year-end conclusion.
Booking Channels	International request for proposal (RFP) accounts and local negotiated contracts.	Direct booking with local hotels/arrangement via third party exhibition organizers.

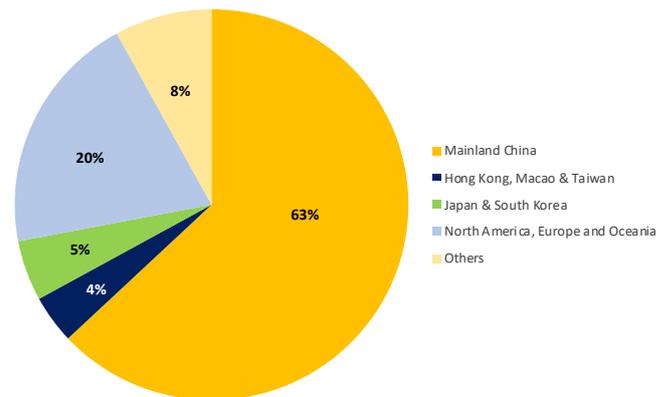
	Transient FIT Demand	Other Demand
Ratio	28%	6%
Major Characteristics / Demographics	<ul style="list-style-type: none"> The majority is represented by Shanghainese tourists that perceive Suzhou as a weekend getaway destination due to its proximity and convenient means of transportation. Attracted to Suzhou’s sceneries and reputation as China’s paradise, there has been a growing demand of tourists from inland cities. This specific demand normally indicate higher spending abilities as they are not expecting to conduct return visits, therefore, are willing to spend in exchange for a guaranteed top quality experience. Jinji Lake CBD Area offers a variety of modern urban-type attractions that well differentiate themselves from Suzhou old downtown. Including a myriad of commercial complexes around the Lake, namely Eslite Mall, Jiuguang Mall and Shin kong Place as well as trendy restaurants on Li Gong Di and bar streets at the Moon Harbour. The combination of natural sceneries and modern leisure facilities are particularly favoured by young professionals, which is also the fastest growing demand segment. 	<ul style="list-style-type: none"> Long stay demand mainly share the same characteristics as corporate demand. This demand source are mostly foreign expats granted with more budgets to stay at international branded hotels for an extended period. However, this demand is declining with Suzhou’s increasing land price that forces Japanese/Korean factories to relocate. Government demand continues to reduce after the implementations of policies that tighten officials’ travelling budgets in early 2010.
Average Length of Stay	2 to 3 days	1-3 months, occasionally 1 year for high managerial positions
ADR level	RMB 800 to 1,300	RMB 530 to 800
Seasonality	Peak season during public holidays and weekends, specifically on Fridays and Saturdays for Shanghainese tourists.	All year round except public holiday seasons such as December, January and February.
Booking Channels	Mainly book through OTA channels and hotel loyalty programs.	Local negotiated contracts with hotels.



Seasonality Of Demand

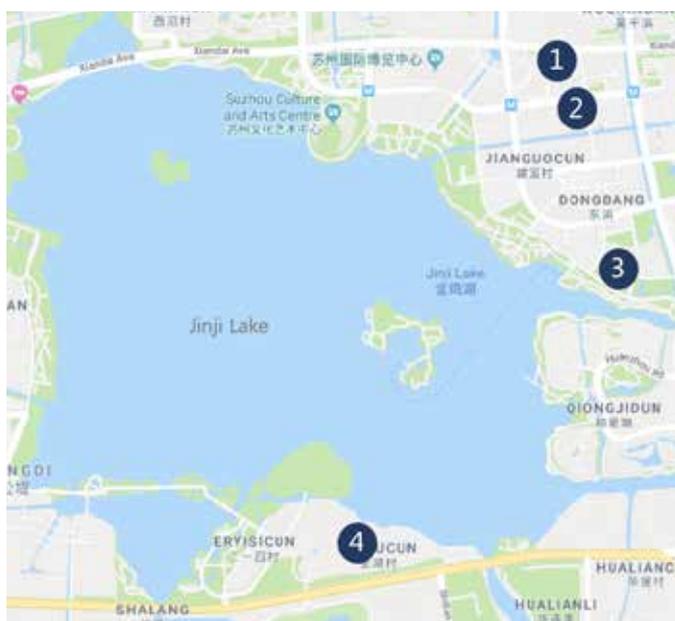
- As a corporate-driven market, low season typically starts from December until Chinese New Year. This is mainly driven by poor weather conditions and public holidays, generally the market experiences a weaker demand for corporate clients during this specific period.
- A huge leap in March demonstrates the recovery of the market as corporate activities start to bustle after Chinese New Year.
- As occupancy picks up in March, a considerable amount of conferences, forums, summits are hosted in April, this triggers the corporate and MICE demand to increase.
- Summer remains to be active, particularly during August with a stable corporate demand and school holidays that attract many tourists from cities across China.
- The market reaches the third busiest period during November, induced by the year-end conferences that are commonly hosted during November, while December is a month with Christmas and New Year's Eve that results in fewer business activities.

Nationality Mix



Mainland China represents the majority of the demand, while North American and European guests are mainly travelling due to the requirements of multinational companies.

With the ongoing industrial structural change and increasing rent, it is expected that fewer foreign companies will set foot in the Industrial Park, instead, domestic companies with technology backgrounds are expected to continue investing on research and development centers in the area. This is likely to increase the mainland Chinese corporate demand in the long term.



New Supply

As the most well-developed area in Suzhou, Jinji Lake CBD remains to be the hot spot for hotel development and the area will welcome several upper-upscale and top-tier hotels in the coming 5 years.

Hotel	Opening	Rooms	Location
1 Shangri-La	June 2019 (Opened)	303	No. 99, Sian St, GCL Plaza, Suzhou Industrial Park
2 Niccolo	2020 Q1/ Q2	215	409 East Suzhou Avenue, Suzhou Industrial Park
3 Park Hyatt	2020 Q2	173	Xizhou Rd South, Sian St East, Suzhou Industrial Park
4 Four Seasons	2021	210	No. 88 Jinji Lake Avenue
Room Count (Avg)		901	



F&B Market Summary

We have identified the following characteristics about the food and beverage market of the selected hotels based on interviews conducted with local hoteliers and research:

- The food and beverage department plays a vital role in the selected hotel market, specifically with high-end full service hotels. Evidently, the aforementioned market leaders receive up to 43 to 55 percent of total revenue generated by food and beverage sales. However, the food and beverage market is highly competitive, the main threats can be categorized into the following:
 - Long established independent restaurants that are recognized by their Suzhou cuisine specialties, often attracting travelers that desire local authentic delicacies.
 - New opening shopping malls and social restaurants that highlight “instagrammable” food presentation, interior design and often well reviewed on travel-related websites and apps.
 - New opening hotels and refinements on existing hotel food and beverage outlets.
- **All-day dining restaurants:** Breakfast is essential to satisfy in-house demand, with an average check ranging from RMB 170 to 200 per person. Dinner buffets are highly popular during weekends with more leisure demand from nearby cities, average check for dinner is around RMB 300.
- **Chinese restaurants:** Due to the developed industrial park that attracts many local and overseas’ talents, the Chinese restaurants in the selected hotel set are not merely aiming for food quality, but also integrating western plating techniques and modern interior designs with open kitchens to gain competitiveness. Locals prefer to host corporate business dinners in private dining rooms. Amongst the selected hotels, Hyatt Regency has achieved strong recognition for their Chinese restaurant in the market. The cuisine fuses Suzhou and Huaiyang style delicacies, as well as roast ducks with an open fire pit that is highly favored by foreign business travelers.
- **Specialty restaurants:** With the comprehensive mix of nationalities that stay at the selected hotels, there is a versatile selection of specialty restaurants, including American steakhouse, Spanish tapas and German influenced beer bar concepts. Typically, these specialty restaurants represent the highest average check outlet in selected hotels, from RMB 300 to 600,
- **Wedding banquets:** Another important revenue generating source. The most common wedding banquet size is between 30 to 40 tables, with a high price that could range from RMB 5,888 to 6,688 per table of 10 guests. Hotels that are able to offer unique venues tend to outperform others. Examples are Kempinski’s outdoor garden venue and Crowne Plaza’s pre-function area that present a complete Jinji Lake view to the guests.

Market Outlook And Conclusion

Overall, the demand outlook appears fairly positive as the existing selected hotel market should be able to sustain occupancy that is propelled by an increasing portion of FIT Transient demand and solid foundation of corporate demand.

If we take into consideration the upcoming supply, these new hotel entries will exert pressure to the market-wide occupancy in the upcoming 2 to 3 years, thus affecting the rate growth momentum that we have observed in the market in the latter half year of 2018. As a result, the market ADR is expected to remain stagnant in the short to medium term.

Factors Affecting Demand Growth

	Factors	Affected Segments
Positive	<ul style="list-style-type: none"> Continuous industrial structural change: Consistent government initiative on upgrading the industry structure, particularly in the area of pharmacy, artificial intelligence, nano technology and telecommunication related businesses. Although there has not been a recognizable change in corporate travel budgets, a growing trend in corporate demand has been observed. 	Corporate and Others
	<ul style="list-style-type: none"> Strong efforts on Jinji Lake, Dushu Lake and Yangcheng Lake tourism development: Given the government's effort on implementing new tourist attractions, such as HB World, which opened in late 2018, the leisure market is expected to continuously spur in 2019. 	FIT Transient
	<ul style="list-style-type: none"> Growing leisure demand from inland cities: With per capita income level increasing in China, we anticipate a growing travel volume in the transient tourists from inland cities. More importantly, this demand source is expected to be high yielding as they perceive Suzhou as a one time travel destination and are not likely to return. Therefore the spending ability is fairly optimistic. 	FIT Transient
	<ul style="list-style-type: none"> Ongoing investments on transportation: there are currently more than 4 new metro lines under construction in Suzhou, notably the S1 line will connect Suzhou Industrial Park to Kunshan Huaqiao station, where passengers can then transit on to Shanghai's metro line 11. This will greatly enhance the convenience to travel between Suzhou and nearby cities, leading to a larger business and leisure volume. 	Corporate and FIT Transient
Negative	<ul style="list-style-type: none"> A sizable amount of new supply situation: Suzhou Industrial Park is expected to encounter sturdy growth in new hotel supply, specifically upper-upscale and luxury positioned brands. Despite the market's rate increase potential, this new supply growth is more likely to dilute the existing demand and exert further pressure on the existing competitors for limited high-end business travelers. 	All demand, esp. high-end corporate demand MICE
	<ul style="list-style-type: none"> Cross city competition for MICE demand: As the ADR of internationally branded hotels surrounding Jinji Lake remains around RMB 800 over the past 5 years, many meeting hosts prefer other rising MICE destinations such as Hangzhou and Ningbo with more affordable hotel rates and similar meeting facilities. 	

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