



Horwath HTL

Hotel, Tourism and Leisure

INDUSTRY REPORT

**Hong Kong Hotels:
Staycation to Long Stay
Packages - Can locals
fill the gap until inbound
travelers return?**

NOVEMBER 2020



Source: Dorsett Wanchai, Hong Kong

Staycation to Long Stay Packages: Can locals fill the gap until inbound travelers return to Hong Kong hotels?

The global hotel industry has been brought to its knees by the COVID-19 Pandemic, let alone hotels in Hong Kong, which used to rely heavily, if not solely, on inbound visitors.

Since March 25, 2020 Hong Kong has implemented a stringent border shutdown, stopping entry from non-residents and enforcing compulsory 14-day quarantine on every resident who enters the city. As a result, the overnight visitor arrivals have plummeted to merely 1.3 million during January to August 2020, compared to the same period of 18.8 million, a 93 percent of year-on-year (YoY) decline.

Hotels in Hong Kong are struggling to survive without overseas and mainland visitors. Even though they have implemented significant cost control measures, the extent of cost savings achieved is far from offsetting the significant revenue shortfall. Facing a critical period of “life or death”, hotels in Hong Kong have to swap its focus into local demand. This article aims at providing a general understanding of how hotels in Hong Kong respond to the coronavirus crisis in the following paragraphs.



Source: L'hotel Island South robot food delivery

Quarantine Packages

Local residents coming from certain high-risk places (specified by the govt, e.g. the US, India, the Philippines and UK) are required to stay in hotels for 14-day quarantine. In addition to the compulsory arrangement, some residents from other places also conduct quarantine in hotels voluntarily in order to protect their family members.

To cater to such demand, over 50 hotels across the city offered quarantine packages as at October 2020, ranging from budget hotels to 5-star hotels. The packages include 14-day accommodation and optional in-room dining services. The 14-day room-only price starts at as low as HKD 3,700 (or HKD 265 per day) while the 5-star hotels charge around HKD 20,000 (or HKD 1,430 per day).

Since there are over 50 hotels of various positioning levels compete in this segment, some players have adopted additional services to their guests:

- **Dorsett Hospitality**, a local chain operating nine hotels in the city, co-operated with a medical lab to provide self-test service. Guests staying at Dorsett hotels can order a Test Kit from their rooms and get results within 24 to 48 hours.
- **Ovolo Southside** provides multiple choices of in-room wellness and mindfulness amenities, including an indoor leafy plant, yoga mats, dumbbells, resistance bands and brain teasers.
- **L'Hotel Island South** has introduced contact-less food delivery by a team of robots. Guests simply input a code to open up the meal compartment and then send robots on their way.

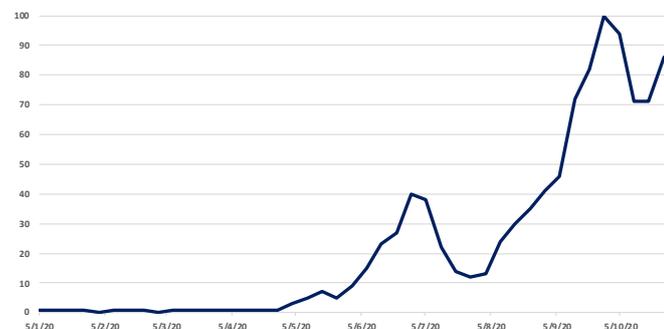


Staycation Market

It is a well-known fact that Hong Kong people are travel enthusiasts making an average of 12.8 outbound trips per person in 2019. Hong Kong was also ranked the World’s 11th largest and Asia’s 3rd largest source market in terms of total international tourism expenditure totaling USD 26.5 billion in 2018 .

The cancellations of most outbound travel plans make Hong Kong people seek vacation options locally, which offers Hong Kong hotel industry a special opportunity to tap into the lucrative market. According to Google Trends, the searches in Hong Kong for “staycation” started to surge in June and peaked just before the 4-day National Day holiday in October.

Search Trend for “Staycation”



Source: Google Trends

“Stay & Dine” becomes the standard for staycation packages, which usually include one night of “complementary upgraded” accommodation plus dinner and/or breakfast. In addition to the “standard offerings”, some hotels provide the following points of differentiation to attract discerning local residents:

- Flexible check-in time which allows guests to check-in anytime during a day
- Staying up to 33 hours
- Personal chauffeur service
- Activities such as baking classes, gym training sessions, creative art workshops
- Pet-friendly packages
- Customized balloon decorations

During the 4-day National Day holiday, the average occupancy in Hong Kong rose to about 60 percent and some luxury hotels enjoyed long-lost full house.



Long-stay Segment

Hong Kong has been ranked as the least affordable housing market in the world and the most expensive location in Asia for expatriates to lease a high-end apartment in recent years. Both local residents and expatriates have generated strong demand for rental apartments while a hotel room could be a temporary alternative solution.

Amid the pandemic, in addition to the staycation market, some hotels have shifted its strategy to target long-stay segment by offering monthly-rental packages at a competitive rate against private residential's leasing market. Although the achieved ADR for monthly packages is significantly lower than daily rates, long-stay packages could help hotels to have a stable demand base and revenue stream, hoping to cover fixed operating expenses and to reach a break-even if possible.

To compete with residential buildings and serviced apartments, hotels also include the following benefits into a typical monthly rental package: F&B discount in hotel outlets, free gym access, housekeeping services and laundry services.

In-room Dining and Takeaway

Hotels dining outlets are also hit severely in the pandemic. During the period of "no dine-in" restrictions imposed, some hotels were forced to close their outlets temporarily. Lesson learned from the sudden shut-down, hotels' management team has quickly reacted by offering other alternatives:

- **In-Room Dining:** some hotels offer "dining in guestroom" packages, which allow up to 4 guests staying in a room during lunch or dinner time to enjoy their meals and in-room amenities.

- **Takeaway:** Most hotel outlets have promoted takeaway options. They either join the their-party delivery platforms such as Deliveroo or Foodpanda or set up their own online delivery platform. For example, Mandarin Oriental Hong Kong has set up an online shop for takeaway ordering.

Renovation / Rebranding

If a hotel has replacement reserves for renovation set aside, now it may be an appropriate time to implement refurbishment or renovations in downturn period, which could minimize operational disruptions and allow the property to have a new image when visitors are back.

Notable renovation projects in the city include:

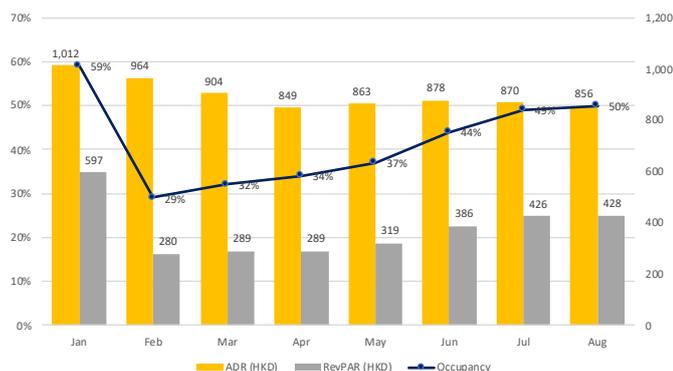
- **Prince Hotel:** The hotel closed in February 2020 to undergo a 15-month full renovation. It plans to reopen in 2021 as Marco Polo Prince Hotel.
- **InterContinental:** This legendary hotel ceased operation in April 2020 for its biggest renovation in 30 years. It will be rebranded as Regent Hong Kong when it reopens in 2022.
- **Mandarin Oriental:** In August 2020 the hotel started an extensive 6-month renovation of the 25th floor. The Chinese Restaurant will be expanded and a new Japanese restaurant, The Aubrey, will be added.
- **Four Seasons:** The hotel commenced a major renovation in October 2020, which will include redesign of all hotel guestrooms (by phases) and a refurbishment of the lobby. It also plans to add two more dining outlets, Cocktail Bar and Lobby Café.



YTD Operating Performance

Despite the record low arrival figures and uncertain outlook, hotels in Hong Kong have reported a somewhat progressive performance. As shown in the charts below, both monthly occupancy and RevPAR levels have been on an upward direction and the YoY change has been narrowing month by month. In August, the occupancy level hit the 50-percent mark. However, in terms of the ADR performances, the monthly ADR has been stagnant around HKD 850, which is far below the past 10-year range of HKD 1,200 to 1,500.

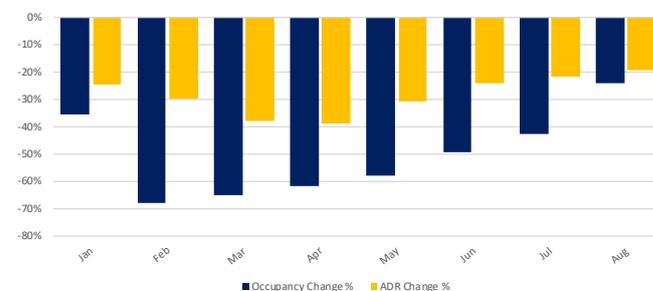
Monthly Occupancy and ADR, Hong Kong Hotels, Jan - Aug 2020



Source: Hong Kong Tourism Board

However, when we think about the bottom line, reliance only on local demand may not be a sustainable solution. Based on the Hong Kong Hotel Industry Survey, the average fixed operating cost is estimated to be around HKD 520 to 600 per available room per day during 2017 and 2019, excluding property rentals and other non-operating expenses.

Monthly Occupancy and ADR YoY Change, Hong Kong Hotels, Jan - Aug 2020



Source: Hong Kong Tourism Board

Given the low RevPAR of only HKD 450 since February 2020 and the plummet of F&B business due to social distancing measures, it can be inferred that hotels in Hong Kong could hardly reach an operational break-even only dependent on the local market.

Conclusion

Facing the unprecedented coronavirus crisis, it is all about survival for hotels in Hong Kong. With all the cost cutting measures in place and heavily discounted prices to target local market, the hotels are merely struggling to reduce losses and save jobs, still far from break-even. Only with the border reopening and the comeback of both business and leisure visitors, should the industry have the opportunity to sustain.

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Gloria Chang is Executive Director of Horwath HTL Hong Kong. Since 1995, Gloria has developed an extensive consultancy base specialised in the hospitality and leisure industry with a specific focus on hotel developments. Formerly a Senior Consultant with hospitality/real estate and corporate finance consulting practices including PKF Consulting Ltd., Arthur Andersen and PriceWaterhouseCoopers, Gloria was principally responsible for various studies on hotel and real estate property developments in Asia-Pacific.



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Dandan Gui is a Project Director of Horwath HTL. Dandan is based in Hong Kong and has been involved in more than 70 projects, including feasibility studies, renovation and repositioning studies, branding, destination tourism planning, asset management and operator selection engagements in key markets across China and Southeast Asia. Ms Gui is a frequent speaker in industry conferences. One of her academic papers was presented at the 2016 Academy of Management Annual Meeting, Anaheim, USA. She has also served as an admissions interviewer for the BBA program of Chinese University of Hong Kong for consecutive years.

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