



Horwath HTL

Hotel, Tourism and Leisure

SENTIMENT SURVEY

China Hotel Market

*(6th Consecutive Survey on the
Influence of the Coronavirus
Outbreak) 2021 Q3*

AUGUST 2021

Introduction

The outbreak of the Covid-19 in early 2020 caused domestic hotel performance to experience a precipitous decline, but as the domestic conditions stabilized and the vaccination rate against coronavirus increased significantly, the impact of the pandemic is steadily diminishing, confidence in the domestic hotel market is gradually restored, and the dawn of hotel performance is also ushering in, casting out the gloomy mist.

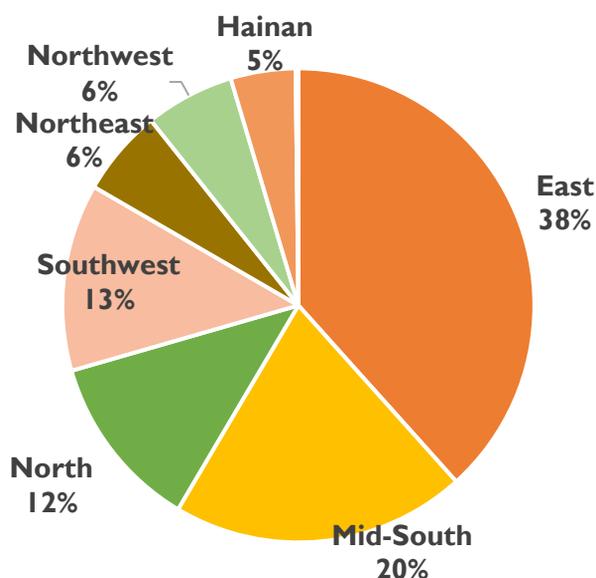
Following the five *Consecutive Survey on the Influence of the Coronavirus Outbreak* in February, June, September, December 2020 and March 2021, Horwath HTL conducted the sixth follow-up survey on the market in July 2021, hoping to provide an in-depth analysis of the current recovery of the hotel market and to understand the industry's expectations for the third quarter of 2021 in terms of occupancy, ADR, and total revenue. In order to better analyze and compare the hotel market of various regions and cities in China, we utilized a specific sentiment model to quantify the respondents' feedback and presented it with index, so as to more visually reflect the respondents' expectations for the hotel market.

The sentiment index presented in the hotel market outlook section of this survey reflects the market's expectations for overall performance. The index ranges from -150 to +150, with "-150" indicating that the market is extremely pessimistic about expected performance, "0" indicating a neutral attitude, and "+150" indicates that the market's expectations are highly optimistic. In this survey, given that the data for 2020 is not referential, each hotel surveyed uses the actual performance in the third quarter of 2019 as a benchmark for comparing the expected market performance in 2021, and provides an outlook on how well various demand segments would recover in the future.

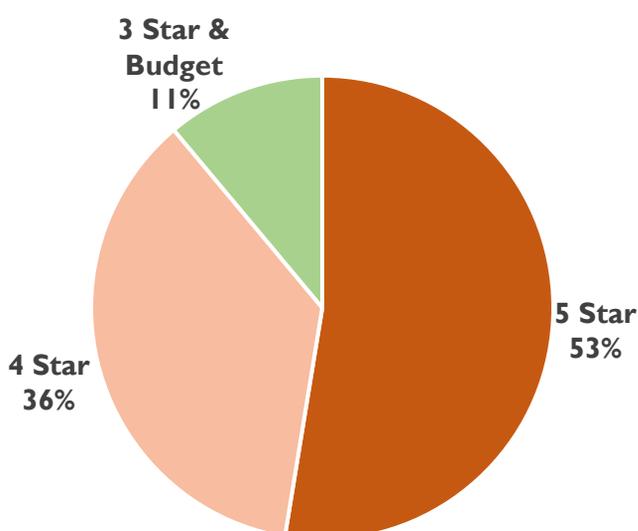
The conclusions covered by this survey are intended to assist hoteliers to fully understand the industry dynamics, adjust their business strategies in a timely manner and achieve normalized and healthy operations more quickly.

This report summarizes the research results of this special survey, which received **539** valid response from 31 provinces, municipalities and autonomous regions across China. We would like to sincerely thank the participants for sharing their industry insights.

Sample Distribution by Region



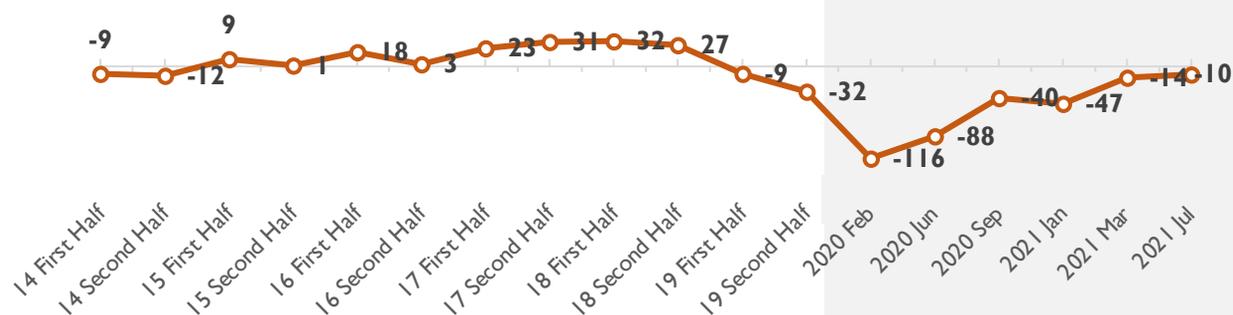
Sample Distribution by Star-Rating



*Note: The questionnaire was collected from June 24, 2021 to July 8, 2021.

Mass Vaccination and the Summer Vacation Further Warms the Market Expectations

2021 Q3 Sentiment Score **-10**



Question: Compared with the third quarter of 2019, what's your prediction on the overall hotel market performance of the third quarter of 2021?

Occupancy

With the domestic epidemic situation getting significantly better, the hotel market showed a significant trend of rebound. The sentiment score for 2021 Q3 was -10, reaching the peak since the outbreak and even approaching the score in the first half of 2019 when the epidemic had not yet occurred, indicating that the overall market is optimistic about the summer market in the context of the internal circulation. Of all regions, Hainan and Northwest have the most positive expectations for occupancy. These two regions, with stable epidemic prevention and rich and unique tourism resources, are expected to receive a large number of tourist arrivals in the summer against the backdrop of the national blockade. Hainan's occupancy sentiment rose sharply by 29 points from the second quarter, soaring to 58, with plenty of confidence in the market.

ADR

The macroeconomic environment is still unstable under the effect of multiple factors such as the domestic and international epidemic development, resulting in a decline in some consumers' willingness and ability to pay. Although respondents' expectations for average ADR of the market in the third quarter have improved compared to the previous survey, they are still relatively cautious and pessimistic. Over 45% of respondents believe ADR will perform inferior to the same period in 2019, while only 28% anticipate a better rate.

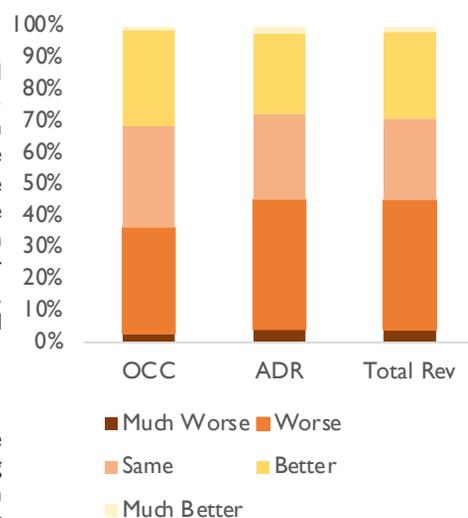
Total Revenue

For total revenue, 26% of hotels surveyed believe total revenue in Q3 will remain consistent with the same period in 2019; 29% believe total revenue will improve; while nearly half of respondents are still pessimistic for total revenue performance.

Analysis by Region

Across the national market, two long-haul destinations, Northwest and Hainan, are way ahead of other markets in terms of the sentiment score. Particularly, market expectations are positive due to Q3 being the traditional peak season for Hainan's leisure family travellers. In contrast, given that the southwest region is impaired by scattered imported epidemic in Yunnan and the sporadic recurrence of local epidemic, the market outlook is uncertain to a certain degree, and the overall regional sentiment core turned from positive to negative, falling to -5.

2021 Q3 Hotel Market Performance Outlook



2021 Q3 Market Outlook Sentiment Score Index

	AVG	OCC	ADR	REV
North	-24	-16	-31	-25
Northeast	-23	-25	-19	-26
East	-8	0	-16	-9
Central/South	-27	-26	-23	-32
Southeast	-5	-4	-3	-9
Northwest	16	20	13	15
Hainan	67	58	70	72
China	-10	-5	-12	-12

Most First-Tier Cities Have Fallen Back in Confidence Due to the Resurgence of the Epidemic While Sanya Stands Out

Market Sentiment Scores of First-tier Cities and Sanya Over the Past Five Years



2021 Q3 Market Sentiment Score of First-tier Markets

	AVG	OCC	ADR	REV
Beijing	-42	-38	-44	-44
Shanghai	-20	-6	-33	-23
Guangzhou	-63	-61	-54	-73
Shenzhen	-55	-53	-46	-65
Sanya	80	65	86	88

Sanya

Among the first-tier markets, Sanya is the only one that has achieved an rise in performance under the epidemic. While domestic tourism development is still expected to be unpromising, Sanya has become a one-of-a-kind that is bucking the trend to grow, and since September 2020, Sanya's sentiment index has returned to positive, making it the most strongly revived tourism destination under the epidemic. In 2021, the domestic epidemic's being under control and the return of a substantial number of high-end guests once again pushed Sanya's hotel performance to a new height, with all three parameters rising again in this survey and the sentiment index rebounding to 80, reaching a summit since 2017. With the international unblock still a long way off, Sanya will remain the undisputed destination for domestic travelers with its high-quality coastal resources and rich and innovative hotel offerings.

First-tier Cities

Except for Shanghai, the sentiment scores of the other three first-tier cities have dropped from the last survey and are also significantly lower than the national average (-10).

Among the four top first-tier cities, Guangzhou and Shenzhen saw their occupancy hit rock bottom due to the secondary outbreak at the end of May. The hotel performance in Guangzhou, the center of the epidemic, was hit hard. Despite the gradual improvement of the epidemic in Guangzhou and Shenzhen since mid-June, the pressure of the imported epidemic and the concomitant resurgence of the domestic epidemic still persists in both cities that function as the mainstay of receiving international flights. The surveyed hotels have cautiously negative expectations for the occupancy and ADR in these two cities in Q3.

As a capital city with active political activities and frequent international interactions, Beijing's large-scale events such as celebration of CPC foundation bring certain demand for hotels, yet market transactions like business and convention activities are still greatly restricted. Hotel performance is obviously affected by regulations and controls, fluctuating elastically. Due to the influence of political activities, respondents' expectations for the occupancy and ADR of Beijing hotels in the third quarter are still not very optimistic.

The rise in sentiment index for Shanghai is mainly attributed to the increase in respondents' expectations for hotel occupancy in the third quarter. With the mitigation of the epidemic, along with the boost in domestic business travel and summer tourism, occupancy of Shanghai hotels is expected to see a new round of rebound.

Xi'an's Sentiment Score Surges Yet Wuhan Falls to the Bottom of the New First-Tier Cities Again

Chengdu & Chongqing

Compared to 2021 Q2, Chongqing's sentiment has slightly raised, but overall expectations remain pessimistic. As a volume-driven market, demand for business travel and leisure tourism recovered relatively positively in the post-epidemic period, but constrained travel budgets and emerging new supply exacerbated the competitive landscape, leaving ADR under severe pressure. The sentiment index for the Chengdu market remained positive, despite slight fluctuations from the second quarter, reflecting an optimistic but cautious attitude among respondents. It should be noted that the high sentiment index in the second quarter was mainly attributed to the Sugar & Wine Fair in April, which was held after a two-year absence, driving the performance to peak. For the third quarter, when children travel frequently, respondents have strong confidence in the Chengdu market, with its distinctive web-based attributes as well as rich and diverse products for travel and vacation.

Nanjing, Hangzhou & Suzhou

Since the new epidemic had not yet broken out in Nanjing by the time the questionnaire was closed, we found that the sentiment scores of the three cities, which are also core cities in the Yangtze River Delta, were very different in the third quarter. The sentiment index of Hangzhou and Nanjing were significantly higher and remained constant respectively compared to the last survey, and both showed positive trends.

The hotel collapse in mid-July cast a shadow on Suzhou's hotel industry, and with the pressure of new supply coming to the fore, the index plunged 26 points to -28, ranking the bottom among the three Yangtze River Delta cities.

Xi'an

With summer vacation approaching, Xi'an tourism demand rose sharply and stimulated hotel demand. Coupled with the the ease of prevention and control measures in the context of the mitigated epidemic, demand and convenience for business travel is further enhanced. In the forecast for Q3 sentiment, all three performance indicators improved significantly.

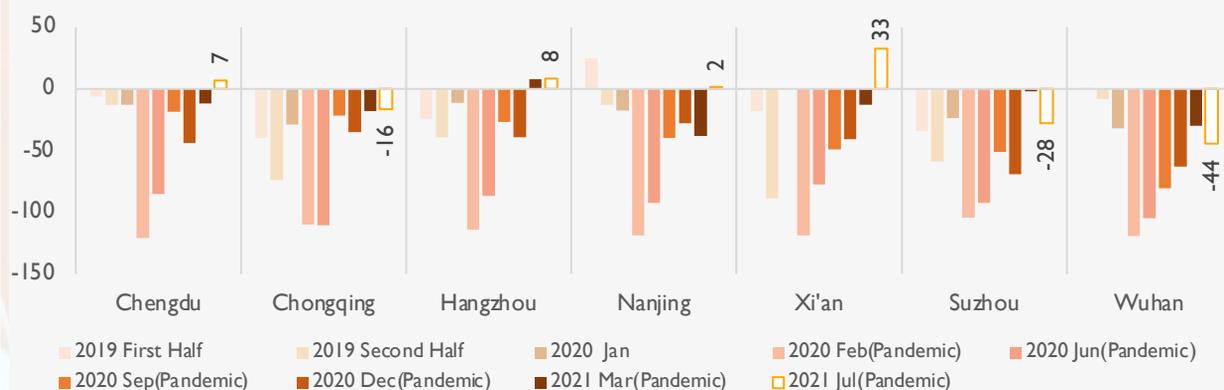
Wuhan

Wuhan's sentiment index again fell to the bottom of the second-tier cities compared to the last survey. As a typical convention-oriented market, compounded by the summer heat, summer is not the traditional peak season for hotels in Wuhan and respondents' confidence has dropped noticeably.

2021 Q3 Market Sentiment Score of New First-tier Markets

	AVG	OCC	ADR	REV
Nanjing *	2	14	-5	-3
Chongqing	-16	-6	-28	-15
Hangzhou	8	16	-1	9
Xi'an	33	33	33	31
Chengdu	7	16	4	1
Wuhan	-44	-35	-52	-46
Suzhou	-28	-33	-21	-29

Market Sentiment Scores of New First-tier Cities Over the Past Three Years



*Note: Nanjing had not had the outbreak at the time of the questionnaire closed.

Domestic FIT Shows the Strongest Recovery

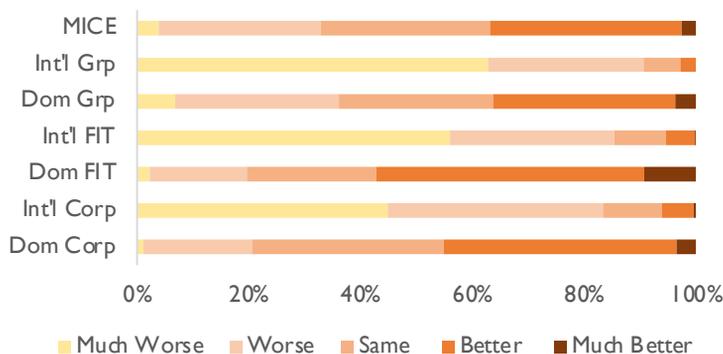
Question: What's your prediction on the level of recovery for the following market segments in 2021 Q3?

At present, the international pandemic is still unpromising, with the number of new diagnoses increasing aggressively every day in countries in Europe, America and Asia. Therefore, following the results of previous surveys, respondents are generally extremely pessimistic about the recovery of various international markets. In the past few months, some countries have been suffering from the recurring epidemic and even mutated different variant viruses, yet the control measures shift to that against the flu, unleashing epidemic gradually out of control; also due to the frequent flight suspensions caused by imported cases, the opening of the border is currently unpredictable.

However, it is encouraging that with the popularity of vaccination and regular measures in place, domestic live and production has gradually returned to the right track, and the domestic market for travel and business FIT has recovered favourably. Considering that children's economy in the third quarter summer is clearly driving the overall travel market, more than 57% of respondents predict a better or very prominent recovery rebound in the domestic FIT market. However, it should be noted that the sentiment scores of all types of domestic customer segments have declined compared to the last survey. The second epidemic outbreak in Guangdong and other regions has greatly affected the performance of hotels in local and surrounding cities, which has dampened respondents' confidence in the recovery of the domestic market.

In addition, with the backdrop of small-scale epidemic recurrence in some areas, hotels are more cautious about holding events with large gatherings; and the third quarter is not the traditional peak season for MICE, so the sentiment score for which also dropped significantly from the last survey. Looking at the data, nearly 33% of respondents expect the recovery of MICE demand in the third quarter to be poor or terribly bad, but the overall index is still positive.

Recovery Outlook of Major Demand Segments



The Recovery Degree of Major Demand Segments

Market Segment	Score
Domestic Leisure FIT	33
Domestic Corporate	20
MICE	2
Domestic Leisure Group	-2
International Corporate	-91
International Leisure FIT	-102
International Leisure Group	-113

Central Market Becomes the Most Prominent Driver of Demand Recovery

Question: What's your prediction on how the following factors may affect the hotel market performance in 2021 Q3?

The Influence of Various Factors on Market Expectations



Market Expectations of the Influencing Factors

Influencing Factors	Index
Central Market	23
Local Economics	12
Local Tourism Market	14
Trade Market	-29
International Trade	-28
International Financial Market	-20
International Political Stability	-59
Currency Exchange Rate	-33
New Hotel Supplies	-52

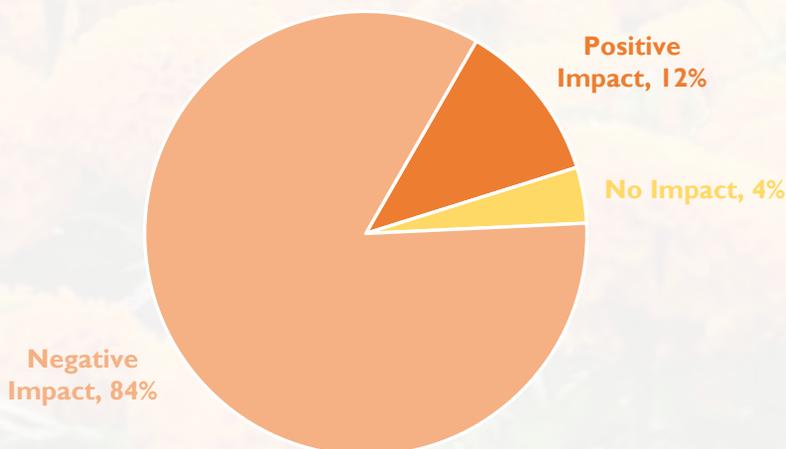
Similar to the results of the previous three surveys, respondents generally believe that international factors related to global economy, trade, stock market and political turmoil will continue to have a negative impact on domestic hotel market performance; while influential factors related to domestic policies, economics and tourism are expected to contribute further to market revival.

From these data, more than half of the respondents believe that policies of the Central Government, trends of domestic economic and tourism will have a positive or even greatly beneficial impact on the hotel market performance in the third quarter. In the post-epidemic period, the theme of China's hotel market recovery is inextricably linked to national policies. Thanks to strict and efficient national control measures, large-scale vaccination programs and strong support for economic recovery, both the economy and tourism market are showing clear signs of rebound, which will do much to support further revival of the hotel market.

It is worth noting that among the many influencing factors, the sentiment index of "new hotel supply in competitive markets" is remarkably low. While there are still sporadic outbreaks in China, the continued influx of new supply in some regions will continue to put pressure on the still unstable hotel market, to which respondents hold very pessimistic expectations

More Than 80% of Respondents Believe the Epidemic Has a Negative Impact on Hotel Performance

IMPACT OF THE PANDEMIC ON HOTEL PERFORMANCE



To gain a deeper understanding of the impact of the epidemic on the hotel industry from various dimensions, this question is introduced to reflect the opportunities and challenges brought by the epidemic in a dialectical manner.

More than 80% of respondents indicated that the epidemic had a negative influence on hotel performance, but it is worth noting that 12% of respondents suggested that the epidemic had positively driven hotel performance, while another 4% believed that hotel performance had not been affected.

According to the data, the vast majority of the surveyed hotels who perceived positive influence on performance brought by the pandemic were resort hotels, of which more than 20% were coastal resorts in Sanya and Wenchang.

Benefiting from the forced return of high-end tourists under the epidemic, the preferential duty-free policy on the island, the active promotion of the upstream and downstream industries in the hotel and tourism field, as well as the unique regional tourism resources, Sanya's tourism market has gradually recovered since May 2020, and started to boom since the middle and end of June, against the grim background of the national epidemic and the second wave of the epidemic attack. In 2021, the prevention and control for domestic epidemic has been normalized and tourism consumption has significantly launched. Sanya, as a city with unique tropical resources in China, has experienced an undersupply of domestic vacation demand, boosting room rates and occupancy to raise. Up to the time of writing, the ADR of upscale hotels in Sanya has reached an all-time high. It is necessary to note that the return of overseas consumption is an important opportunity for vacation destinations that are led by Sanya, and it is critical to effectively capture the market dynamics and customer demand as well as upgrade the quality of products in the time of post-pandemic, so as to retain the high-paying clientele to continue spending after the epidemic and further heat up the positive impact of the epidemic.

Different Composition of Hotel Clientele Leads to Different Perception on the Duration of the Covid-19's Impact

Question: Based on the current development, what's your expectation of the duration of the Covid-19's impact on your hotel's performance from the end of June 2021?

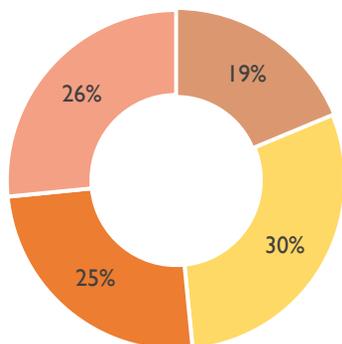
We found that there is a slight difference in the expectation of the duration of the epidemic impact among respondents with different attitudes towards Covid-19. More than half of the respondents holding a "negative impact" view indicated that the impact would last no longer than six months. In contrast, 52% of whom with "positive impact" believed that the impact would last longer than six months, with nearly 30% of them believing that hotel performance would benefit from a long-term (more than one year) return of demand brought by the disaster in the post-pandemic period. The difference in customer segments along with the distinct epidemic development in China and abroad is the main reason for the difference.

The outbreak has been ongoing for a year and a half since January 2020. With significant strategic achievements in the prevention and control and the increase in vaccination rates to 1.5 billion doses, respondents in the "negative impact" group, led by domestic urban hotels, expects the impact of the outbreak to be significantly shorter than in early 2020. 28% of respondents think the negative impact of the outbreak on hotel performance will gradually dissipate within 3 months.

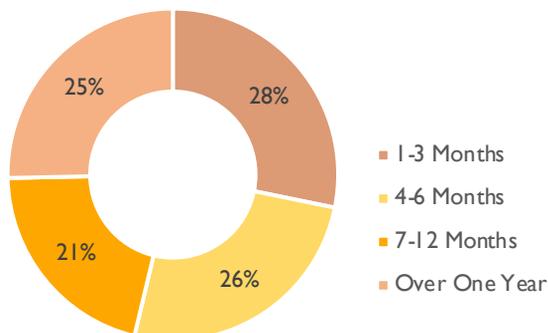
On the other hand, the destination resort market, led by Sanya, as the beneficiary of the storm, has seen a significant return of high-end guests. The effectiveness of foreign epidemic prevention and control measures has yet to be seen, the epidemic is still spreading and the opening of national border is long in coming, which is undoubtedly an encouragement for domestic destination resorts. The destination resorts that believe in the positive impact of the epidemic generally expect the impact to last longer.

Expected Duration of the Covid-19's Impact on Hotel Market

Respondents Perceiving Positive Impact



Respondents Perceiving Negative Impact



Conclusion

Up to the time of writing the report, it has been more than 19 months since the spread of the Covid-19, and the stable social environment achieved by the normalized usage of masks and popularized vaccination has become an essential foundation for the rebound of the hotel market, with the sentiment score peaking at 10 since the outbreak, approaching the level of the first half of 2019 before the epidemic.

Long-distance leisure destinations like Hainan and Northwest absorbed a large number of high-end tourists who were forced to return under the national blockade, driving their performance to restore and even positively surpass pre-epidemic levels; whereas major first-tier cities experienced a more pronounced damage in performance and respondents' confidence in the market oscillated due to the sporadic regional epidemic resurgence and the elusive recovery of international markets. It is easy to see from the fluctuation of the regional sentiment scores that the recovery and development of hotel performance around the country is directly linked to the local epidemic, in addition to being influenced by overall national regulatory policies

While the domestic epidemic is changing for the better, the international market is still plagued by virus variation and recurring epidemics. With nearly 900,000 new cases being diagnosed daily worldwide, the epidemic is out of control in some countries, leading the hotels interviewed to remain pessimistic about the international factors. However, with strong government prevention measures in place across the country and supporting mechanisms to promote the economy's internal circulation, the respondents holding negative views believe that the impact of the epidemic will gradually dissipate within six months. Domestic leisure and business travel will lead the further recovery of the market.

We are also surprised to find from the survey that some respondents, represented by remote destination hotels, had a positive attitude towards the impact of the outbreak. This is certainly related to the return of high-end consumption in the post-epidemic period, but the hoteliers' keen insight, the quick and precise adjustment of operation strategies under the rapidly changing market, as well as the increasingly defined product characteristics of the new generation of hotel supply, are also the main drivers for the rapid rebound of performance in the generally slack market.

There are reasons to believe that under the strict control of the domestic epidemic and the continuous increase of vaccination rate, the domestic hotel market will turn the crisis into an opportunity, respond to changes with continuous devotion, and embark on a more scientific and high-quality development path with refined customer analysis, unique product content and visionary market understanding. .

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About the Report

China Hotel Market Sentiment Survey is an important part of Horwath HTL's global hotel market sentiment survey. This survey is designed to provide assessment and prediction to China's hoteliers by understanding the market's expectation for the development of occupancy, ADR and total revenue in the future.

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, to better reflect hoteliers' expectations toward the hotel market performance. The sentiment score in each question reflects the market's expectation of the overall hotel performance. The index ranges from -150 to +150, with "-150" indicating that the market is extremely pessimistic about expected performance, "0" indicating a neutral attitude, and "+150" indicates that the market's expectations are highly optimistic.

China Hotel Market Sentiment Survey has been released twice a year since 2013, representing market outlooks for the first and the second half of the year. In 2020, under the influence of COVID-19, Horwath HTL conducted six *Special Sentiment Survey on the Influence of the Novel Coronavirus Outbreak* in February, June, September and December of 2020 and March and July of 2021. The report introduces relevant questions like the duration of the impact of the epidemic, operational performance and model to the original questions in order to aid hoteliers to fully understand the industry dynamics, adjust their business strategies in a timely manner and achieve normalized and healthy operations quickly.

About Horwath HTL

Horwath HTL is a professional hotel, tourism and leisure consulting company with over 100-year history. Its core services cover hotel investment, destination investment, asset management and strategic research. Horwath HTL has set up 45 offices in 36 countries around the world. It has been recognized internationally and earned a high reputation with its impartial and independent professional views in providing consulting services.

Entering Asia in 1987, Horwath HTL operates 12 offices in key cities throughout the Asia-Pacific region and has completed more than 4,000 hotel and tourism consulting projects. Its clients range from world-renowned theme park operators and hotel management companies to real estate developers, banks and investment institutions. After nearly 20 years of intensive devotion, Horwath HTL has completed more than 1,800 projects in China, and has established offices in Beijing, Shanghai, Shenzhen and Hong Kong.

Through the years of accumulation and development, Horwath HTL has become the preeminent consulting firm in the hospitality and tourism industry. Each project is a perfect combination of local experience and international vision, offering unparalleled experience and expertise in the field to clients around the world. Horwath HTL always pays close attention to the current and future development trends in the industry and enjoys unique professional advantages in the hotel and tourism consulting fields!

To know more about Horwath HTL, please visit www.horwathhtl-cn.com and www.chatchina.com.cn, as well as follow our official WeChat Public Account **CHAT资讯**.



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