

# HOTEL yearbook 2012

Scenarios for the year ahead

A special excerpt from  
the Hotel Yearbook 2012:

**The 2012 outlook for key geographic markets**  
**Exclusive situation reports from Horwath HTL**



**Horwath HTL**

Hotel, Tourism and Leisure

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# Signs of life

ASIA IS INSULATED FROM EUROPE'S CURRENT ECONOMIC WOES – ISN'T IT? TO FIND OUT HOW SEVERAL ASIAN AND PACIFIC MARKETS WILL LIKELY FARE IN 2012, WE TURNED TO **HORWATH HTL**, WHOSE CONSULTANTS SPRANG INTO ACTION AND PRODUCED THE FOLLOWING SITUATION REPORTS AND OUTLOOKS COVERING TWELVE COUNTRIES FROM THE UAE TO AUSTRALIA, AND SEVERAL POINTS IN BETWEEN.

## CHINA

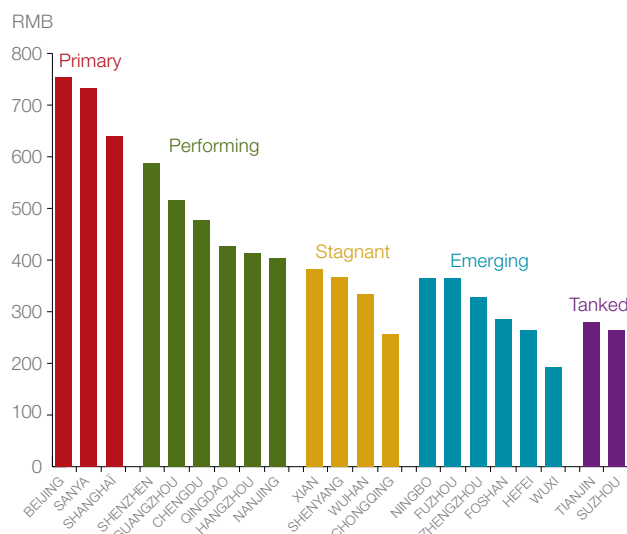
### SITUATION REPORT

While it is tempting to lump a whole heap of data together and come up with a «China Outlook», the China reality is the same for any large country – one story cannot tell the whole tale. So instead I will break up the China market into what I see as different market types based on performance – it's a tale of the good, the bad and the ugly!

To do this I have recently devised the following groupings of market types:

1) *Tanked*; 2) *Emerging*; 3) *Stagnant*; 4) *Performers*; and 5) *Primary Leaders*. These five classifications would cover most major hotel markets across China. The data presented has been sourced from the 2011 China Hotel Industry Study (only 5-star have been included) and from STR Global for year-to-date 2011 data (top-tier market groupings for performance data) and pipeline data.

### YEAR-TO-DATE SEPTEMBER REVPAR PERFORMANCE LEVELS, STR GLOBAL DATA



Please note some markets have insufficient data to be included in the above chart.

### TANKED MARKETS

Tanked markets are those that have been totally overwhelmed by new supply additions and do not seem to have the ability to generate demand to be able to drag themselves out. There is also a continued heavy pipeline of new additions set to enter these markets. Suzhou and Tianjin are the representatives of this category.

Tanked Markets Key Data	2010 Financial Data
Number of Hotels	21
Total Rooms	6,483
Occupancy %	50 %
ADR	RMB 673
RevPAR	RMB 336
Total Revenue (PAR)	RMB 220,406
GOP (PAR)	RMB 53,810
GOP (% Total Revenue)	24 %
Hotels In Pipeline	25
Rooms In Pipeline	8,329

Both Suzhou and Tianjin have been hit extremely hard with new supply additions over the last 3 to 5 years and have suffered a relatively prolonged period of extremely low occupancy performance levels. Extremely low occupancies have impacted rates in the markets and are insufficient to allow for a decent GOP to be recorded.

**Outlook:** Given extensive supply pipelines it would appear that these Tanked markets will not be seeing much relief, with significant additions still to come, particularly for Tianjin. As such, these markets might be «tanked» for some time.

### EMERGING MARKETS

Emerging markets are those that have yet to see any significant entry of international 5-star hotels (or have just had new branded hotels enter) and are just now starting to mature as viable hotel

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markets for the international brands. Cities in this category include Changsha, Wuxi, Hefei, Fuzhou, Foshan, Guiyang, Zhengzhou, Jinan, Taiyuan and Ningbo. All except Taiyuan have a leading international 5-star hotel present in the market, but competition generally remains limited – although in Ningbo, competition has already heated up, and from YTD data it would seem that Wuxi may not be able to realize its potential anytime soon.

Emerging Markets Key Data	
Number of Hotels	34
Total Rooms	11,969
Occupancy %	60 %
ADR	RMB 619
RevPAR	RMB 371
Total Revenue (PAR)	RMB 321,411
GOP (PAR)	RMB 116,454
GOP (% Total Revenue)	36 %
Hotels In Pipeline	49
Rooms In Pipeline	16,707

We can see that performance levels in these emerging markets are a step above the stagnant markets, with higher ADR levels driving improved GOP. Occupancy does remain weak, however, at only 60 % in 2010 and typically it is the leading one or two hotels in the market that are driving performance and profitability, as they tend to be able to record a significant premium over the competition.

Emerging markets are labeled as such because they typically lack any real depth in room night demand. These markets are at strong risk of being unable to cope with large amounts of new supply (demonstrated by Wuxi).

**Outlook:** Each of the emerging markets has a moderate amount of new supply set to enter, but not so significant that it could cause a major problem. Ningbo, already struggling with recent supply additions, is likely to be impacted the most, and

may move into the Tanked category in the next couple of years. And it would seem Wuxi has already become overwhelmed. Guiyang, Taiyuan and Zhengzhou could be tested the most in regard to the depth of top-tier demand. However, as long as additions are spread over the next three to four years, these markets should be able to absorb the supply.

## STAGNANT MARKETS

Stagnant markets are those that have failed to improve upon performance levels for the last 5 to 10 years. This has often been the result of continued new supply additions to the market, and while demand growth has been strong, it has been insufficient to allow for improvements in occupancy or growth in average rates. Markets that I would consider to be stagnant include Wuhan, Shenyang, Chongqing, and Xi'An – although Xi'An has certainly shown greater growth potential in the last few years and could soon be considered a « Performer. »

Stagnant Markets Key Data	
Number of Hotels	28
Total Rooms	9,985
Occupancy %	62 %
ADR	RMB 528
RevPAR	RMB 325
Total Revenue (PAR)	RMB 216,883
GOP (PAR)	RMB 69,717
GOP (% Total Revenue)	32 %
Hotels In Pipeline	31
Rooms In Pipeline	11,495

The markets listed above have not been overwhelmed by supply over the last 5 years, although all have had some new additions with Chongqing suffering the most in that regard. However, other than Chongqing, where demand growth has been strong, the other markets listed have struggled to record any real improvements in either occupancy or average room rates and

# Signs of life

the quality of properties in the market have generally aged. The result has been a low average rate below RMB 600.

**Outlook:** Chongqing will continue to be hit hardest with new additions, and while demand growth should continue to be relatively strong, the scale of the new supply is likely to continue to suppress market performance levels in the years to come. Shenyang and Wuhan may struggle to support the new supply additions set to enter the market, while Xi'an may have more potential to improve performance. On the whole, though, most of these markets may not make much improvement.

## PERFORMING MARKETS

Performing markets are those that have an established base of quality hotels and have largely been able to support the growth in supply with strong growth in demand and at the same time grow room rates. Cities in this category include Guangzhou, Shenzhen, Hangzhou, Qingdao, Chengdu and Nanjing.

Performing Markets Key Data	
Number of Hotels	54
Total Rooms	21,376
Occupancy %	63 %
ADR	RMB 824
RevPAR	RMB 522
Total Revenue (PAR)	RMB 372,176
GOP (PAR)	RMB 137,282
GOP (% Total Revenue)	37 %
Hotels In Pipeline	73
Rooms In Pipeline	24,932

The Performing hotel markets are able to record a considerable premium in average room rates at above RMB 800, compared to the previous market types. However, as with most markets, occupancy remains relatively soft at 63 % due to consistent increases in room supply.

**Outlook:** We are set to see some significant additions for the Performing markets, particularly in Chengdu, Guangzhou and Hangzhou. While Performing markets are better placed to handle new supply additions, given the larger base of existing quality supply present, some of these markets over the next 5 years may slip into the category of Stagnant markets, with future growth in room rate levels curtailed by persistent low occupancy performance. The markets with smaller existing supply bases such as Chengdu, Hangzhou, Qingdao and Nanjing are at most risk of this.

## PRIMARY LEADING MARKETS

The analysis for Primary Leading markets has been restricted to Shanghai, Beijing and Sanya, and has only included hotels that recorded an average room rate higher than RMB 1,000 in 2010. Shanghai and Beijing are clearly the two leading hotel markets in China, with considerably more scale in existing hotel supply, significant rate depth, and the presence of the best hotels in China. The Sanya market has been a phenomenal growth story over the last 5 years and has thrived on the continued significant additions of quality international-standard 5-star hotels. Impressive room rates and GOP levels have been achieved in Sanya, which warrants its inclusion in this market category.

Primary Leading Markets	
Number of Hotels	49
Total Rooms	19,815
Occupancy %	63 %
ADR	RMB 1,427
RevPAR	RMB 893
Total Revenue (PAR)	RMB 591,424
GOP (PAR)	RMB 268,823
GOP (% Total Revenue)	45 %
Hotels In Pipeline	47
Rooms In Pipeline	16,733



# Signs of life

The Primary Leading markets perform significantly above Performing markets in regard to average room rates, recording a premium of 73 %. Significant revenue is generated by the Primary Leading hotels, not just due to the premium ADR level, but also through a significant share of food and beverage revenue.

**Outlook:** While the supply pipeline for the Primary Leading markets remains strong, these markets are well placed to be able to absorb the additions. Beijing would seem best placed for this, with a relatively small pipeline set to enter the market in the coming years, while Shanghai will feel more pain with relatively strong additions to continue. Sanya has the largest pipeline increase, yet for the last 5 years has demonstrated not only a strong ability to absorb new supply, but to continually push room rate growth. This will surely be tested, but there are yet to appear any indications that this will not be the case moving forward.

| Damien Little

## AUSTRALIA

### SITUATION REPORT

Despite suffering major floods and cyclones in part of the country and a softening in consumer confidence and spending levels, the Australian hotel industry has continued to progress well in 2011. Driven by 20 consecutive years of GDP growth and a burgeoning mining sector, the outlook for room demand remains strong. Having been one of the few countries to avoid negative GDP growth during the GFC, Australia's real GDP is expected to continue to grow by about 2.5 % in 2011 and by 4 % in 2012. Unemployment remains below 5 % and is falling, while corporate profits have held up. Both of these factors have supported hotel demand.

Beyond the corporate sector, the situation remains less positive. International visitor arrivals have generally trended downwards or been flat in recent years (and are expected to remain below 6m in 2011) while in sharp contrast, outbound departures continue to surge (and now exceed 7m per annum), reflecting



the combined impact of the continuing strength of the Australian dollar (that is encouraging Australians to holiday overseas) and the increasing number of low-cost destinations in the region that can be reached on low-cost carriers. Markets such as Bali and Thailand continue to benefit, while previously expensive markets for Australia such as the USA are benefitting from pent-up demand out of Australia and in response are now actively pursuing Australia as a target market (thereby exacerbating the problem for domestic Australian leisure destinations).

On a more positive note, the growth in demand out of China and elsewhere in Asia has helped mitigate the impact of falling demand from markets such as Japan, while positive announcements have recently been made in relation to one of the most important factors that will influence future inbound demand, namely the growth in airline capacity for carriers out of China and out of key hubs such as Dubai.

As an indication of the strength of recent demand, occupancy in Australia's city hotel markets has grown from under 70 % to over 80 % during the past decade, while ADR growth has exceeded 3 % per annum. Sydney, Brisbane and Perth are achieving high 80 % occupancy levels while Melbourne and some smaller markets such as Canberra also continue to record impressive RevPAR growth rates.

# Signs of life

## NEW SUPPLY PIPELINE

The recent strength of hotel performance in Australia is also partially due to the minimal level of new room supply entering the market, a situation that looks likely to continue in most key markets for the foreseeable future. According to Jones Lang La Salle Hotels, there are currently less than 4,000 rooms under construction or proposed, representing only a 4 % increase in room supply in Australia's major accommodation markets. However, a sharp increase in recent development approvals and an increased preparedness by local governments to provide development incentives suggest that longer term, the demand/supply imbalance may be alleviated somewhat. Innovative concepts such as the use of prefabricated modular hotels are also being introduced in some remote markets where alternative construction is not otherwise viable.

## HOTEL INVESTMENT

Australian hotel transaction volumes are exceeding A\$1 billion per annum and demand remains strong, in particular from cashed-up Asian investors. As a result, values have held up well despite difficult global economic conditions, and there have been few distressed sales. However, in several domestic leisure markets, the situation remains more problematic. Major transactions in 2010/11 included market leading properties such as the Novotel on Collins in Melbourne and Hilton Melbourne Airport, while leisure market transactions included the iconic Ayers Rock Resort and Sheraton Mirage Port Douglas. Several opportunistic acquisitions, such as Fairmont Resort, Blue Mountains were also achieved.

| John Smith

## JAPAN

### SITUATION REPORT

After the nightmare of the worst ever earthquake on March 11, the Japanese hotel industry had to face another shaking. The shaking was not actually a physical one – although in fact we have had many physical aftershocks – but it was a big shake in the market environment. According to STR Global, as shown in

the accompanying tables, average RevPAR for major full-service hotels in Tokyo fell to JPY 8,561 in March 2011, or 38.7 % from March 2010. It should be noted that we had expected RevPAR of major hotels in general to increase in most of the major markets for the whole year 2011. In fact, we had seen clear improvements in major KPIs, namely occupancy, ADR, and RevPAR in major markets until February – or more exactly, until March 11, 2011.

#### KPIS FOR MAJOR FULL-SERVICE HOTELS IN TOKYO (January-March, 2010 and 2011)

	2010 Jan-Feb	2011 Jan-Feb	2010 Mar	2011 Mar
OCC	74 %	74.8 %	81.8 %	51.1 %
ADR	JPY 16,639	JPY 17,014	JPY 17,068	JPY 16,754
RevPAR	JPY 12,306	JPY 12,722	JPY 13,968	JPY 8,561

Source: STR Global

Hotels in the Tokyo area became major victims of the problem with the Fukushima Nuclear Power Plant (rather than of the East Japan Earthquake followed by the record-breaking tsunami). From our past experience of co-called « Lehman shock, » we believe that the current market turmoil is completely different from what we experienced during the previous recessionary period in 2009. At that time, faced with a depressed market environment after the « Lehman shock, » hotels in Tokyo lost corporate clientele because of the sudden and intense economic downturn. Instead, they resorted to heavy discounting on their room rate to attract leisure FIT, and many hotels successfully managed to compensate for the lost corporate sales with the leisure demand. However, what we observed after the earthquake, especially in March and April in the Tokyo market, was that all segments including business, domestic and international leisure, FIT or group, all stagnated, thus hotels could not sell their inventories even if they offered heavy discounts. As a result, average occupancy for our sample full-service hotels in Tokyo was down by as much as 30.7 %, to 51.1 % in March 2011 (March 2010: 81.8 %).



In contrast, we observed improved performance for hotels in northeastern Japan, the area near the epicenter of the quake. Hoteliers in Sendai and other major cities in northeastern prefectures say that they have seen strong recovery-related lodging demands from corporate travelers, volunteers, or even local governments renting entire hotel properties to provide shelters for local people in need and to house recovery corps.

#### OUTLOOK FOR 2012

Probably the biggest challenge that the Japanese hotel industry will have to cope with for 2012 should be how they achieve the full recovery of overseas visitor arrivals, particularly in the leisure segment. The Japan National Tourism Organization (JNTO) announced that overseas arrivals to Japan dramatically decreased in March by 50.3 % compared to 2010, to 352,800. The decreasing trend in the number of visitor arrivals is projected to continue until the problem with the nuclear power plant in Fukushima has been settled.

Meanwhile, we project that domestic demand is coming back relatively sooner, as we confirmed a positive move in the domestic leisure FIT segment during the long holiday week from late April to early May (which is what we call the «golden week»), as well as during the summer vacation period in July and August. Major tourist areas in general reported that their visitor arrivals compared well to the previous year, and hotels in these areas enjoyed the same or even higher levels of occupancy compared to 2010. We believe this is a very promising note for the future market recovery. STR Global also indicated an improving note for major markets nationwide. For example, as shown in the second table, STR Global reported that the negative margin had significantly narrowed in RevPAR, both for YTD to July 2011 and for the month of July 2011 compared to the figures during the same periods in 2010, which we believe should be a very promising sign for the future.

#### KPIS FOR MAJOR FULL-SERVICE HOTELS IN TOKYO (January-July, 2010 and 2011)

	2010 Jan-Jul	2011 Jan-Jul		2010 Jul	2011 Jul
OCC	77 %	63 %		79.2 %	71.2 %
ADR	JPY 16,973	JPY 15,784		JPY 16,712	JPY 14,940
RevPAR	JPY 13,069	JPY 9,943		JPY 13,233	JPY 10,640

Source: STR Global

While the exact financial impact from the East Japan Earthquake is yet to be estimated, bookings for more than 560,000 rooms were cancelled after the earthquake. In our interviews, we heard from General Managers at Japanese hotels that a majority of them projected total revenue for their property to slightly decrease in 2011. However, we believe that the long-term negative effect of both the earthquake and the nuclear power plant problem will be minimal to the Japanese industry. Major international tourist locations like Kyoto had no damage from the quake, and they have nothing to do with the Fukushima problem. However, the real issue should be the timing – or when people *recognize* that things have been settled and it is safe enough to travel around Japan. While it all depends on how long it takes until the Fukushima nuclear power plant problem is completely settled, we project to see further market recovery in 2012.

| Kobi Takabayashi

## INDIA

#### SITUATION REPORT

2011 is turning out to be a sweet-sour year. It began with strong promise from the viewpoint of operations and development activity. However, economic challenges and lack of policy initiatives have impacted hotel development. While operations have maintained momentum for the most part, development activity has clearly slowed down as money has become expensive.



# Signs of life

In 2011, demand revival has occurred across most markets leading to a steady improvement in occupancies; rates have also improved, particularly in the last quarter. On a city-wise basis, these must be seen in the context of increased supply absorption, with about 9,000 new rooms being added in 2011 (about 15 % addition to the supply of branded hotel rooms).

New hotels opened this year include two much celebrated luxury hotels – The Oberoi, Gurgaon and the Leela Kempinski Delhi. Supply growth continues across segments and brands. Brands are gradually spreading beyond the metro cities: Chandigarh, Coimbatore, Jaipur, Kochi are among the cities with new first class and higher grade hotels, while budget hotels are spreading through a wider market. This does help deepen

the supply and support new demand in the primary cities while also creating greater supply depth in metro markets. New supply in 2011 will round off with the partial opening of the 600 room ITC Grand Chola in Chennai.

Inbound travel volumes for the period January through September 2011 have increased by about 10 % over 2010; foreign exchange earnings grew by 16.6 % in the same period, reflecting higher realizations from visitors. Of course, the per capita spend has largely remained unchanged, since the Indian rupee has depreciated by nearly 10 % in recent months. Domestic travel continues to be a significant volume driver for hotels: 725 million visits in 2010, with over 800 million visits expected for 2011. In reality, however, the translated demand for hotel rooms really comes from less than 2 % of the domestic visits.

## OUTLOOK FOR 2012

It is difficult to take a realistic view for 2012, as several uncertainties could shackle the performance and growth of the industry: the Euro-zone crisis and expected recession, lack of reform impetus in the Indian economy, slowdown in investment as funds become scarce and expensive, impact of high inflation on profitability and discretionary spends, etc. Each of these would be significant, and the combined implication could be

**The leisure sector, particularly upscale leisure, which is significantly dependant upon inbound travel could suffer from the Euro-zone challenges**

severe. The Indian economy has previously enjoyed greater resilience due to the strength of its domestic sector – but this



# Signs of life

side of the business, too, is hurting as inflation and high interest rates impact demand.

Against this backdrop, the outlook for new growth will clearly be cautious – not in terms of exploration of longer term opportunities, the initial planning and site acquisition, but in terms of actual commitment of development funds. On-going projects at an advanced stage of completion will go through to completion, though developers will encounter difficulties in any refinance structuring that was intended post-commencement of operations.

On the flip-side, the slowdown in capacity addition would be sweet music to the existing hotels. There will clearly be a less competitive environment than may have been anticipated in the medium term. Demand levels are still good and will recover smartly, once the business environment gains positivity. Operating hotels will reap benefit from this medium-term demand/supply imbalance. The leisure sector, particularly upscale leisure, which is significantly dependant upon inbound travel could suffer from the Euro-zone challenges; mid-market and upper upscale hotels could gain amidst buyer rate conservatism; banqueting and F&B may suffer inflation led pressures in demand and operating costs.

And the best will win.

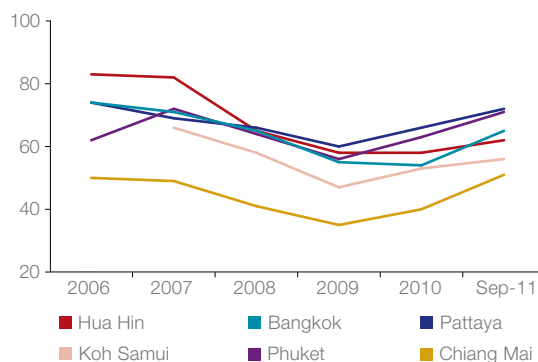
| Vijay Thacker

## THAILAND

### SITUATION REPORT

2011 continues to be a very eventful year for Thailand. After a relatively peaceful first half of the year, all eyes were on the Land of Smiles in July as the country held its first general elections since 2007. The populist Pheu Thai Party won the majority of seats, and Thailand's first female Prime Minister, Yingluck Shinawatra, sister of ousted ex-Prime Minister Thaksin Shinawatra, was appointed. After almost five years of political unrest and economic instability, the Thais, and the region, were eager to witness reconciliation amongst the various political stakeholders in the nation.

### OCCUPANCY PERFORMANCE, THAILAND HOTELS, 2006-2011 (SEPT YTD)



SEPT YTD	BANGKOK		PHUKET		KOH SAMUI	
	OCC	ADR	OCC	ADR	OCC	ADR
2009	51 %	3,197	54 %	3,887	48 %	8,760
2010	51 %	2,974	63 %	3,926	56 %	7,306
2011	65 %	3,019	71 %	3,948	56 %	8,056

SEPT YTD	PATTAYA		HUA HIN		CHIANG MAI	
	OCC	ADR	OCC	ADR	OCC	ADR
2009	57 %	2,404	59 %	3,612	29 %	2,919
2010	65 %	2,272	58 %	3,535	37 %	2,535
2011	72 %	2,507	62 %	3,682	51 %	2,495

Occupancy of hotels in the key destinations within Thailand started to slide since the political crisis in 2006, reaching rock bottom in 2009 amidst the Global Financial Crisis. As the country emerged from the worst of the economic and political conditions, occupancy performance started to recover in 2010, albeit at a slow pace. As of September YTD 2011, hotels in most destinations are registering growth in both occupancy and average daily rate (ADR). The calm political situation in 2011 bode well for the tourism sector. International visitor arrivals to

# Signs of life

Thailand between January and July reached about 11.2 million, which was a 26.5 % growth over the same period in 2010. Asian source markets accounted for about 59 % of total international arrivals, followed by European markets which accounted for about 30 %.

In terms of occupancy, popular leisure destinations such as Phuket, Pattaya and Chiang Mai have resumed to pre-crisis levels. ADR, however, remains a struggle – only Hua Hin has recovered from the crisis, while all other key destinations are achieving market ADRs about 10 to 20 % lower than pre-crisis levels. In addition, according to the 2011 Thailand Hotel Industry Annual Survey of Operations published by Horwath HTL, increasing departmental and undistributed expenses have exerted additional downward pressure on operating profit, diminishing GOP margins by about 13 % year-on-year in 2010 (of the sample of respondents).

Nevertheless, 2011 also saw the opening of several delayed but much anticipated hotels and resorts in Thailand. IHG's Crowne Plaza returned to Bangkok through the rebranding of the previous Pan Pacific Hotel located in Silom. The 176-room St. Regis Bangkok opened in a prime downtown location in April, making it the newest luxury property in the city. Conrad Koh Samui opened in September, as the only west facing resort on the island. Other high profile hotel projects, such as Siam Kempinski Bangkok, Four Points by Sheraton Sukhumvit 15 and W Koh Samui opened in the later half of 2010 and entered their first year of operations in 2011 as well.

Unfortunately in September 2011, flash floods hit 60 out of 77 provinces in Thailand, swamping factories of international companies such as Canon Inc, Western Digital and Honda Motor Co., destroying more than 25 % of the nation's rice farms and crippling transportation networks in the country. Overall damage, according to the Thai Finance Ministry, could exceed US\$6 billion. Travel warnings were issued by 21 countries including the key geographic sources such as the United States, Japan and Singapore. Hotels across the country have reported a significant number of cancellations and drops in room

reservations. As a result, the Thai Central Bank announced, in late-October, a revised forecast for economic growth in 2011 from 4.1 % to 2.6 %. At the time of writing (November 2011), there is still no end in sight for the crisis, and the country faces a variety of threats, including the outbreak of disease.



# Signs of life

## OUTLOOK FOR 2012

How enduring will the smiles be? After an extended period of economic and political turmoil, and a series of unfortunate events, the country and its people are ready to move on and rebuild the country's economic prowess and image.

The Tourism Council of Thailand (TCT) anticipates that economic woes in Europe and the USA will have a negative impact on tourist arrival statistics in Thailand, as the growth of European tourists has shown signs of slowing down in Q4 2011. TCT expects that arrival numbers for 2012 will likely be static as the US dollar and the Euro grow weaker against Asian currencies. As a result, Russian and Asian markets will rise in importance in the Thai tourism industry. The Thai government is still hopeful that, despite the ups and downs in the last decade, international tourist arrivals will reach its target of 27 million, generating tourism revenue of about THB 1.1 trillion by 2015.

2012 will be a crucial year for Thailand. The willingness of the various political parties to put the past behind them and the ability of the new parliament to reinvigorate the economy will have a large impact on the progress of the country. Growth in corporate demand for Bangkok will be largely impacted by stability in government policies and the health of the general economy. At the same time, hotels in Bangkok are expected to continue struggling with oversupply, particularly in the upscale segment, which will inevitably make it challenging to increase ADR in the short to medium term. Leisure demand for the beach destinations, however, has been better insulated against these external factors. Destinations such as Phuket and Pattaya are expected to continue to excel in both occupancy and ADR.

Some exciting new openings expected in Bangkok in 2012 are the W Bangkok, Regent Bangkok Hotel & Residences, Hotel Okura Bangkok (Okura's first foray into Thailand), Hilton and Doubletree by Hilton, Sofitel So Bangkok (Accor's new brand and the second Sofitel So in the world, after Mauritius), and Hotel Indigo Bangkok Wireless Road. New resorts to look out for in 2012 are Radisson Resort Hua Hin and Similan Beach – A Ritz Carlton Reserve.

True to its tourism campaign slogan of «Amazing Thailand,» Thailand has proven to be a very resilient leisure and business destination in the region, having weathered the devastating tsunami in 2004, the last 5 years of political gridlock, street protests, airport closures, the Global Financial Crisis and the recent floods. International tourists continue to flock to the country, drawn by its warm hospitality, distinct cuisine, world-class hotels and resorts, and white, sandy beaches. We are optimistic that Thailand will ultimately pull through and regain its foothold as one of the prime tourism destinations in the region.

| Shyn Yee Ho

## SINGAPORE

### SITUATION REPORT

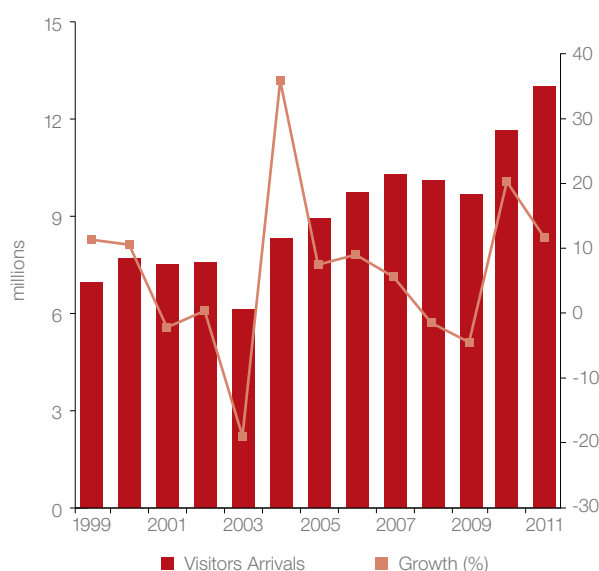
Following on the extremely well timed opening of two multi-billion dollar integrated resort (IR) complexes (Marina Bay Sands and Resorts World Sentosa) in the first half of 2010, visitor arrivals to Singapore have been scaling new heights. As of YTD August 2011, arrivals were up 15.5 % year-on-year, putting arrivals for the year on track to reaching 13 million (vs. 11.6 million in 2010). The induced visitor growth comes primarily from regional source markets such as China (+39 %), Hong Kong (+27 %), Japan (+21 %), ASEAN (+17 %), Korea (+14 %) and Australia/NZ (+12 %).

In addition to the attraction of the two casinos (16,000 m<sup>2</sup> each), the IRs are generating incremental arrivals from their substantial convention and exhibition spaces, retail malls, concert/show theaters and a Universal Studios theme park. At the same time, a variety of new age retail complexes springing up along Orchard Road, and the upgrading of existing centers, has served to augment Singapore's image as a shopper's paradise. Business visitors have also been on the rise as the strategy to position Singapore as the regional MNC and financial services hub, as well as an international center for bioscience research, has been proving to be successful.



# Signs of life

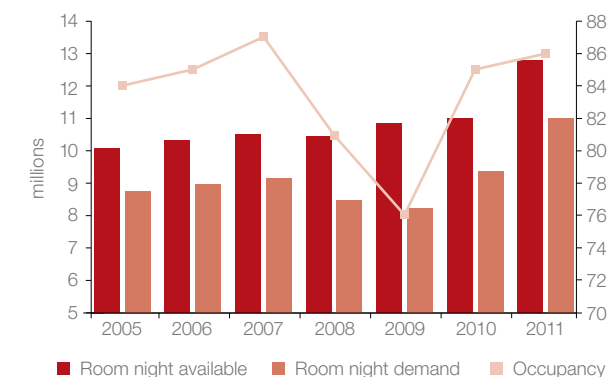
## SINGAPORE TOURISM ARRIVALS, 1999-2011F



Source: Singapore Tourism Board

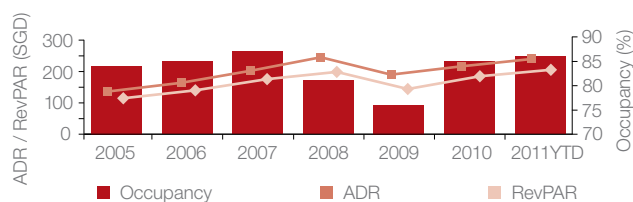
Not surprisingly, the growth in visitor arrivals has also translated into a booming hotel market. Despite the addition of some 7,000 rooms since the beginning of 2010, market occupancy has remained high, hovering at 86 % as of YTD September 2011. Given the strong visitor arrivals, it's not surprising that hotel room-nights are up 17 % year-on-year, which compares to 14 % growth in room-nights available. Such sustained high occupancy has supported ADR increases across the market, averaging just over 13 % growth year-on-year. RevPAR in turn has grown a stunning 15 % year-on-year.

## RNA, RND AND OCCUPANCY, 2005 TO 2011F



Source: Singapore Tourism Board

## MARKET REVPAR, 2005 TO 2011 (YTD SEPT)



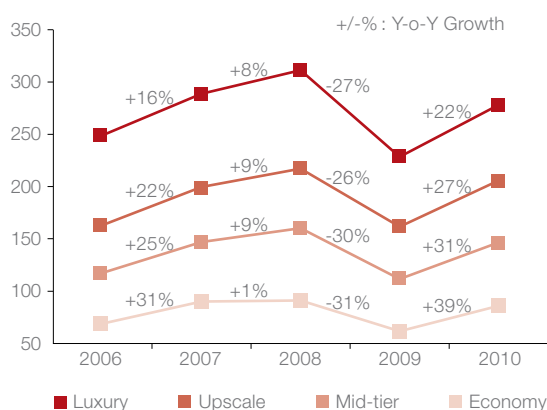
Source: Singapore Tourism Board

RevPAR growth has been experienced across all hotel product categories. However, based on 2010 results, the Economy segment has been experiencing extraordinary RevPAR Growth (+39% in 2010). As a result, a flurry of new branded Economy hotels are now under development, while the two operating Ibis hotels in town were acquired by a local investor at amounts significantly above their investment costs (one was acquired only three months after its opening).



# Signs of life

## REVPAR BY HOTEL TIER, 2005 TO 2010



Source: Singapore Tourism Board

## OUTLOOK FOR 2012

As Singapore's open economy is particularly vulnerable to external shocks such as a potential economic meltdown in Europe, a double-dip recession in the US, and a slowdown in growth in China, a cautious outlook for 2012 is warranted. However, with current market conditions so strong and no tangible signs of downturn yet evident, it's hard not to be bullish about the prospects for 2012.

For starters, supply growth is estimated at «only» 7.5 %. If the demand growth pace fell by half, market occupancy would remain at 85-86 %, while at no growth, occupancy would still be at 80 %, a rather healthy level relative to any international comparison. Should demand growth exceed 7.5 % – which is quite possible – the market will actually be under quite a bit of stress with regard to availability of both rooms and staff to

**RevPAR growth has been experienced across all hotel product categories**

provide proper service levels, though revenue managers (and hotel owners) will be quite pleased by the favorable conditions for further strong ADR/RevPAR growth.

Additional considerations supportive of a positive outlook, include the following :

- 2012 will be the second full year of operations for the Marina Bay Sands convention and exhibition center and thus will see it hosting an increasing number of large-scale international events.
- The opening of several significant new attractions at Resorts World Sentosa, including the Maritime Xperiential Museum, Equarius Water Park and Transformers: The Ride at Universal Studios
- The opening of a new US\$ 500 million international cruise terminal
- Expansion in medical tourism via new facilities and added regional promotional activity
- Continued growth in Singapore's status as the regional hub for MNC operations, financial services, research and development, etc.
- New low-cost carriers entering the market (e.g. Scoot by Singapore Airlines) and the expansion in routes and schedules further improving and widening Singapore's access points
- Continued hosting of the Singapore F1 night race
- In addition to an overall increase in the number of arrivals, the added attractions to Singapore's tourism offer have helped increase average length of stay to 3.9 nights in 2010 (vs. 3.4 in 2005)

All in all, Singapore is considered one of Asia's hottest destinations, which has translated into incredibly strong hotel market performance conditions and made it probably the most sought-after market for hotel developers and investors.

| Robert Hecker

## MALAYSIA

### SITUATION REPORT

In 2010, Malaysia recorded a modest 3.9 % increase in foreign arrivals, the lowest increase since 2004, to 24.6 million. Despite the recovery from the slight economy downturn of 2009, hotel occupancy levels across the country declined slightly to 59 % from

# Signs of life



61 % in 2009. While most states and territories registered declines, hotels in Kuala Lumpur and Selangor chalked up increases in occupancy levels of 4.2 and 2.4 % points, respectively.

The Malaysian economy improved significantly in 2010 with GDP growth of 7.2 % from -1.7 % in 2009. For the first quarter of 2011, the economy grew at 4.9 %, well within market expectation of between 4.7 % and 5 %. It slowed in the second quarter to 4 % due to weaker exports to developed countries. According to Bank Negara, Malaysia's Central Bank, the debt crisis in the Euro zone and the slowing growth in the USA pose risks to Malaysia's economy because of the volatility those developments can cause in financial markets. But the Central Bank maintains optimism in achieving a 5 % GDP growth in 2011 due to intact economic fundamentals.

Foreign arrivals for the first half of 2011 fell 4.2 % compared to the corresponding period last year to 11.4 million (2010 : 11.9 million). Although the Government has targeted tourist arrivals

at 25 million for 2011, a target increase of 1.7 %, it looked as if the target may not be achieved due to an expected drop in tourists from Japan owing to the tsunami and nuclear energy crisis. However, the floods currently inundating Bangkok, which began in October 2011 and are expected to continue through December 2011, may divert some tourist traffic to Malaysia. Hence, we are confident the tourist arrivals target set by the Government may be achieved.

The average occupancy levels of the hotel market in Kuala Lumpur for the first 8 months of 2011 improved by 1.0 percentage point to 71 % compared to the corresponding year in 2010. It is expected the whole year's average occupancy for 2011 will register between 71 and 73 %. Similarly for the ADR over the first 8 months, the market registered a 1 % increase compared to the corresponding period in 2010 and it is estimated the market will achieve a small increase of between 1 and 2 % for 2011 ; i.e. ADR of between RM 265 and RM 270 (US\$ 88 and US\$ 92).

# Signs of life

## OUTLOOK FOR 2012

For 2012, the country's hotel market may see a slight decline in performance due to projected slowdown in tourist arrivals. The decision by Malaysia Airlines, the national carrier, to rescind flight services to South Africa and Argentina, as well as reducing flight frequencies between Kota Kinabalu, one of Malaysia's top holiday destinations, and Tokyo, Osaka and Seoul, does not bode well for the tourism industry.

Kuala Lumpur is expected to remain the top destinations for both corporate and leisure. 2012 will see the opening of the 455-room Grand Hyatt Kuala Lumpur, adding another major brand player in the high-end hotel market that will soon be joined by St Regis (2013-14) and W (2014). The increasing number of top brands is expected to boost ADRs in Kuala Lumpur. For 2011, the ADR of the top-five hotels is expected to register approximately US\$ 135, a slight increase of 3% over 2010.

The outlook for the islands of Penang and Langkawi are also bright, with the former island undergoing a renaissance at the moment. The designation of George Town as a World Heritage Site in 2008 has provided a boost to the tourism industry. Amanresorts is building a property on Penang Hill which will undoubtedly elevate the status of the island as one of Asia's primary destinations. The proliferation of small boutique hotels, restaurants, cafes and galleries housed in restored shop-houses in the heritage enclave over the last two years have been drawing foreign visitors to the island, on track to putting Penang Island on the road to becoming the Pearl of the Orient again. In 2010, airport passenger movements registered a phenomenal increase of more than 25% to 4.2 million, although the compound annual growth between 2000 and 2010 was only 4.3%.

Langkawi has the highest ADR in the country and is considered a high-end destination. However, the projected opening of the 214-guestroom Four Points by Sheraton in Langkawi in early 2012 is expected to change the tourist mix. Currently, the island draws mainly budget and high-end travellers with very limited accommodation options for tourists in the middle.

Further developments at The Datai Bay to build two high-end resorts (one of which is a Shangri-La) over the next two years will further consolidate Langkawi's position as Malaysia's main luxury holiday destination.

Another primary destination in Malaysia that attracts a significant number of foreign tourists is Kota Kinabalu in Borneo. Despite the popularity of Borneo with its miles of pristine beaches, beautiful islands and eco- and adventure tourism, there has been very little hotel development over the last decade. During the period 2000 to 2010, tourist arrivals to Sabah saw a compound annual growth rate of 11.5%. In 2010, tourist arrivals to Sabah stood at 2.5 million. The pending openings of the high-end all-villa resorts on Pulau Tiga and Pulau Gaya by YTL Hotels in late 2011/early 2012 will further enhance Kota Kinabalu as a primary holiday destination of Malaysia.

| Sen Soon Mun

## INDONESIA

### SITUATION REPORT

#### Jakarta

The Jakarta hotel market is continuing its upward trend, especially in ADR, after a long hiatus with rates coming back up to a more respectable level when compared regionally. Market occupancy has somewhat stabilized since 2009-10; not many hotels came on line in the past five years. As a result, RevPAR for Jakarta hotels is probably at its highest level in a long time.

There is an expectation: an influx of mid-tier and limited-service budget hotels starting operations this year, in particular the proliferation of home-grown brands such as Pop!, Amaris, Max One, Whiz, Fave and so on, along with international brands such as Formule One, Tune, Holiday Inn Express, Days, etc. Data on these lower segments of the hotel market, however, are not yet readily available.

Aside from the lower-end segments, several middle and high end hotels are expected to come on line from the end of 2011,



# Signs of life

including the Raffles at the Ciputra World, the Luxury Collection, Pullman and St Regis. Accor is also planning several mid-tier hotels with its Mercure and Novotel brands. Early rumors are floating around that a W is also coming into Jakarta in the not so distant future.

Jakarta	2009 YTD Dec.			2010 YTD Dec.			2011 YTD Aug.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Top Tier	60%	\$71	\$42	66%	\$86	\$56	67%	\$91	\$61
Mid Tier	72%	\$49	\$36	75%	\$56	\$42	71%	\$62	\$44
Combined	64%	\$63	\$40	70%	\$72	\$50	69%	\$78	\$54

## Bali

Across the board, the 2010 year-end results for Bali came out in the middle of last year and were better than originally anticipated. Although the ADRs are quite flat year-on-year, coming from a fairly high base anyway, occupancy is showing a healthy up-trend. Coming out of the effects of the global financial crisis, the rates have been climbing back up in the first three quarters of 2011, while occupancy has somewhat stabilized.

Foreign visitor arrivals into Bali have breached historical records since 2007 and the trend seems to be continuing. 2010 ended with about a 7 % increase year-on-year, while 2011 is poised to end up with about the same increase by year end (slightly above 8% at end of August).

With strong market performance continuing, hotel development seems to be in high gear. And this is true for all hotel products across the board, from limited-service budget hotels like Tune, Amaris, Pop!, Fave and Max One, to high-end products like Baccarat, Jumeirah and Ritz-Carlton, and anything in between, like InterContinental, Anantara, Sofitel, Westin, etc. across Bali Island. High land prices are perhaps the only factor that is somewhat putting a brake on the hotel development frenzy in Bali.

Bali	2009 YTD Dec.			2010 YTD Dec.			2011 YTD Aug.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Upper Luxury	46%	\$511	\$236	52%	\$494	\$256	56%	\$540	\$302
Luxury	65%	\$238	\$156	74%	\$247	\$182	75%	\$270	\$202
Top Tier	69%	\$133	\$92	75%	\$134	\$100	77%	\$144	\$112
Mid Tier	82%	\$77	\$63	82%	\$77	\$63	77%	\$90	\$69
Combined	72%	\$120	\$87	75%	\$127	\$95	75%	\$140	\$104

## OUTLOOK FOR 2012

Although there are worries over the far-reaching effects of the continuing economic uncertainties in the US and Europe into the Asian and Southeast Asian markets, Indonesia seems to be relatively unaffected and continues to be on the path of relatively strong economic growth – at least for the next few years leading up to the 2014 election year.

With continued improved accessibility and very active domestic traffic thanks to low-cost carriers, most hoteliers in Jakarta are optimistic that the market buoyancy will continue as long as the new addition to supply can be somewhat controlled.

For Bali, the moratorium on hotel development permits in the three most densely populated Regencies in South Bali is still in force and should slow down the addition to new supply, while the infrastructure deficiencies are being ironed out by the local

**With strong market performance continuing, hotel development seems to be in high gear**

government. In the meantime, unaffected Regencies such as Tabanan on the west coast and Klungkung on the east coast are poised to become the locations for the next generation of world-class resorts on this Isle of the Gods.

# Signs of life

With the appointment of a new Minister of Tourism in the recent cabinet reshuffle, most industry practitioners are expecting some positive changes related to the immediate future of the tourism and hotel industries in Indonesia.

| Rio Kondo

## MALDIVES

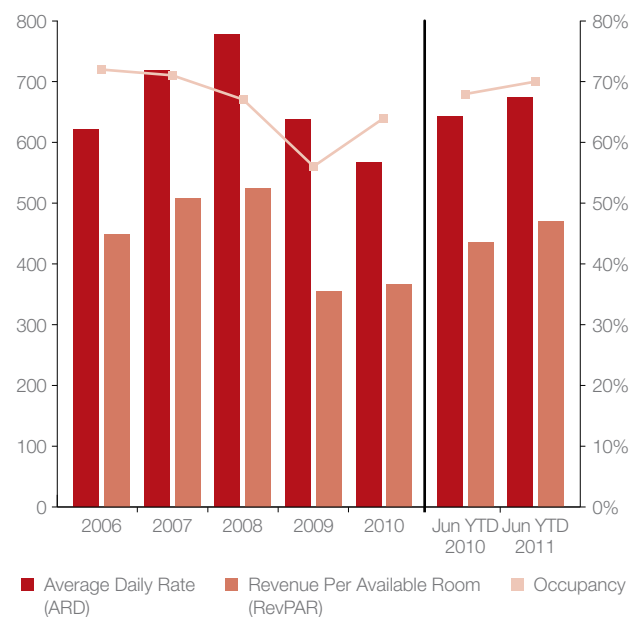
### SITUATION REPORT

You arrive at the airport, and within minutes, you are whisked off to a private island via a speedboat or a low flying seaplane. You fly over the vast blue Indian Ocean, with a panoramic view of the numerous small but lush islands that make up this exotic destination. At the resort, you are greeted by your hosts and exotic beats on the bodu beru, before being escorted to your own villa with a plunge pool. You take a deep breath of the warm, salty, tropical air; while white, soft sand trickles between your toes and a rich underwater world awaits a few steps away.



Welcome to the Maldives. To many, the Maldives is the epitome of luxury travel in the region and was previously reserved for a select few. With a large variety of resorts these days, the Maldives is much more accessible than ever before. The Maldives has witnessed some significant changes in recent years, such as the appointment of a new President for the first time in 30 years, the replacement of an age-old bed tax with a goods and service tax, the entrance of a different mix and profile of resorts, and shifts in the geographic sources of key markets.

### KEY PERFORMANCE INDICATORS, UPSCALE RESORTS, MALDIVES, 2006-2011 JUNE YTD



Due to the global financial crisis and a large influx of new supply, the Maldives suffered a significant blow in 2009 and 2010. Between 2004 and 2008, the upscale segment, for instance, welcomed an average of about one new resort per year. Starting in 2009, however, several new resorts opened

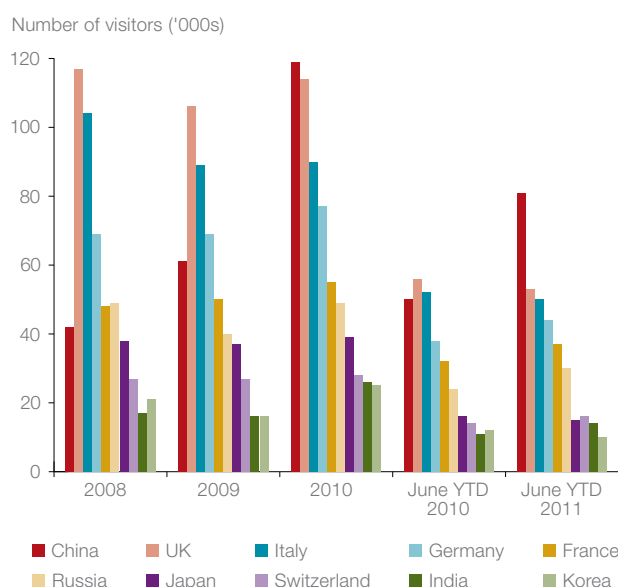
# Signs of life

their doors, such as the Shangri-la Villigili, the Beach House by Waldorf Astoria, Constance Halaveli and the Alila Villas Hadahaa (now Park Hyatt). Coupled with an overall drop in tourist arrivals (with a more significant impact on the upscale segment), the upscale resorts reported a low occupancy of only 56 %, with an 18 % year-on-year drop in ADR and a corresponding 32 % drop in RevPAR. ADR continued to slide in 2010 as demand numbers continued to drop and the market struggled to absorb the new supply.

2011 has begun to see several changes in consumer trends. The biggest change to tourism in the Maldives has been the drastic switch in the geographic sources of its visitors. The more prominent nationality sources to the Maldives had typically been European, namely the United Kingdom, Italy and Germany. Since 2009, however, these numbers have declined gradually ; and in 2010, China became the largest geographic source to

**The biggest change to tourism in the Maldives has been the drastic switch in the geographic sources of its visitors. The more prominent nationality sources to the Maldives had typically been European**

## TOP 10 SOURCE COUNTRIES, MALDIVES, 2008-2011 JUN YTD



the Maldives, accounting for 15 % of total international tourist arrivals. This radical change in a relatively short period of time has seen resorts scramble to translate resort collaterals, come up with new food menu items, recruit Chinese-speaking front line staff and create more guest activities in the resorts. As the Chinese travel at different times of the year compared to their European counterparts, hotels in the Maldives are also seeing less apparent seasonality patterns throughout the year.

2010-2011 has also seen the implementation of two important Tourism bills:

- Second Amendment to the Maldives Tourism Act. With the amendment, land lease rent will no longer be computed based on number of beds, but will be based on the sizes of the islands. Lease period shall be for a maximum period of 50 years from the date of lease, instead of 25 years previously (subjected to extension, should initial investment exceed US\$10 million).
- Tourism Goods and Services Tax Bill. According to the new bill, a tax of 3.5 % is levied onto room rates, all goods and services sold to tourists, travel planner charges and domestic transportation. The bed tax will gradually be abolished by the end of 2013.

In recent years, some of the upscale properties in the Maldives, such as Centara Grand Island, Lily Beach and Diva have taken

# Signs of life

on a new strategic direction and positioning, introducing all-inclusive packages to the destination. This is a relatively new phenomenon in this exclusive holiday location. Several new resorts opened their doors in 2011 as well. Familiar brands already with a presence in the Maldives, such as Constance, Per Aquum, Six Senses and Anantara, are expanding their portfolio with subsequent properties. Hyatt International marked their first foray into the Maldives with the rebranding of the Alila Villas Hadahaa into a Park Hyatt. Also in Q4 2011, the Maldives will see the entrance of new brands into the «playground,» such as Dubai-based Jumeirah and US-based Viceroy.

## OUTLOOK FOR 2012

After an encouraging first half of the year when the market saw a slight improvement in both occupancy and ADR, hoteliers in general are positive about full year performance in 2011. However, with such a significant influx of new supply in the second half of 2011 and in 2012, compounded by fears of another global recession triggered by economic troubles in the US and the EU, many are nervous that the market will undergo a slump similar to that of 2009.

China, we feel, will continue to be the largest geographic source for the Maldives in the short to medium term, as the destination gains rapid popularity among honeymooners and wealthy extended families in the Mainland. These Chinese visitors will continue to gravitate towards resorts which are going the extra mile to cater to their needs and those with strong word-of-mouth marketing. Another fast growing market to watch out for is the Russian market. Unlike the Chinese travelers, they prefer staying in beach villas and have the propensity to incur ancillary expenses, such as food, beverages and spa.

Recent years have seen regional brands enter the Maldives, such as Thai-based Anantara and Centara. In 2012, two other Thai brands, namely Dusit Thani and Amari, will be entering the ranks. We will likely see further postponement in the openings of several properties currently under construction, such as the JW Marriott Gaakoshibee, the Regent Malefushi and the Mandarin Oriental Maavelavaaru, as developers seek out additional financing to complete these projects.

Average occupancy of the market, particularly in the upscale segment, is expected to be impacted by the new supply; and some resorts, especially those which are less established or aged, will have a harder time staying competitive. Luxury properties, such as One & Only, Four Seasons, Soneva (Six Senses) and Huvaafen Fushi are, however, expected to be minimally impacted due to their strong market reputation and no new competition in the top-luxury segment.

| Shyn Yee Ho

## UNITED ARAB EMIRATES

### SITUATION REPORT

The political and social unrest which started early in the year 2011 has heavily shaken the hotel and tourism markets in the Middle East and North Africa (MENA). Amid the chaos of the Arab Spring, which resulted in political upheaval in several countries, the United Arab Emirates (UAE) has proven to be a safe oasis in the region.

The UAE has not seen any of the violence that has reverberated through the MENA region, and as a result, regional as well as international tourists have diverted their travel plans to their safer destinations. Particularly the Emirates of Dubai and Abu Dhabi, which offer a comprehensively developed tourism infrastructure like high-quality hotels, shopping facilities and other attractions, have been the focus of travelers.

The hotel market in the UAE has clearly benefited from the Arab Spring, and it is unlikely that this trend will change until «hot spot countries» such as Egypt, Tunisia and Syria have regained some stability.

According to data from STR Global and our own research at Horwath HTL, current key performance indicators of the hotel market reflect the positive trend. After the typically lower demand during the summer months and the Ramadan season, occupancy in Abu Dhabi rose to 62.4 % in September 2011, which represents an increase of 8.7 % compared to the same



# Signs of life

month the previous year. The annual performance in the capital of the UAE currently stands at 63.3 % occupancy, which is 14.3 % higher than in 2010, along with an average daily rate (ADR) of US\$ 156.99 YTD in September 2011.

The hotel market also experienced an upswing in Dubai, where the occupancy in September 2011 surged to 71.9 %, which is an increase of 13.2 percentage points compared to last year's performance of 63.3 %.

ADR in Dubai amounts to US\$ 207.72 on a YTD basis, representing an improvement of 11.2 % compared to 2010. The RevPAR in the Emirate rose to US\$ 152.13, which is a substantial increase of 8 % in relation to the market performance in 2010.

The sharp decline of the tourism market in the years 2008 – 2010 in the aftermath of the financial crisis also had a drastic impact on the hotel development pipeline. Following the boom years, several projects – given the changed economic situation in the UAE and the restricted availability of development finance – were cancelled, put on hold or scaled back.

As of September 2011, Dubai has an inventory of approximately 53,000 hotel rooms whereas the Emirate of Abu Dhabi currently counts around 13,000 quality units. An additional 1,700 rooms in Dubai and 1,500 keys in Abu Dhabi entered the market. The major openings were mainly in the 4 to 5-star category in both destinations. The slowdown of hotel projects positively contributed to the recovery of the hospitality industry, as the market could easily absorb the additional supply.



# Signs of life

## OUTLOOK FOR 2012

The uncertainties in Europe with regard to the slowdown of the economy in the coming year could cast long shadows and pose a downside risk on arrivals from Europe, which represents one of the most important feeder markets for international arrivals in the UAE.

There is still potential to diversify the hotel and tourism offering, for example by focusing on budget/mid-market hotels or through special products which appeal to specific travelers, such as boutique hotels or the all-inclusive hospitality concept.

The UAE has cemented its position as a safe oasis within a turbulent region and will continue to be one of the preferred places in MENA for leisure and business.

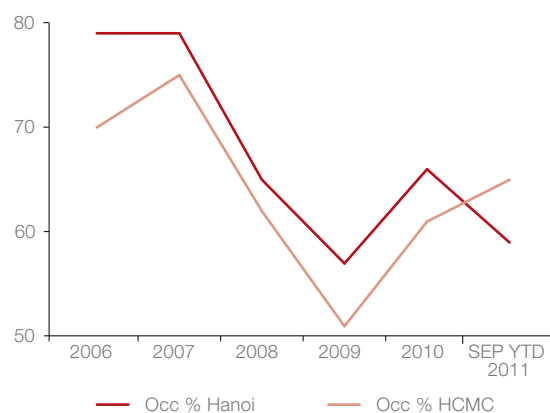
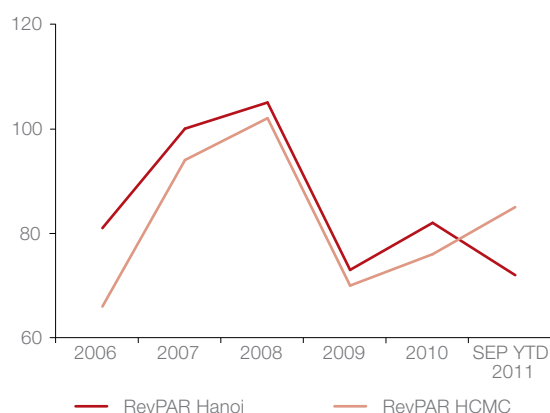
| Hannes Schied

## VIETNAM

### SITUATION REPORT

2011 will be remembered as the year in which Vietnam experienced the highest inflation rate amongst Asian countries. In September, the inflation rate reached 22 % year-on-year. As such, the inflation rate for the year is expected to average 18.7 %, much higher than the 15 % previously forecasted by the government. Soaring prices hurt business investors in various ways, such as through increased labor costs and double-digit interest rates, while increasing overall uncertainty – which investors don't like in general.

Despite such turmoil, the hotel sector has managed to stay positive. According to STR Global, the Vietnam hotel market witnessed year-on-year RevPAR growth of 3.3 % in September, comprising a 4.5 % increase in ADR and a 1.1 % decline in occupancy. Both the Ho Chi Minh City (HCMC) and Hanoi upper-tier hotel markets have undergone tough times, but the HCMC market, which historically lagged slightly behind Hanoi in terms of occupancy and RevPAR, has now begun to outperform Hanoi.



Besides HCMC and Hanoi, the country has started to develop major leisure destinations along the coast such as Nha Trang, Cam Ranh, Da Nang, Hoi An. As a result, a number of new hotel developments are appearing such as the Sheraton Nha Trang, Hyatt Regency Danang Resort and Spa, Crowne Plaza Danang and Novotel Imperial Hoi An.

International arrivals as of YTD September recorded a 15.5 % year-on-year growth. Regarding the number of arrivals by market, China registers the largest share at 23 %, followed by

# Signs of life

South Korea and Japan at about 9 % and 8 %, respectively. While the number of leisure travellers increased by 10 %, the number of business travellers decreased by 5 %. As a result, mid-tier hotels catering to price-sensitive leisure travelers performed better than upper-tier hotels focusing more on corporate guests.

## OUTLOOK FOR 2012

Vietnam's economic growth rate for 2011 is forecast at 5.8 %, which is one percentage point lower than 2010. For 2012, the

government is hoping to ease the inflation rate to 11 %. As such, massive pressure is put on the government and its policies to stabilize the economy and regain investor confidence in the country. As a result, corporate business demand growth is expected to remain sluggish in 2012. However, the leisure market is expected to continue growing fast, especially from neighboring countries. September year-on-year figures show that the number of arrivals from Cambodia and China increased by approximately 60 % and 45 %, respectively.

With a large influx of supply in 2012 (approximately 75 % increase in Hanoi, reaching 4,000 rooms, and 38 % increase in HCMC, reaching 7,000 rooms), hotel owners and operators will need to prepare for tightened competition, with extreme downward pressure on rates. However, with labor costs relatively low and gross operating profits relatively high as a result, there is room to see through further tough times while maintaining positive operating profit. In the longer run, the addition of new internationally managed and branded hotels is crucial to the future growth of the Vietnamese tourism industry.

| Van Phan

## PHILIPPINES

### SITUATION REPORT

After a lackluster performance in 2009, the hotel and tourism industry in the Philippines ended on a high note in 2010. Despite the bus hostage taking situation and travel warnings from countries such as USA, Australia, Hong Kong and England, the country welcomed a record 3.52 million international visitors, exceeding the previous high of 3.14 million set in 2008.

According to STR Global, market occupancy surged by 5 percentage points to 67 % in 2010, while countrywide ADR averaged PHP 4,760, inching up by less than one percent from 2009. Hotels in greater Manila, a key hotel market, registered better performances, with average occupancy improving by 5 percentage points and ADR growing by 2 %.



# Signs of life

The hotel market's buoyant performance was driven partly by improved economic conditions in main visitor source countries such as Korea and USA. Corporate travel was also strong, supported by the resurgence in domestic and foreign investments, following the positively viewed election result boosting investor confidence. Remittances of Filipino foreign workers also sustained strong consumption and encouraged domestic travel.

Outlook for the tourism industry remains favorable in 2011. Based on YTD August 2011 international tourism arrivals figures, the industry is in the midst of another strong year. The country received around 2.60 million visitors during the first eight months, increasing by almost 12 % from the same period in 2010. The strong showing is led by the 30 % surge in Korean visitors. As of YTD August 2011, the Korean market accounted for the largest share of visitor arrivals at 24 percent.

While the nationwide market occupancy remained at 68 % as of YTD September 2011, ADR showed an improvement of 5 % in the same period. Hotel market occupancy in Manila averaged 72 %, while ADR averaged PHP 5,136, increasing by one percentage point and 3 %, respectively, from YTD September 2010.

## OUTLOOK FOR 2012

There are some positive developments surrounding the long delayed PAGCOR Entertainment City, an ambitious integrated casino project in the Manila Bay consisting of numerous hotels, casinos and entertainment facilities. Belle Corporation, one of the four companies authorized to develop hotels and casinos at the compound listed PHP 4.5 billion worth of shares in 2011 to fund the construction of the company's Belle Grande Manila hotel and casino project. Albeit the future of the project is still uncertain, news such as this has created a buzz, sparking additional investor interest in the Philippines.

2012 should also be an interesting year in terms of new hotel supply with the opening of the 330-room Fairmont and Raffles Hotel in the Makati CBD. The last top-tier hotel built in the Makati CBD was the Shangri-La back in 1993.



Future growth in the tourism and hotel industry is largely contingent on the improvement of tourism infrastructure. The Ninoy Aquino International Airport (NAIA) in Manila, the main gateway to the country, is already operating at full capacity. Terminal 3, the newest terminal in NAIA, has faced controversies over the years and has not been fully operational. President Aquino has announced plans to utilize Terminal 3 to its maximum capacity, which may mean moving some international flights from Terminal 1. However, currently, ANA is the only foreign based carrier to operate out of Terminal 3. Also, repairs on the terminal and upgrades to equipment have yet to begin.

The Diosdado Macapagal International Airport (DMIA) located in the Clark Freeport Zone is reportedly being touted as the next primary gateway replacing NAIA in the future. Although the airport capacity issues may only have minimum impact on tourism in the near term, expansion and solving the problem will be critical for sustained growth and supporting projects such as the ambitious PAGCOR entertainment city.

While caution on the industry outlook is warranted due to the European debt crisis, global economic slowdown and constant travel warnings to the Philippines, our outlook remains positive for 2012. Our optimistic view is supported by good economic forecasts driven by strong remittances and investments spurring corporate and regional domestic travel amidst minimal hotel supply growth.

| Jerome Siy ■





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