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The Booming China Countryside Inns/ China B&Bs

Countryside inns / China B&Bs have developed rapidly in China over the recent few years. Through extensive interviews with countryside inns in China, this article attempts to better understand the characteristics of China B&Bs from the perspectives of the owners, the operators, the investors as well as the investment model and return. It shows China Countryside Inns' positive roles both from an economic result and from a cultural or sociological impact. It also points out the challenges that China Countryside Inns face in both development and operation stages. The article concludes with trends in the areas of branding, alliance, regulations and standards.

Countryside inns, or also known as boutique guesthouses or China B&Bs, have developed rapidly in China over the recent few years. As a new model of non-standardized lodging facility as well as an alternative to traditional hotel products, countryside inns are drawing more and more attention from both investors and consumers, particularly after the State Department's announcement of "The key guideline for developing the lifestyle service sector" in November 2015, which for the first time defined countryside inns as part of the lifestyle service sector while reflecting the government's support to this specific sector in the lodging industry.

Overall, these countryside inns or boutique guesthouses offer a refreshing and intimate experience to the guests. They are predominantly located in areas with rich natural or cultural tourism resources (e.g., close to mountains, lakes, natural reserves, or heritage). Partially due to the undeveloped status of the area, the location and environment present outstanding natural beauty and exclusivity, which highly appeal to the guests seeking unique accommodation experiences. Most countryside inns are reconstructed from local farmhouses, which can embody local features in terms of architecture, interiors and decorations, and it is even better if there is an attractive story connecting the property with the local history. In addition, these properties are mostly small in size so that every guest feels they receive particular care and family-style warm hospitality, which they do not usually

experience at larger hotels. With such unique locations and attentive services, some countryside inns have become a destination of their own where guests enjoy "slow life" by just staying in these guesthouses.

However, when comparing China countryside inns or boutique guesthouses with typical B&Bs in other established markets such as Europe, Japan and Taiwan, it is first worthwhile to understand the public ownership of land in China where the nominal owners actually only have the right to use the land within a fixed period. Therefore, the following characteristics are observed in most countryside inns in China:

- While the nominal owners are mostly local farmers, there are investors, typically pursuing profit and investment return, who rent these farmhouses and reconstruct them into countryside inns.
- Operators are sometimes hired to manage the guesthouses, even though some investors would like to do this job themselves. This contrasts from most B&Bs overseas, especially those in Japan and Taiwan, which are run by the real owner with more emphasis on the "host culture" and inherited family business and spirit.
- The scale is overall relatively bigger (ranging from 15 to 30 keys) compared with most B&B overseas. As an investment, the economies of scale matters more, and as a result, the management mode has somewhat deviated from the "family workshop style" but with structure which is more like a small hotel.
- It is interesting to find that there are two different types of investors:
 - One can be categorized as enthusiasm-driven investors, mostly designers, artists, media persons and company representatives, etc., who have strong desire for natural countryside lifestyle themselves and would like to take this opportunity to realize the dream of building their own houses according to their own ideas.
 - The other group is definitely more realistic and profit driven, of which most are individual or crowd-funding investors regarding this a good investment opportunity. Compared with typical hotel developments in China, the development of countryside inns generally requires a shorter construction or reconstruction period (typically 1-2 years), a smaller amount of investment (typically less than RMB 10 million) and no land cost (only rental), but generate higher GOP (typically 30-50 percent to its revenue), which altogether demonstrates a better investment return (the investment return period ranging from 3 years to 8 years depending on location).

In judging the value of these countryside inns or boutique guesthouses, we have seen them playing a very positive role in general.

From an economic perspective, countryside inns bring the following benefits:

- Better utilization of empty farmhouses, where rental income translates to additional income for local farmers.
- A good alternative for investors with interest in lodging facilities, which is proven to provide a favorable investment return if given the right location.
- A new attraction to draw public attention and stimulate local tourism growth.

From a cultural or sociological perspective, the success of countryside inns is further beneficial to:

- Encouraging respecting, preserving and educating local culture, which had been devalued in many countryside areas of China.
- Bringing in people and civilization from the outside world to make local residents more open-minded and in tune with the evolving world.
- Creating jobs and encouraging migrant workers to return to their hometowns to join the redevelopment of China's modern countryside areas.

With that said, we understand from interviews that countryside inns, as a new and less mature business model, are facing different challenges in various stages.

- **Development Stage:** Difficulties in dealing with the local government for various license applications where the laws and regulations may be absent; communicating with local residents in a way to avoid cultural conflicts; and reconstructing an old farmhouse into a quality guesthouse where moisture, heating, soundproofing and roofing can be major challenges.
- **Operation Stage:** Challenges include the lack of economies of scale, the lack of marketing tools except social media, and the difficulty in maintaining good staff and service standards. Homogenization could be a rising threat. The countryside inns are over developed in some areas thus resulting in less attention being paid to personalized activities, guest experience, etc., which actually should be the core of a boutique guesthouse product.

All in all, we are optimistic about the future of countryside inns/ boutique guesthouses in China. Specifically, we have foreseen the following trends:

Branding

Many investors of successful countryside inns/ boutique guesthouses have established, or are on the way of creating their own brands. Some representative brands include Blossom Hill Inns, Seclusion Life, Songtram, Hillside Village, etc., which have evolved from 1 or 2 countryside inns to a new business model of developing a series of small resorts with a more hotel-like management structure and style. In addition, some traditional hotel operators, like Home Inns, have also shown great passion in creating a new countryside inn brand or a chain that welcomes franchises.

Alliance

Realizing the relative lack of marketing channels, some countryside inns are joining force to form a shared marketing platform and to enhance mutual benefit and cooperation. The alliance of Moganshan boutique guesthouses is a good example, which has already gathered over 50 members in the area (Moganshan is one of the most popular leisure destinations in proximity to Shanghai).

Regulations and Standard

According to the tourism bureau, there will ultimately be some regulations in order to maintain countryside inns' quality product and services. Also, we think there is a need for guidance or standard, especially in terms of operational procedures as we have noted from interviews that many guesthouse operators do suffer from their inexperience in hotel operation.

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Ms. Sandy Luo is an Assistant Director of Horwath HTL Shanghai with over 10 years experience in the hotel, tourism and leisure industry. She has completed or supervised more than 100 hotel, resort and serviced apartment projects, as well as numerous tourism master plans, with project location covering all the major cities and resort destinations in China. She has been specialized in market and financial feasibility studies, hotel investment analysis, and tourism master planning, while also working across a spectrum of projects in hotel valuation and hotel management contract negotiation. Over the recent two years, Ms. Luo has particularly demonstrated her expertise in hotel asset management, based on her rich experience in hotel market, operation, finance and investment analysis, which includes providing in-depth diagnostics and tailor-made solution packages to various hotels in different stages of their life cycle, or delivering strategic advisory services regarding business or brand development for major hotel owners or management companies. In addition, Ms. Luo has been devoting herself in several influential research projects, with topics such as “the integration of hotel and retail functions”, “the development of countryside inns in China”, etc., while she has also been invited to several major industry forums/events as a guest speaker.

Ms. Luo holds both a degree in Economics and a degree in International Relations from Peking University. Prior to joining Horwath in 2008, Ms. Luo worked in DTZ Hospitality Consultancy Beijing for two years with responsibilities in market research and business development.

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