



**Horwath HTL™**

*Hotel, Tourism and Leisure*

**MARKET REPORT**

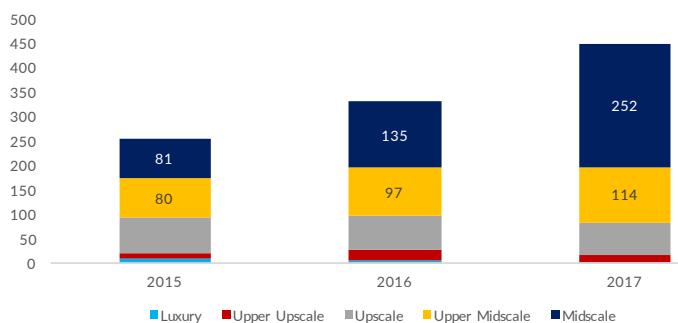
**CHINA: Hotels  
Deals Signing**  
*(International Midscale  
& Above Brands 2017)*

**APRIL 2018**



## Midscale brands continued to boost the hotel pipeline in China

Historical Change of Hotel Deals Signed, 2015 - 2017



Source: Horwath HTL

The number of contracts signed by international midscale & above brands kept increasing each year from 2015 to 2017. The number reached 450 last year, representing a 36 percent jump from 2016.

In fact, the development of midscale brands fundamentally boosted the total number of hotel deals signed in China.

The rapid development of midscale brands was highly anticipated. On one hand, the so-called consumption upgrade and the boom of domestic mass tourism vastly expanded the customer base of midscale brands and laid the foundation for midscale hotel market.

On the other hand, decelerated China’s economic growth and tightened real estate regulations made investors more cautious about hotel developments.

In turn, the focus of investment has gradually shifted from upscale and luxury segments to midscale hotels, which typically have much stronger financial returns.

With the push from both supply and demand sides, China’s international-branded hotel pipeline is experiencing a structural change mainly led by the boom of the midscale sector.

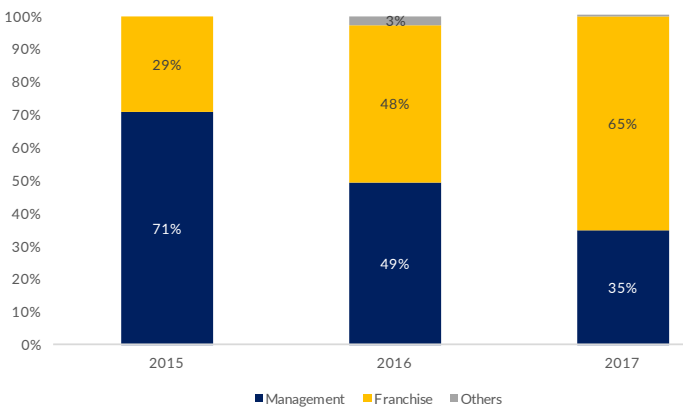




**Franchise mode has become the lead**

The proportion of franchise contracts sharply increased from 29 percent to 65 percent in the past three years, which made franchise the leading expansion model for international midscale & above brands in China.

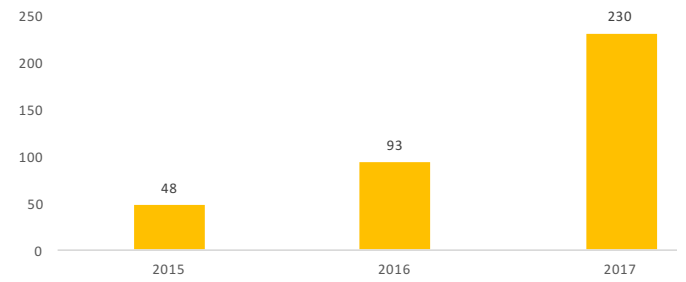
*Historical Change of Deals Signed by Management Mode, 2015-2017*



Source: Horwath HTL

In fact, the dramatic change was mainly boosted by the fast development of midscale hotels, which mainly relied on franchise model for expansion.

*Historical Change of Hotel Deals Signed, 2015 - 2017*



Source: Horwath HTL

As oversupply is likely to persist in the upper end of China’s hospitality market, international hotel management companies partnered with Chinese counterparts one after another and offered franchise model for their midscale brands, in order to achieve further expansion and to attract Chinese investors who prefer flexible management model and strong operation control.

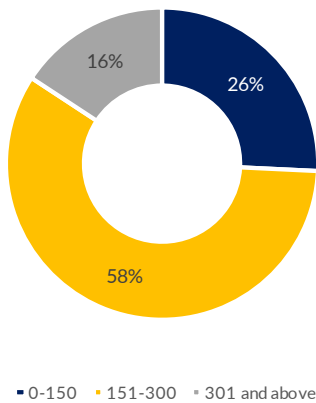
Hence, the substantial increase in the amount of midscale hotel pipeline was largely related to the wide application of franchise mode. It accelerated the market penetration of international management companies in the midscale sector.

## Small- and medium-sized hotels preferred by investors

Compared with 2016, the proportion of hotels with 150 guestrooms and below increased significantly in 2017, and surpassed that of hotels with more than 300 guestrooms.

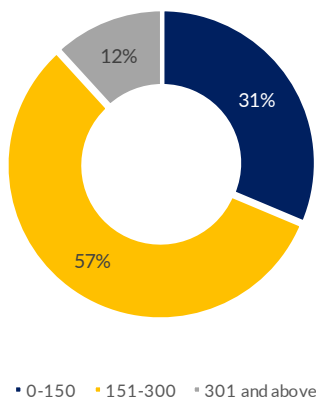
It showed a shift of market preference towards small and medium scale hotels. The increase of small and medium hotels was not only cause by the popularity of midscale hotels, but also by the decline in the average signed room count in all segments.

Deals Signed by Hotel Size - 2016



Source: Horwath HTL

Deals Signed by Hotel Size - 2017



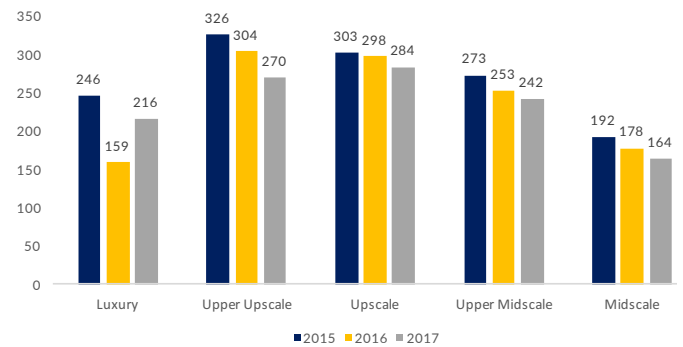
Source: Horwath HTL

We can see a clear trend of shrinking average signed room count in almost every segment over the past three years.

It was mainly due to three factors.

1. Hotel development has become more rational. Investors started to pay more attention to the equilibrium between hotel scale and market demand, rather than to simply follow the rule of ‘the bigger, the better’.
2. The market competition is becoming increasingly fierce. It is difficult for large scale hotels to achieve satisfactory performance in some oversupplied markets.
3. The development of select service brands in recent years, which focus on small and medium scale products, also drove down the average room counts of newly signed hotels.

Historical Average Signed Room Count by Positioning, 2015 - 2017



Source: Horwath HTL

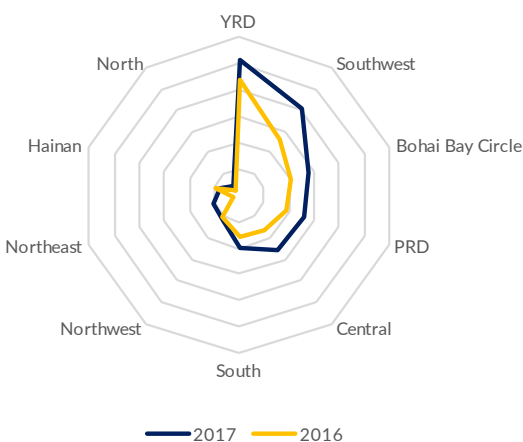




**The Yangtze River Delta and the Southwest continued to be investment hotspots, while the growth in the Northeast was striking.**

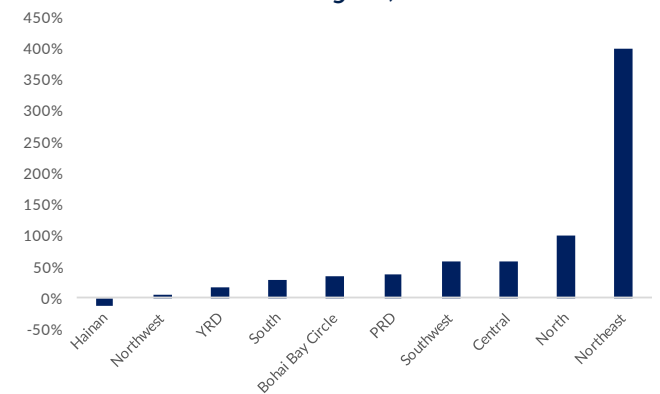
The Yangtze River Delta and the Southwestern China were still the most active playgrounds for hotel developments, and the attention continued to grow. Pipelines of hotels and resorts in cities surrounding the regional giants like Shanghai, Hangzhou and Chengdu were the key drivers in these two areas in 2017.

**Area Distribution of Deals Signed**



Source: Horwath HTL

**Growth Rate of New Deals Signed, 2017**



Source: Horwath HTL

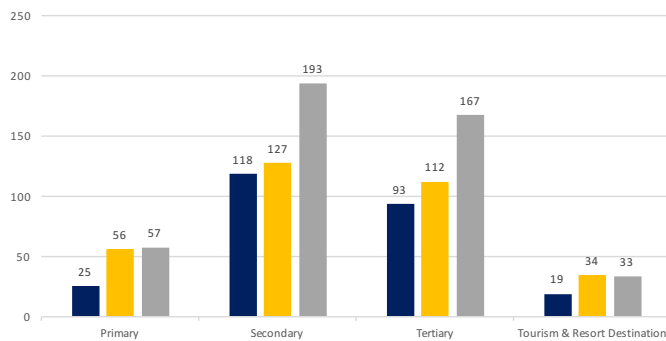
When we look at the growth rate, the Northeast stood out as the most robust market in 2017. Although the total deal number was only 20, it was 5 times the one of 2016.

Hotel investment in Northeastern China was relatively slow in recent years due to a weak economic growth. The sharp increase of hotel pipeline in 2017 could be contributed to the urban development of gateway cities like Harbin and Changchun and the large-scale investment in winter sports like ski resorts. It reflected investors remained relatively optimistic towards the hotel market in the Northeast.

## Secondary-city-deals outpaced the national market, with Changsha and Guiyang taking the lead

Primary cities with mature hotel markets had rather stable number of deals signed each year, while secondary and tertiary cities became the main battlefields for hotel development.

### Historical Deals Signed by City Category, 2015 - 2017



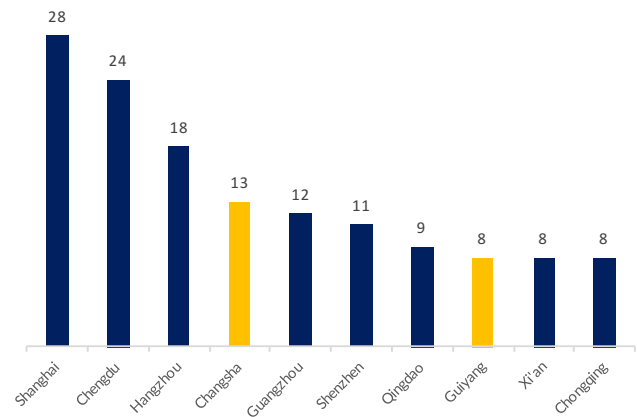
Source: Horwath HTL

■ 2015 ■ 2016 ■ 2017

The total number of deals signed in secondary and tertiary cities reached 360 in 2017, representing a 50 percent year-on-year growth rate. Secondary cities in particular outperformed the national market in terms of both number of deals signed and growth rate.

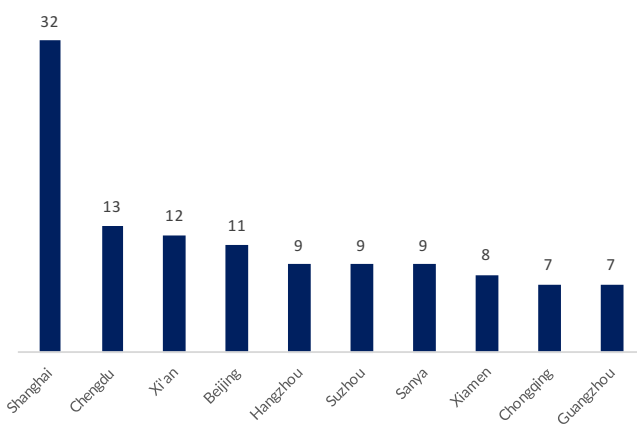
Among the emerging markets, Changsha and Guiyang showed strong momentum, and made into the Top 10 Deals Cities.

### Top 10 Deals Cities, 2017



Source: Horwath HTL

### Top 10 Deals Cities, 2016



Source: Horwath HTL

As the second largest economy in central China, Changsha is gifted with a unique energy of entertainment and a strong consumer market, which effectively promoted its hotel industry and injected confidence into its investors.

Guiyang, on the other hand, has always been lagged behind in the midscale & above hotel markets as a secondary city. However, support from national government, expansion of new districts and development of real estate all led Guiyang into a rapidly rising cycle in recent years. In 2017, Guiyang entered the Top 10 Deals Cities for the first time.



## Conclusion

With the rapid growth of mid-tier demand and the gradual open of franchise model, the midscale segment is very likely to experience an unprecedented boom, and the penetration level of international midscale brands is anticipated to further increase.

The Yangtze River Delta and the Southwest are still the key markets. Yet, with the continuing expansion of international brands into lower-tier cities, some emerging areas and cities start to rise in the new investment cycle.

We believe the supply-side structural reform and the demand-side increasing complexity will continue to raise the bar for forward-looking hotel investment strategy.

In order to survive in this fierce market competition, investors not only need to follow the most current market trend closely, but also need to conduct precise market positioning for their hotels and to create products with unique differentiation points.



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Crystal Liu is a Senior Consultant with Horwath HTL, based at the Beijing Office. After joined Horwath HTL Crystal has successfully completed many projects including urban hotels and suburban resorts market/financial feasibility studies, hotel repositioning and renovation studies, tourism destination development strategies and brand/strategic planning of hotel management companies or other enterprises.

Crystal graduated from Hong Kong Polytechnic University with a master degree in Hospitality and Tourism Management. Before pursuing her master degree, Crystal had been working at Ctrip, the largest OTA company in China for 2 years as a product manager, responsible for tourism product design.



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Prior to joining Horwath HTL Beijing, Marcia worked at Fontainebleau Miami Beach which has more than 1,500 hotel rooms and is currently considered the largest hotel on the eastern coast of the United States. Marcia graduated from Michigan State University in 2015, with a master degree in Hospitality Business Management.





# Horwath HTL™

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