



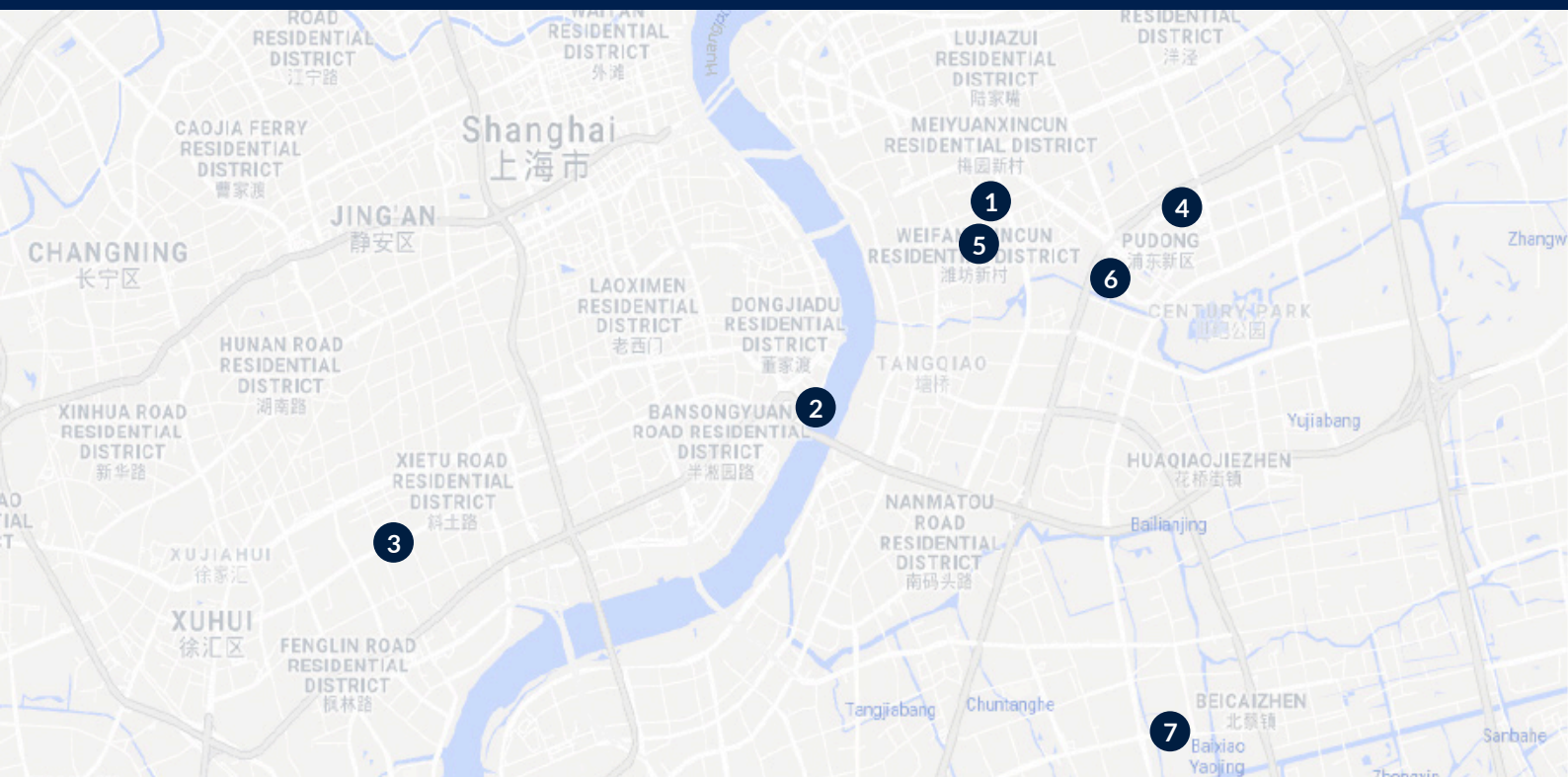
Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Shanghai:
Pudong Expo Area

JULY 2019



Introduction

The main purpose of this study is to review the historical market performance, identify the demand segmentation dynamics and finally draw an overall evaluation for the upper-upscale and upper-midscale hotels in Pudong Expo area. We have selected the following hotels from the market for our study.

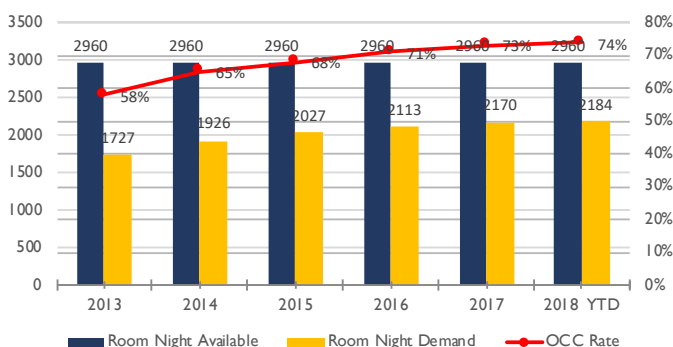
Upper-Upscale Hotel Market

No.	Hotel	Opening/ Renovation	Room Count
1	Sheraton Grand Shanghai Pudong Hotel & Residences	2007	525
2	InterContinental Shanghai Expo	2010	384
3	Shanghai Marriott Hotel Riverside	2011	295
Total			1,204

Upper-Midscale Hotel Market

4	DoubleTree by Hilton Hotel Shanghai, Pudong	2001	850
5	Four Points by Sheraton Shanghai, Pudong	2006	326
6	Holiday Inn Shanghai Pudong Nanpu	2007/2009	261
7	Holiday Inn Shanghai Jinxiu	2009	319
Total			1,756

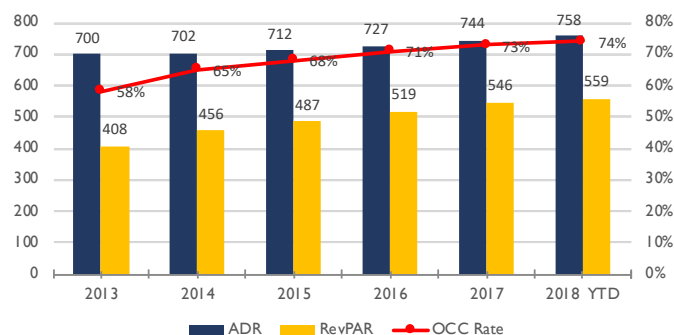
Historical Supply & Demand: Pudong Expo Area



Source: Horwath HTL

*Note: ADR before 2016 includes service charge and business tax, but excludes breakfast; ADR after 2016 includes service charge, but excludes value-added tax

Historical Market Performance: Pudong Expo Area



Source: Horwath HTL

Historical Performance

2013:

Occupancy was at a low level of around 55 - 60 percent with very limited new supply observed. We believe that the relatively weak market performance was mainly due to:

- Since the introduction of the “National Eight Regulations” (a central government’s rule to strictly control expenditure), lodging and consumption demand from the government reduced significantly.
- In 2013, the national anti-corruption campaign and the GSK Bribery Scandal negatively affected the demand level of in-house meeting.

2014 – 2017:

In this period, both ADR and occupancy experienced a steady growth. Reasons are as follows:

- In-house meeting demand from pharmaceutical and financial companies revived. Since 2014, in-house meeting demand from pharmaceutical and financial industries picked up slightly. Until the second half of 2014, the total room night demand and the budget of in-house meetings had recovered to pre-2013 level, contributing to a higher occupancy for the market.
- Shanghai Free Trade Zone drove more corporate and in-house meeting demand. Since the establishment of Shanghai Free Trade Zone, more than 10,000 businesses from sectors like manufacturing, automobile, finance, and logistics landed in the region, bringing quite some corporate and in-house meeting demand for hotels in Lujiazui, Zhangjiang and the Expo area, which drove up the market occupancy.

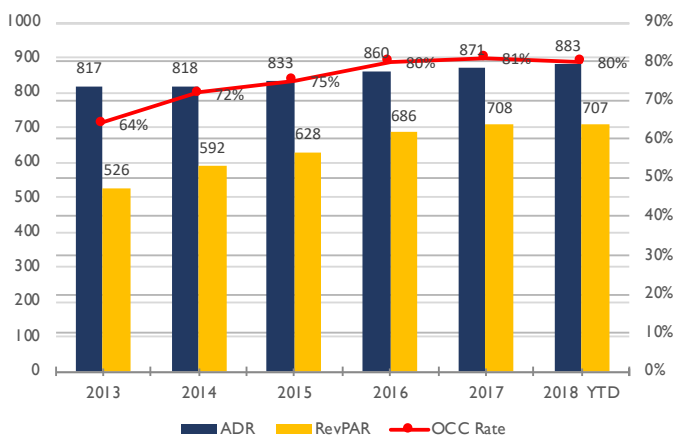
- The opening of National Exhibition and Convention Center enhanced Shanghai’s image as an international MICE destination. Its opening boosted the MICE development in Shanghai as a whole and drove the demand of large-scale national-level exhibitions and in-house meetings in upper-upscale and upper-midscale hotels. Hotels with extensive, flexible, and larger meeting facilities tend to be more competitive.
- Large-scale exhibitions held in major MICE venues in Pudong (e.g. Shanghai New International Expo Centre and Shanghai World Expo Exhibition and Convention Center) stimulated lodging demand from the MICE segment. A great number of exhibitions with international influence (e.g. bauma China and International Solar Exhibition) had a positive effect in driving up MICE demand for hotels in those areas.
- Enhanced tourism destination image contributed to demand growth. As Shanghai was developing cultural and creative industries and strengthening its image as an international tourism destination, large sports and entertainment events in the city drove up leisure tourism demand. Shanghai Disney Resort, which had received more than 35 million tourists accumulatively since its opening, also played a role in promoting weekend or holiday getaway demand in Yangtze River Delta.

2018 to Present:

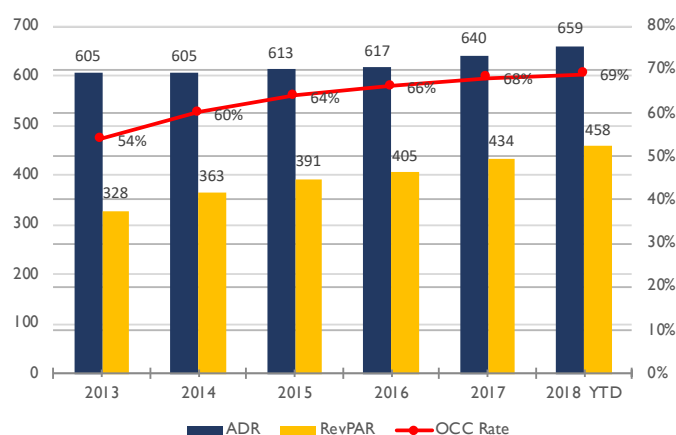
- Compared with previous years, occupancy and ADR maintained steady growth. During the China International Import Expo, the occupancy of upper-midscale hotels in the area improved slightly. However, due to limited high-yielding demand, ADR remained below 750, which is expected to last for a longer period.

Upper-Upscale & Upper-Midscale Hotel Market Performance Comparison

Upper-upscale Hotel Market ADR, RevPAR, and Occupancy Trends



Upper-midscale Hotel Market ADR, RevPAR, and Occupancy Trends



*Note: ADR before 2016 includes service charge and business tax, but excludes breakfast; ADR after 2016 includes service charge, but excludes value-added tax (6 percent) and breakfast.

Comparing the historical performance of Pudong Expo area’s upper-upscale and upper-midscale hotels, we have drawn the following conclusions:

ADR of upper-upscale and upper-midscale hotels show very minor differences. According to China Hotel Industry Study, in 2017, the ADR of 5-star hotels in Shanghai is RMB 1,022, while ADR in the selected market is only 883, which is lower than the average market level in Shanghai. This is due to:

- Upper-upscale hotels in the area have few enterprises around them and therefore offer value for money strategy to attract corporate demand. The reason, is that these hotels are not located in central business districts, which restricts the corporate demand. In addition, the majority of the existing corporate demand is from sectors such as manufacturing, automobile and pharmaceuticals, which tend to have larger room night demand and accordingly higher bargaining power, lowering the market ADR level.
- The meeting facilities of upper-upscale hotels are limited in scale and outdated. To compete with other upper-upscale MICE hotels in Pudong (e.g. Kerry Hotel Pudong Shanghai, Jumeirah Himalayas Hotel Shanghai), those upper-upscale hotels had to adopt lower prices to attract MICE demand.
- Due to the lack of tourism resources, attractions and commercial and entertainment facilities, the area has limited tourism demand. The majority of FIT demand comes from leisure individuals who go to Mercedes-Benz Arena and other venues for shows and sports events. Such demand concentrates on weekends and holidays.

But their budget is relatively low, usually less than RMB 1,000 (while that of FIT in the city center is generally between RMB 1,000 and RMB 1,500), which limits the ADR level of the market.

The occupancy of upper-upscale hotels is higher than that of upper-midscale hotels. Reasons are as follows:

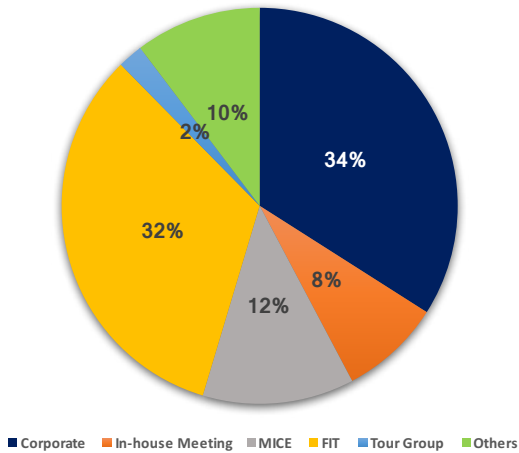
- Compared with upper-midscale hotels, upper-upscale hotels are able to attract more MICE demand. On the one hand, upper-upscale hotels are closer to Expo Centre and Expo Exhibition & Convention Center, which leads to higher proximity to demand sources, and adopting cost-effective prices can too drive such demand. On the other hand, larger-scale meeting facilities provided by upper-upscale hotels are more attractive to MICE groups. Demand from medium and large MICE groups plays an important role in increasing occupancy level in the high-end market.
- Upper-midscale hotels were, in general, older than upper-upscale ones, thus having problems of limited and aging facilities, as well as less competitive services. Considering the above negative factors, many travelers prefer upper-upscale hotels whose price is similar.
- Some upper-midscale hotels are too large in size, which lowers the overall occupancy rate in the market. If such influences of certain hotels on the market were excluded, the occupancy can reach about 83 percent, which would be in a more reasonable range.



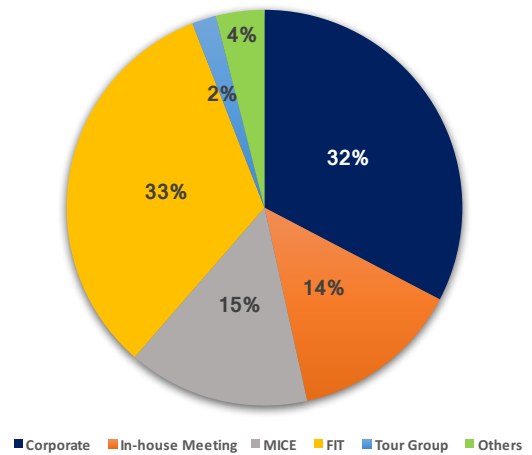
Demand Segmentation

Demand in the market could be categorized into six major segments – corporate, MICE, in-house meeting, FIT, tour group, and others. The following graphs show the hotel market segmentation:

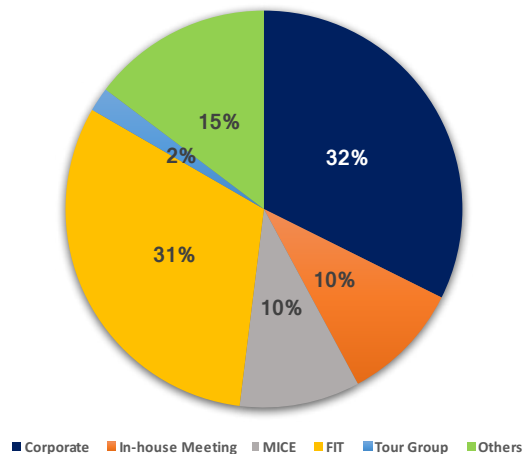
Overall Market



Upper-Upscale Hotel Market



Upper-Midscale Hotel Market





Corporate Dynamics

Corporate Demand

This mainly refers to demand from corporate travelers in the market, in the form of corporate accounts signed between hotels and companies (excluding business travelers booking with OTA).

Budget

RMB 650-900 per person per day; high-end demand can reach about RMB 1,000; demand from SOE is mainly concentrated in domestic midscale hotels, with a budget between RMB 400-500.

Average Length of Stay

1-2 days

Industries

- Mechanical Manufacturing
- Finance
- Automobile
- Pharmaceutical
- Logistics

Demand Generators

The majority of such demand is generated by nearby offices. The demand from the New Bund area has notable potential; a small portion comes from Zhangjiang High-Tech Park and Kangqiao Industrial Zone; very limited overflow demand from Lujiazui.

Characteristics and trends

- Local small companies have a flexible budget policy and higher spending power. Such local small businesses tend to accommodate their guests in higher-end hotels to establish their company image.
- Corporate demand has strict requirements for traffic time and nearby supporting facilities. The ideal travel time for corporate travelers is within 15 minutes. Hotels surrounded by various businesses, entertainment choices, and F&B facilities are more attractive to corporate travelers.
- With the construction and further development of the New Bund, a growth in corporate demand is expected. The New Bund is positioned as an upgraded version of Lujiazui, with a 1.5-million-square-meter commercial and business area.

In-house Meeting Dynamics

In-house Meeting

This mainly refers to in-house meeting demand such as year-end meetings, symposiums, product launches, and product purchase.

Budget

RMB 500-850 per person per day

Size

30-200 people; mainly small to medium meetings

Average Length of Stay

2-3 days

Industries

- Pharmaceutical
- Automobile
- Logistics
- Finance
- Mechanical Manufacturing

Demand Generators

Some hotels are able to receive in-house meeting demand from Zhangjiang area, but the demand mainly comes from companies around the hotel; very little overflow from Lujiazui area.

Characteristics and trends:

- There are limited large-scale meetings but has potential to grow. At present, large meeting groups are absent in the majority of selected hotels as there is a lack of sufficient room inventory and meeting facilities to accommodate large groups or host big meetings.
- The Expo Centre mainly undertakes government meetings and mega conferences, holding only about 35 events annually, which has relatively small influence on corporate in-house meeting demand. During MICE peak seasons, government's meeting schedule may conflict with corporates'. The Expo Centre's large meeting facilities can bring corporates difficulty in fully utilizing the meeting space and thus add extra workload to organizers and coordinators. The Expo Centre lacks F&B facilities and other supporting facilities. Since it fails to provide high-quality, comprehensive, and holistic meeting services, the Expo Centre is hard to compete with MICE hotels in terms of meeting experience, making it even more difficult to become the first choice for meeting organizers and coordinators from corporates.
- Compared with upper-midscale hotels, upper-upscale hotels are more attractive to in-house meeting demand due to their advantages in room inventory, meeting facility size, and supporting services.
- High-end meeting demand prefers more flexible facilities. Based on our research, compared with standard 5-star hotels, hotels with a unique style, distinctive theme, large and quality facilities, and flexible services tend to be more attractive in the high-end meeting market.
- Exhibitions stimulate in-house meeting demand. Exhibitions can bring out potential in-house meeting demand such as break-out sessions and seminars.
- With the development of the headquarter park in eastern Expo area, meeting demand from corporates may have a substantial increase. The planned 1.5-million-square-meter commercial and business area in the New Bund is likely to bring more corporate meeting demand.
- Booking lead-time becomes shorter, which is only around one month.
- There is an increasing trend to book meetings via the third-party event planners for packages.

MICE Dynamics

MICE

This mainly refers to lodging demand generated by large-scale meeting and exhibition centers.

Demand Generators

- Shanghai World Expo Exhibition & Convention Center
- Shanghai New International Expo Centre
- Mercedes-Benz Arena

Industries

- Pharmaceutical
- Automobile
- Education
- Chemical
- Industries related to exhibition themes

Characteristics and trends:

- MICE demand mainly comes from large-scale exhibition centers and other MICE venues. Such demand is largely influenced by the traffic condition and accessibility between hotels and meeting venues.
- Obvious seasonality is observed in MICE demand. Every year, from March to June and from September to October are peak seasons for exhibitions, with a moderate rise in room rate and occupancy.
- Compared with SNIEC and National Exhibition and Convention Center, SWEECC holds more domestic midscale regional exhibitions, which has larger influence on hotels nearby yet limited influence on upper-upscale hotels in the rest of Expo area.
- Exhibitions in SWEECC and other events in SNIEC and Mercedes-Benz Arena have obvious influence on midscale hotels in the area. The budget for most exhibition teams and staff is within RMB 500 which leads them to primarily choose midscale hotels around, while international teams tend to have a higher budget and prefer international brands. In the case of sports events, the budget for home teams can be as high as RMB 1,000 per person per night. Meanwhile, the guest teams usually have a lower budget but longer length of stay, which puts a positive effect on occupancy, while not influencing room rate significantly.

FIT Dynamics

FIT Demand

This mainly refers to individual travelers booked via third-party platforms. Such demand can be categorized into two segments:

- FIT to the area for business trips or exhibitions
- Leisure FIT demand for concerts and sports events

Demand Generators

- Nearby offices
- Shanghai World Expo Exhibition & Convention Center
- Shanghai New International Expo Centre
- Mercedes-Benz Arena

Characteristics and trends:

- Among all FIT, business and exhibition FIT accounts for around 70 percent. Such demand compared with corporate demand and MICE demand, mainly differs in their booking channels.
- Concerts and sports event in Mercedes-Benz Arena during weekends attracted FIT demand in the area, contributing to about 30 percent of the total FIT Demand.
- FIT attending events in Mercedes-Benz Arena usually have a budget limit of RMB 1,100. This is also applicable to celebrities and fans, although having the highest spending power among others. Some superstars or online celebrities with a huge fan base usually stay in suites, as well as their fans, driving up ADR and occupancy in the market.
- Events held in China Arts Museum, Expo Sport Park and other facilities with public-service nature can hardly bring new accommodation demand.
- In the future, with the completion of the Grand Theatre and Expo Cultural Park plus the introduction of high-end cultural industries such as E-sports and performing arts, FIT demand in the area may expect some but limited growth.

New Hotel Additions

Over the next few years, the following hotels will be entering the market, most of which have an upper-upscale positioning.

Hotel	Opening/ Renovating	Room Count
Shanghai JW Marriott Marquis Hotel	2019 Q4	515
Rocco Forte – West Bund Hotel Shanghai	2019 Q4	219
New Bund Shangri-La Hotel	2021 Q3	600
Total		1,334

Food And Beverage Performance Summary

Type	Operating Status	Price Range
All Day Dining Restaurant	<ul style="list-style-type: none"> The demand of all-day-dining restaurant is mainly breakfast. Lunch is usually a-la-carte and dinner is usually buffet. A buffet dinner charges RMB 150-200. The overall turnover rate is not high due to the limited number of walk-in guests. 	RMB 150-200 per person
Chinese Restaurant	<ul style="list-style-type: none"> Chinese restaurants mainly serve Shanghainese and Cantonese dishes. The majority of guests are in-house guests. Dining demand from offices nearby and local residents is limited. During weekends, hotels in residential areas can capture some but limited demand from family gatherings and birthday parties. Most hotels are equipped with around 6 private dining rooms with a turnover rate of around 50 percent, mainly serving business receptions. Abundant choices of social catering and fierce competition from take-away services are bringing huge challenges to Chinese restaurants. 	RMB 200-250 per person
Local Banquets and Weddings	<ul style="list-style-type: none"> Largely affected by one-stop wedding halls, the wedding segment in hotels performs poorly. Local residents prefer wedding halls for their 'value-for-money'. Hotels hold about 100 weddings a year, most of which are medium-sized of 25-30 tables. Banquets include baby birthday parties, business receptions, cocktail parties and team building events, etc. 	Wedding Banquet: RMB 6,000-8,000 per table
Specialty Restaurant	<ul style="list-style-type: none"> Specialty Restaurants are not common in the market - they are usually Italian or Japanese. These restaurants are generally low in turnover rate due to limited demand from the local market. 	RMB 300-400 per person



Conclusion

Strengths & Opportunities

- Pudong Expo area's positioning of "city sub center" and the development of "world-class central activity zone" brought good prospects and opportunities to hotels in the area.
- With the construction and development of the New Bund, high-end corporate and MICE demand have considerable growth potential in the future.
- SWEECC and SNIEC can to some extent bring up the occupancy and ADR of hotels nearby during MICE peak seasons or large-scale exhibitions. At the same time, Mercedes-Benz Arena, Expo Center and Expo Park will also hold large-scale events that generate some FIT demand in the area on weekends and during holidays.
- Medium and large meetings have potential for a sustained growth. High-end meeting demand prefers more flexible facilities. Hotels having personalized, extensive and quality facilities are likely to seize more opportunities in the market.
- The availability of commercial supporting facilities around hotels is a great concern for high-end customers, as well as the richness of entertainment options around. Hotels with more developed supporting facilities in the surrounding are able to attract more high-end demand.

Weaknesses & Threats

- At present, high-end demand in the market is relatively limited and the spending power of all demand segments are relatively low. The rate ceiling of the hotel market is expected to remain at a similar level in the short term.
- Most hotels are restricted by the number of rooms and size of meeting facilities to only receiving small-scale meeting groups. In-house meeting demand is not effectively utilized.
- New hotel projects, including two hotels with over 500 rooms, will open between 2019 and 2021. The occupancy may decline slightly as a consequence. The market will become even more competitive due to non-differentiated products.
- Compared with SNIEC and National Exhibition and Convention Center, exhibitions in SWEECC have lower positioning, smaller scale and less high-yielding participants. Therefore, the MICE peak season is not likely to bring significant improvement to overall performance of hotels in the area.

With the further development of Expo area, especially the New Bund area, Pudong's hotel market shows an overall positive prospect. However, most of the existing and future supply in the market are standardized MICE hotels. Hotels that are able to differentiate their products and generate their own demand can seize more development opportunities.

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Celia Yang is a Senior Consultant with Horwath HTL Shanghai. Celia graduated with a Master's Degree from the School of Hotel and Tourism Management, Hong Kong Polytechnic University and has successfully completed various projects including market and financial feasibility study of resort and hotel projects, tourism master plan development study and hotel memorandum of understanding and management contract negotiation. Celia also conducts corporate strategy studies by offering tailor-made solutions to several developers and hotel management companies.

Prior to joining Horwath HTL, Miss Yang worked as Research Assistant for Strategic Intelligence Center, Pacific Asia Travel Association. Furthermore, she had experience in key hotel departments in Hong Kong and Mainland China. Miss Yang obtained her Bachelor's Degree of Hispanic Philology in Shanghai International Studies University and won intergovernmental scholarship to study and work in the tourism industry in Colombia.



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Evan He is a consultant with Horwath HTL Shanghai. Evan has completed several projects including development strategy, market financial and feasibility studies for business hotels, budget hotels, resorts and boutique hotels.

Evan has dedicated himself to conducting comprehensive analysis and providing customized solutions focusing on Chinese luxury market for over 375 luxury hotels worldwide. Moreover, his passion lies on studying the business models for independent luxury hotels in China, especially the value co-creation between owner and operator for independent luxury hotels in China. Evan graduated from East China Normal University majoring in Tourism Management and he earned Master of Management in Hospitality degree from Cornell University in 2016.



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Yiwei Long is a research analyst at Horwath HTL Shanghai. His main duty includes industry scanning, market research, data analysis, etc. He also participates in market and feasibility studies for hotels across the Asia Pacific, strategic consulting projects for top hotel management groups. Prior to joining the team, Yiwei was designated as Elite Management Trainee at Hotel ICON, Hong Kong, where he cooperated with the HR Director on redesigning the staff training program and raised the hotel ranking to No. 3 in Hong Kong. At the moment Mr. Long is pursuing his Tourism and Event Management degree at The Hong Kong Polytechnic University. Additionally, he has also served as a research assistant in various academic projects focusing on tourism development and market studies.



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