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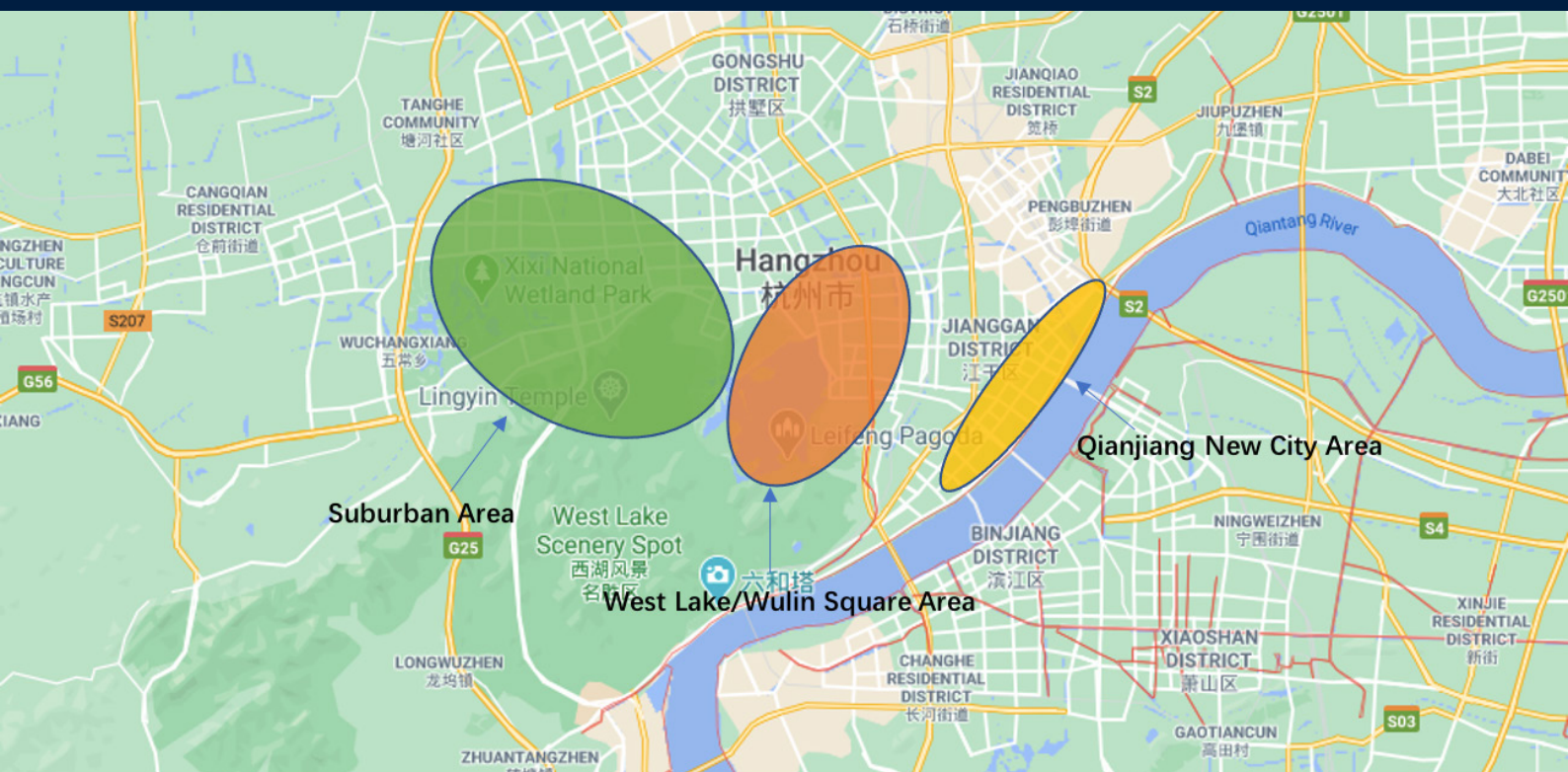
Hotel, Tourism and Leisure

MARKET REPORT

Hangzhou, China

Hotel Market Overview

APRIL 2021



Introduction

Hangzhou, the capital and the most populous city of Zhejiang, has been traditionally known as a tourism city for popular sights including West Lake and Lingyin Temple.

After over 30 years of development, especially after hosting the G20 summit in 2016, Hangzhou gradually evolved from a tourism destination to a world-renowned innovation, research and development center backed by the expansion of hi-tech companies including Alibaba Group, NetEase, Huawei and ArcSoft. Hangzhou is attracting high quality science, technology and ecommerce startups that fill up multiple business districts around the city.

Considering the development of Hangzhou's old and new city centers, we have selected the following three sub-hotel markets to better understand the overall hotel performance in Hangzhou:

West Lake/Wulin Square area

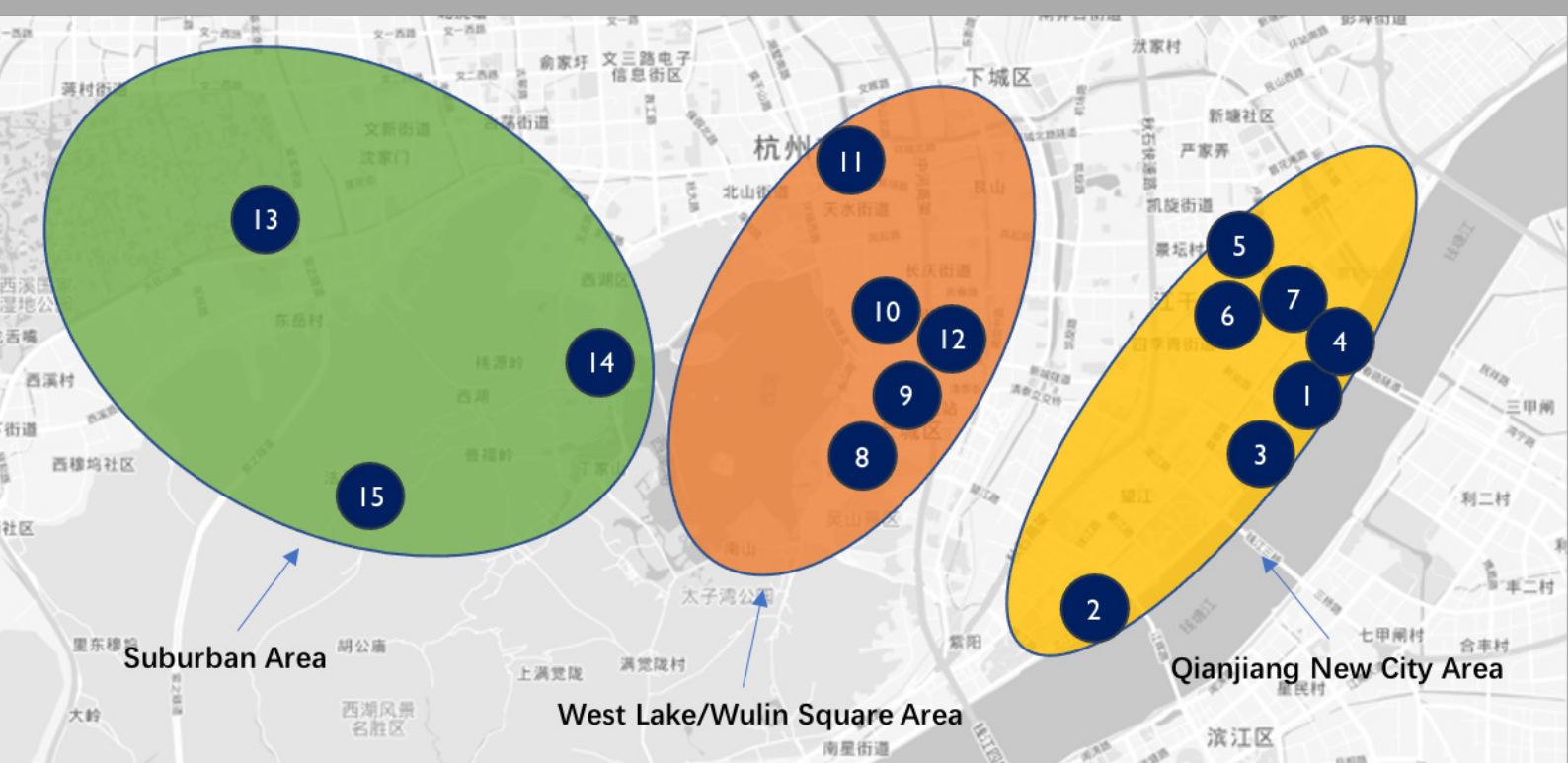
West Lake/Wulin Square area is Hangzhou's most traditional city center. This area is filled with high-end shopping malls including Wulin Intime, GDA Plaza and Hangzhou Tower. In recent years, this area is gradually transforming into a smart digital business district with the help of 5G and cloud-based computing technology.

Qianjiang New City

Qianjiang New City is the new Central Business District situated in the west bank of Qiantang River in Hangzhou. Following the city's decision to shift the development focus from West Lake to Qiantang River since 2001, Qianjiang New City has been strategically focused on the development of the tertiary industries such as finance, IT and consulting. In 2016, Hangzhou municipal government officially moved to the Qianjiang New City.

Xixi Wetland and other suburban areas

Abiding by Hangzhou's environmental laws, Xixi Wetland and its surrounding suburban areas remain well-protected from large constructions over the past 10 years. With rich scenic resources, tourism is the pillar industry for these areas and small luxury resorts with unique features are the main accommodation products. here.



To review Hangzhou’s historical market performance, we have selected the below listed upscale, upper-upscale and luxury hotels to identify the demand segmentation dynamics by different areas and draw an evaluation of the market.

Category	No.	Hotel	Year Opened / Last Renovation	Room Count
Qianjiang New City Business Hotel	1	InterContinental Hangzhou	2010 / 2018	384
	2	The Azure Qianjiang, a Luxury Collection Hotel	Sep 2014	205
	3	Diaoyutai Hotel Hangzhou	Nov 2016	303
	4	Hangzhou Marriott Hotel Qianjiang	Aug 2016	348
	5	Park Hyatt Hangzhou	Sep 2016	235
	6	Ascott Raffles Hangzhou	Nov 2018	180
	7	Conrad Hangzhou	Mar 2019	318
Subtotal (Average)				1,890 (270)
West Lake and Wulin Square Business Hotel	8	Sofitel Hangzhou West Lake	2003/2014	233
	9	Grand Hyatt Hangzhou	2005/ 2018	388
	10	Wyndam Grand Plaza Royale Hangzhou	2009/2016	293
	11	JW Marriott Hotel Hangzhou	2010	305
	12	Midtown Shangri-la Hangzhou	Mar 2016	414
Subtotal (Average)				1,536 (307)
Xixi Wetland & Other Suburban Areas Luxury Resort	13	Banyan Tree Hangzhou	2009	73
	14	Four Seasons Hotel Hangzhou at West Lake	2010	81
	15	Amanfayun	2010	46
Subtotal (Average)				200(67)
Total (Average)				3,507 (292)



Historical Market Performance

2016 – 2018:

- Occupancy had continually increased due to the ramp-up of new hotels and positive effects of G20 meetings after 2016, including improvement of infrastructures and reputation of Hangzhou as a MICE destination, which helped to drive the occupancy by the growth in MICE demand.
- ADR decreased because existing hotels had to lower rates in response to the increase of supply and their aging facilities. Growth in demand was mainly driven by exhibition-related market which had limited budget and thus negatively impacted the overall market ADR.
- The stronger demand growth outpaced the drop in ADR resulting in continuous growth in RevPAR and room revenue of the overall market. This is also an indicator of strong absorption of the new supply.

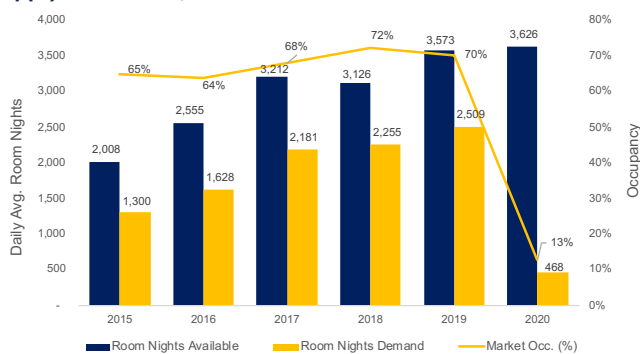
2019:

- Slight decrease in ADR and occupancy mainly due to the collapse of Personal-to-Personal lending industry and small investment companies in Hangzhou. The slowing down economic growth in China and the tension between China and USA also negatively affected the overall market performance.

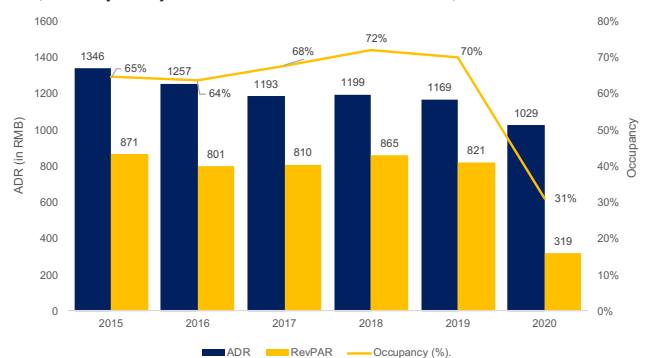
2020:

- Significant decline in occupancy due to the outbreak of COVID-19.
- Impact of COVID-19 on ADR was less severe compared to that on occupancy due to the fact that lower ADR would not help to induce any demand due to the restrictions in non-essential travel. However, hotels' have made efforts to attract post-pandemic domestic and regional leisure travelers after the lifting of travel restriction since April 2020.

Supply & Demand, 2015 - 2020



ADR, Occupancy and RevPAR Performance, 2015 - 2020



Historical Performance by Area

Qianjiang New City

Hotels in Qianjiang New City experienced gradual increase in ADR and occupancy due to the development in the area and ramp-up of new hotels.

West Lake/Wulin Square

Hotels in West Lake/Wulin Square area witnessed 5-year consecutive decrease in ADR due to the hotels' aging facilities and intensified competition with Qianjiang New City.

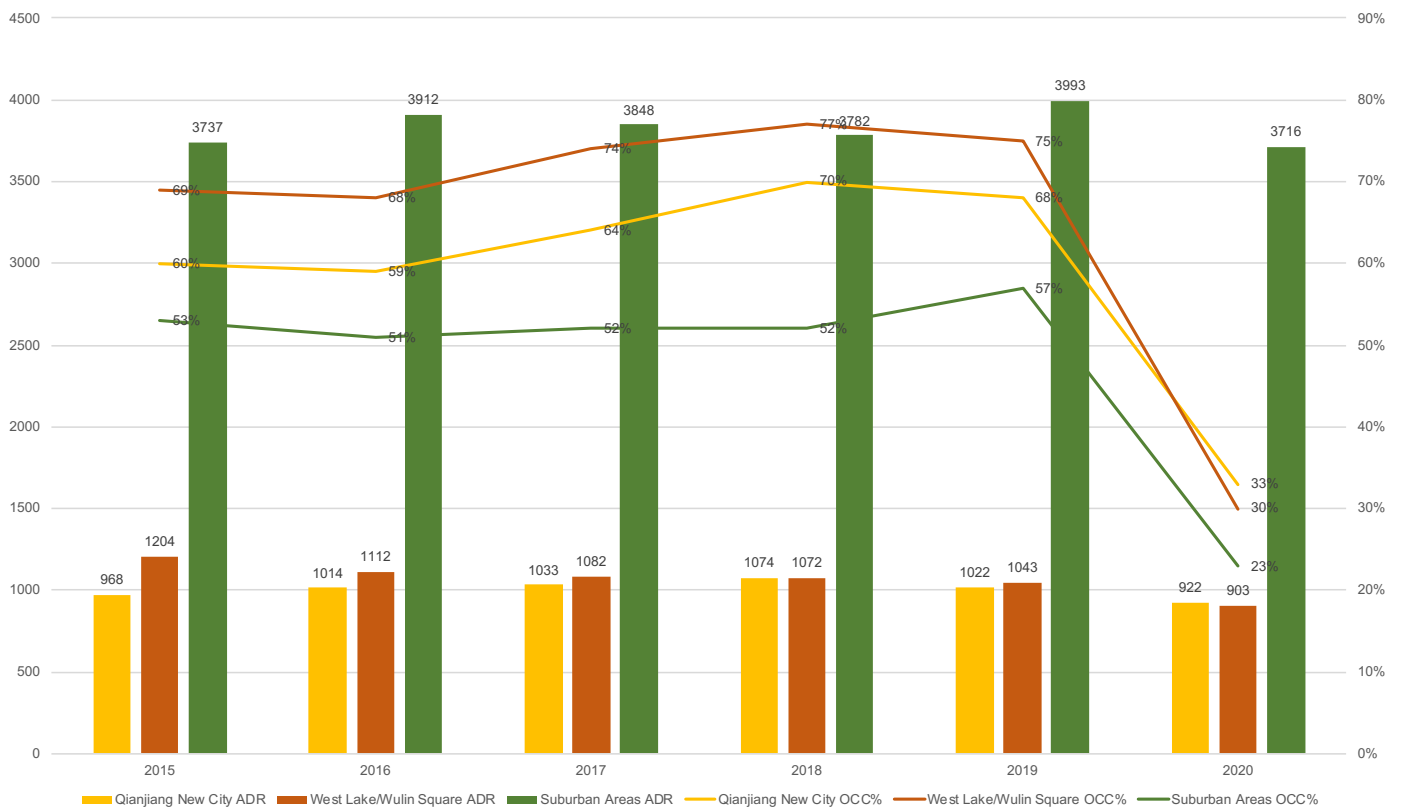
However, these hotels achieved highest occupancy level in the market given their locations in the well-developed West Lake commercial area which is in close proximity to both strong tourist and corporate demands, and providing various activity options such as entertainment, dining and shopping.

Xixi Wetland and other suburban areas

Suburban hotels in West Lake/Xixi Wetland area succeeded in maintaining significant rate premium of around RMB 3,000 over the other two areas, mainly attributed to their product uniqueness and branding including:

- Location in famous scenic destinations (West Lake, Xixi Wetland) which provided the sense of exclusivity and unique resort ambience.
- Luxury brand positioning.
- A variety of outstanding ancillary facilities (F&B, SPA, etc.).
- Low density and small key counts.

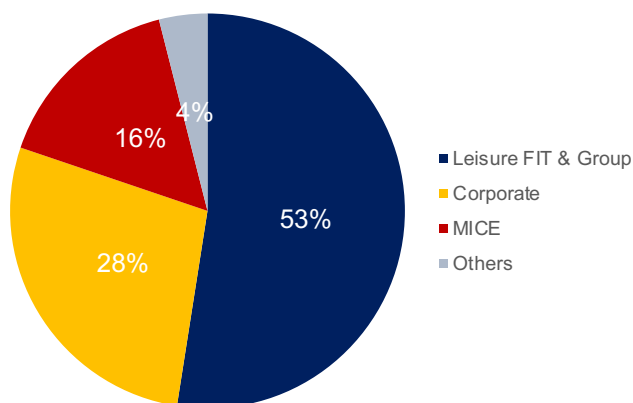
Historical Occupancy, ADR, and RevPAR 2015-2020, by area





Demand Segment

Demand in this market is categorized into four major segments – corporate, MICE, leisure FIT & group and others. The following graph shows the hotel market's demand segmentation in 2019:



Corporate Dynamics

Corporate

This mainly refers to contracted corporate accounts and other business travelers booked with unfenced rates.

Demand Generators

The majority of corporate demand is mainly generated by nearby office buildings in Qianjiang New City and West Lake/Wulin Square.

Budget

Luxury Resorts (West Lake/Xixi Wetland Area): around RMB 2300-5000.

City Hotels (Qianjiang New City, West Lake/Wulin Square Area): around RMB 700-1400.

Industries

Finance; Banking; IT; Automobile; Trade; Pharmaceutical

Average length of stay

- Typically 1-2 nights.
- Most project teams may stay for 1 to 3 weeks, however volume of such demand is low and basic room types are preferred to save costs.

Typical day of arrival:

Weekdays, typically Tuesday to Thursday.

Characteristics and trends

- **Demand Characteristics:** Corporate travelers are more location-sensitive and brand loyal, meaning they value hotel's location and quality accommodation guaranteed by brands. Hotels in Qianjiang New City area is therefore preferred by many corporate travelers given its close proximity to the airport, train stations and multiple conference centers. Nonetheless, luxury resorts in West Lake/Xixi Wetland area have also picked up a degree of corporate demand from management levels, who have demonstrated more flexibility in budget and transportation methods.
- **Reduced Travel Budget:** Since Q4 in 2018, the market has witnessed companies cutting travel budgets resulting in stagnant ADR growth over the years. In 2020, the situation deteriorated further due to the reduction in corporate travel caused by Covid-19.
- **Demand Source:** Shanghai, other cities in Zhejiang province, Beijing and Guangdong Province.



MICE Dynamics

MICE

Mainly refers to hotel in-house meetings and lodging demand generated by large convention and exhibition centers.

Demand Generators

- Nearby universities/institution/college, including Hupan University and Zhejiang University.
- Hangzhou International Expo Centre in Binjiang District.
- Business associations ie EMBA alumni associations.
- Multinational companies with regional headquarters in tier-I cities especially Shanghai, such as Fortune 500, luxury brands and sport cars.

Budget & Size

Luxury Resorts in West Lake/Xixi Wetland Area:

- Around RMB 1500-5000
- Usually in small group of below 40 people

City Hotels in Qianjiang New City, West Lake/Wulin Square Area:

- Around RMB 700-1400
- Usually in mid-size group of 200-300 people

Industries

Automobile; Finance; Trade; Pharmaceutical

Type

- Annual/Spring Dinners
- Seminars
- Training
- Product Launch events

Average length of stay

Typically 2-3 nights

Characteristics and trends

In-house meetings

- Most in-house meetings come from corporate accounts, such as annual/spring dinners, seminars, trainings and product launch events.
- Hotels in Qianjiang New City experienced higher portion of MICE demand than that of the West Lake/Wulin Square area (21% VS 12%). This is largely due to Qianjiang New City's closer proximity to the airport, train stations and the Hangzhou International Expo Centre as well as its convenient accessibility given less severe traffic congestions.
- Benefited from its close proximity to the Hupan University, a corporate business school founded by Jack Ma of Alibaba Group in 2015, hotels in West Lake/Wulin Square area receive demand for alumni social gatherings.
- For MICE demand, Hotels in West Lake/Xixi Wetland area mainly captured company-sponsored incentive trips, and small-scale corporate events such as product launch and VIP events.
- Major demand source markets including Shanghai, followed by Hangzhou and other cities in Zhejiang Province, and then other tier-1 cities.

Exhibition demand

- MICE segment has been growing in Hangzhou since 2016 due to the city's reputation brought by the G20 and the opening of Hangzhou International Expo Centre. Hotels in Qianjiang New City has benefited from this growing segment.
- Hotels in Qianjiang New City are able to capture some split-over demand from the Hangzhou International Expo Centre during large conferences and exhibitions, which are usually held during September and October.

Leisure FIT & Group Dynamics

Leisure FIT

This mainly refers to individual travelers who book via online travel agencies or directly with the hotel.

Leisure Group

This mainly refers to domestic and international tour group.

Demand Generators

Leisure FIT: lodging demand from hospitals, universities, tourism attractions, art center, etc.

Leisure group: mainly from the overseas tour groups.

Size

Tour Group: 20-50 persons per group

Budget

Area/Budget (RMB/night)	Leisure FIT	Leisure Group
Luxury Resorts*	2,500-5,500	2,000-5,000
City Hotels**	900-1,700	800-1,600

*Luxury Resorts refer to resorts located in Xixi Wetland and other suburban areas. **City Hotels refer to hotels located in Qianjiang New City and West Lake/Wulin Square area.

Average length of stay

Leisure FIT Travelers: 1-3 nights

Leisure Group Travelers: 1-2 nights

Typical day of arrival:

- For leisure purpose: weekend, public holidays, school holidays.
- For business purpose: weekdays, typically Tuesday to Thursday.

Characteristics and trends

- FIT travelers, age 25-35, have shown their stronger willingness to pay premium for higher category room types in pursuit of immersive experiences and capturing instagramable moments in stunning views, unique design and spacious well-decorated rooms. This group also prefers guestrooms with private outdoor space and open views of West Lake as they value the relaxing ambience and exclusivity more.
- Family guests have been increasing over years, and they prefer hotels providing family or connecting rooms, family packages such as activities, entertainment and meals.

- Tour groups usually have multiple destinations in YRD and only stay in Hangzhou for 1-2 nights. With a packed schedule and limited budget, group travelers usually spend less time and money in hotel facilities.
- Small high-end tour groups tend to stay in hotels with luxury brands (the luxury resorts and Park Hyatt), and they usually have customized itineraries for in-depth tours to look for unique experience in landscapes, traditions, architecture, food and culture in Hangzhou.
- Leisure group segment only accounted for 3 percent of demand, as such group usually has very limited budgets and consequently is not perceived as a major targeted demand source.
- Major source markets include other cities in Zhejiang Province, YRD area and tier-1 cities.

Other Dynamics

Others

This mainly include walk-in, long-stay demand.

Demand Generators

- Walk-ins from nearby neighborhoods
- Long stay demand from high-end postnatal care centers
- Local Residents looking for weekend retreat

Budget

Walk-ins: less price sensitive

Long stay: Price level varies from RMB 800-2,000 per person depending on room type and length of stay.

Average length of stay

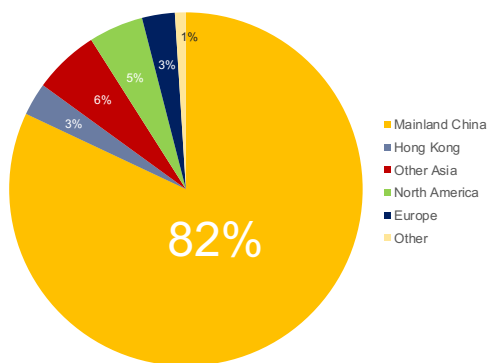
Typically 28, 42 or 56 days, depending on the packages.

Characteristics and trends

- The majority of demand is generated from local residents looking for a weekend/holiday escape from their mundane schedule. Not much of this Other demand is from corporate travelers staying over on weekends.
- Long stay demand was mainly contributed by postnatal care centers which booked the rooms for their clients and offered long-stay packages including rooms, meals, healthcare, babysitting and wellness programs. This type of clients is less price-sensitive but more quality-centric and usually prefer spacious guestrooms or suites when budgets are met.
- Long stay demand is more popular among hotels in Qianjiang New City because such demand prefers a quiet and convenient environment while the traffic congestion across West Lake areas is so serious and usually crowded with tourists.



Nationality Mix



- About four-fifths of the visitors are from domestic regions, mainly from tier-one cities and YRD areas including Zhejiang Province, Jiangsu Province. During January to May in 2020, the market saw increasing proportion of guests from neighboring cities within 3-hour travelling time (by train or car). People are now more cautious about long-distance travel and prefer self-drive over public transportation.
- Other major foreign markets include North Americas and regional markets from Hong Kong, Taiwan, and Southeast Asia.
- Asian markets accounted for over 90% of total demand in 2019. In addition, quarantine requirements imposed on domestic travelers from areas at high or medium risk level and entry restrictions on foreigners hamper recovery of domestic and foreign markets.

New Hotel Additions

Over the next few years, the following hotels will enter the market, adding a total of 1,187 hotel rooms to the area. Most new supply is set to open before 2024 and aims to intensify the fierce battle in the high-end hotel market, further indicating the importance of strong economic foundation brought by the highly developed tourism industry and business environment in Hangzhou.

	Hotel	Opening Year / Renovation	Room Count
1	Hotel Indigo Hangzhou Uptown	2021	130
2	The St Regis Hangzhou Yunqi	Dec, 2022	264
3	Andaz Xixi, Hangzhou	2023	220
4	Rosewood	Q3, 2026	200
5	Generic New Supply*	2027	200
6	Qianjiang Jumeriah	**	173
Room Count (Avg)			1,187

*Generic new supply mainly includes future supply in Wangjiang New City. Given the development plan of this area, it is reasonable to assume that there would be high-end hotel supply located within mixed-use buildings around this area.

**According to our research, the hotel contract for Qianjiang Jumeirah Hotel is still valid, however, this project has been delayed for several years without a clear estimation of opening time.

Factors affecting demand growth

	Factors	
Positive	<p>Asian Games 2022 facilitates Hangzhou's city-wide transformations. Hangzhou will host the Asian Games in 2022 and numerous renovations and development projects had been on the way, including the expansion of Qianjiang New City and the development of 13 new subway lines, 1 new train station, 3 new high-speed railroads and 4 more intercity transit railways. Following these infrastructure developments, Hangzhou is poised for much faster growth in both populations and economy over the next several years, which benefits all demand segments for the local hotel market.</p>	All demand
	<p>Increasing Influence on international conventions. According to the 2019 ranking released by International Congress and Convention Association (ICCA), Hangzhou is ranked as 74th best conference destination in the world and third among Chinese mainland cities. In 2019 alone, over 38 international conferences revolving around technology, pharmaceutical, chemistry and the Belt and Road initiative were held in Hangzhou. Positioning itself as the next "new economy conference destination", Hangzhou will continue to benefit from the enormous amount of business opportunities and ideas arise from all sorts of international events and conferences. Local hotel market is therefore also expecting a robust growth in MICE and corporate demand.</p>	MICE & Corporate
	<p>Innovative tourism strategy accelerates Hangzhou's economy recovery. Traditionally known for the West Lake, over the past 20 years, Hangzhou has never ceased to further explore its tourism potential. Hangzhou's tourism strategy centers around three parts: the investment and development of new attractions, the overall improvements of the city's tourism ambiance and the technology embedment in tourism industry. Thanks to these practices, 17 new attractions including Xixi Wetland Phase II and Beijing-Hangzhou Grand Canal has been developed over the years and over 170 million tourists had benefited from the smart tourism applications created by the Hangzhou government in looking for better and safer activities during the 2020 pandemic. These smart and innovative strategies provided a solid foundation for the speedy recovery of local economy and filled hotels with abundant leisure demand.</p>	Leisure
Negative	<p>State-wide quarantine policies are hampering domestic and international travel in the short to medium term. Despite the speedy economy recovery after the lockdown, Chinese government is attaining strict quarantine requirements for domestic travelers from high or medium risk level and international travelers regardless. As more companies and travelers are delaying or cancelling the travel plans in short to medium term, this might have a prolonged impact in hotels' performance.</p>	All demand
	<p>New hotel supply located in new city satellite areas dilutes the demand base in core business districts. Hangzhou is expanding rapidly, and multiple central business districts have been established. This will further dilute the corporate demand base in the core city location with the arrival of more office buildings and industrial centers in surrounding areas. Meanwhile, Hangzhou is expecting a robust growth in new hotel supply with over 8,000 keys adding to the market in next 3 years, which will further increase pressure on the overall hotel market occupancy.</p>	



Summary

State-wide quarantine policies continue to have prolonged effect in the local hotel market in short to medium term.

Due to China's quarantine policies, domestic travel and international travel remain strictly regulated. After Japan postponed the 2020 Tokyo Olympic Games due to the worsening pandemic situation, worries of the possible cancellation of the 2022 Asian Games has intensified in consideration of the possible risk associated.

Meanwhile, as an important transfer hub for cities in YRD area, Hangzhou suffers from the reduced number of international travelers and domestic business travelers. Such situations will likely lead to a prolonged pressure for local hotels' OCCs and ADRs in short to medium term.

Hangzhou hotel market is of great potential and expects positive outlook in the long run.

Similar to the city's economy, Hangzhou's hotel market demonstrated admirable resilience despite the impacts of covid-19 lockdown in the first half of 2020.

Although significant drop in both ADRs and occupancy were observed across three studied areas in this report, we remain positive on Hangzhou's overall hotel market given the city's strong economic foundation, new investment in technological transformation and the significant amount of capital and resources allocated to tourism development.

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