

2020



Impact of COVID-19 on Chinese Hotel Industry

HVS Shenzhen

Superior Results through Unrivalled Hospitality
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Preface

From the 2020 Chinese Spring Festival, Covid-19 spread in China. Hubei Province was the first and worst-hit area. Successively, the contagious virus reached cities and towns all over the country within a few days. The Chinese government quickly responded to the outbreak, initiated various measures and policies to help people pull through. Nevertheless, the pandemic paused economic activities, resulting in a huge impact especially on the tertiary industry, including the travel, hotel, and catering industries.

HVS combines existing market information and our own survey results, as well as the historical data of SARS in 2003, to dialectically determine the impact and provide an outlook on Chinese hotel industry.

Summary



1. The Outbreak of COVID-19

- The Outbreak of COVID-19 had a huge impact on the Chinese hospitality industry;
- Overall occupancy level dropped by 89%, from the beginning to mid January, then stayed around 10% until the end of February;
- In February, all major Chinese cities had a YoY RevPAR decline of more than 85%.



2. Survey Overview

- 498 responses were used for the analysis, including responses from 124 hotel investors/owners and 374 hotel operators;
- All hotel performance data are dated between the middle of January and the end of February;
- The hotels that the operators represent:
 - 40% closed, 40% partially open, 20% open;
 - Upscale, upper upscale and luxury categories register a major drop with average occupancy levels below 10%;
 - Most hotels did not suffer from liquidity problem.
- The hotels that the investors represent:
 - 40% of the hotels had an 80-100% decrease in revenue compare to last year.

Summary



3. Strategies and Methods

- The government and the stakeholders offered financial aids and other helps to the hotels;
- The hotels should react quickly to the situation, adjust both long-term and short-term strategies, in aspects such as cost control and employee arrangement.



4. Looking back at SARS

- What happened during SARS is not directly comparable, but is of reference value;
- 2020 china hotel occupancy predictions:
 - If the domestic situation can be brought under control within the first quarter, then the decline of overall occupancy in 2020 would be approximately 3.5 percentage points.
 - If the imported confirmed cases keep rising, making the situation unclear or even worse, then the overall occupancy decrease in 2020 would be approximately 5.5 percentage points or more.



5. Recovery and Investment Outlook

- More than half of the operators and investors/owners who participated in the survey think that hotel market will fully recover within 2020;
- The long-term investment activities are less likely to be influenced by the outbreak, but the short-term will;
- It is important for hotels to stay competitive when the market is unstable, and a hotel can improve its competitiveness by many ways such as adjusting the market mix and distribution channels.



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THE OUTBREAK OF COVID-19

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Pandemic Data in China



Up until March 13th, 2020, in total 81,032 people were infected all over the nation and 12,179 existing confirmed cases. Healed cases increased significantly since February 13th. As of the date of this report, 65,659 patients were cured. Daily new confirmed cases dropped since February 13th as well, and after a month on March 13th, daily new confirmed cases dropped to only 18.



The Chinese authorities acted rapidly after the outbreak, appealing to people to stay at home, hoping to reduce the risk of infection, thus directly causing economic stagnation. The service industry, which was supposed to be the busiest in the first quarter, has been tremendously impacted.

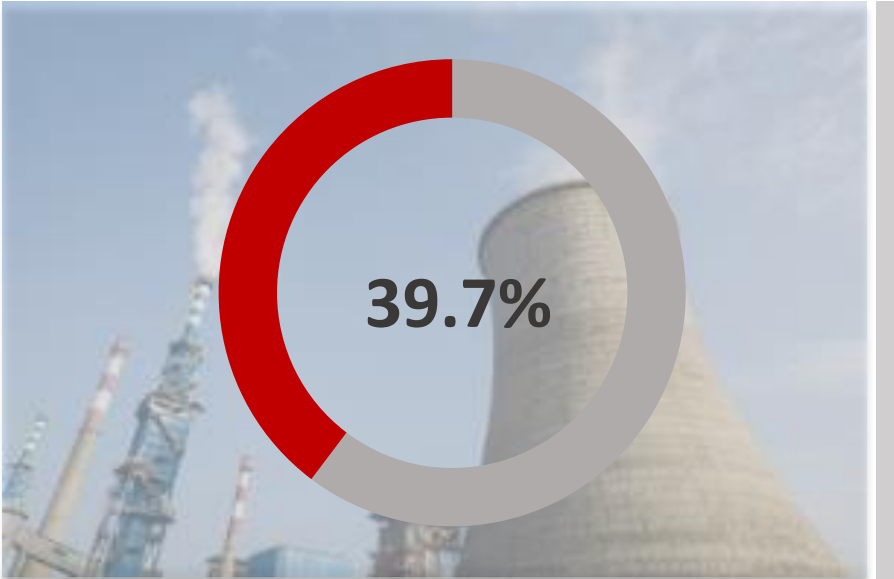
The coronavirus outbreak largely limited economic activities; the tertiary industry was the first to bear the brunt.

The tertiary industry accounts for the largest proportion of total GDP and is affected the most by the pandemic



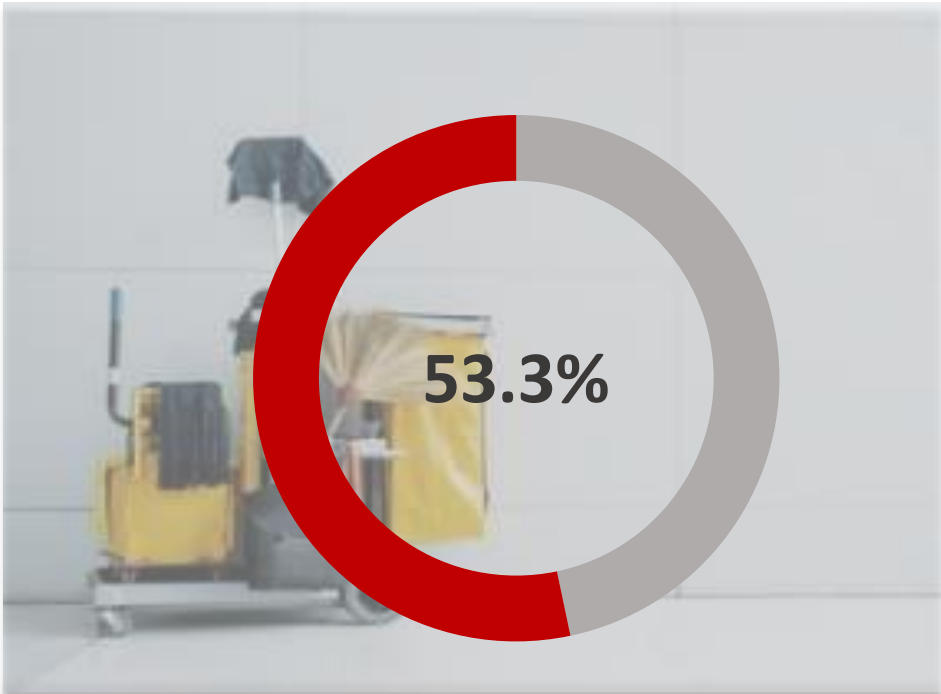
First Industry

Least affected, as under the control of top authorities, panic purchase and hoarding of food did not happen.



Second Industry

Somewhat affected as investment/production plans were delayed or slowed down



Tertiary Industry

Most severely affected. However, some new growth points, such as service method evolution and product innovation, are emerging.

Largely Affected Tertiary Industry

Travel



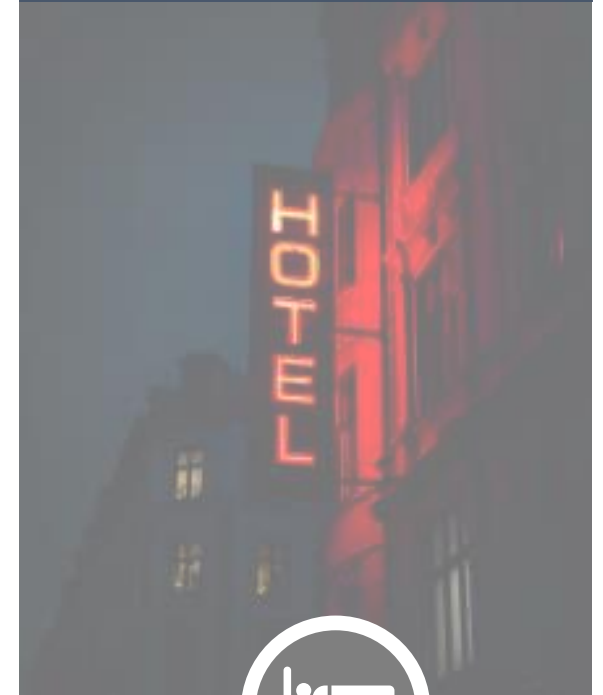
Logistics



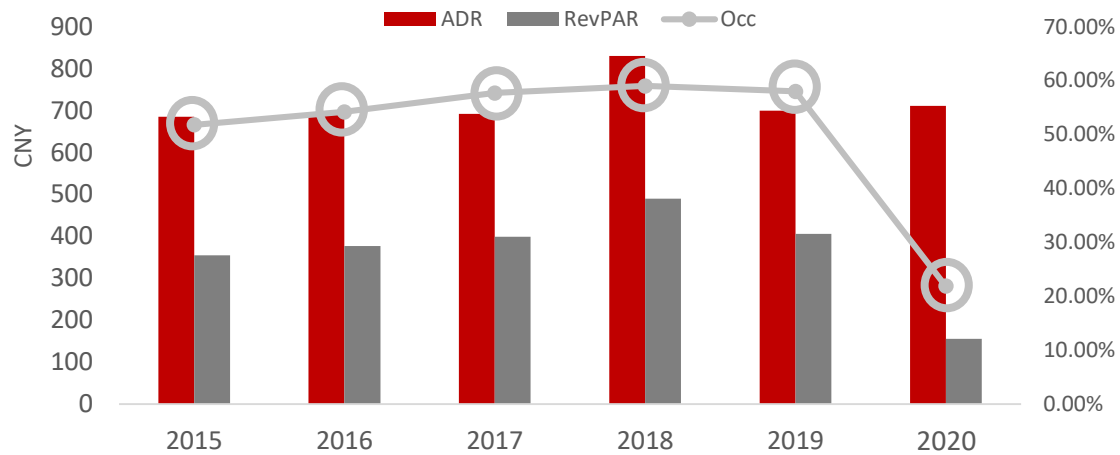
Real Estate



Hotel

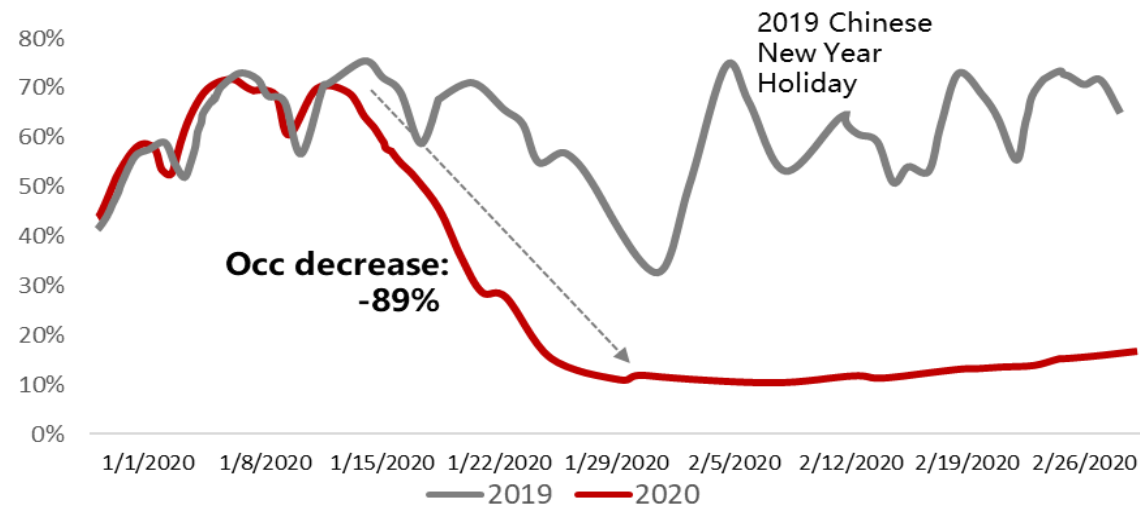


Hotel Performance During The Outbreak



Hotel Market Spring Festival Week Performance

- 2020 performance data is from January 23 to 26.
- During the 2020 spring festival period ADR stood at 711 RMB, and occupancy at 21.9% (excluding hotels that were temporarily shut down).
- The average occupancy level during spring festival period in the past few years was approximately 55%.



Hotel Market Spring Festival Monthly Performance

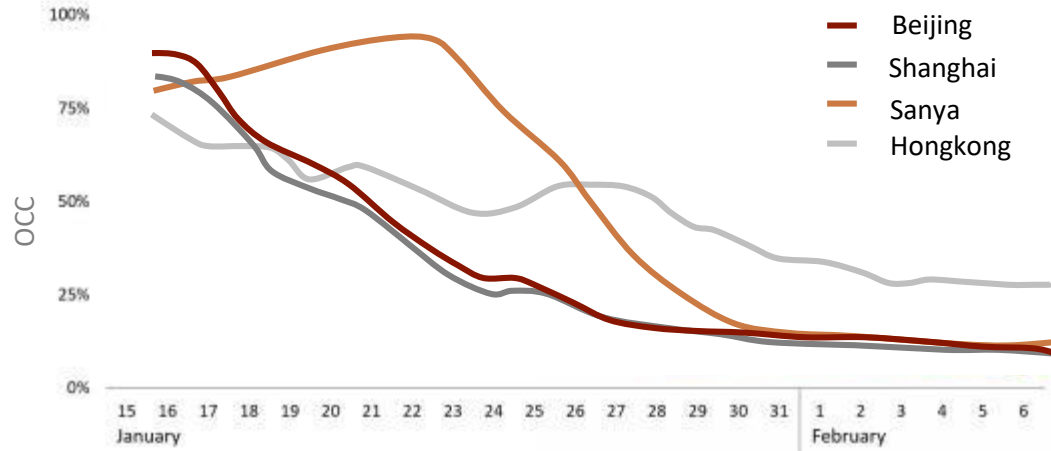
- The occupancy of early January 2020 remained at the same level as 2019.
- Since 14 January 2020, occupancy levels started to drop. In two weeks, it plummeted by 89%.
- Occupancy stood at 7% on 2 February 2020, and then kept steady at around 10% (excluding hotels that were temporarily shut down).

Source: STR



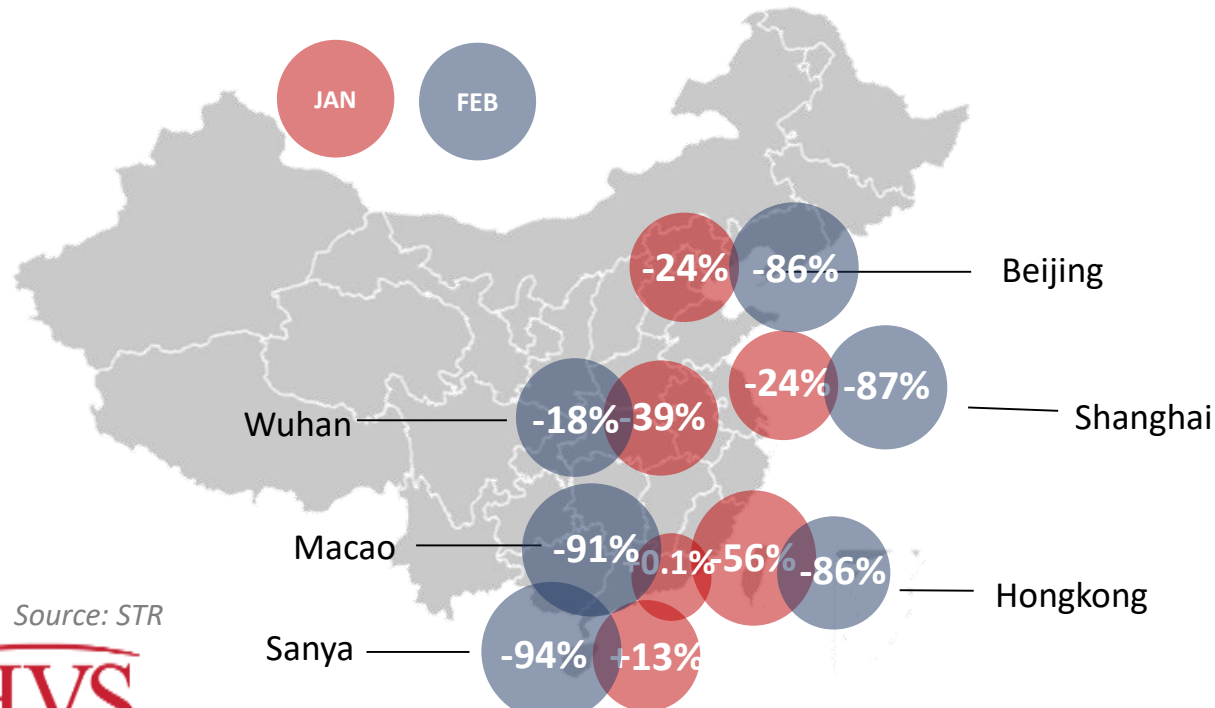
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Hotel Performance in Different Regions During the Outbreak



Occ Trends in Different Regions

- Beijing and Shanghai markets are very similar: occupancy declined rapidly to 15% and maintained levels around 5%-10%.
- As many tourists arrived in Sanya before the outbreak and were “trapped” there after the outbreak, the decline of occupancy in Sanya was delayed.



YoY RevPAR Decline in Different Regions

- RevPAR of major domestic markets in first two months of 2020 dropped significantly.
- Affected by both the protest and Covid-19, Hongkong hotel market had a tough start in 2020.
- Although Wuhan is the worst-hit area, the RevPAR decline of the region in February was not as bad as the other regions. One of the reasons is that many hotels still operational in Wuhan were used as quarantine quarters, bringing up occupancy levels.

Source: STR

Although hotel industry was badly influenced by the contagious virus, it still carries its social responsibilities.



Social Role Play of Hotel Industry

In the Beginning of the Outbreak

Free Cancellation

In order to assure guests, hotels took the initiative to bear the loss and offer free cancellations;

Donation by Hotel Group

Both domestic and international hotel groups donated millions of RMBs to help especially Wuhan to overcome the difficulty.

During the Outbreak

Medical Observation Units

As hospital beds were not enough for patients, hotels provide additional beds as quarantine units for patients with mild symptoms;

Accommodation for Paramedics

Provide accommodations for paramedics from all over the country;

Guarantee Job Position

Although hotels were suffering from low performance, they tried to keep as many employees as possible.

Gradually Under Control

Quarantine Units

As people are coming back to work, some of them need spaces to quarantine for 14 days. Hotels work with companies to offer them quarantine rooms with group prices.



Survey Purpose

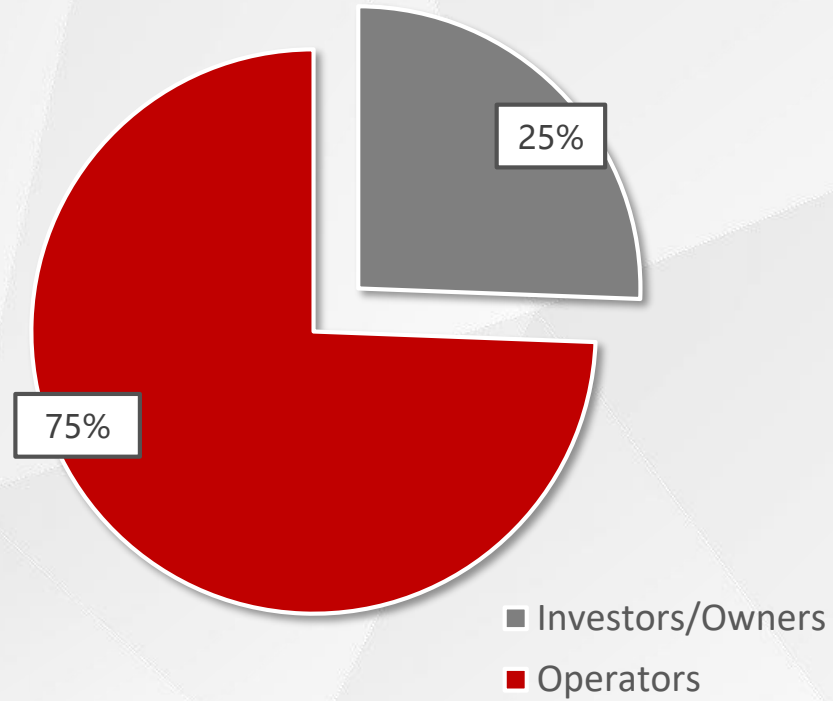


Survey on Covid-19's Impact on the Chinese Hotel Industry


To help Chinese hoteliers positively react to the outbreak and reasonably judge and anticipate the future recovery, HVS invites you to participate in the survey and share your valuable opinions. Survey result will be sent to your email. Thank you!



In total 504 survey replies were collected. After assessing the validity, 498 of them were used for the analysis, including responses from 124 hotel investors/owners and 374 hotel operators. The hotels represented in this analysis are from 20 provinces and covers all chain scales.

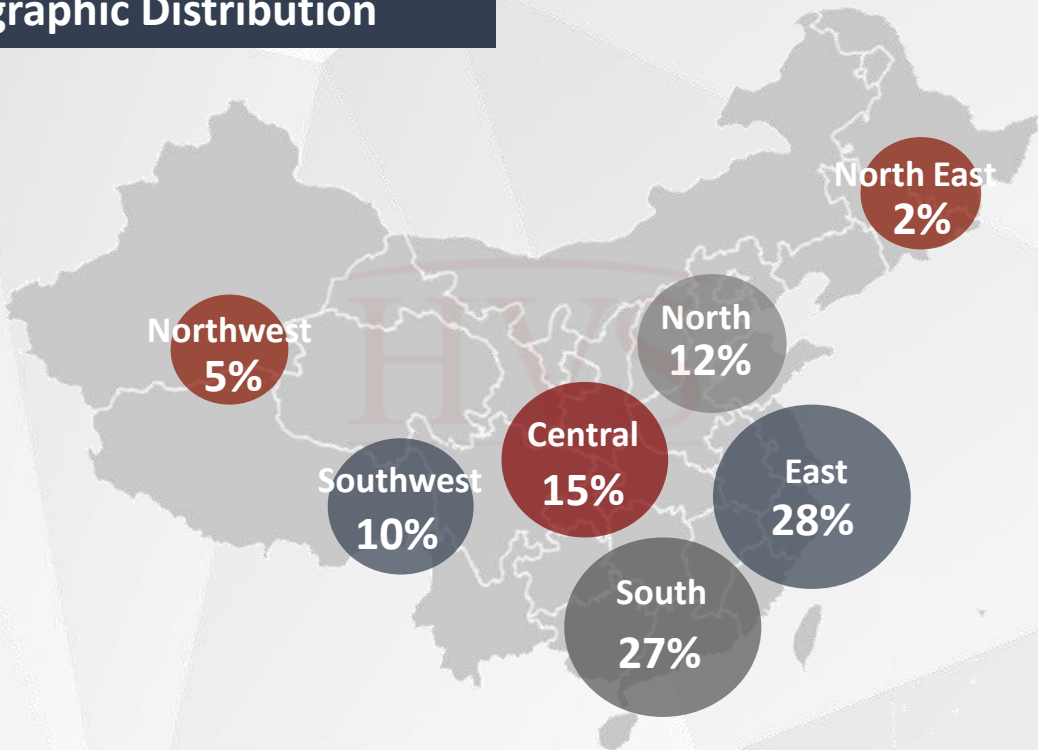


Survey Sample Overview

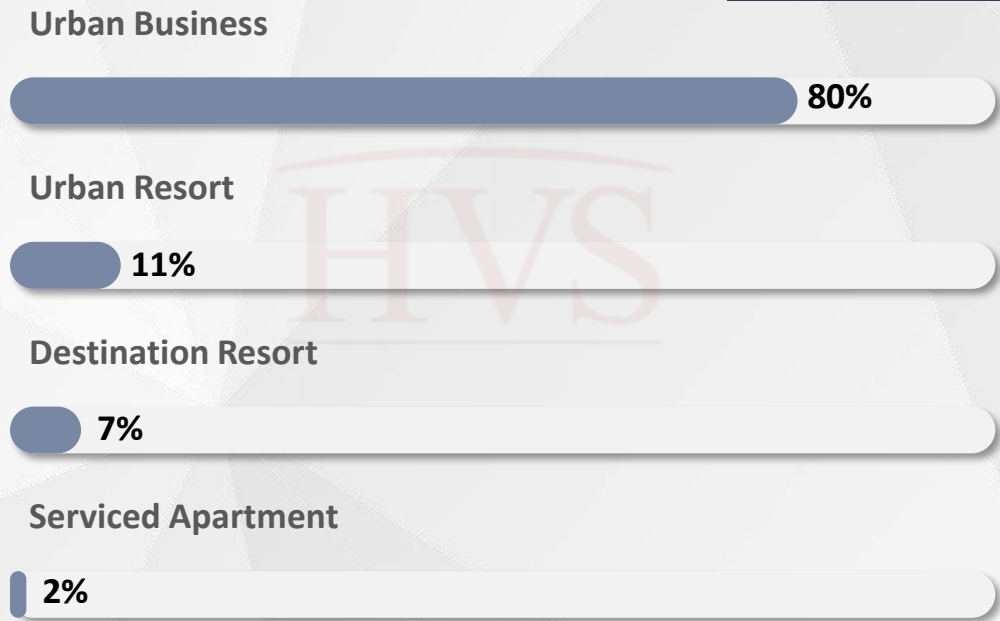


Hotel Operator Sample Overview

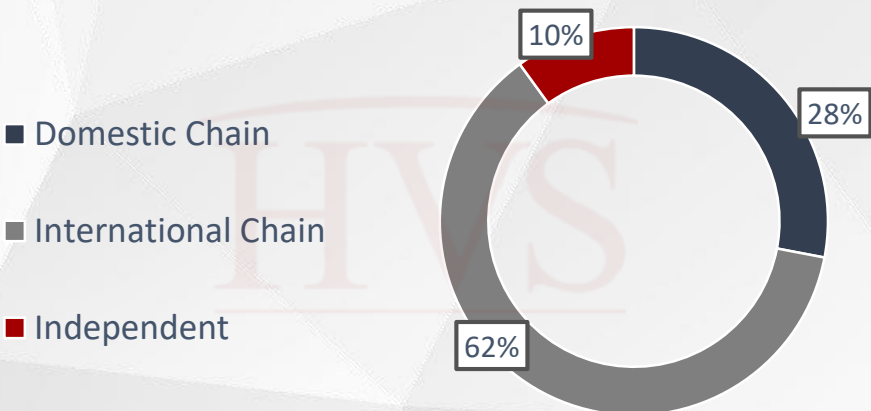
Geographic Distribution



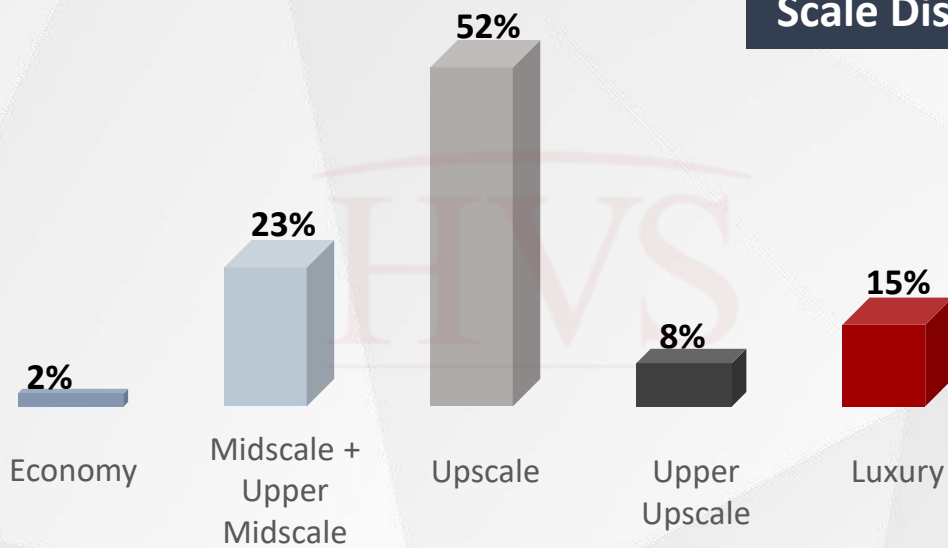
Type Distribution



Brand Distribution



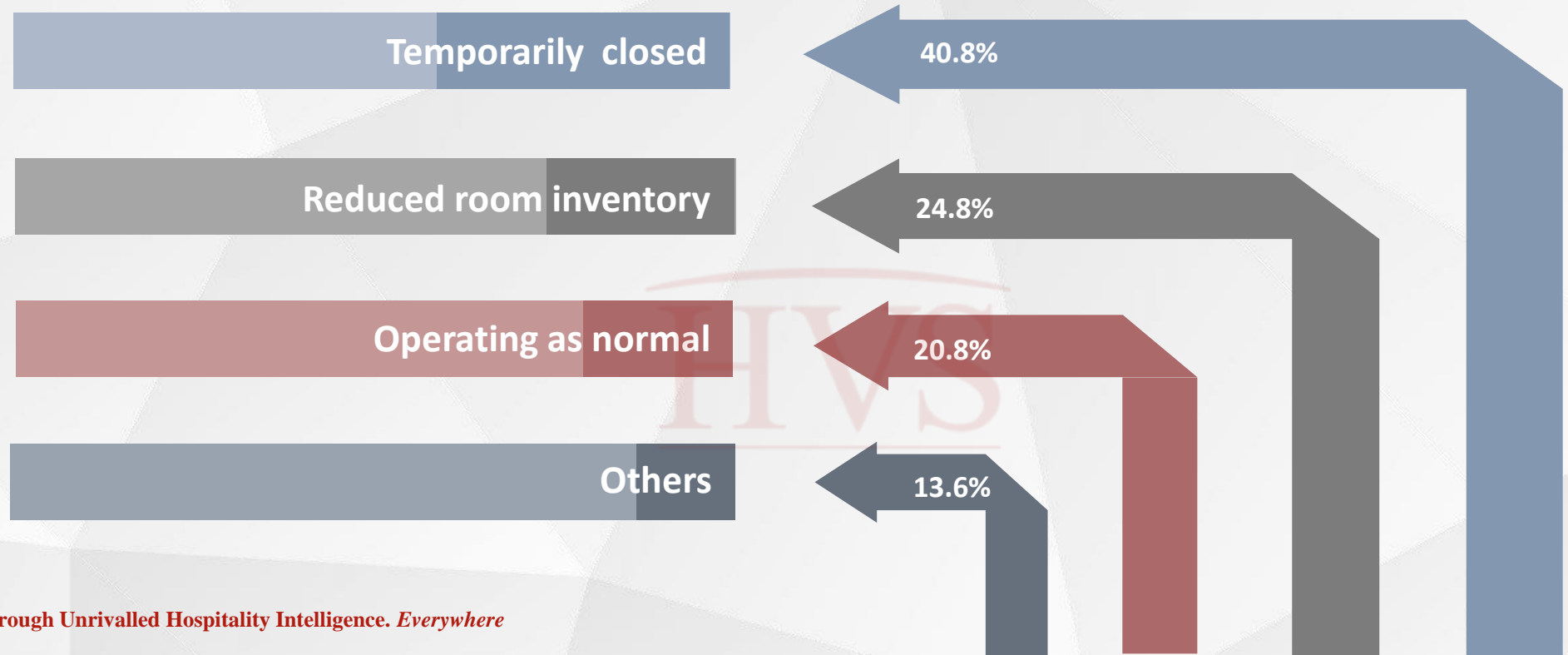
Scale Distribution



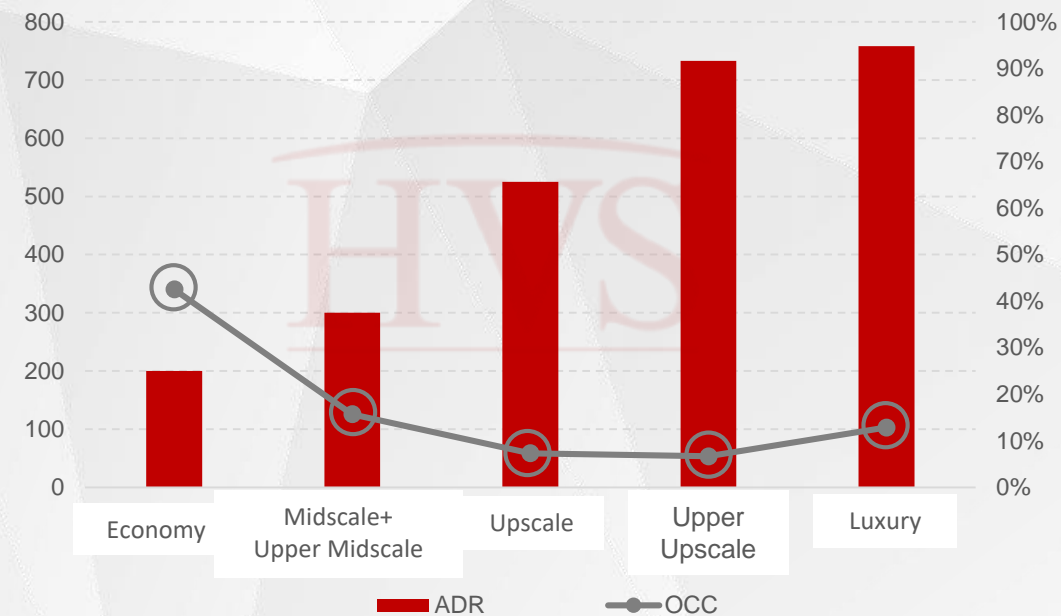
Level of Negative Impact

Level 1 2 3 4 5 6 7 8 9 10

Operating Status of Surveyed Hotels

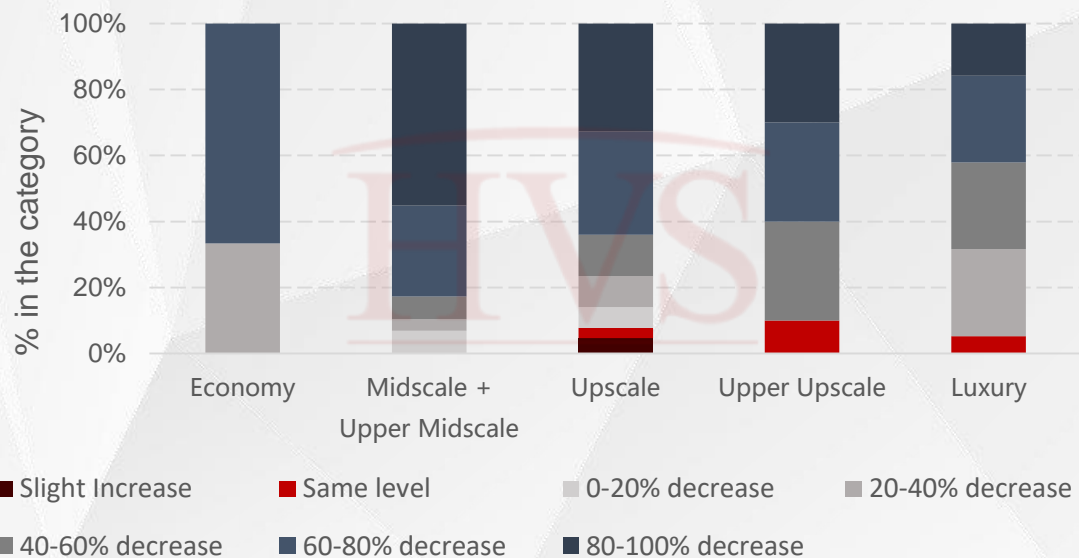


Operating Performance During the Outbreak (Until March 8th)



Occ & ADR:

- Many economy hotels are used for quarantine, thus the overall occupancy level is relatively high.
- Upscale, upper upscale and luxury categories register a major drop with average occupancy levels below 10%.



Revenue Performance:

- Almost all hotels experienced a drop in revenues compared to the same period last year.
- Very few upscale, upper upscale and luxury hotels had the same or a slightly higher revenue levels compared to the same period last year; some of them were newly opened in 2019.

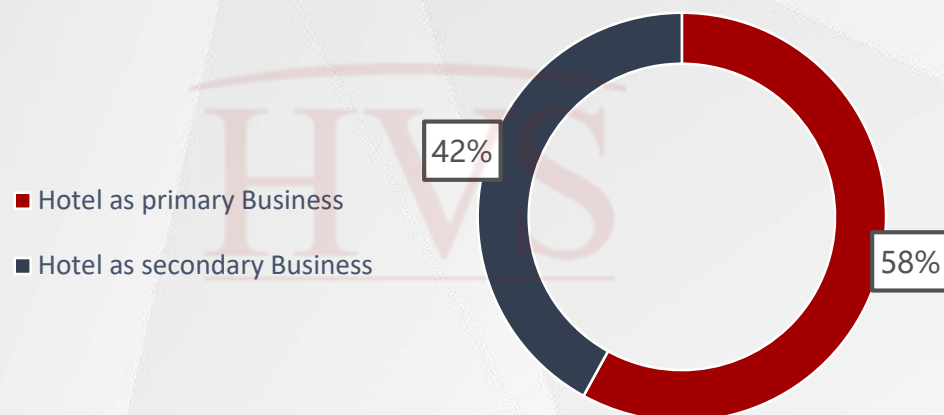
Cash Flow Status of Different Types of Hotels



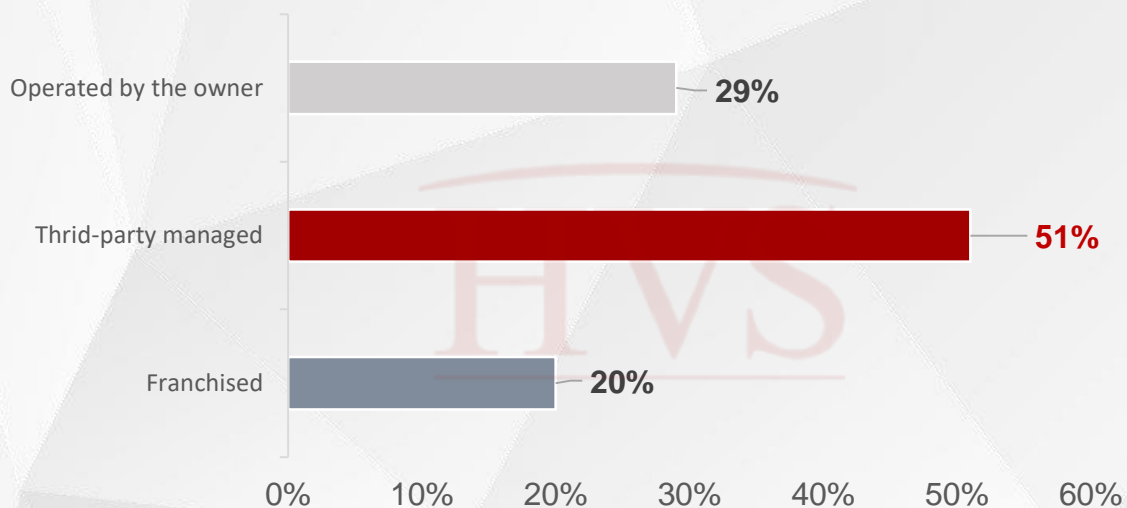


Hotel Investors/Owners Sample Overview

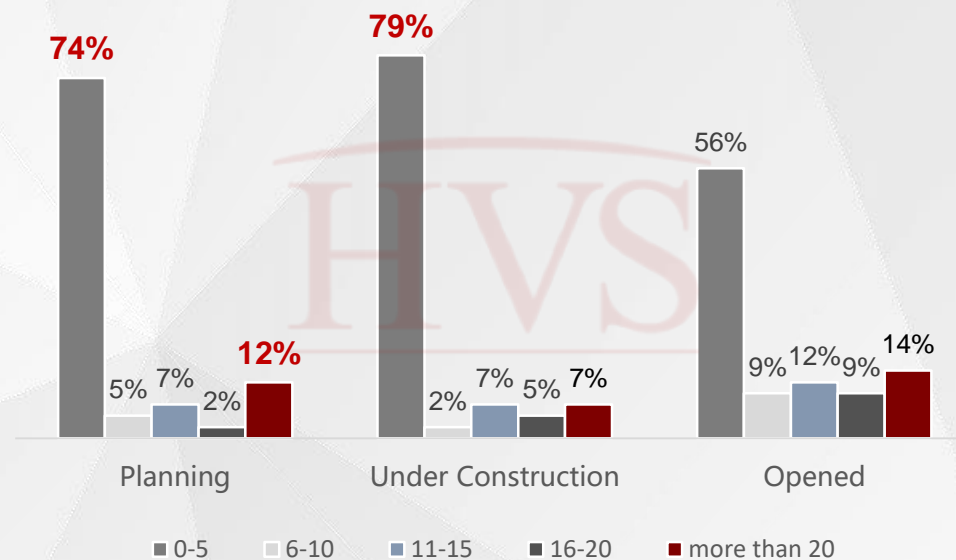
Business Focus



Operating Model



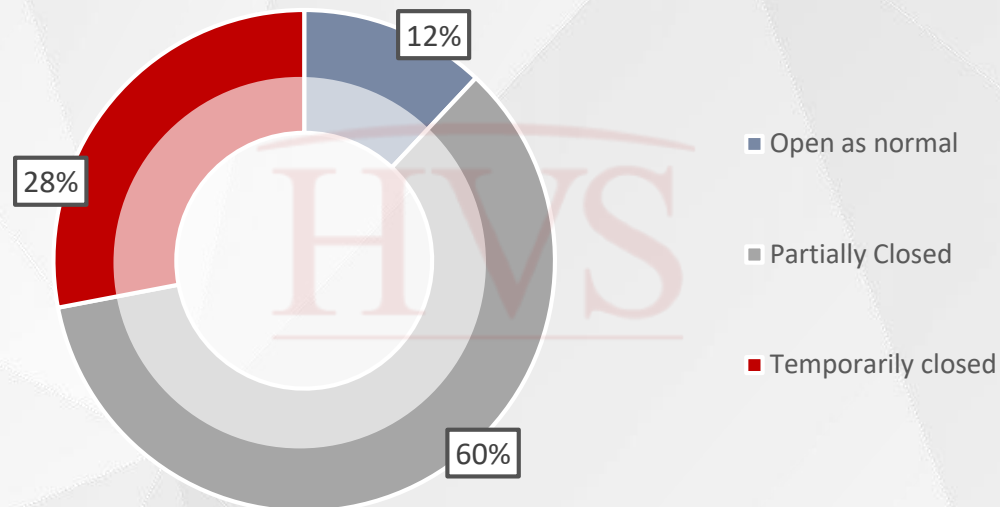
Hotel Projects Status



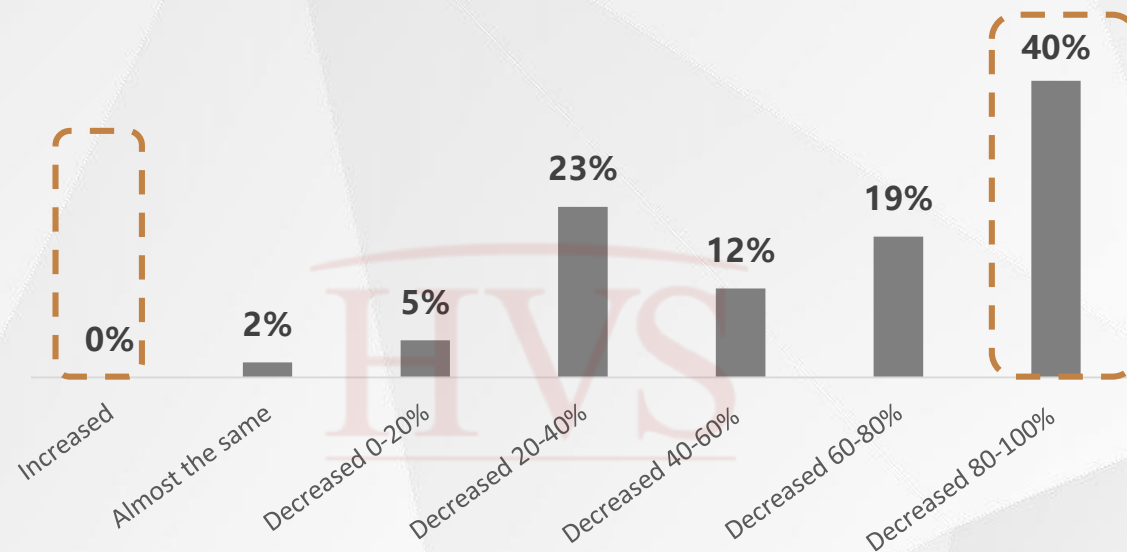
- More than 50% of the investors/owners consider hotel their primary business sector.
- More than 70% of the participants have 0-5 hotels in planning or under construction.
- 12% of the companies that the participants represent are planning to invest in more than 20 hotels.

Hotel Performance

Operating Status



Revenue Compare to Last Year





Strategies and Methods to Overcome Difficulties



Basic Tax Benefits

- Waive import tax for certain goods



Rent Reduction



Administrative Fee Reduction

Government Policies



Business Loan Support

- Interest Payment Extension
- Interest Penalty waiver
- Low-interest loans.



Provide subsidies to hotels that were used for quarantine units.

- Management Fee/Franchise Fee waived for February and March;
- Marketing Fee and System Fee waived/reduced;
- Discussing discount with global suppliers.

HYATT



BCY



Stake Holders Help Each Other

- Protective material support;
- Assist owner in claiming for insurance.

Self Rescue



Short-Term Self Rescue Acts

Operational Adjustment

- Consider to close property;
- Sell overstocked food inventories or provide delivering service;
- The sales team to maintain good relationships with customers during the outbreak;
- Develop sales strategies such as advance sale and package sale;

Cost Control

- Energy consumption control;
- Based on the operating status, cut unnecessary expenses;

Staff Arrangement

- Use the low season to train the staff
- “Employee sharing” with industries which needs manpower, such as mask production and food delivery;

Seeking for Help

- Seek help from financial institutions and apply for low-interest loans;
- Communicate with suppliers to share the loss.

Long-Term Strategy Optimization

Operational Adjustment

- Attract more customer segments via pricing and marketing strategies to avoid relying on one single segment;
- Improve low season performance to ensure stable cash flow

Cash Flow

- Increase cash flow reserve percentage in case of emergency;

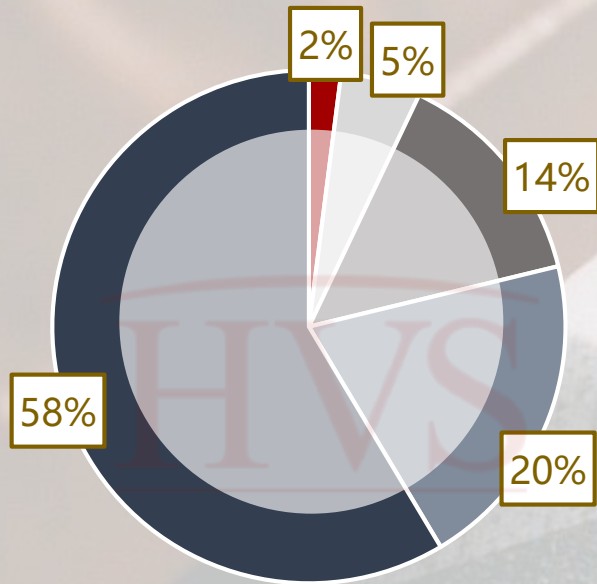
Employee Structure

- Increase proportion of local employees;
- Raise commission and reduce base salary;
*both within a reasonable range

Product Improvement

- Implement suitable technology;
- Increase product diversity to meet needs of different segments.

Cost Control



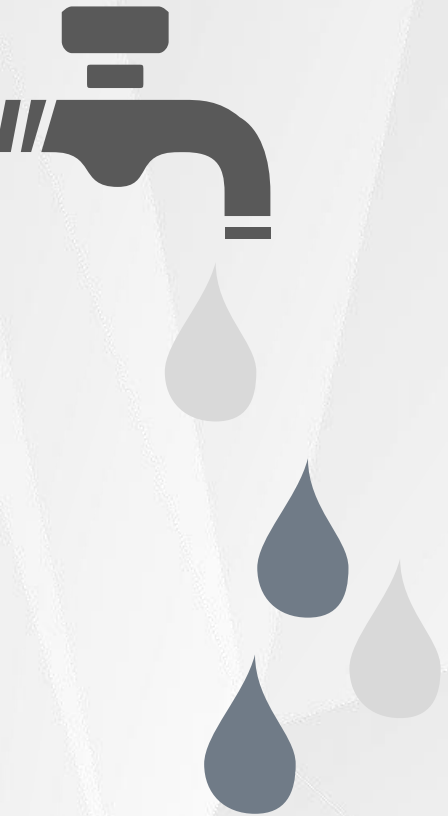
- No Cost Compression
- Cost Compressed by 0-10%
- Cost Compressed by 10-20%
- Cost Compressed by 20-30%
- Cost Compressed by Over 30%



Other Specific Measures

- Suspend unnecessary operational materials purchase;
- Delay outsourcing payments;
- Encourage employees to take annual leaves and unpaid leaves.

Labor Cost Control



Number of employees
working in the frontline
was cut by 75%-80%

*by reducing the length of each
shift and encouraging
employees to take annual leaves



75-80%



20-25%

Short-Term Self Rescue Acts

- Consider to close property;
- Sell overstocked food inventories or provide delivering service;
- The sales team to maintain good relationships with customers during the outbreak;
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Operational
Adjustment

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Employee
Structure

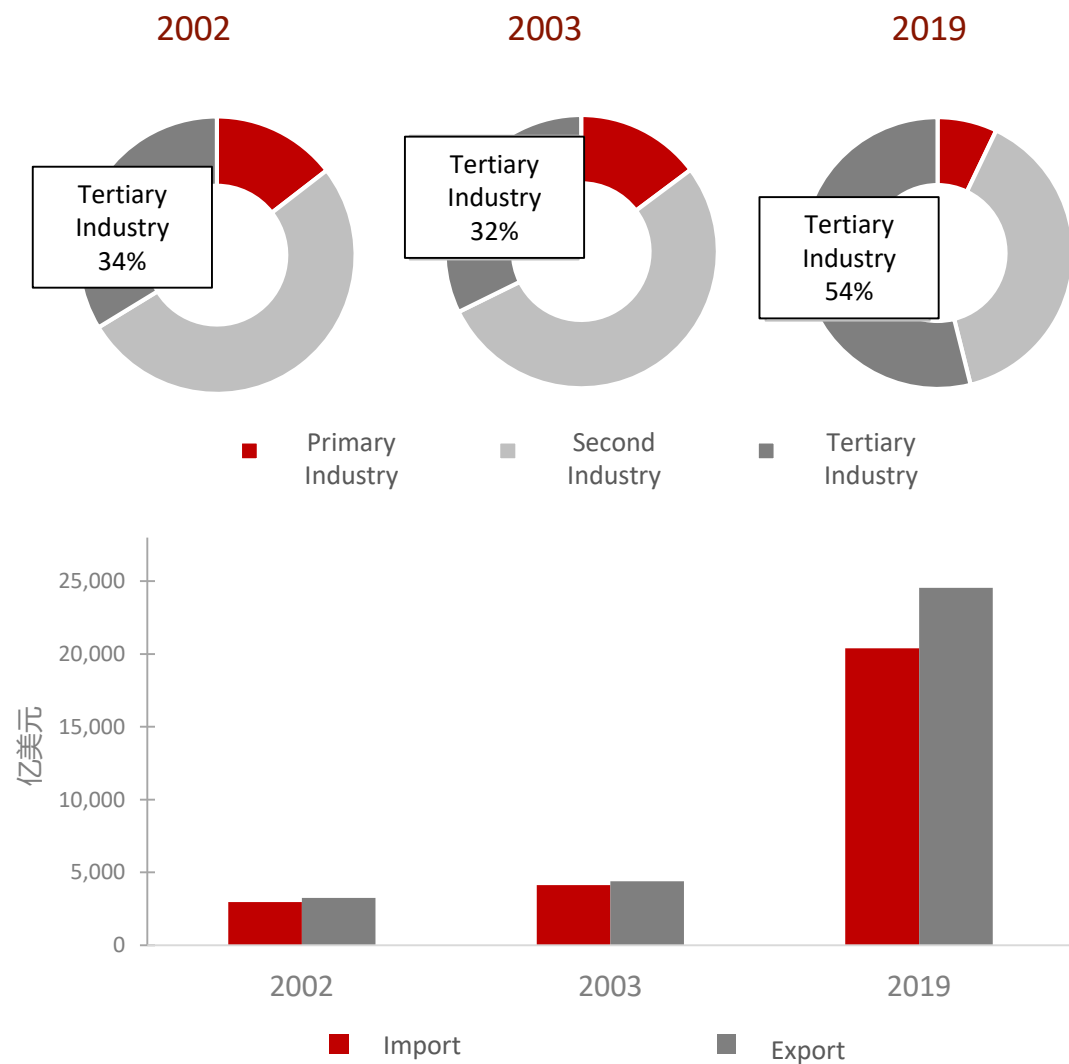
- Implement suitable technology;
- Increase product diversity to meet needs of different segments.

Product
Improvement



Looking Back at SARS

Economy Comparison Between SARS and Covid-19



Source: National Bureau of Statistics of China

Compare the economy to 2003 SARS period, the Chinese economy now:

- Is more involved in the world economy;
- Has stronger market liquidity;
- Tertiary Industry accounts for a higher proportion;
- Travel and hotel industry accounts for a larger proportion in the tertiary industry.



Historical Data of SARS

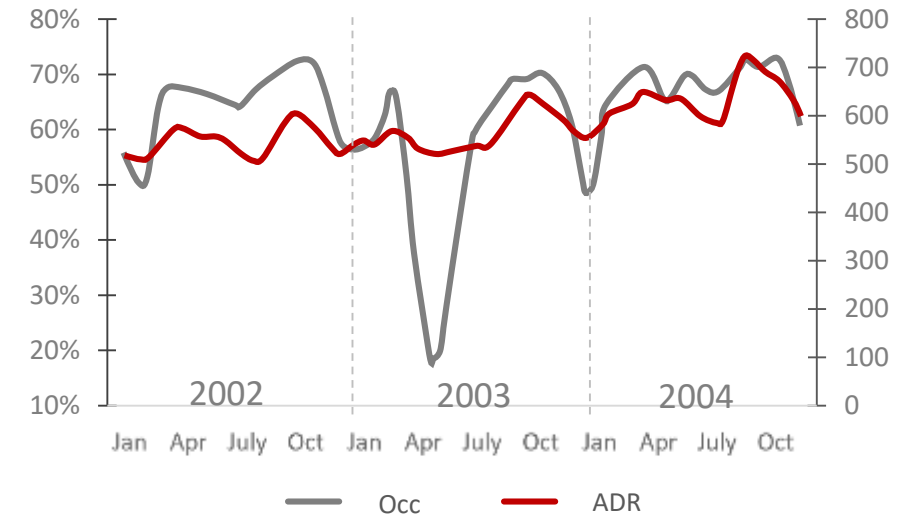
International Visitor Arrivals During SARS



- Visitor arrivals recovered after six months;
- International arrivals was more than half below the normal level in the downturn period;
- Downturn period lasted for 2-3 months;
- Long-term trend was not significantly influenced.

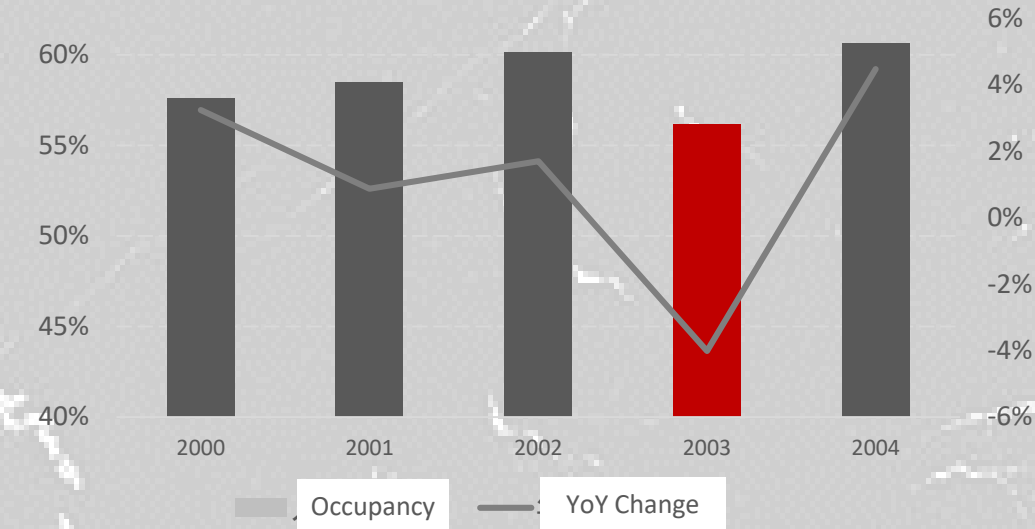
Source: China National Tourism Administration, Moody's Analytics, STR

Occ and ADR of Star-Rated Hotels During SARS



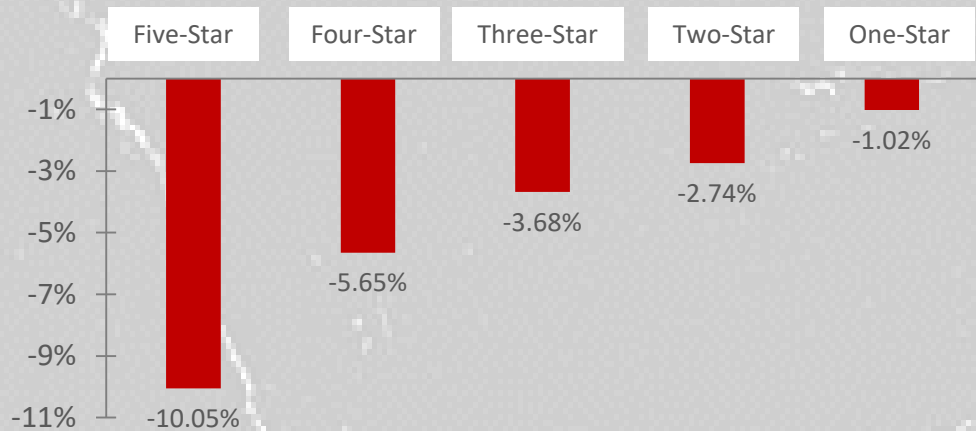
- The trend in occupancy was similar to that of the international arrivals;
- Overall occupancy dropped dramatically in March and reached the lowest point of 20% in May;
- Downturn period of hotel performance lasted 3-4 months. The recovery started in May, and the occupancy level went back to normal by the end of July.

Star-Rated Hotel Performance in 2003



Occupancy of Star-Rated Hotels In 2003

- The overall occupancy of star-rated hotels in 2003 was 56.4%, declined by 4 percentage points compared to the year before;
- It was the first occupancy drop in the first decade of 21st century;
- The overall occupancy in 2004 recovered to 60.6% with a growth of 4.5 percentage points.



Decline Rates In Respect of Different Star Categories

- Five-star hotel had the biggest decrease of 10.1 percentage points;
- One-star hotels were not heavily impacted in terms of occupancy.

Source: STR, Ministry of Culture and Tourism of China



Differences

- **Economic Background**
 - The Chinese economy is more closely connected to the world economy
 - Tertiary Industry became more active.
- **Virus Characteristics**
 - Covid-19 has a higher infection rate;
 - Covid-19 has a lower fatality rate.
- **Covid-19 caught people's attention before the Spring Festival, while SARS did after the Spring Festival;**
- **Covid-19 is becoming a worldwide pandemic.**

The Differences and Similarities Between SARS and Covid-19

Similarities

- Both virus are contagious;
- Both happened between winter and spring;
- Both limited travel and other inter-personal activities;
- Both struck service industry.

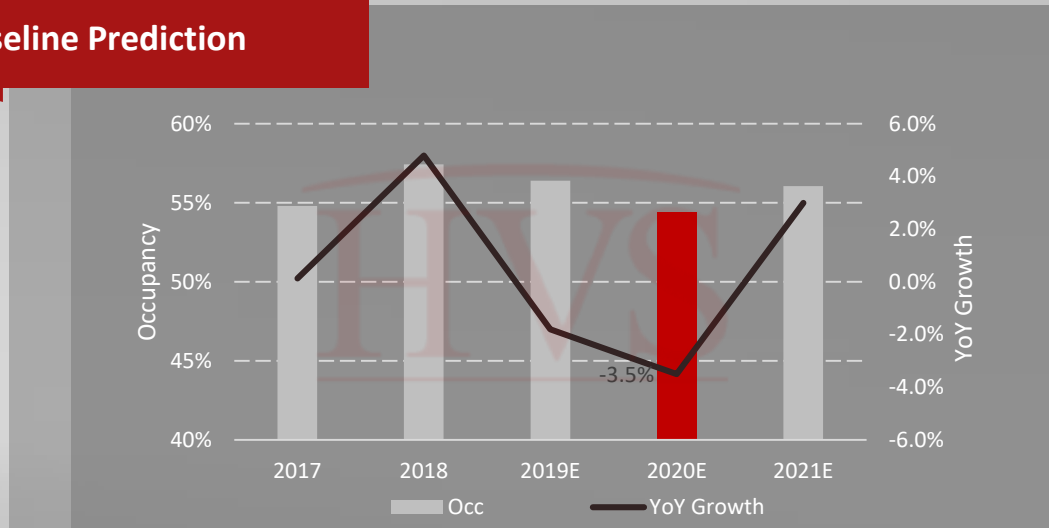


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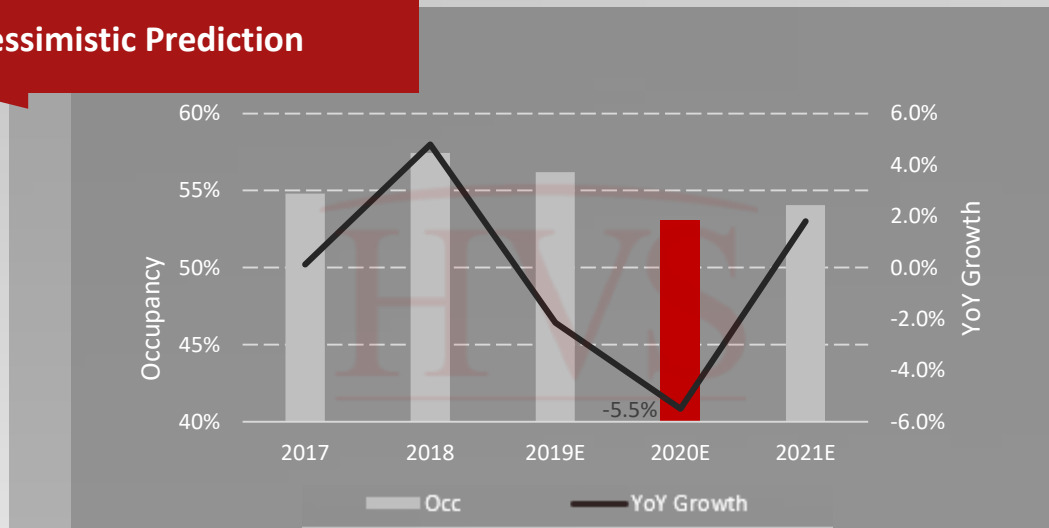
2020 Chinese Star-Rated Hotel Occupancy Prediction

Baseline Prediction



- If the domestic situation can be brought under control within the first quarter, then the decline of overall occupancy in 2020 would be approximately 3.5 percentage points.

Pessimistic Prediction



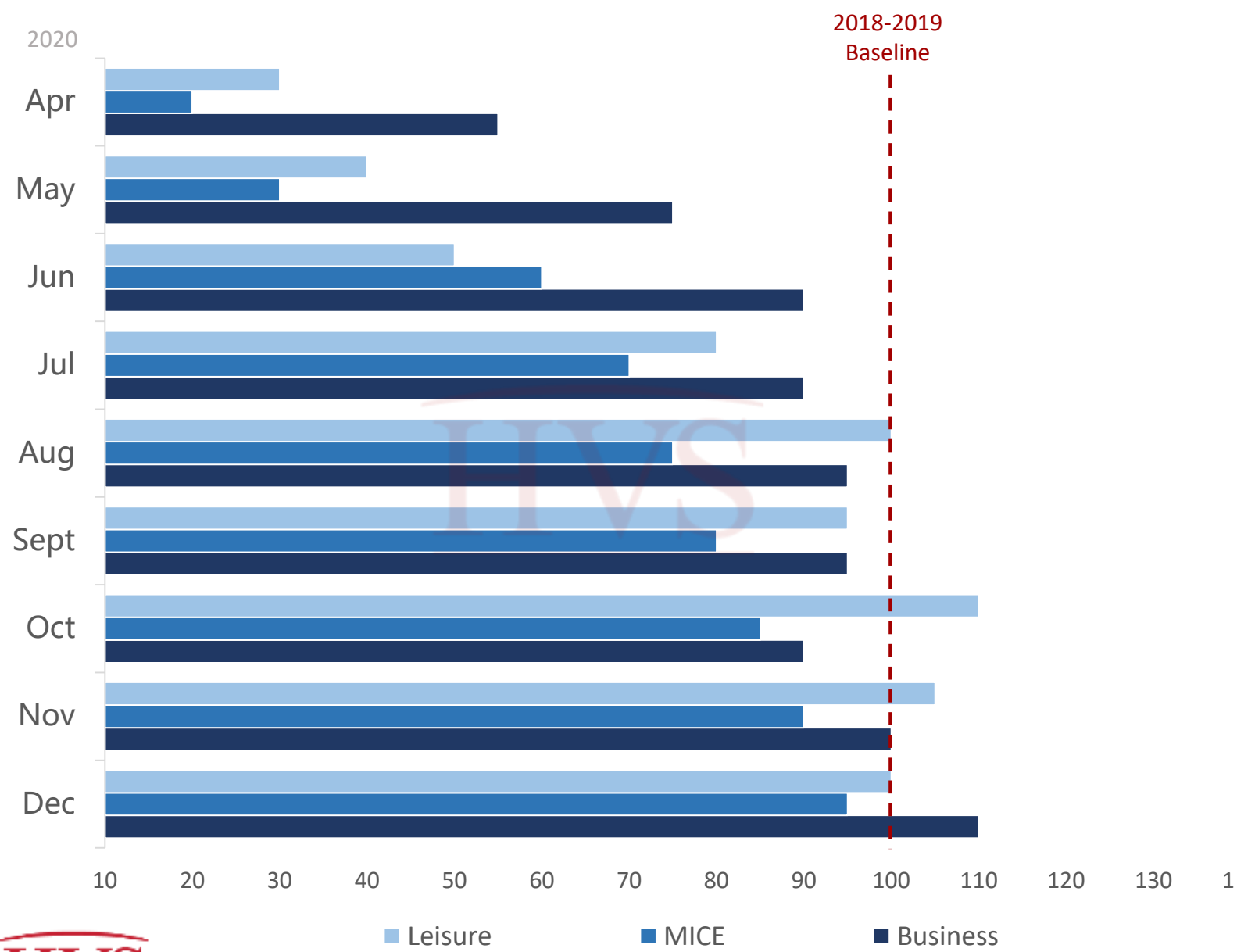
- If the imported confirmed cases keep rising, making the situation unclear or even worse, then the overall occupancy decrease in 2020 would be approximately 5.5 percentage points or more.



Recovery and Investment Outlook



Recovery Expectation for Specific Market Segment in 2020



Recovery by Segments



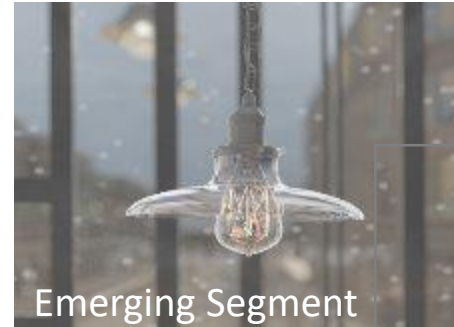
Business segment would recover rapidly, while the spending power is likely to stay the same.



Crowd gathering is one of the characteristic of this segment, thus the expected recovery period is longer.

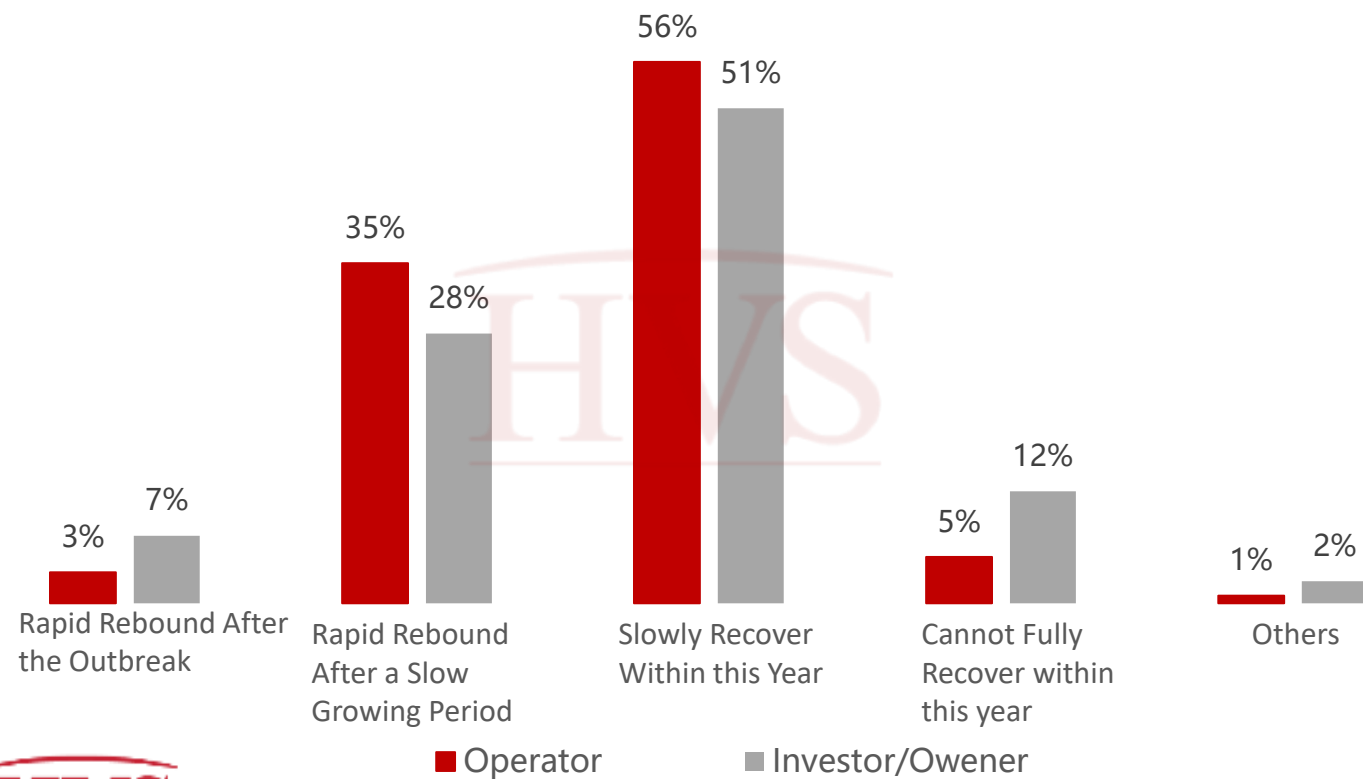


After a long period of social distancing, a short-term retaliatory consumption may happen.



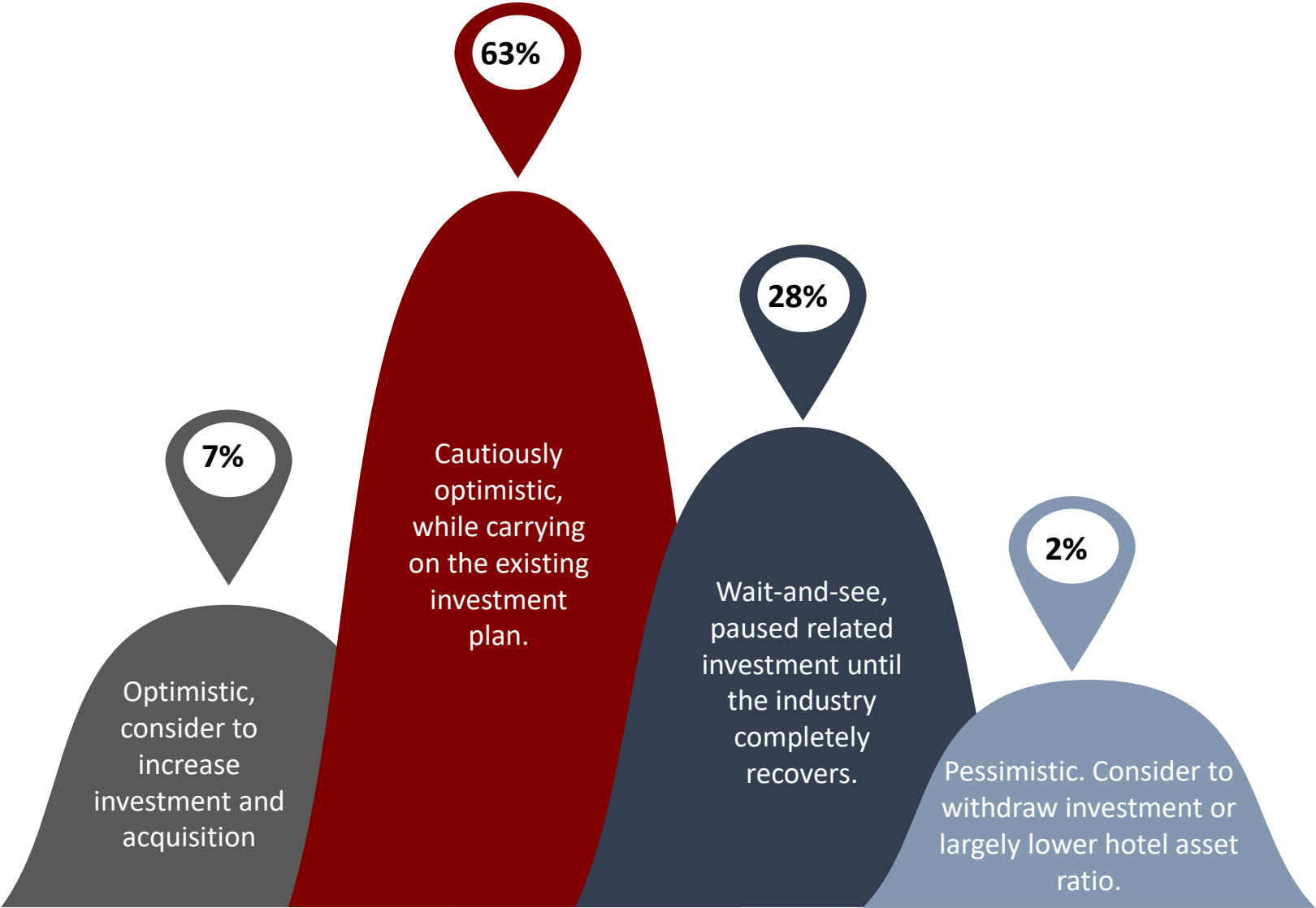
Number of customers who are conscious about wellness and technological advancement is likely to increase.

What is Your Expectation Towards the Recovery of the Chinese Hotel



- More than half of the operators and investors/owners think hotel market will fully recover within the year of 2020;
- Another 1/3 operator and 1/4 investor/owner think that there will be a slow growth period before a rapid bounce back;
- Others think, due to the slowdown of economic growth, after a rapid bounce back, the trend is most likely to flatten;
- For overall recovery of hotel market, operators generally hold a more positive perspective compared to investors/owners;
- First-tier cities, such as Beijing, Shanghai, Guangzhou, Shenzhen, are the first to recover.

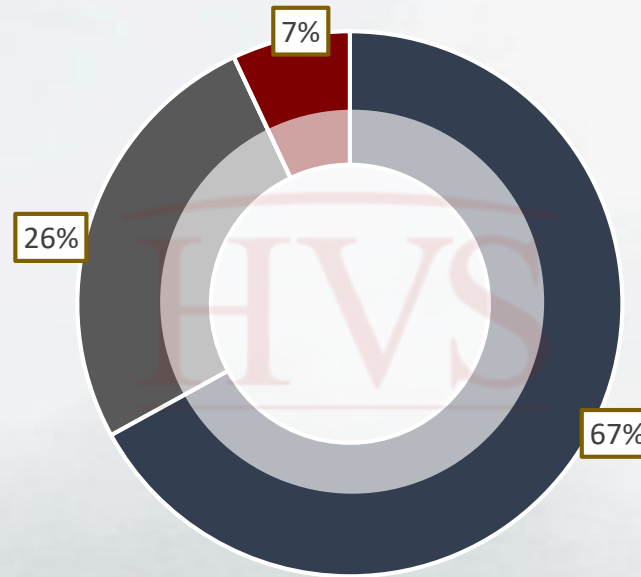
What Is Your Opinion Toward Hotel Investment in the Following 12-24 Months?



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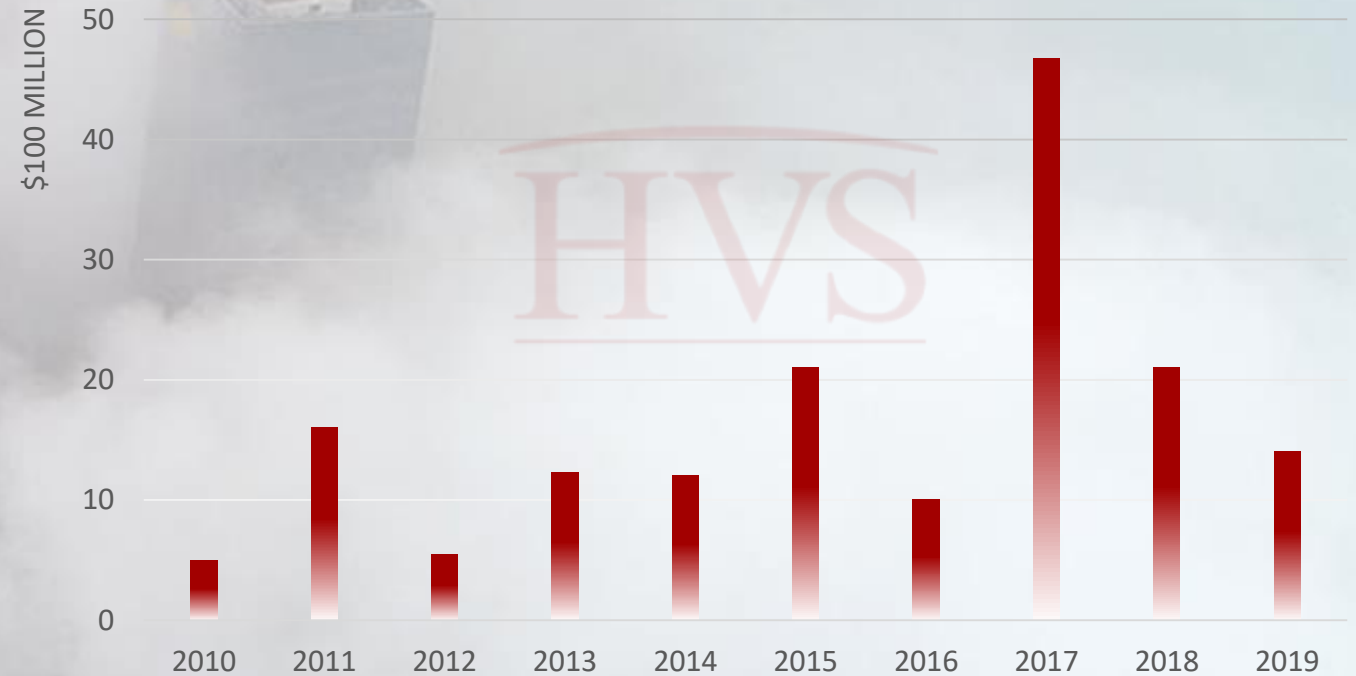
Status of Hotel Projects Under Construction



- Proceed as Normal After the Outbreak
- Projects Postponed, to be Re-evaluated After the Outbreak
- No Domestic Hotel Project at the Moment

- 67% of the investors/owners' hotel projects are going to proceed as normal when the situation is under control;
- Other 26% of investors/owners are going to re-evaluate the projects;
- Because hotel development projects usually require a large initial investment, suspending the ongoing project will cause even more damage. As a result, most of the projects will proceed.

Hotel Transactions of Mainland China



Source: JLL

- Economic recession and the uncertainty of international politics led to the decline of hotel transactions in China for two consecutive years;
- Total transaction volume of 2020 is expected to be lower than that of 2019;
- Covid-19 is expected to negatively impact the investment activities in the first half of 2020;
- The long-term investment activities are less likely to be influenced by the outbreak.

Future Hotel Investment Trend Projection



Wellness Retreat

- Increasing awareness on personal health
- A trend of cooperation between hotels and gym, SPA, or medical institutions
- Large initial investment and long payback period
- Small changes on seasonality, occupancy level tend to be higher and more stable



Urban Resort

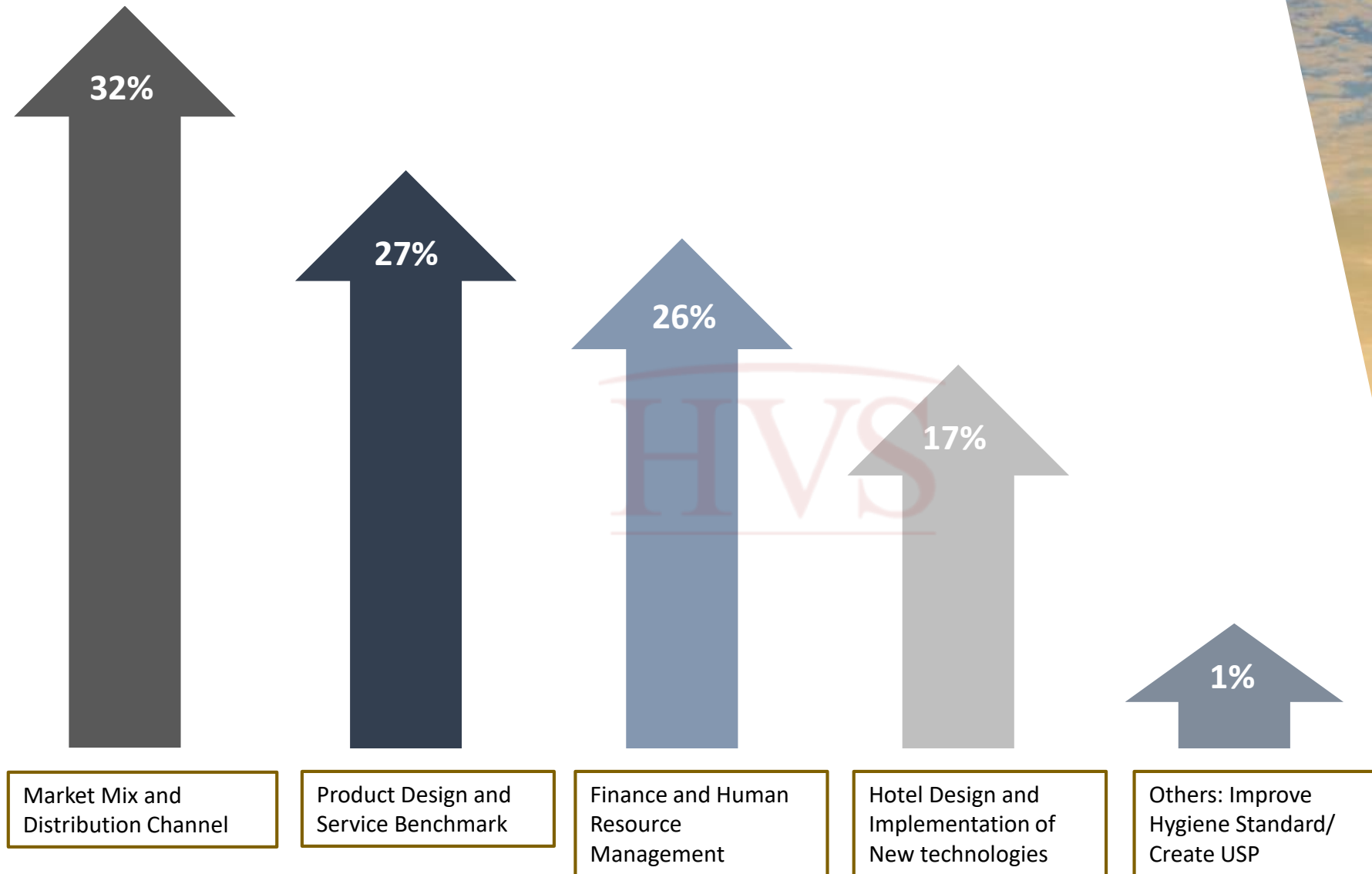
- Build on rich urban culture and good city development
- Located within an hour transportation circle of tier-one or tier-two cities
- Seasonality impact is lower than that at destination resort
- Profit margin is higher than conventional business hotel due to higher consumption and price point



Smart Hotel

- Improve customer experiences
- Enhance operating efficiency
- Higher preparedness during emergencies
- Initial cost is large and successful cases are limited

How to Increase Future Competitiveness?



2020

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