Hotels Recovery Guide

Greater China

Hong Kong, Beijing, Shanghai, Sanya

JLL's Hotels & Hospitality Group | August 2020

JLL

Pre-COVID-19 *trend*

Hong Kong marketwide hotel RevPAR showed an excellent trajectory, recording a compound annual growth rate (CAGR) of 5.7% from 2016 to 2018. In 2018, RevPAR grew strongly by 9.2% year-on-year (YOY) as a result of recovering demand, enhanced by the opening of the Hong Kong–Zhuhai–Macau Bridge and express rail link during the year.

In 2019, Hong Kong experienced disruptions in visitor arrivals and hotel trading performance due to the political unrest beginning in mid-June. As a result, overall visitation for the year declined by 14.2% YOY, whilst marketwide hotel RevPAR decreased by 23.8% over the same period. Total hotel supply recorded a CAGR of 2.9% over the past five years (2014-2019), with new supply expected to remain limited increasing annually by 1.7% from 2020 to 2022.

HKD 6.9 Billion
Hotel investment volume in Hong Kong, 2019

2019 saw the sale of The Kimberley Hotel for HKD 4.3 billion, the largest single hotel sale since the InterContinental Hong Kong in 2015.

Hotel transaction activity in Hong Kong increased by 16.6% YOY in 2019 mainly due to the sale of the sizeable Kimberley Hotel for HKD 4.3 billion, which accounted for approximately 62% of total transaction volume for the year. However, when looking at the number of transactions, deal activity had in fact slowed, reflecting the wait-and-see approach taken by many investors due to the market disruptions.

As one of the most coveted markets in Asia, Hong Kong attracts relatively lower yields compared to other markets in Greater China. Prior to the COVID-19 outbreak, hotel yields for Hong Kong were hovering around 3.0 to 4.0%.

Notable hotel transactions in Hong Kong

Year	Property Name	Keys	Price	Price per Key
2019	The Kimberley Hotel	546	HKD 4.3B	HKD 7.9M
2019	Citadines Mercer Hong Kong JLL	55	HKD 741M	HKD 13.5M
2019	Largos Residences	44	HKD 585M	HKD 13.3M
2019	Silka West Kowloon Hotel	141	HKD 515M	HKD3.7M
2019	One Eleven Serviced Apartment JLL	26	HKD 420M	HKD 16.1M
2019	Goodrich Hotel	56	HKD 330M	HKD 5.9M

JLL: Transacted by JLL
Source: JLL

Note: Property Names listed as at time of acquisition

COVID-19 *impact*

MARKETWIDE HOTELS

YTD June 2020 (year-on-year)

-56.7%	-31.2%	-70.2%
Occ	ADR*	RevPAR*

**Local currency*
Source: HKTB

Since the first reported case of COVID-19 in Hong Kong on 22 January, RevPAR trended downward during the first six months of 2020. This was led by declines in both occupancy and ADR due to COVID-19, as well as the lingering effects of the political unrest.

Given the city's incentive to reopen boarders with Mainland China and Hong Kong's relatively high reliance on that source market, we remain optimistic for the speed of the recovery in demand.

#1 Top City Destination Globally

Euromonitor International's Top 100 City Destinations, 2019

-14.2% YOY
55.9 Million
Total International Visitor Arrivals to Hong Kong in 2019

58%
Same Day Visitors in 2019

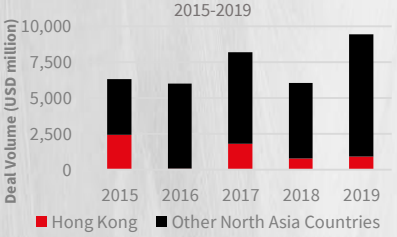
+3.2% YOY
84,089
Rooms as at end-2019

Notable recent openings:
Rosewood Hong Kong, St. Regis Hong Kong Wan Chai, Hotel ALVA by Royal, Hong Kong Ocean Park Marriott Hotel

Existing Supply
Luxury: 8.4%
Upscale: 26.1%
Midscale: 30.8%
Economy: 28.6%
Serviced Apartments: 6.0%

3.0 to 4.0%
Hong Kong Hotel Yields (Pre-COVID-19)

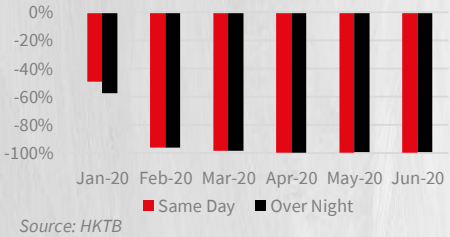
Hotel Deal Volume in Hong Kong as a Proportion of Total North Asian Deals*
2015-2019



Source: JLL
**Excludes the Dalian Wanda Portfolio deal*

COVID-19 IMPACT

Annual Change in Monthly Overall International and Mainland Chinese Visitor Arrivals to Hong Kong



Source: HKTB

[1]*Historical CAGR analysis excludes the year 2015 and 2019 (due to disruption from political unrest) so as to provide a more meaning comparison*

Hong Kong's road to recovery

May 2020

From 18 April to 18 May, hotels were allowed to apply for the Hotel Sector Support scheme under the Hong Kong government's Anti-epidemic Fund, which provides up to HKD 400,000 one-off subsidy per licenced hotel.

From 5 May, applications for the Catering Business Subsidy Scheme began, providing subsidies ranging from HKD 250,000 to HKD 2,200,000 for eligible licence holders of restaurants.

On 8 May, the Hong Kong government eased social distancing measures, reopening gyms, restaurants and bars, cinemas and other public venues.

From 25 May to 14 June, companies, including hotels, were allowed to apply for the Employment Support Scheme, which provides employees' wage support of 50% for six months, with the monthly subsidy for each worker capped at HKD 9,000.

Jun 2020

Social distancing measures were further lifted in mid-June, upping the limit on public gatherings from 8 to 50 people. Public venues were allowed to operate at 80% capacity.

Jul 2020

People entering Guangdong province from Hong Kong via Shenzhen Bay Port or the Hong Kong-Zhuhai-Macau Bridge, must present proof of a valid negative COVID-19 test result (valid for 72 hours) before being allowed entry, subject to a 14-day quarantine.

As of 29 July, social distancing measures were tightened further following a resurgence in COVID-19 cases. This includes a cap on public gatherings at two; masks to be worn at all times in outdoor public places; and complete ban on dining-in at all eateries, of which was subsequently amended to allow dine-in for breakfast and lunch only. Eateries have to operate 50% capacity, with a 1.5-metre rule to apply between tables.

HONG KONG-ZHUHAI-MACAU BRIDGE & HONG KONG HIGH-SPEED RAIL WAY

Providing advanced connectivity and access to/from China

Completed in 2018

HKD 2.3B

USD 300M

Hong Kong Transaction Volume Forecast 2020

Conversion opportunities to drive transaction volume

Given the continued challenging environment due to the political unrest in 2019 and the COVID-19 outbreak in 2020, hotel owners are exploring potential conversion opportunities to alternative asset types, such as serviced apartment, co-living or office. We expect to see increasing conversion of hotels, driving a portion of transaction volume in the near to medium-term.

Staycation market to drive near term recovery

Recovery in Hong Kong is expected to be mainly driven by domestic leisure demand in the near term, mainly from staycations, and small meetings and events. We expect the luxury and upper-upscale hotel segments to show more resiliency due to their attractiveness as a staycation destination.

Recovery likely to take up to 18 to 24 months

With the recent surge in COVID-19 infections, Hong Kong's recovery remains uncertain and is largely dependent on both the containment of the virus, as well as the stabilisation of its political situation. However, recovery is expected to pick up relatively quickly once travel restrictions ease. We anticipate the possible travel bubble with Mainland China to accelerate Hong Kong's recovery given its base of inbound demand.

Pre-COVID-19 *trend*

Upscale hotel RevPAR achieved a 4.8% CAGR over the past five-year period (2014-2019), driven by growth in both occupancy and ADR. This was supported by the moderation in new supply and growth in domestic tourists, which grew by 4.4% annually over the same period. Total upscale hotel supply registered a CAGR of 1.5% over the past five years, largely in line with the total supply[1] growth of 1.7% over the same period.

Despite the 1.8% YOY increase in total new hotel supply[1] in 2019, upscale hotel RevPAR increased by 1.0% YOY, supported by steady demand from the MICE travel segments and domestic corporate travel. Future supply is expected to remain limited due to strict development restrictions within the Beijing city centre, with new upscale hotel supply expected to increase by 1.7% annually from 2020 to 2022.

RMB 4.3 Billion
Hotel investment volume in Beijing, 2019

Total hotel deal volume in Beijing represented about 37% of the total volume in China.

Mainland China was the second most active hotel transaction market in Asia Pacific in 2019, recording RMB 14.3 billion in transaction volume, or around 15% of the total hotel regional volume. Investment trends during the year continued to mirror those seen in previous years, where older hotel assets were purchased with intention to convert them to alternative uses. This included the acquisition of Beijing Jade Palace Hotel by JD.com for RMB 2.7 billion in 2019, which will reportedly be converted into an office and innovation research facility.

As the capital of China, Beijing remains one of the most coveted yet tightly-held investment markets in the country. The opening of the Daxing International Airport in September 2019, as well as the highly anticipated opening of the Universal Studios Beijing in 2021 and the Winter Olympics in 2022, are also expected to boost the city's appeal as an attractive investment destination.

As at YTD June 2020, total transaction volume in Beijing declined by more than 80% as strict travel restrictions were imposed in the city due to the National People's Congress in May, as well as second wave infections in June that hampered the hotel market's recovery. Nonetheless, given the robust fundamentals of Beijing, investor interest is expected to remain strong and transaction activities are anticipated to bounce back in early 2021.

Notable hotel transactions in Beijing

Year	Property Name	Price	Price per Key	Price per sqm
2020	Gongti No. 3 Serviced Apt (40%)*	RMB 707M	Undisclosed	Undisclosed
2019	Beijing Jade Palace Hotel	RMB 2.7B	RMB 6.5M	RMB 39K
2019	Radegast Hotel Beijing Bohao	RMB 1.6B	RMB 5.2M	RMB 32K

**Part of a mixed-use development where pricing breakdown is undisclosed*
Source: JLL

COVID-19 *impact*

UPSCALE HOTELS

YTD June 2020 (year-on-year)

-71.4%	-11.8%	-74.8%
Occ	ADR*	RevPAR*

**Local currency*
Source: STR

Since the country went into its first lockdown in January, RevPAR of upscale hotels in Beijing trended downward during the first six months of 2020, registering double-digit YOY declines in excess of 75%.

Whilst the pace of YOY decline slowed in May and the beginning of June, the recent lockdown amidst the second wave of COVID-19 cases in Beijing had dampened recovery in the second half of June and first half of July. Confidence in domestic travel has since swiftly recovered, as the city was able to contain the spread of the virus through extensive testing.

#5 World Tourism Cities in 2019

Annual Report on Development of World Tourism Cities by World Tourism Cities Federation

+3.6% YOY
322 Million
Total Visitor Arrivals to Beijing in 2019

98.8%
Domestic Visitors

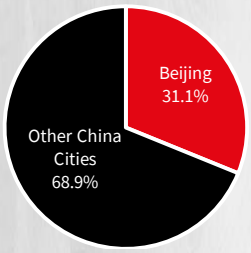
+1.8% YOY
173,466
Rooms[1] as at end-2019

Notable recent openings (2019):
Mandarin Oriental Wangfujing Beijing; Hyatt Regency Beijing Shiyuan; Sheraton Beijing Lize Hotel

Notable upcoming supply:
Hilton Beijing Daxing (2020); Hilton Beijing Tongzhou (2020)

3.5 to 4.0%
Beijing Hotel Yields (Pre-COVID-19)

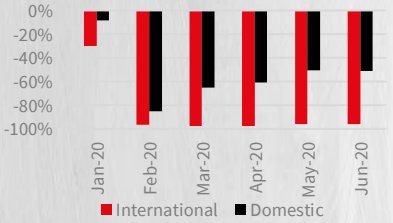
Hotel Deal Volume in Beijing as a Proportion of Total Mainland China Deals in 2019



Source: JLL

COVID-19 IMPACT

Annual Change in Monthly International and Domestic Visitor Arrivals at Main Tourist Attractions in Beijing



Source: Beijing Municipal Bureau of Culture & Tourism

[1]*Refers to upscale and luxury hotels tracked by JLL*

Pre-COVID-19 *trend*

Upscale hotel RevPAR achieved a 2.2% CAGR over the past five-year period (2014-2019), led mainly by the growth in occupancy. This was supported by the increase in domestic visitors, which grew by a CAGR of 6.1% during the same period.

In 2019, RevPAR of upscale hotels declined marginally by 0.4% YOY, mainly due to the slowing of corporate travel amidst ongoing political tension between the US and China. Total supply[1] registered a CAGR of 5.0% over the past five years, and future addition is expected to remain active, increasing annually by 3.7% from 2020 to 2022.

RMB 6.8 Billion
Hotel investment volume in Shanghai, 2019

Hotel deal volume in Shanghai represented almost half of the total hotel transactions recorded in China.

As a global gateway city, Shanghai continues to be a major focus for investors. In 2019, Shanghai recorded RMB 6.8 billion in total hotel transaction volume, representing almost 50% of the total volume in China, the highest across all Chinese cities.

We note foreign funds, in particular, are partnering with local groups with on-the-ground knowledge on executing value-add initiatives to acquire hotels. This includes US private equity pioneer, KKR, which announced a joint-venture partnership in 2019 with Hitone, a Shanghai-based fund manager. During the year, the private equity firm acquired and converted a 17,000-sqm property in Shanghai into a mixed-use development comprising a boutique hotel, office and retail.

Despite short-term uncertainties arising from COVID-19, investors continue to display confidence in the Shanghai market. As at YTD June 2020, hotel transaction volume in Shanghai totalled RMB 4.1 billion, representing a nearly a 60% YOY increase. Notable transactions included the sale of the Guoman Hotel near Changfeng Park to Shanghai-based Dahua Group, which we understand anecdotally that it will be converted partially into the company's headquarters.

Notable hotel transactions in Shanghai

Year	Property Name	Price	Price per Key	Price per sqm
2020	Guoman Hotel	RMB 1.4B	RMB 3.2M	RMB 35K
2020	Pullman Skyway Hotel*	RMB 1.8B	RMB 5.5M	RMB 35K
2020	Radisson Blu Hong Quan	RMB 840M	RMB 2.6M	RMB 29K

**JLL estimate for the hotel component only*
Source: JLL

COVID-19 *impact*

UPSCALE HOTELS

YTD June 2020 (year-on-year)

-63.9%	-14.5%	-69.1%
Occ	ADR*	RevPAR*

**Local currency*
Source: STR

Similar to Beijing, RevPAR of upscale hotels in Shanghai trended downward during the first six months of 2020 amidst the global pandemic, registering double-digit YOY declines.

The pace of YOY decline in RevPAR for Shanghai upscale hotels have slowed noticeably faster than Beijing, commencing since March. With no notable surge in new COVID-19 cases as at 29 July, we anticipate the recovery in Shanghai to continue in the coming months.

#4 Global Financial Centre in the World and #2 in Asia

Global Financial Centres Index 27, March 2020

+6.2% YOY
370 Million
Total Visitor Arrivals to Shanghai in 2019

97.6%
Domestic Visitors

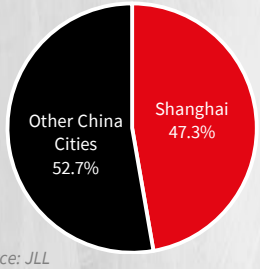
+2.6% YOY
104,081
Rooms[1] as at end-2019

Notable recent openings (2019):
JW Marriott Marquis Hotel Shanghai Pudong; Pullman Shanghai Qingpu Excellence; Radisson Blu Forest Manor Shanghai Hongqiao

Notable upcoming supply (2020):
Hilton Shanghai Songjiang Guangfulin; Hyatt Regency Shanghai Songjiang

3.5 to 4.0%
Shanghai Hotel Yields (Pre-COVID-19)

Hotel Deal Volume in Shanghai as a Proportion of Total Mainland China Deals in 2019



Source: JLL

COVID-19 IMPACT
Annual Change in Monthly International Visitors to Shanghai

Source: Shanghai Statistics

[1]*Refers to hotels and serviced apartments in the upper midscale and above segments tracked by JLL*

Pre-COVID-19 *trend*

Upscale hotel RevPAR achieved a notable 8.3% CAGR over the past five-year year period (2014-2019), led by the 6.1% CAGR in ADR. This was supported by the 12.1% CAGR in total visitor arrivals over the same period, which outpaced the growth in new hotel supply. Total hotel supply[1] registered a CAGR of 10.0% over the past five years, with majority of the new supply added in 2016 (18.6%) and 2018 (19.4%). Future supply is expected to moderate in the near term, growing by 4.9% annually from 2020 to 2022.

In 2019, RevPAR for upscale hotels declined by 1.1% YOY, mainly due to the influx of new internationally branded hotel supply in 2018. Increased competition to fill rooms resulted in a volume-driven strategy, which in turn, led to a downward pressure on ADR. Nevertheless, demand is expected to be adequately supported by Sanya's appeal to both the domestic and international travellers.

As the only tropical and coastal city within China, Sanya is a top rated destination for domestic family trips, with domestic visitor arrivals growing by 11.9% annually over the past five-year period (2014-2019). Notably, during the recent Labour Day holiday from 1 to 5 May 2020, Sanya was ranked amongst the top three favourite destinations according to Trip.com.

International visitor arrivals has also grown significantly over the past five years, registering an impressive CAGR of 18.5%. Although the Sanya tourism market is still largely domestic, it has a slightly larger percentage share of international tourists of 3.8%, compared to other cities such as Beijing (1.2%) and Shanghai (2.4%).

Tourism development continues to pick up pace and in 2019, Sanya successfully hosted more than 100 international events, including the Formula E championship (or Sanya ePrix), which was held in Sanya for the first time in history. Additionally, the increase in tax-free annual shopping quota to RMB 100,000 per person from RMB 30,000, as well as cheaper airfares during the year had also contributed to increase in visitor arrivals to Sanya.

COVID-19 *impact*

UPSCALE HOTELS

YTD June 2020 (year-on-year)

-43.6%	-4.5%	-46.1%
Occ	ADR*	RevPAR*

**Local currency*
Source: STR

The impact of COVID-19 on upscale hotel RevPAR in Sanya was considerably lower than in Beijing and Shanghai. Whilst Beijing and Shanghai registered YOY declines in RevPAR in January, RevPAR of upscale hotels in Sanya registered a 12.8% YOY increase during the month. The YOY decline in Sanya peaked in February before tapering off in March, with the pace of decline continuing on a downward through to June.

As a coastal city, Sanya is largely a preferred destination amidst the global pandemic due to travellers' preference for well-ventilated locations. With no notable surge in new COVID-19 cases as at 29 July, recovery in Sanya is expected to lead the way across Greater China.

#1 Domestic Luxury Travel Destination in China for 9 consecutive years

Hurun Research Institute Chinese Luxury Consumer Survey 2020

+14.1% YOY
24 Million
Total Visitor Arrivals to Sanya in 2019

96.2%
Domestic Visitors

+0.8% YOY
15,071
Internationally Branded Rooms as at end-2019

Notable recent openings:
Hotel 1 Haitang Bay (2020); Hotel Indigo Hainan Xiangshui Bay (2019); Capella Sanya (2018); Atlantis Sanya (2018)

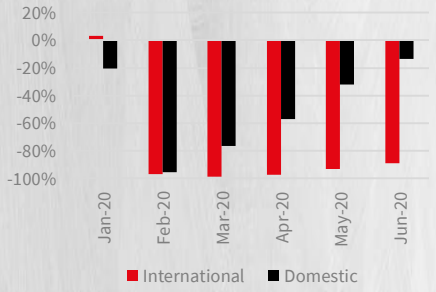
Notable upcoming supply:
Sheraton Sanya Tufu Bay Resort (2020); Waldorf Astoria Haitang Bay (2021); Hyatt Regency Sanya Tianyahaijiao (2021)

Hotel Supply[1] by Major Locations in Sanya

30%	24%	23%
Haitang Bay	Yalong Bay	Sanya Bay

COVID-19 IMPACT

Annual Change in Monthly International and Domestic Visitor Arrivals at Sanya



Source: Hainan Statistics

[1]*Refers to hotels in the upscale and above segments tracked by JLL, namely internationally branded, domestic and independent hotels*

Mainland China's road to recovery

JLL

May 2020

Since domestic travel restrictions were lifted, all provinces and cities are admitting domestic travellers based on a coloured national health pass code system. There was a boost in domestic tourism during the Labour Day holiday from 1 to 5 May, where a total of 121 million passenger trips were made within the country.

On 22 May, the Chinese government delivered the 2020 Government Work Report, which included a suite of stimulus policies aimed at providing financial relief for households and local businesses. Policies include reduction in value-added tax collection and for companies in the tourism industry.

Jun 2020

From 8 June, more foreign airlines are permitted to fly to Mainland China. These airlines are allowed to operate only one international passenger flight a week to a selected city.

On 16 June, due to a second wave of COVID-19 cases in Beijing, the city raised its public health emergency response from Level 3 to Level 2, where stricter outbound travel measures, such as provision of a negative NAT (Nucleic Acid Test) report, were put in place.

Jul 2020

As of 16 July, around 4% of China's GDP or an estimated RMB 4.2 trillion of discretionary fiscal measures have been announced to cushion the impact of COVID-19.

On 20 July, Beijing lowered their emergency response to Level 3, with all areas in the city being identified as low risk areas. Travellers from these low risks areas no longer need to provide negative NAT reports to leave Beijing.

HONG KONG - SHANGHAI

Ranked the fifth most popular global international flight route

Busiest Route 2020, OAG

RMB 6.0B

USD 850M

Mainland China Transaction Volume Forecast 2020

Limited distressed opportunities in the market

Although we are seeing distressed opportunities surfacing in the market, properties are less likely to trade in the short-term due to the complex capital structure and high debt levels as a result of overvaluation of properties in the past.

Serviced apartments, sale-leaseback and strata-titled properties preferred

Whilst hotel occupancies were severely impacted during the lockdown period, rental apartments and serviced apartments emerged as the more resilient asset classes within the accommodation sector due to demand from long-stay guests. We expect to see growing investor interest in these segments, which provide relatively stable returns with growth upsides through the return of short-stay guests.

In the midst of global economic uncertainty, assets that can bring stabilised or quick returns such as rental apartments, serviced apartments, or properties with leaseback or strata-sale potential, will likely be preferred by investors.

Growing interest from foreign funds

Although domestic players will continue to dominate the hotel transaction market, we are also seeing a growing number of foreign funds which are pairing up with local partners to acquire hotel assets. One of the key benefits of such partnership is for foreign funds to capitalise on the local partners' ability to execute conversion or renovation plans. We expect these investors to be on a continued lookout to purchase the older and/or underperforming hotels for complete refurbishment or for conversion to alternative uses.

Greater China

Optimising Performance and Value from an Asset Management perspective

Analyse market and consumer trends; Chinese domestic travel has changed, and wants, needs and consumer spending patterns have subsequently changed with it. Explore and undertake an understanding of your hotels competitiveness and positioning in the "New Marketplace".

Evaluate hotel's breakeven occupancy in light of the wider market outlook, taking into consideration potential secondary outbreaks, current supply and future pipeline.

Critically analyse hotel positioning, segmentation and geographical mix, accounting for limited international travellers. There is a "New Domestic Traveller" opportunity in China, and Sales and Marketing tactics will have to be adjusted to attract this "New" customer.

With the government's financial support ceasing, undertake zero-based budgeting now to ensure flexible manning structures are in place. Factor in gradual demand ramp up, with sensitivities around food and beverage operations and potential secondary outbreaks.

Leverage vast domestic tourism opportunity to help restart operations and build local customer loyalty. Launch staycation packages to take advantage of the current travel restrictions and pent up demand from mainland Chinese residents and expatriates in the country; this could be extremely successful in resort locations such as Sanya and cities where residents may never have visited before, including Beijing.

Ensure hotel facilities are ready for post-COVID-19 travel, embrace the restrictions and set up health and safety protocols for the reopening. Follow safety guidelines released by Ministry, and secure local and/or international (e.g. Bureau Veritas) health and safety certifications to instill guest confidence.

Take the time to analyse challenges of the hotel property, which may not provide an appropriate revenue per square meter return or even be suitable for today's customer in the daily operation. This includes improper configurations, disproportionate facilities, dated design and other inefficient functions.

Consider how you can be bold, different and safe. This includes highlighting full compliance with enhanced safety, security and hygiene measures, as well as capturing the huge opportunities in MICE and government group business that exists throughout China, both in urban and resort locations.

Consider book direct marketing campaigns to targeted list of repeat customers, offering attractive packages and rate flexibility via the "book now, stay later" option.

Look at alternative revenue options such as partnering with the numerous food delivery platforms in China, creating promotional takeaway items, and exploring affordable meal delivery plans for nearby households / offices. Explore strategic partnerships with credit card companies and phone carriers to promote outlets to local residents and businesses.

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