

UK Hotels

Chinese tourism growth: Impacts for the UK Hotel market

February 2014

Chinese visitor numbers to hit 650,000 by 2020

■ China is now the biggest source market for outbound tourism overtaking the Americans and Germans with estimates that Chinese outbound overnight visits hit 95 million in 2013 (China Outbound Tourism Research Institute, COTRI).

■ While the majority of these trips are within the wider Asia Pacific area, Europe has been gaining ground accounting for approximately 9% of trips last year. Forecasts to 2030 suggest Chinese visitor numbers to Europe could increase to 24.5 million. This would mean that they would become a significant guest segment for European hotels.

■ However, those that come to Europe rarely visit the UK. France received 1.4 million Chinese tourists in 2012. Estimates for 2013 suggest that the UK attracted only 270,000.

■ France's lead has been partly attributed to its participation in the Schengen Agreement, which allows Chinese tourists to apply for a single visa permitting entry to 22 out of the 28 EU member states. A separate visa is required for UK entry.

■ George Osborne's announcement in October that Britain will make it easier for Chinese visitors to obtain visas is expected to boost numbers significantly. VisitBritain's target, helped by the visa improvements and their upcoming marketing campaign, is forecast to attract 650,000 Chinese tourists to the UK per year by 2020.

■ Considering that London ranked third after Paris and Rome in a TripAdvisor China survey of top non asian destinations this target looks set to be easily achieved subject to the envisaged visa streamlining.

Summary

Chinese tourism growth to drive brand and asset acquisition by Asia Pacific investors in the UK

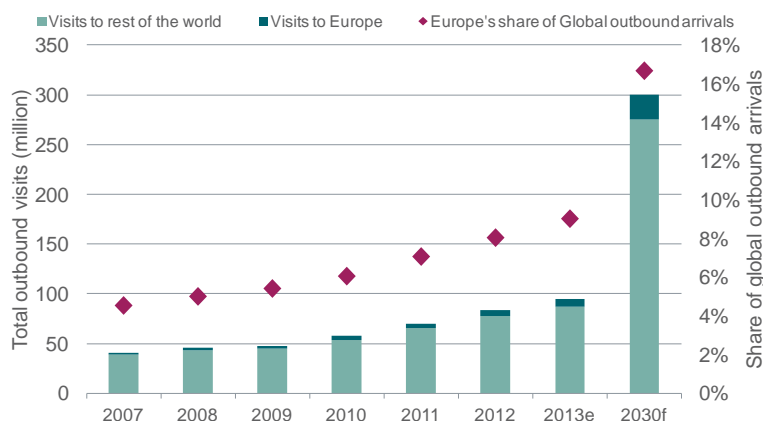
■ Chinese visitor numbers to the UK expected to more than double by 2020.

■ Mid market and budget hotels in core locations likely to be most successful attracting future Chinese guests, particularly international brands already established in mainland China.

■ Spread of Hong Kong and Chinese brands in UK largely limited to upscale sectors. However, locations are migrating from prime Central London to emerging areas.

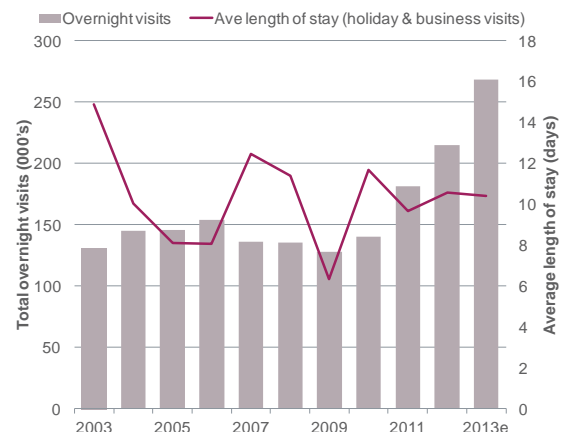
■ Our expectation is that corporate brand acquisition by Chinese investors will increase. Direct asset acquisition is also expected to grow with Chinese investment forecast to account for 10% of global cross border hotel volumes by 2017.

GRAPH 1 Europe's share of Chinese outbound tourism set to increase



Graph source: UNWTO, China Tourism Academy, European Travel Commission

GRAPH 2 Chinese visits to the UK increased 19% per annum over last three years



Graph source: ONS

What does this mean for hotel demand?

■ Growth in visitors, irrespective of origin, will assist hotel demand, and it is expected that it will be London that will be the primary beneficiary of this.

■ Chinese tourism to Europe and the UK is currently dominated by tour groups. While they typically spend 40% of their budget on shopping they are more cost conscious when it comes to accommodation.

■ This focus on cost means that it will be large budget hotels in city fringe locations that will benefit initially. This has already been seen in Paris where Chinese visitors tend to stay in suburban hotels where hotel rates are lower and availability for large groups is better.

■ This trend is likely to continue in the short term, hence we anticipate robust demand for budget accommodation in such locations in London. Yet the growing sophistication of Chinese travelers means that the reliance on tour group holidays is set to diminish.

■ Boston Consulting Group (BCG) suggest that the fastest growing Chinese visitor segments through to 2030 will be 'young affluents' aged 18 to 30 years; 'senior professionals' aged 45 to 55 years travelling without a tour group; and small groups of friends/

family travelling without a tour group. Organised tour group travel and the high end luxury market they suggest will see slower growth.

■ The faster growth in independent Chinese travellers means that location and reputation will become increasingly more important when selecting accommodation. These factors were highlighted by TripAdvisor China in their 2013 survey as the most important hotel considerations across all Chinese travellers, although price ranked highest for pure leisure travellers.

■ As a result we anticipate that it will be budget and mid market hotels in core locations that will be the most successful at attracting Chinese guests. In particular those international brands that are already established in mainland China such as IHG, Accor and Starwood (table 1) and are therefore already familiar to Chinese consumers, are likely to be the principal beneficiaries of Chinese bookings in the UK.

Entrance of new brands

■ The importance of reputation and branding combined with the anticipated influx in Chinese visitors to the UK has buoyed confidence amongst upscale Chinese hoteliers.

TABLE 1 Selected International operators in China

Group	Brands	Hotels in China	China hotels in pipeline
IHG	Intercontinental; Hualuxe; Crowne Plaza; Holiday Inn	191	179
Accor	Mei Jue; Pullman; Ibis	130	c100 upto 2016
Starwood	Sheraton; Westin; Four Points; W	122	100+
Marriott	Ritz Carlton; JW Marriott; Marriott; Renaissance; Courtyard Marriott	60	54
Hilton	Hilton; DoubleTree; Conrad; Waldorf Astoria	41	135

Table source: Company websites

■ In response the number of Chinese and Hong Kong hotel brands in London, all upscale, is expected to more than double over the next three years with six new openings (table 2).

■ While expansion to date has been led by Hong Kong based groups, those from mainland China are starting to follow. For example, Wanda Group purchased a development site in Nine Elms close to the new Chinese embassy that will include a Wanda operated hotel. This will be the first hotel opening by a mainland Chinese brand in the UK.

TABLE 2 Chinese and Hong Kong hotel openings in UK

Brand	Locations	Status	Ownership	Grade	Rooms
The Langham	West End	Open	Great Eagle Holdings Ltd (Hong Kong)	Luxury	380
Mandarin Oriental Hyde Park	Knightsbridge	Open	Jardine Matheson Group (Hong Kong)	Luxury	198
Rosewood London	City	Open	Rosewood Hotel Group (Hong Kong)	Luxury	306
Pentahotels (all outside London)	6 UK locations	Open (3); Due end 2014 (3)	Rosewood Hotel Group (Hong Kong)	4-star	c.770
Shangri La Hotels & Resorts (due to open early 2014)	South Bank	Due early 2014	Shangri-La Asia Limited (Hong Kong)	Luxury	202
Dorsett Hospitality International (two hotels)	Shepherds Bush & City	Shepherds Bush due 2014	Far East Consortium International Ltd (Hong Kong)	4-star	c.592
Peninsula Hotel	Hyde Park Corner	Site purchased 2013	Hong Kong & Shanghai Hotel group (Hong Kong)	Luxury	c.100
Wanda Hotels and Resorts (first mainland Chinese brand in UK)	Nine Elms	Site purchased 2013	Wanda Group (China)	Luxury	c160
Ten Trinity Square (hotel & serviced residences)	City	Site purchased 2010	Reignwood Group (China)	Luxury	120

■ While the spread of Hong Kong and Chinese brands in London has so far been limited to upscale hotels, locations are migrating from prime Central London to emerging areas such as Wanda's Nine Elms purchase, Dorsett's Shepherds Bush and City site and Pentahotels in the regions.

■ Given the accelerated growth forecast in independent travellers from China and their focus on price there may be opportunities for mid market and budget brands from China to enter the UK market.

■ This, however, may not be on a large scale. Despite an increase in Chinese visitors to London their numbers are not yet enough to underpin demand for a brand with little or no exposure outside their home market.

■ To date only one of the top 10 Chinese hotel groups operate outside their domestic market (Shangri La Hotels). With supply starting to exceed demand in some domestic markets Chinese operators may start to look further afield for opportunities although we suspect this is likely to be focused on the wider Asia Pacific region initially.

Increase in corporate brand acquisition....

■ Rather than expand existing brands into new markets our expectation is that brand acquisition by Chinese investors will be more prevalent.

■ Jin Jiang's 50% purchase of the US Interstate Hotels & Resorts in 2010, the

Taiwan Formosa International Hotel Corporation's acquisition of Regent Luxury Hotels in the same year, HNA Hospitality Group's 20% stake in the Spanish hotel group NH Hotels and the purchase of Rosewood Hotels by the Hong Kong based New World Hospitality are prime examples of this.

■ In the case of the US\$229.5 million Rosewood purchase in 2011, New World Hospitality acquired a recognised US luxury brand that could enhance expansion opportunities in Europe. It also provided them with a 'heritage' brand they could take back to China. The group plans to double their current portfolio within the next five years focusing on Europe and Asia, including the management of the Hôtel de Crillon in Paris, which is currently undergoing refurbishment.

■ Wanda Group has also been linked with the possible acquisition of a number of US hotel groups.

..and direct asset purchase

■ Globally, Chinese investors have spent approximately £1.6bn over the last five years on hotels outside their home market according to Real Capital Analytics (RCA). This represents only 4% of total cross border hotel investment over this period with US, Singapore and Qatar purchasers leading in volume terms.

■ We expect China's share of global cross border hotel acquisition volumes to increase to be closer to 10% over

the next three years. In Europe this is likely to be in line with corporate brand acquisition as they look to develop owner-operator platforms as well as acquire individual assets.

■ While this growth in cross border investment is likely to be primarily focused on the wider Asia Pacific region, we expect to see Chinese interest in UK, namely London hotels, to pick up.

■ Hong Kong and mainland Chinese purchasers have acquired 18 hotels and development sites in the UK over the last five years spending close to £450m - only 8% of total overseas investment in UK hotels. Our estimate is that over the next three years activity by this group could more than double with annual average volumes in excess of £200m.

■ This and the growth in activity by other Asia Pacific purchasers who are also keen to capture the growth in overseas tourism originating from the region, could see total transaction volumes by Asia Pacific investors reach £500 million per annum by 2015, a 74% increase on 2013 levels.

■ This level of activity would make this group significant purchasers of UK hotels. Over the longer term it may even offer opportunities for new brands and concepts from the region to enter the UK market. ■

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