



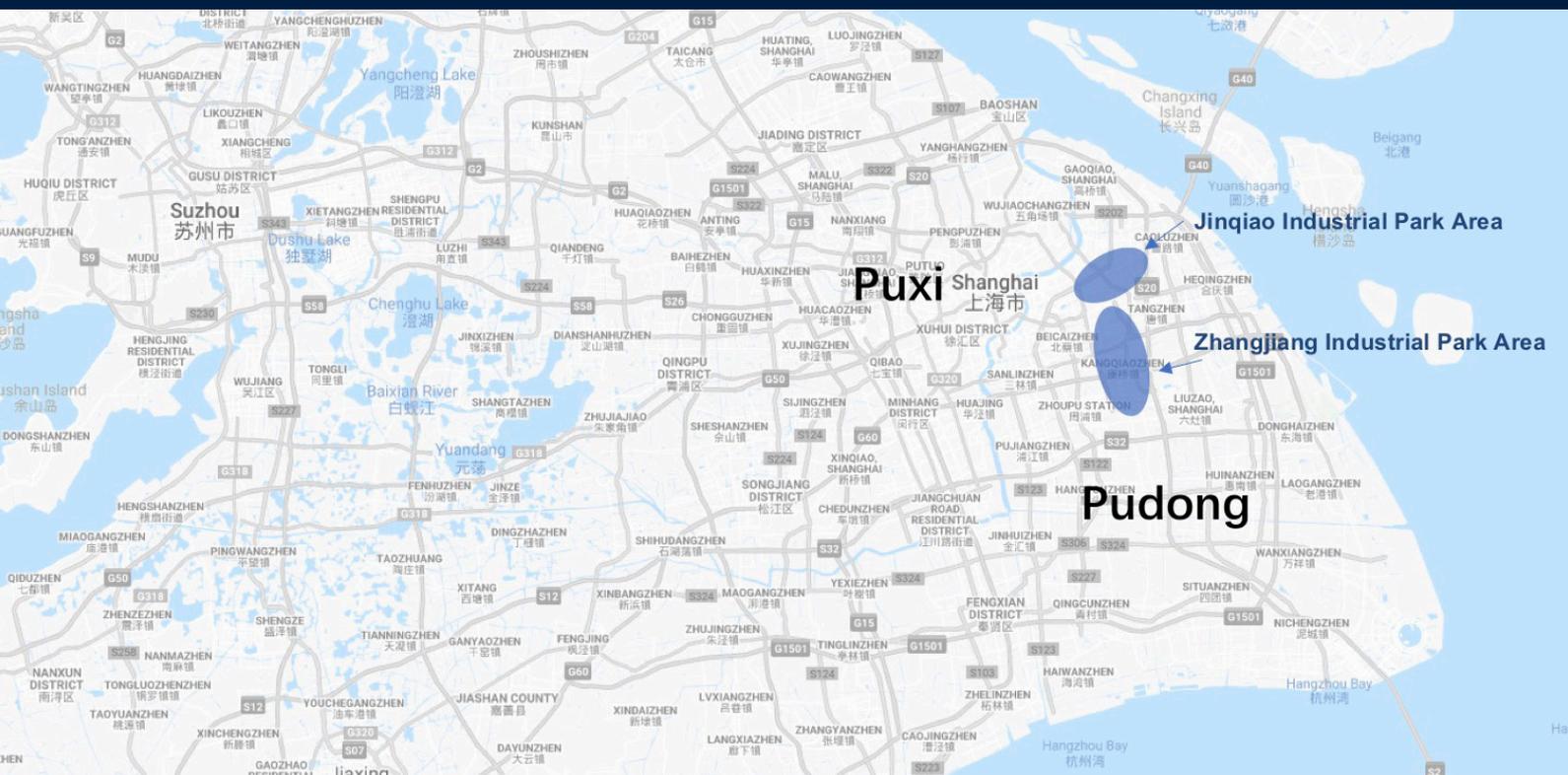
Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Shanghai, China:
*Jinqiao and Zhangjiang
Industrial Park Area
Hotel Market*

MARCH 2020



Introduction

Shanghai Jinqiao Export Processing Zone (hereinafter “Jinqiao”) is located at Pudong New District, Shanghai. Jinqiao used to be a state-level economic and technological development zone established at the beginning of Pudong New District’s development in 1990, with a planned area of 27.38 square kilometers.

However, in December 2014, Jinqiao’s 20.48 square kilometers planned area was officially incorporated into the China (Shanghai) Pilot Free Trade Zone. Jinqiao is a traditional manufacturing industry base with many research and development headquarters of manufacturing enterprises.

There are four major industries in Jinqiao, namely automotive and parts industry, modern home appliance industry, biomedicine and food industry as well as electronic information industry. According to the latest plan, Jinqiao is transferring and upgrading from a “manufacturing” focused zone to an “intelligent manufacturing” focused zone.

Shanghai Zhangjiang High-Technology Park (hereinafter “Zhangjiang”) is also located at Pudong New District. It was established in 1992 as the core park of Zhangjiang National Independent Innovation Demonstration Zone with a goal of becoming a world-class high-technology park.

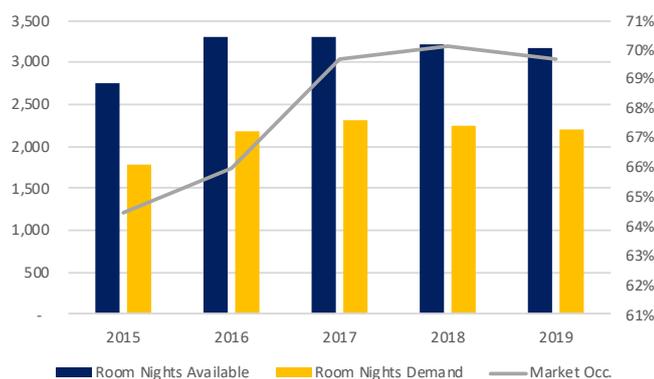
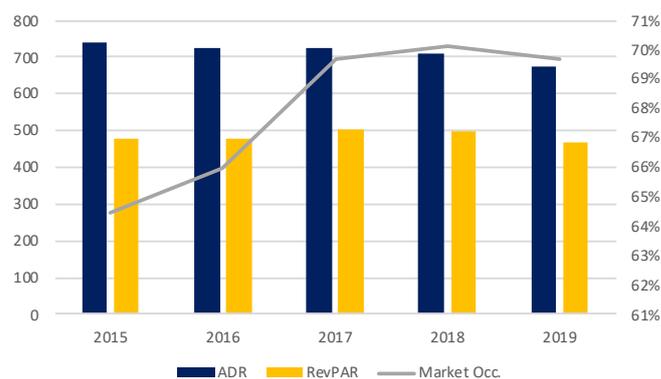
The planned area of Zhangjiang is 79.7 square kilometers. In April 2015, Zhangjiang’s 37.2 square kilometers planned area was officially incorporated into the China (Shanghai) Pilot Free Trade Zone. Currently, Zhangjiang has two major industrial clusters: the “medical industry” cluster focusing on pharmaceutical related industries and the “Internet industry” cluster focusing on Internet and mobile Internet related industries.

After almost 30 years of development, especially after joining the Free Trade Zone, Jinqiao and Zhangjiang have developed into a world-renowned export processing zone and a high-technology park. Their infrastructure and industrial development have also become more mature.

Considering Jinqiao and Zhangjiang are both important to the Pudong Free Trade Zone Areas, we have selected the following upper-midscale to upper-upscale hotels to review the historical market performance, identify the demand segmentation dynamics and draw an evaluation of the market.



Hotel		Opening / Renovation	Room Count
1	Ramada Plaza Hotel Pudong	2001/2015	269
2	Dongjiao Hotel	2006/2015	180
3	Grand Madison Shanghai Jinqiao	2007/2013	255
4	Regal Jinfeng Hotel Shanghai	2009	380
5	Marriott Hotel Pudong East	2013	394
6	Radisson Blu Pudong Jinqiao	2016	196
7	Evergreen Laurel Hotel Shanghai	2015	273
8	Royal Century Hotel Shanghai	2015	275
9	Onehome Art Hotel Shanghai	2015	319
10	Grand Mercure Century Park	2006/2018	360
11	Jumeirah Himalayas Hotel	2011	403
Room Count (Avg)		3,304 (300)	

Supply and Demand, 2015-2019**ADR, Occupancy and RevPAR Performance, 2015-2019****Historical Market Performance****2015 – 2017:**

The increase in hotel supply was mainly contributed by the opening of Radisson Blu Shanghai Pudong Jinqiao in 2016. Interestingly, the market occupancy experienced a strong growth and reached 70 percent in 2017 while ADR declined slightly. This is mainly because:

- The incorporation of China (Shanghai) Pilot Free Trade Zone drove more corporate and MICE demand to Jinqiao and Zhangjiang. Since then, new companies from sectors such as manufacturing, automobile, Internet, and information opened offices and settled in the region, driving up hotels' occupancy in the region with more corporate and MICE demand.
- The opening of Shanghai Disney Resort enhanced Pudong's image as a popular tourism destination and induced large demand in the Greater Disney Resort area, as well as contributing spill-over demand to the Pudong New District. Jinqiao and Zhangjiang are around half-an-hour drive from Disneyland. Benefited from the lack of quality accommodation products around Disneyland, a good portion of leisure demand spilled over to hotels in Jinqiao and Zhangjiang during the theme park's first two years of operation.
- Since the opening of National Exhibition and Convention Center (Shanghai) (refers to "NECC" in this report) in 2015, several large-scale exhibitions that used to be held in Shanghai New International Expo Centre (hereinafter "SNIEC") relocated to NECC, resulting in a decline of exhibition-related demand in the area. Although the lapsed exhibition period was replaced by new exhibitions, the scales of these events were much smaller and the budgets of exhibitors were lower than that of the previous exhibitors. Therefore, the market ADR has slightly declined mainly due to the reducing budget of exhibition demand.

2017 to 2019:

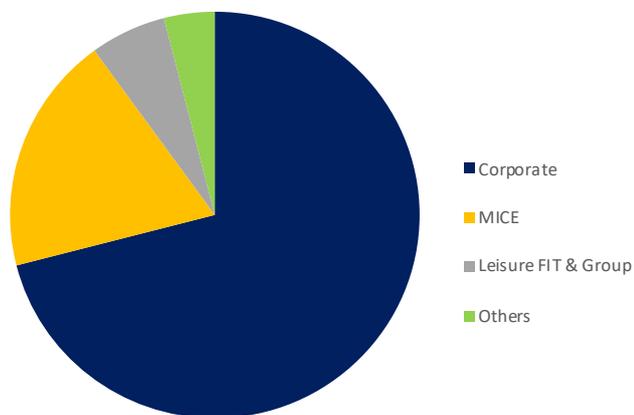
The overall supply of guest rooms declined slightly in 2018 and 2019 due to the renovation of Grand Mercure Shanghai Century Park.

During this period, the market occupancy remained stable while the market ADR fell to RMB 672, with a drop of around RMB 40. This is mainly because:

- Since late 2018, the Trade War conflict between China and the United States has contributed to the decline of business travels in import and export related industries, such as automobile and parts. The corporate demand from these industries dropped more than 10 percent, especially from the US companies. However, with the development of local communication industries, such as 5G technology, their corporate demand increased accordingly. The overall corporate demand remained relatively stable.
- The budget of foreign business travelers was usually higher than that of domestic business travelers. But due to the Trade War, the accommodation budgets of foreign travelers are restrained by most businesses. Moreover, because of the aforementioned change of customer mix, the ADR is unable to achieve its previous level. Hotels, as a result, deployed a "price-for-occupancy" strategy by lowering prices in exchange for occupancy rates.

Demand Segment

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



Corporate Dynamics

Demand Generators

The majority of corporate demand is mainly generated by nearby office towers and industrial parks in Jinqiao and Zhangjiang.

Budget

RMB 450-650 per person per day;
high-end demand can reach RMB 700-900.

Industries

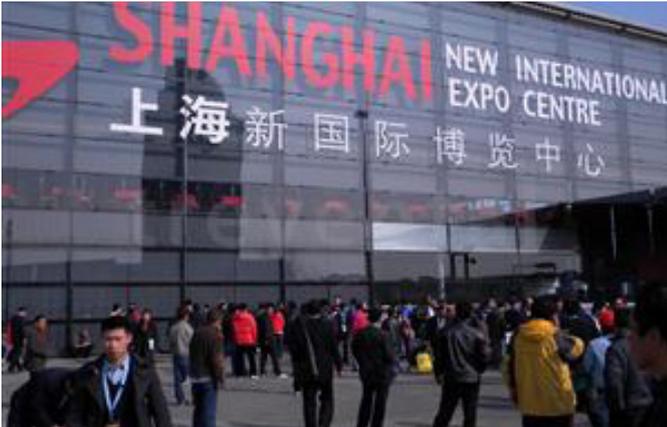
Jinqiao	Automobile
	Mechanical Manufacturing
	Communications
Zhangjiang	Chip Industry
	Semiconductor
	IT
	Pharmaceutical

Average Length of Stay

2-4 days

Characteristics and trends

- Demand Characteristics:** Base on the industrial characteristic of Jinqiao and Zhangjiang, about 70 percent are male corporate travelers with the majority of them being engineers, programmers, etc. These travelers are concerned about their traffic time to work, value for money and accommodation product quality. On the other hand, corporate travelers with management titles that possess flexible budget indicates higher preferences for international branded hotels, mainly due to the guaranteed service quality and hotel facility conditions.
- Industry Composition:** Due to the effect of the US-China Trade War, the demand from automobile and related industries declined 10-15 percent, especially from the US companies. However, with the development of communications industry such as 5G technology, their corporate accounts increased accordingly. Overall, the amount of corporate demand remains stable.
- Overflow Demand:** Hotels surrounded by various businesses, entertainment choices, and F&B facilities are more attractive to corporate travelers. Therefore, many higher budget corporate demands overflowed to SNIEC, Century Park and Lujiazhui area due to the insufficient supply of upper upscale hotels and supporting facilities in Jinqiao and Zhangjiang.



Shanghai New International Expo Centre (SNIEC)



Shanghai National Exhibition and Convention Center (NECC)

MICE Dynamics

MICE

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

Budget

In-house meetings: RMB 400-600 per person per day

Exhibition demand: RMB 600-1,000 per person per day

Size

In-house meetings: 30-300 people;
mainly small to medium meetings

Type

- New employee training
- Midyear/year-end conference
- Symposiums
- Auditing conference
- Product launches/product purchase

Average Length of Stay

In-house meetings: 2 days

Exhibition: 4-10 days

Demand Generators

- Industrial parks and offices in Zhangjiang and Jinqiao area
- Nearby universities/institution/college
- Shanghai New International Expo Centre

Characteristics and trends

In-house meetings

- With the improvement of facilities in industrial parks and office buildings, more and more enterprises choose to hold their meetings in internal or community meeting venues. In such arrangement, hotels are approached only for catering services. Therefore, the in-house meeting demand for hotels in Jinqiao and Zhangjiang area is declining.
- Academic conferences and courses are also a major source of hotel in-house meetings other than corporate meetings, especially from business schools, such as China Europe International Business School and Shanghai Lixin University of Accounting and Finance in Jinqiao area. This demand is stable in recent years.

Exhibition demand

- Since the National Exhibition and Convention Center (Shanghai) opened in 2015, several large-scaled exhibitions have been relocated from SNIEC to NECC. Even though the lapsed exhibition period in SNIEC is replaced by several new exhibitions, but the scales are smaller and the budget of exhibitors are limited. We have also observed a declining demand of high-budget exhibitors and attendees.
- As there are sufficient lodging facilities around SNIEC, MICE demand that spilled over to Jinqiao and Zhangjiang are mainly price sensitive guests. In other words, high-end demand remains in hotels around SNIEC, such as Shanghai Pudong Kerry Hotel and Shanghai Jumeirah Himalayas Hotel.

Leisure FIT & Group Dynamics

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

Leisure Group 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

Leisure FIT: RMB 700-1,000 per room per day

Leisure group: RMB 300-500 per person per day

Average Length of Stay

1-2 days

Characteristics and trends

- In order to attract leisure demand on weekends and holidays, many business hotels sell guestrooms with additional services or admissions to themed parks/museums. In addition, providing transit services such as shuttle buses to airports and popular touristic sites.
- Notably, the price-sensitive leisure groups are not the major demand for ADR driven hotels but a supplementary demand. However, business hotels have strong weekly seasonality and the demand on weekend is weak. Therefore, higher-budget overseas leisure groups are a good demand source during weekends and holidays. Interestingly, Shanghai is always the first or last stop in their itinerary as a transportation hub, while Beijing, Chongqing and Xi'an are other destinations during their stay in China. In addition, leisure groups prefer hotels with lower price points and short distance to and from the airports. The tour groups are mainly from the US, Canada, Europe and Japan, etc.

Others Dynamics

Demand Generators

- Government
- Long stay demand from international enterprises
- Aircrew

Budget

Government: RMB 500 per person per day

Long stay: RMB 500-750 per person per day

Aircrew: RMB 300-500 per person per day

Average Length of Stay

Government: 1 day

Long stay: 7-30 days

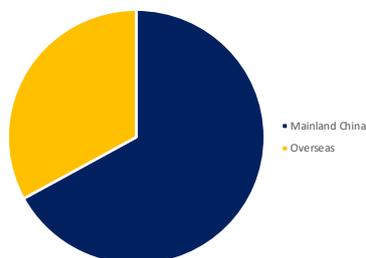
Aircrew: 1 day

Characteristics and trends

- Government demand includes the demand from the government/SOEs and other government related demand, such as invited guests for investment promotional activities.
- Long stay demand is mainly made up of expats at senior management positions or site preopening/project supporting teams. However, guests staying longer than a month normally prefer lodging options such as high-end residential compounds and service apartments, both of which can be easily found in the area.
- The budget of aircrew demand is relatively lower than other demand, but they can contribute a considerable amount of room nights every year. Therefore, aircrew is still an important demand source for some selected hotels.

Nationality Mix

About two-thirds of the visitors are from domestic regions, while the remaining one-third are from international markets and Hong Kong, Macao and Taiwan regions.



The visitors are mainly from the US, Canada, India, Taiwan, Japan, South Korea, France, Israel, Europe and other countries. International branded hotels are more favored by foreign guests because of the guaranteed hotel quality and services.

New Hotel Additions

Over the next few years, the following hotels will enter the market, adding a total of 1,281 hotel rooms to the area. Most of the hotels are set to open before 2024, with a mix of products ranging from midscale to upper upscale. In addition, select-service hotels such as Aloft and Atour, previously non-existent in the local market, will greatly diversify the local supply by providing a value-for-money alternative to the market.

Hotel	Opening / Renovation	Room Count
1 Howard Johnson Wyndham Leonora Plaza Shanghai	Jan 2019	192
2 Aloft Shanghai Zhangjiang Haikē	March 2019	362
3 Atour Shanghai Jinqiao	Oct 2019	127
4 Grand Mecure SNIEC	2020 Q4	200
5 Zhangjiang Science City Hotel	2024	400
Room Count (Avg)	1,281(256)	

F&B Performance Summary

All Day Dining Restaurant

Budget: RMB 58-128 per person (Breakfast), RMB 150-200 per person (lunch and dinner).

- All-day dining restaurants are used mainly as the hotel's breakfast venue. Lunch is usually an a-la-carte menu and dinner is usually a buffet setup. The entry fee for a buffet dinner ranges from RMB 150 to RMB 200.

- The overall seat turnover rate is not high due to the limited number of walk-in guests.

Chinese Restaurant

Budget: RMB 200-250 per person.

- Chinese restaurants mainly serve Shanghaiese and Cantonese dishes.
- The majority of guests are in-house guests. Dining demand from offices nearby and local residents are quite limited. Many hotels offer business lunch sets for surrounding office staff, with prices ranging between RMB 58 to 128.
- During weekends and holidays, hotels in the residential area are able to capture a limited amount of demand from family gatherings and birthday parties.
- Most hotels have around 5-8 private dining rooms with a seat turnover rate of 50 percent, mainly serving corporate dining. While the rapid development in social catering brings impact and pressure to hotel catering, many hotels try to reduce operational risk by outsourcing restaurants and ballrooms.

Local Banquets and Weddings

Wedding Banquet: RMB 5,000-7,000 per table.

- The wedding segment in hotels is underperforming, which is mainly affected by the low marriage rate and the presence of one-stop-shop wedding halls. The pricing of a wedding ceremony at these wedding halls is around RMB 8,000-9,000 per table. The price includes venue rental, lighting and sound arrangement, bridal makeup, wedding dress rental, photography and video recording, etc. The convenience and high value-for-money position made these one-stop-shop wedding halls very competitive.
- Hotels normally hold less than 60 weddings a year, most of which are small with 15-20 tables.
- There are some other banquet types including birthday parties, business receptions, graduation dinners and annual banquets, etc. However, these types of demand are relatively limited.

Specialty Restaurant

Budget: RMB 400-600 per person.

- Specialty restaurants are not common in this market. They are usually Italian, French or Japanese restaurants. These restaurants are generally low in seat turnover rate due to limited demand from the local market.

Factors Affecting Demand Growth

	Factors	Affected Segments
Positive	Steady economic development provides a good foundation for market development. Jinqiao and Zhangjiang both have distinct pillar industries, solid industrial foundations and sustainable economic development potentials. The planning of the Jinqiao and Zhangjiang city sub centers has also enriched the commercial and living infrastructures in these two areas, making the establishment of office buildings and industrial park possible.	Corporate
	Internal and external traffic accessibility enhances the regional appeal. Pudong New District has planned new metro lines such as Lines 14 & 21 as well as a new high-speed train station - Shanghai East Railway Station. This will improve the regional accessibility for corporate and leisure related demand.	All Demand
	The new generation of hotel products is expected to induce more demand. As the hotel market was developed early in the area, the current supply is outdated and homogeneous. In recent years, new supply such as Aloft was quickly absorbed by the market. This shows that consumers of the market have a higher acceptance of new products.	All Demand
Negative Submarkets	The development potential of Jinqiao is relatively limited and demand is becoming increasingly more location specific. The industrial development of this area started from the 1990s and is mainly based on export processing industries. Such economic structure proves to be stable but lacks the potential to develop further. On the other hand, Zhangjiang has a large development area and a sound planning, with a future development focus heading south away from Jinqiao. Thus, we expect the demand from each market will become more location specific in the future.	All Demand
	The MICE demand is declining because of the relocation of large-scale exhibitions and the competition of conference venues from industrial parks and office buildings. The relocation of large-scale exhibitions from SNIEC to NECC results in the loss of high-end lodging demands. More and more industrial parks and office buildings are now equipped with multifunctional conference venues, which became a strong competitor to hotel meeting facilities.	MICE Demand
	Strong weekly seasonality. Corporate demand is strong on weekdays, but leisure FIT and group demand on weekends and holidays are weak. Affected by the weekly seasonality, it is difficult for the hotels to break through such demand patterns.	All Demand



Summary

“Compromising rate for market share” as a response to the market changes.

Due to the Trade War and other macro-economic factors, the overall accommodation budgets of travelers are restrained by most businesses. Hotels, as a result, are sacrificing rate for market share by lowering prices in exchange for occupancy rates.

The main demand segment is corporate business travelers, while the MICE market is relatively weak.

Jinqiao and Zhangjiang areas are not tourist destinations but industrial parks. Therefore, the main source of customers is corporate business travelers. MICE demand, however, has not shown a great growth potential in either area.

Compared with Jinqiao, Zhangjiang’s development potential has obvious advantages.

Zhangjiang will focus on developing two major industry clusters in the future, precisely medical and Internet related industries. Both of which are scientific research heavy and possess great future prospects. On the other hand, Jinqiao is committed to the development of “new intelligent manufacturing” industry, which is still focusing

on manufacturing. Therefore, the potential of the future overall development in Jinqiao is smaller than that of Zhangjiang. Furthermore, we believe even with new hotel supplies penetrating the market in the short term, Zhangjiang’s stronger industrial and economic development will become a good foundation for a stronger, self-sustained hotel market in the future.

Zhangjiang and Jinqiao will each form an independent hotel market with the establishment of sub city centers and the future southbound development of Zhangjiang.

The establishment of Zhangjiang city sub center will further improve the commercial, office, leisure and entertainment infrastructures. Jinqiao and Zhangjiang will form two independent hotel markets. It is expected that the previous corporate demand spill over will gradually return to Zhangjiang in the future.

F&B has lackluster performance, and hotel F&B outsourcing is becoming a trend.

Hotel F&B demand mainly focuses on breakfast. However, banquet demand is relatively limited, with very few wedding and business meeting requests in the local area.

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