



# The HVS INTERNATIONAL Asian Hotel Valuation Index

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*Authors: Erik van Keulen, Managing Director, HVS International Singapore  
Hubert Viriot, Senior Associate, HVS International Singapore*

Every year, HVS International Singapore estimates the hotel values of five-star hotels located in capital cities and resort destinations across Asia using its sophisticated benchmark study, the Hotel Valuation Index (HVI). Operating data for each hotel within a representative sample of hotels selected for each market is aggregated to produce an average performance for the city as a whole. This is used to derive a representative forecast of income and expense for each market, which reflects demand and supply conditions prevailing over the year. A unique discounted cashflow valuation technique developed by HVS International is then applied, using the prevailing market rates of return for each city. In order to make a direct comparison from year to year possible, the sample for each

city has remained the same. As Asian economies started to recover from last year's economic downturn and the negative impact of the 11 September attacks in the US on international demand, tourism movements within the region gradually picked up and the outlook of five-star hotel markets improved. As such, the *HVI 2002* shows that on average, hotel values across Asia increased by approximately 3% compared to a decline of 5% in 2001.

### **Performance in 2002**

Although the number of travellers from European countries and the US remained below levels traditionally experienced in Asia before the September 11 atrocities and the global economic downturn, an improvement in intra-regional

travel stimulated tourism movements within Asia.

In particular, economic growth within the region boosted the volume of intra-regional corporate travel. Although traditionally lower paying and shorter staying than demand from Europe and the US, this trend enabled five-star hotels in most Asian cities to experience an upturn in corporate demand.

On the other hand, the impact of the September 11 attacks on leisure tourism was longer lasting and travel movements within this segment have improved marginally during 2002. In fact, as anti-terrorism investigations revealed several Islamic groups in Asia to be closely linked to Al Qaeda, the risk perception of travelling to this region increased.

Table 1 Five-star International-Standard Hotel Values per Room 1998-02 (US\$)

	1998	1999	% Change	2000	% Change	2001	% Change	2002	% Change
Bangkok	150,000	154,000	3%	167,000	8%	173,000	4%	190,000	10%
Shanghai	202,000	177,000	-12%	196,000	11%	201,000	3%	219,000	9%
Seoul	259,000	310,000	20%	326,000	5%	308,000	-6%	330,000	7%
Hong Kong	383,000	398,000	4%	477,000	20%	441,000	-8%	469,000	6%
Beijing	166,000	140,000	-16%	147,000	5%	151,000	3%	159,000	5%
Tokyo	633,000	683,000	8%	697,000	2%	665,000	-5%	683,000	3%
<b>Average</b>	<b>215,000</b>	<b>223,000</b>	<b>4%</b>	<b>240,000</b>	<b>8%</b>	<b>229,000</b>	<b>-5%</b>	<b>235,000</b>	<b>3%</b>
Kuala Lumpur	74,000	75,000	1%	92,000	23%	90,000	-2%	92,000	2%
Singapore	244,000	256,000	5%	281,000	10%	256,000	-9%	260,000	2%
Taipei	173,000	182,000	5%	184,000	1%	170,000	-8%	165,000	-3%
Manila	127,000	116,000	-9%	97,000	-16%	84,000	-13%	81,000	-4%
Phuket	176,000	202,000	15%	220,000	9%	214,000	-3%	204,000	-5%
Jakarta	70,000	70,000	0%	79,000	13%	74,000	-6%	65,000	-12%
Bali	135,000	141,000	4%	161,000	14%	156,000	-3%	133,000	-15%

Source: HVS International

Although Asian countries' active anti-terrorist efforts should be acknowledged, travellers' perception was affected. The *coup de grace* came on 12 October 2002, when bomb blasts killed at least 187 people at one of Asia's most popular destinations, Bali. As barbarism spread into Asia, numerous countries issued warnings to discourage travel to the region. Subsequently, leisure travel in Asia was negatively impacted.

With corporate demand for hotel accommodation somewhat increasing but leisure demand weakening, five-star hotels' market wide occupancy and rates were impacted differently depending on their location. In many instances, cashflows of city hotels improved, albeit only marginally, whilst cashflows of resort hotels declined.

### **Singapore**

After experiencing its worse economic contraction since 1964 in 2001, Singapore's economy has recorded a positive GDP growth of approximately 2.2% in 2002. Although somewhat limited compared to GDP growth rates recorded prior to 1997, this is a positive sign that

the city-state economy is slowly recovering from the global economic slowdown.

Tourism arrivals to Singapore were significantly affected by the September 2001 terrorist attacks in the US and by the global economic slowdown. Although gradually improving in 2002 along with improved economic prospects, visitor arrivals remained under pressure as several countries issued warnings to avoid travelling to the city-state. These warnings were subsequent to the discovery of terrorism plots in Singapore and, moreover, followed the October bomb blasts in neighbouring Bali.

As such, for the full year 2002, tourist arrivals improved marginally (+ 0.1%) compared to 2001. Subsequently, despite stable supply, five-star hotels' market wide occupancy remained similar to 2001, at approximately 70%. However, with high paying demand from Japan and the US weak and few major exhibitions in the market, average room rates achieved by five-star hotels declined by 6% in 2002 to US\$112. This resulted in RevPAR declining by 6%.

In 2003, Singapore's economy is expected to continue to recover with GDP growth anticipated to increase by approximately 3.5%. At the same time, the political situation is anticipated to remain unchanged with the ruling People's Action Party (PAP) to remain firmly in command and enforcing drastic security measures. Furthermore, as Singapore continues to be an important economic engine and a regional hub, travel warnings are expected to be lifted and tourism arrivals are thus likely to be positively impacted. Consequently, corporate and leisure demand for hotel accommodation is anticipated to increase gradually. With few hotel properties in the pipeline and none likely to enter the market before 2005, five-star hotels' market-wide occupancy and rates are likely to be positively affected.

Although performance of five-star hotels remained under pressure in 2002, outlook has improved sensibly compared to twelve months ago. As such, we estimate hotel values have increased during the last twelve months, albeit marginally.

Table 2 Hotel Valuation Index 1998-02

	1998	1999	2000	2001	2002
Tokyo	294	318	324	309	318
Hong Kong	178	185	222	205	218
Seoul	120	144	152	143	153
Singapore	113	119	131	119	121
<b>Average</b>	<b>100</b>	<b>104</b>	<b>112</b>	<b>107</b>	<b>109</b>
Shanghai	94	82	91	93	102
Phuket	82	94	102	100	95
Bangkok	70	72	78	80	88
Taipei	80	85	86	79	77
Beijing	77	65	68	70	74
Bali	63	66	75	73	62
Kuala Lumpur	34	35	43	42	43
Manila	59	54	45	39	38
Jakarta	33	33	37	34	30

Source: HVS International

## Hong Kong

In 2002, the Hong Kong economy recorded a positive GDP growth of approximately 2.0% compared to 0.2% in 2001. This is representative of a slow recovery of the economy boosted by a weak US dollar (to which the Hong Kong currency is pegged) but slowed by persistent weakness in domestic demand.

Tourism arrivals have recorded exceptional growth in 2002, up 19% compared to 2001 levels. However, growth was driven primarily by arrivals from Mainland China, which creates limited demand for five-star hotel accommodation. As such, demand for five-star hotel accommodation increased only marginally by 4% compared to 2001. Nevertheless, with supply shrinking by 3.2% following to the closure of the Furama Hotel,

five-star hotel market-wide occupancy improved from 64% in 2001 to 69% in 2002. Moreover, market-wide average room rate at five-star hotel increased by 2% at US\$210. This resulted in RevPAR increasing by 6%.

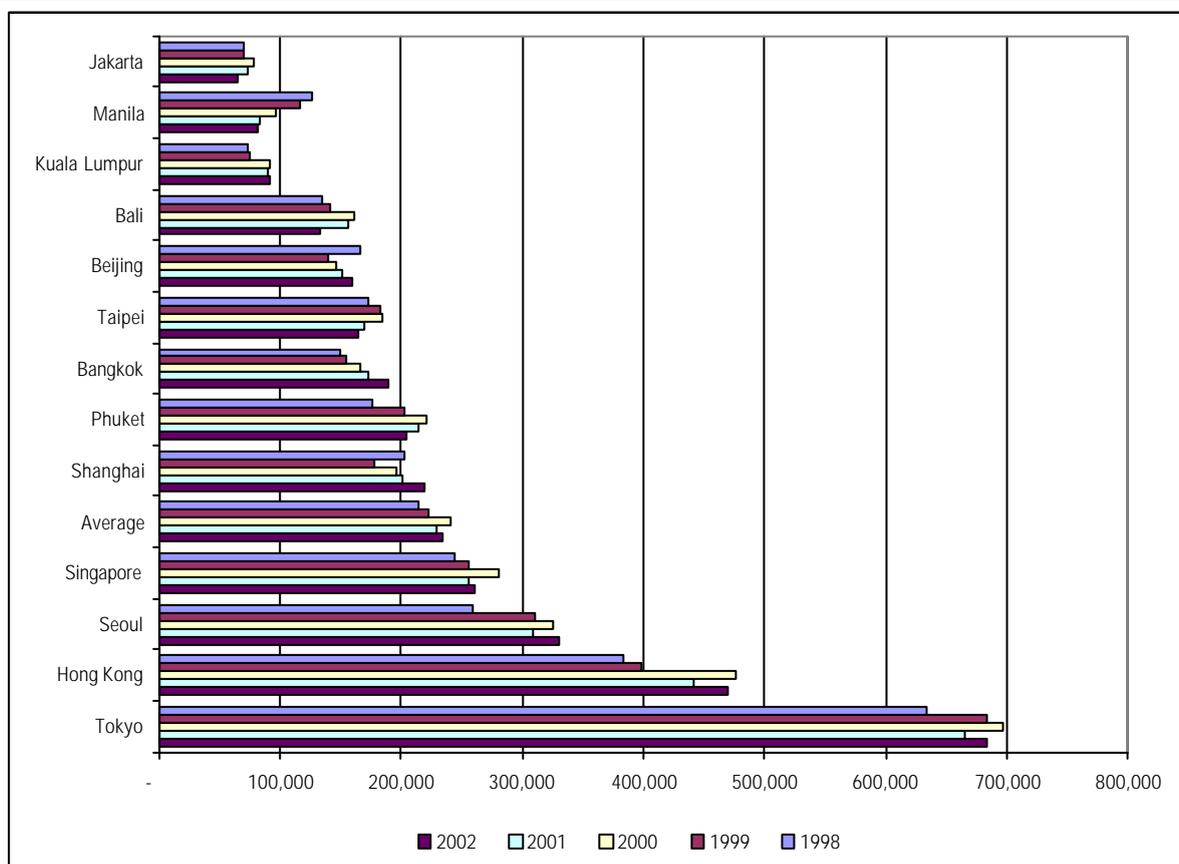
Prospects for 2003 are mitigated. Although the Hong Kong economy has improved, the Special Administrative Region is increasingly facing competition with Shanghai. On a more positive note, Hong Kong is likely to benefit from new infrastructure developments currently under construction including a new financial centre (scheduled to open in 2004), Disney Park (2006) and a new convention and exhibition centre (2006).

Furthermore, plans to link Hong Kong to Macao and Zhuhai with a bridge

connection could help reinforce Hong Kong's ascendancy on the Pearl River delta, China's most dynamic economic region. As such, we anticipate demand for hotel accommodation to increase further in the coming years, thereby affecting positively five-star hotels' market wide occupancy and room rates. However, growth is likely to be constrained by new hotels entering the market including properties such as Four Seasons (2004), Le Meridien (2004) and proposed hotels at the Disney Park to name a few. Competition in the five-star hotel segment is thus likely to intensify.

With five-star hotels' occupancy and room rates improving and a relatively positive outlook, we estimate five-star hotel values have increased by 6% in 2002.

Table 3 Hotel Values per Room 1998-02 (US\$)



## Tokyo

Despite strong growth in exports and interest rates at historic low, the Japanese economy is struggling into its fourth recession in ten years with GDP growth estimated to be -0.7% in 2002.

After a sharp decline post September 11, international arrivals increased by an estimated 9% in 2002. Furthermore, with Japan the co-host of the 2002 Soccer World Cup, both international arrivals and domestic movements were boosted during the year. As such, despite the economic uncertainty, demand for hotel accommodation in Tokyo remained strong. Moreover, with supply increasing marginally with only the 57-room Four Seasons at Marunouchi entering the market, five-star hotels' market wide occupancy remained in line with 2001 levels at approximately 75%. On the other hand, with a higher proportion of lower-paying domestic demand accommodated at hotels, market wide average room rates achieved by five-star hotels declined by 1% at US\$190. This resulted in RevPAR declining marginally by 1%.

Prospects for 2003 are cautious with most economists anticipating GDP to increase by a conservative 0.1%. With the economy forecast to grow marginally, international arrivals are anticipated to continue to increase, albeit at a lower rate than 2002. This is likely to have a positive impact on demand for hotel accommodation, in particular in the corporate segment. At the same time, five-star hotel supply is expected to increase

significantly with the proposed opening of internationally branded hotels such as Grand Hyatt (2003), St. Regis (2005), Mandarin Oriental (2006) and Peninsula (2007) to name a few. As such, with supply likely to outpace demand, five-star hotels market-wide occupancy and rates are anticipated to come under pressure in the medium-term.

With five-star hotels' performance relatively stable but a very competitive outlook in the market, we consider hotel values have increased during the last twelve months, albeit only marginally by 3%.

## Seoul

Boosted by strong domestic demand and a boom in exports, South Korea's economy performed well in 2002 with GDP growth estimated at 5.7%, the highest in the region apart from China.

Tourism arrivals increased by 3% in 2002 to a total of 5.35 million foreign travellers, the largest number ever. This was primarily due to a significant increase in arrivals from Mainland China as well as the 2002 Soccer World Cup. Demand for hotel accommodation was thus positively impacted. However, with demand from Mainland China typically accommodated at lower-star hotels, demand for accommodation five-star hotels increased marginally. As supply remained stable, five-star hotels were thus only able to maintain their occupancy levels in line with 2001 at approximately 75%. On the other hand, thanks to high-paying demand during the 2002 Soccer World Cup, five-star hotels average room rates increased from US\$160 in 2001

to US\$170 in 2002. This resulted in RevPAR increasing by 7%.

In 2003, economic growth is anticipated to slow down marginally with economists forecasting GDP growth at 4.6% due to a decline in domestic demand. At the same time, the political outlook has slightly deteriorated following North Korea's announcement to resume its nuclear-weapons programme. Although the newly elected president Roh Moo-hyun supports his predecessor's "sunshine policy", North Korea's declaration is likely to increase Seoul's risk profile. Furthermore, with no major events in the market in 2003, tourism arrivals are anticipated to grow, albeit at a lower pace than in 2002. Consequently, demand for hotel accommodation is likely to increase marginally. With five-star hotel supply anticipated to increase by 3% in 2003 following the opening of the W Hotel, we anticipate five-star hotels' market wide occupancy to remain in line with 2002. At the same time, we anticipate five-star average room rates are likely to increase only marginally.

With five-star hotels' performance improving over the last twelve months but no major growth anticipated in 2003, we estimate hotel values have increased by 7% in 2002.

## Taipei

Experts estimate Taiwan GDP grew by 3.4% in 2002. Although relatively weak compared to levels enjoyed by the island prior to 1997, this performance was representative of a recovery from last year 1.9% contraction.

With the economy still shivering and on-going tensions with Mainland China, tourism arrivals to Taiwan declined by approximately 2.5% in 2002. With both corporate and leisure demand declining, demand for accommodation at five-star hotels in Taipei declined. With stable supply, this resulted in market wide occupancy declining from 74% in 2001 to 70% in 2002. Furthermore, as hotels offered discounted rates to maintain their market share, market wide average room rate at five-star hotels declined from US\$113 to US\$111 during the same period. This resulted in RevPAR declining by 8%.

Taiwan's economic growth relies on international demand for its manufacturing products. With prospects of war in the Middle East, no major growth in US demand (Taiwan's main trading partner) is expected in 2003. GDP growth for the island is thus anticipated to increase marginally at 3.7%. At the same time, relations between Taiwan and China are anticipated to remain uneasy as Taiwan prepares for its presidential election scheduled for early 2004. On a more positive note, the recent agreement between the two counterparts to operate charter flights between Taipei and Shanghai during Chinese New Year holidays gives hope of a regulation of flights between the two countries, which have been banned since 1949. If so, tourism arrivals could increase significantly. Until then, we anticipate demand for five-star hotel accommodation is likely to increase marginally in 2003. Furthermore, with supply expected to increase following the opening of a Marriott hotel in 2004/5, five-star hotels' market wide occupancy and

room rates are unlikely to improve significantly.

As five-star hotels occupancy and rates declined during the last 12 months and no short-term perspective of a short-term recovery, we estimate hotel values have declined by approximately 3% in 2002.

### **Manila**

By economic standards, 2002 was a good year for the Philippines: low inflation, stable currency and strong exports have led GDP to increase by 4%. However, these encouraging results were overshadowed by political turmoil including corruption scandals and an upsurge in terrorism activities in the country's southern province

Boosted by strong growth in arrivals from China and neighbouring countries, tourism arrivals to the Philippines increased by 7.6% in 2002 to 1.9 million. However, arrivals from feeder markets traditionally generating demand for five-star hotels (i.e. Japan and the US) remained under pressure. As such, demand for five-star hotel accommodation increased marginally overall. With supply stable, five-star hotels were only able to maintain occupancy levels in line with 2001 at 55%. Furthermore, with demand from neighbouring countries and China commanding lower rates compared to US and Japanese demand, average room rates declined by 5% at US\$65. This resulted in RevPAR declining by 5%.

In 2003, the Philippines economic growth is anticipated to remain in line with 2002 levels boosted to by growth in

exports and sustained domestic demand. However, such growth will rely to a great extent on the US economy performance. With the Department of Tourism's aggressive promotion campaign, visitors' arrivals from neighbouring countries, and China in particular, are anticipated to increase further. However, with terrorism threats in Mindanao persisting, arrivals from traditional feeder markets are likely to remain weak. As such, demand for five-star hotel accommodation is unlikely to increase substantially in 2003. Although supply is anticipated to remain stable (most proposed projects have been stalled), we thus consider five-star hotels occupancy is likely to remain in line with 2002. Furthermore, as demand becomes increasingly regional, we anticipate limited growth in average room rates.

With five-star hotels RevPAR declining in 2002 and no significant upside foreseen in 2003, we estimate five-star hotel values in Manila have declined by 4%.

### **Kuala Lumpur**

With strong domestic and government consumption, Malaysia's GDP increased by approximately 4.2% in 2002 despite the slowdown in the global economy.

Tourism arrivals to Malaysia have been negatively impacted ever since the September 11 events as Malaysia is suspected to be home to several Al Qaeda members. As such, in 2002 visitors' arrivals declined by approximately 5.8% compared to the previous year with most key feeder markets recording negative growth except arrivals from the Middle East and South

Asia. As such, demand for hotel accommodation increased only marginally in 2002. Nevertheless, in Kuala Lumpur, with five-star hotel supply declining due to the temporary closures of the Mutiara and Shangri-La hotels, five-star hotels' market wide occupancy increased from 65% in 2001 to 68% in 2002. Market wide average room rate remained stable at approximately US\$57. This resulted in RevPAR increasing by approximately 4%.

Outlook for 2003 is mitigated. Although the economy is anticipated to increase in line with 2002, the political outlook is uncertain following the Prime Minister Dr. Mahathir Mohamad announcement to hand over power to his appointed successor, the deputy prime minister, Abdullah Badawi, in October 2003. With Dr. Mahatir at the helm for more than two decades, the country's outlook after his departure is somewhat uncertain. Nevertheless, with the economy relatively strong and aggressive promotion efforts, visitor arrivals from key feeder markets are anticipated to gradually bounce back. This is likely to have a positive impact on demand for five-star hotel accommodation in Kuala Lumpur. However, with the re-opening of the Mutiara and Shangri-la hotels and the expected opening of the Westin and Crowne Prince hotels in 2003 as well as Le Meridien and Hilton in 2004, supply is anticipated to increase significantly in the short to medium term. As such, we expect five-star hotels market wide occupancy to decline in 2003 whilst average room rates are likely to remain under pressure.

With five-star hotels RevPAR improving in 2002 but limited growth anticipated in 2003 due to a very competitive outlook, we estimate hotel values have increased only marginally during the last twelve months by 2%.

### **Jakarta**

The world's most populous Muslim state, Indonesia has had a difficult position since the terrorism attacks in the US with the government supporting the war on terrorism but radical minorities violently reacting. In October 2002, tensions culminated with a terrorist bomb blast in Bali. Apart from the social traumatism, the impact of this event on the country's fragile economy was significant with investors' risk perception greater than ever.

Tourism was hard hit after the events in Bali with international arrivals to Indonesia plummeting from October onwards. For the full year 2002, visitor arrivals were estimated to have declined by 2.3% compared to 2001. Demand for hotel accommodation was de facto affected. In Jakarta, although five-star hotel supply remained stable due to the temporary closure of the Regent hotel but the opening of the JW Marriott, five-star hotels' market wide occupancy closed at approximately 33% for the full year 2002. At the same time, market wide average room rates declined from US\$80 in 2001 to US\$72 in 2002. This resulted in RevPAR declining by 3%.

Outlook for 2003 is uncertain. The economy is expected to grow at a lower pace than anticipated prior to the Bali events with GDP expected to increase by 4.3%. Foreign

investments are likely to remain low in view of the high risk associated with Indonesia. Moreover, tourism is likely to suffer significantly as tour operators cancelled tours to Indonesia. As such, with corporate and leisure demand likely to decline and supply expected to increase with the re-opening of the Regent hotel, five-star hotels' market wide occupancy and room rates are likely to remain under pressure in 2003.

With five-star hotels occupancy and rates under pressure in 2002 and a high level of uncertainty with regards to 2003, we estimate hotel values have declined by 12% during the last twelve months.

### **Bali**

2002 was a distressed year for the "island of the gods". Twelve months after being hit by the September 11 terrorist attacks in the US, tourism to Bali was further deteriorated following bomb blasts on 12 October 2002. This led many countries to issue warnings to discourage travel to Bali.

On the aftermath of the bomb blasts, tourism arrivals plummeted leading total arrivals for 2002 to end up below 2001 levels. Despite an active anti-terrorism response and strong promotion campaigns, demand for hotel accommodation declined significantly with many hotels virtually empty in the weeks following the bomb blasts. As such, five-star hotels' market wide occupancy declined significantly from 70% in 2001 to 55% in 2002. Furthermore, with promotions offering discounted rates, five-star hotels market wide average room rate

also declined from US\$92 in 2002 to US\$85 in 2001.

Although the impact of the October 12 bomb blasts is likely to last for most of 2003, we anticipate tourism arrivals from neighbouring countries such as Singapore and Hong Kong to recover relatively quickly thanks to aggressive promotion campaigns. At the same time, we anticipate domestic tourism to increase thanks to government incentives. However, traditional five-star hotels' feeder markets such as Europe, Japan and Australia are likely to recover at a slower pace. As such, 2003 visitor arrivals to Bali are likely to remain below traditional levels. Demand for hotel accommodation is likely to be affected especially as average length of stay of regional demand is traditionally lower than long-haul demand from Europe and the US. Although supply is expected to remain relatively stable in 2003, five-star hotels' market wide occupancy and room rates are thus likely to decline further in 2003.

With five-star hotels' performance plummeting during in 2002 and a recovery expected at earliest in the fourth quarter of 2003, we estimate five-star hotel values have declined significantly by 15%.

### **Bangkok**

A combination of low interest rates, easy credit and government's spending spree set the Thai economy growing by more than 4.8% in 2002. Property values, the stock market and consumer confidence all shot up, while private consumption grew robustly.

Although visitor arrivals slowed down in the aftermath of the Bali bomb blasts, tourist arrivals for the full year 2002 increased by 6% compared to 2001 and reached its highest ever number. With corporate travel to Bangkok on the rise, demand for hotel accommodation increased significantly compared to the previous year. During the period, five-star hotel supply increased marginally with the opening of the Sofitel Silom (former Monarch Lee Gardens) but the closure of the Intercontinental Hotel. As such, with strong demand and stable supply, five-star hotels' market wide occupancy increased from 61% in 2001 to 69% in 2002. Furthermore, as demand outpaced supply, five-star hotels were able to increase their average room rates significantly during the period from US\$110 to US\$120. This resulted in RevPAR increasing by 22% in 2002, the highest growth in Asia.

In 2003, Thailand's economic growth is likely to be more challenging. Government consumption has increased public deficit significantly and public debt can only be sustained with strong economic growth. This will be achievable if exports to main trading partners such as Japan and the US can continue to grow. However, prospects of war in the Middle East could limit international demand for Thailand's production and push oil prices dramatically. In this scenario, government spending would decline and interest rates increase. With such uncertainties, most economists forecast Thailand's economic growth to slow down at 3.7% in 2003. As such, growth in corporate travellers is unlikely

to increase significantly. Furthermore, with the recent Bali bombs combined with war prospects, we anticipate growth in leisure travellers to be limited in 2003. Five-star hotel supply is expected to increase significantly in 2003 with 959 rooms in the pipeline including the opening of the Conrad, Westin and Metropolitan hotels. Furthermore, supply is expected to increase even more with proposed hotels due to enter the market in 2004 to 2006 (i.e Sofitel, Siam Paragon). As such, with supply likely to outpace demand, we consider five-star hotels' market wide occupancy and average room rates are likely to come under pressure in the medium-term.

With five-star hotels' occupancy and room rates improving significantly during the last twelve months but limited growth anticipated in the short to medium-term due to a very competitive outlook, we estimate five-star hotel values have increased by 10% in 2002.

### **Phuket**

One of Asia's main resort destinations, Phuket is strongly reliant on international tourism trends. In the first half of 2002, Phuket has benefited from neighbouring countries' economic recovery, which resulted in strong growth in visitor arrivals from these markets. However, in the second half of the year, arrivals to Phuket declined as many countries (including some of Phuket's main feeder markets) issued in the aftermath of the Bali bomb blasts warnings to discourage travel in Asian countries.

Demand for hotel accommodation followed the

same trend with strong growth in the first half and a decline from October onwards. During the same period, five star supply increased significantly with the opening of the JW Marriott and the repositioning of the Evason (former Phuket Island Resort) within the five-star segment. As such, with supply outpacing demand, five-star hotels' market wide occupancy declined from 65% in 2001 to 60% in 2002. Furthermore, with high paying demand from Europe and Japan declining in the last quarter of the year, five-star hotels' market-wide room rate declined by 6% to US\$130. With both occupancy and room rates declining, RevPAR achieved by five-star hotels declined by 13%.

Nevertheless, the outlook for Phuket remains positive. As Thailand took drastic security measures after October 2002, most travel warnings from European feeder markets have already been or are anticipated to be lifted in the short-term. Arrivals from this part of the world are thus likely to gradually pick up. Furthermore, as neighbouring countries continue their economic recovery, tourist arrivals from the region are likely to increase. Demand for hotel accommodation is thus likely to be positively impacted. With only one five-star hotel expected to enter the market in 2003, the 36-room Trisara, supply is expected to remain stable. As demand recovers and supply marginally increases, we anticipate five-star hotels occupancy to increase. However, room rates are likely to increase at a lower pace as demand from high paying feeder markets recover slower than regional demand.

With five-star hotels' market wide occupancy and rates declining and a relatively uncertain outlook, we estimate five-star hotels' values have declined by 5% compared to 2001.

### *Shanghai*

Supported by public investment and external demand growth, China's economy grew by a strong 8% during its first year in the WTO. Furthermore, boosted by foreign investment and robust industrial growth, Shanghai economy has outperformed the national average growing at more than 10% in 2002.

Tourism to Shanghai has also increased significantly as the city develops into an international business centre as well as a major attraction in China. Tourism is also boosted by new regulations permitting foreign tourism agencies to set up joint ventures. As such, with both the number of corporate travellers and leisure travellers increasing, demand for hotel accommodation was positively impacted. Furthermore, despite strong growth in supply, including the opening of the Four Seasons and Westin hotels, five-star hotels market wide occupancy increased from 66% in 2001 to 71% in 2002. At the same time, with ever growing corporate demand and an improving hotel inventory including additional five-star deluxe hotels, market wide average room rate also increased by 3% to US\$118. As both occupancy and average room rates increased, RevPAR achieved by five-star hotels improved by a strong 10%.

Shanghai's outlook is excellent with the economic growth

forecast to maintain with historic levels. Furthermore numerous projects are anticipated to boost tourism in the next few years including the development of Pudong International Airport into a regional hub, the opening of China's first Formula 1 Grand Prix circuit in 2004, proposed Universal Studios and in the longer run the organisation of the World Expo in 2010. As such, both corporate and leisure travellers' arrivals are anticipated to increase significantly. Demand for hotel accommodation is thus likely to increase in the short-, medium- and long-term. At the same time, five-star hotel supply is also expected to increase significantly. In 2003, the JW Marriott is anticipated to open whilst numerous other hotels are expected to enter the market thereafter including, to name a few, a new Shangri-La in Puxi and proposed hotels at Xin Tian Di, Da Zong Li and within Lujiazui financial district. As such, with supply increasing in line with demand, five-star hotels' market wide occupancy is unlikely to increase significantly in the short-term. Similarly, with incoming competition in the market, average room rate growth is likely to remain relatively restricted.

Five-star hotels enjoyed a strong growth in RevPAR during the last twelve months. With demand likely to remain exceptionally strong, outlook is positive despite the anticipated growth in supply in the short- and medium-term. As such, we estimate five-star hotel values increased by 9% compared to last year.

## Beijing

As Beijing prepares for the 2008 Olympic games, China's capital city economic activity has been catching up with more westernised Shanghai. As such, driven by mass projects in infrastructures and in the high tech industry, Beijing's economy outperformed the national average with growth estimated at nearly 10% in 2002.

Tourism arrivals have benefited from this buoyant activity with arrivals of both corporate and leisure travellers increasing. Demand for hotel accommodation was thus positively impacted. As such, with supply increasing marginally, five-star hotels' market wide occupancy increased from 61% in 2001 to 66% in 2002 whilst average room rates remained in line with 2001 levels at US\$ 82. This resulted in five-star hotels' RevPAR increasing by 5%.

Beijing's economic growth is likely to continue outperforming national

averages in the short-, medium- and long-term. Tourism is likely to grow significantly with numerous tourism projects planned, including in addition to the 2008 Olympic games, a huge East-West theme park likely to be managed by Universal Studios and a new airport terminal. Demand for hotel accommodation is thus likely to increase significantly in the short-, medium- and long-term. At the same time, five-star hotel supply is also expected to increase significantly. Five-star hotels due to enter the market in 2003 include the Marriott and Renaissance. Furthermore, numerous other projects have been proposed including, to name a few, Regent (2004), a second Marco Polo (2004), China World Trade Centre Tower III (2005), Park Hyatt (2006) and Inter-continental (2006). As such, with supply increasing in line with demand, five-star hotels' market wide occupancy is unlikely to increase significantly in the short-term. Similarly, with incoming competition in the

market, average room rate growth is likely to remain relatively restricted.

Five-star hotels enjoyed a strong growth in RevPAR during the last twelve months. Despite the anticipated growth in supply, outlook is positive with demand likely to remain exceptionally strong. As such, we estimate five-star hotel values increased by 7% over the last 12 months.

### Conclusions – Outlook for 2003

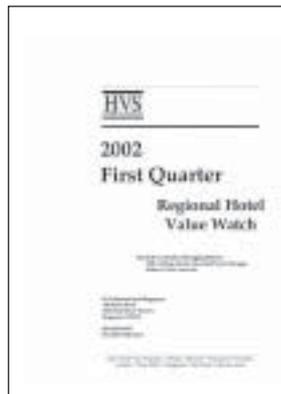
Outlook for 2003 remains uncertain. Although most Asian economies are expected to continue their recovery, growth could be restricted if prospects of war in the Middle East materialize. As such, although Asian hotel markets have generally improved compared to 2001, many potential hotel investors are likely to adopt, yet again, a "wait and see" attitude until the situation in the Middle East abates.

--- End ---

Table 4 Market Outlook – 2003

Market	Hotel Cashflows	Hotel Supply	Tourism Arrivals	Economic Outlook	Political Outlook	Assumed Risk Perception
Bali	→	→	↘	↘	↘	↗
Bangkok	↗	↗	↗	↗	↗	↘
Beijing	↗	↑	↑	↑	↑	↘
Hong Kong	↗	↗	↗	↗	→	→
Jakarta	→	↗	↘	↘	↘	↗
Kuala Lumpur	→	↑	↗	→	↘	→
Manila	→	→	↗	↗	→	↗
Phuket	→	↗	↗	↗	↗	→
Seoul	↗	↗	↗	↗	↘	↘
Shanghai	↗	↑	↑	↑	↑	↘
Singapore	↗	→	↗	↗	→	→
Taipei	→	→	↗	↗	→	↗
Tokyo	↗	↑	↗	→	→	→

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### New Delhi

C-67, Anand Niketan, 2nd Floor  
New Delhi, India 110021  
91-11-2410-1005  
91-11-2410-1066 fax

### Hong Kong

183 Jade Villa  
Nagu Liu, Chuk Yeung Road  
Saikung, Hong Kong  
852-2791-5868  
852-2792-2358 fax

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44-20-7436-3386 fax

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Madrid, Spain 28046

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516-742-3059 fax

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Ste. 620  
San Francisco, CA 94105  
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415-896-0516 fax

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Ste. 216  
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305-378-4484 fax

### Denver

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Boulder, CO 80302  
303-443-3933  
303-443-4186 fax

### Dallas

Suite 101  
2601 Sagebrush Drive  
Flower Mound, TX 75028  
972-410-2002  
972-899-1022 fax

### Vancouver

4235 Prospect Road  
N. Vancouver, British Columbia  
Canada V7N 3L6  
604-988-9743  
604-988-4625 fax

### Toronto

2120 Queen Street East  
Ste. 202, Toronto, Ontario  
Canada M4E 1E2  
416-686-2260  
416-686-2264 fax

### São Paulo

Av. Brig. Faria Lima, 1912cj. 7F  
01452-001 São Paulo/SP, Brasil  
55-11-3034-1091  
55-11-3034-6364 fax

### Buenos Aires

Reconquista 1056 - 10° Piso  
(1003) - Buenos Aires, Argentina  
54-11-4515-1461  
54-11-4515-1462 fax

## ABOUT THE AUTHORS:



Erik van Keulen, MHM, Managing Director HVS International Singapore, joined HVS International in 1996 and has since worked on hospitality related projects around the world including Asia, Europe, Africa and the Middle East. Prior to joining HVS International in 1996, Erik gained operational hotel experience with Marriott International, Accor and Holiday Inn. Through his monthly column, Erik is a regular contributor to Hotel Asia Pacific, Asia's leading hotel trade magazine. [evankeulen@hvsinternational.com.sg](mailto:evankeulen@hvsinternational.com.sg)



Kiran Andicot has recently joined HVS International's New Delhi office as a Consulting and Valuation Analyst. Kiran has seven years experience in the hospitality industry. He has worked as Accommodations Manager with the Taj Group of Hotels, based at Taj Exotica in Goa. Prior to the Taj, Kiran has worked with the Oberoi Group of Hotels in different management positions. His experience includes working at The Oberoi in Bangalore, The Trident in Cochin and Rajvillas in Jaipur. Kiran holds a Post Graduate Diploma from the Oberoi Centre for Learning and Development (OCLD) in Delhi and a Diploma in Hotel Management from the National Council for Hotel Management and Catering Technology. [kandicot@hvsinternational.com](mailto:kandicot@hvsinternational.com)



Phil Golding is an Associate Director with HVS International Singapore. Phil joined HVS London in 1999, after gaining hotel consulting experience and graduating from the Savoy Group's management-training programme. Phil is a member of the HCIMA and BAHA. Phil has conducted numerous hotel feasibility studies and valuations throughout the Europe, Southeast Asia, and Australia. [pgolding@hvsinternational.com.sg](mailto:pgolding@hvsinternational.com.sg)



AiYi Lim joined HVS International Singapore as an Associate in February 2003, after completing her MBA in University of Hawaii at Manoa. Prior to that, she completed her undergraduate program in Hotel and Restaurant Management at Oxford Brookes University, UK and Hotel Cesar Ritz, Switzerland. Before joining HVS, she has gained operational hotel experience with Shangri-la Group and Fultonex Group in China, Singapore and New York, respectively. [aylim@hvsinternational.com.sg](mailto:aylim@hvsinternational.com.sg)



Hubert Viriot is a Senior Associate with HVS International Singapore, specialising in hotel valuation and consulting. A graduate of the Glion Hotel School (1998) in Switzerland, Hubert joined HVS International in March 2001, after gaining operating experience throughout Asia with the Peninsula Group, Hyatt International and Accor. [hvrirot@hvsinternational.com.sg](mailto:hviriot@hvsinternational.com.sg)



Manav Thadani joined HVS International's New York office as a Consultant and Valuation Analyst in September 1995. Prior to joining HVS, he gained six years of operational experience in various hotels in New York City as well as completing his undergraduate and graduate education at New York University. He moved to the London office in early 1997 from where he planned the opening of HVS International's first Asian representative office in India. He was appointed Associate Director (India) in mid-1997 and the office in New Delhi was established in September of 1997. In 2000, he was promoted as Managing Director of the HVS International New Delhi office. [mthadani@hvsinternational.com](mailto:mthadani@hvsinternational.com)



Mark Keith is Managing Director of HVS Executive Search in Hong Kong and oversees search assignments throughout South East Asia, Australia and the Pacific. Mr Keith has over twenty five years of experience in international human resource management and prior to joining HVS he headed up the human resource function for a luxury hotel group in Hong Kong. Mr Keith is a recognised authority on recruitment and selection, psychometric assessment, international compensation, training and development and cross-cultural management. For the past twenty years he has lived in Hong Kong, working within Asia and the USA. He has a Master of Science degree from the University of Leicester and has also lived and worked in Africa, Europe and the Middle East. [mkeith@hvsinternational.com](mailto:mkeith@hvsinternational.com)

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Erik van Keulen  
100 Beach Road, #28-10/13 Shaw Towers  
Singapore 189702  
65-6293-4415/65-6293-5426 fax

Manav Thandani  
C-67, Anand Niketan, 2nd Floor  
New Dehli, 110021 India  
91-11-410-1005/91-11-410-1066 fax

Mark Keith  
183 Jade Villa  
Ngau Liu, Chuk Yeung Road  
Saikung, Hong Kong  
11-852-2791-5868/11-852-2792-2358 fax