OCT 2014 | PRICE US$750

IN FOCUS:

SHENZHEN, P.R.CHINA

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Source: HVS

This market snapshot is part of a series of articles that HVS produces on key hotel sectors across Asia. In these articles, we combine the expertise of HVS with STR Global data for each market. Our analysis is based on data for a sample of 398 mainly branded properties as provided by STR Global.

Highlights

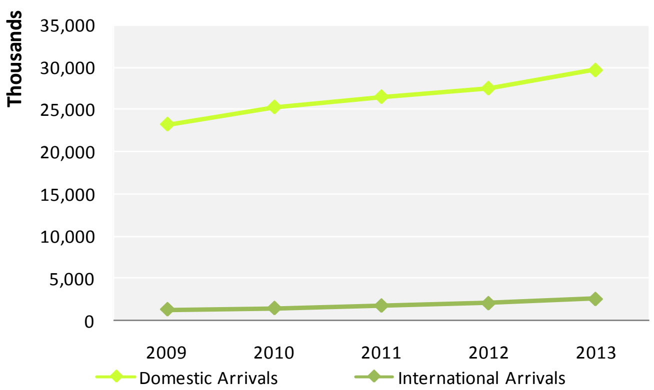
Shenzhen is a coastal city located in the south of Guangdong province. It is a deputy provincial city with a population of 10.54 million. Shenzhen is one of the four first-tier cities in China, as well as a national high-tech R&D and manufacturing base. The city is also a national foreign trade port, featuring the country's largest ports of entry on its boundary. Therefore, Shenzhen has become a popular access point and destination for domestic and foreign tourists, business professionals and Meetings, Incentives, Conventions and Exhibitions (MICE) alike, helping to accelerate the hospitality industry's growth in this region.

Hotel Demand Patterns

Airport Demand

Shenzhen Bao'an International Airport opened for civil aviation in 1991 and became an international airport in 1993. As the fifth-largest national airport in the country, Shenzhen airport is serviced by 107 international and domestic airlines, which fly to more than 80 domestic and international destinations. Ground access is provided by the Guangzhou-Shenzhen highway, Jihe Expressway and 107 National Highway, connecting to Hong Kong, Macau, Guangzhou, Dongguan, Huizhou, Zhongshan and Zhuhai. Also, the airport has berthing places at the passenger and freight terminals, providing hydrofoil service to Hong Kong, Macau and Zhuhai. On 28 November 2013, Shenzhen airport's new Terminal 3 officially opened, with an area of 451,000 square meters. Embodying the 'green building' concept, Terminal 3 is now considered the landmark building for energy saving and environmental protection in Shenzhen.

CHART 1: DOMESTIC AND INTERNATIONAL PASSENGER TRAFFIC 2009-13



Source: Shenzhen Tourism Bureau

Together with the Qianhai Master Plan, there are plans to build a 'Western Fast Track' between Shenzhen airport and Hong Kong International Airport with one stop in Qianhai. By the time Qianhai is developed, travel time between the two airports will be less than 20 minutes, which will ensure an increase in visitor arrivals to Shenzhen.

Tourism Demand

As a tourist destination, Shenzhen has obvious advantages due to its geographical proximity to Hong Kong. Visitor arrivals to Shenzhen has grown at a compounded annual growth rate (CAGR) of **10%,** from around 19.43 million in 2004 to 45.67 million in 2013, recording **10.1%** YOY growth over 2012.

CHART 2: ARRIVALS IN SHENZHEN 2004-13

Year	Domestic	% Change	International	% Change	Total	% Change
2004	13,831	36.4%	5,598	28.6%	19,429	34.1%
2005	15,264	10.4%	6,165	10.1%	21,428	10.3%
2006	16,045	5.1%	7,127	15.6%	23,173	8.1%
2007	17,290	7.8%	8,313	16.6%	25,603	10.5%
2008	17,897	3.5%	8,696	4.6%	26,593	3.9%
2009	19,440	8.6%	8,964	3.1%	28,403	6.8%
2010	22,647	16.5%	10,206	13.9%	32,853	15.7%
2011	28,280	24.9%	11,046	8.2%	39,325	19.7%
2012	29,413	4.0%	12,064	9.2%	41,477	5.5%
2013	33,519	14.0%	12,149	0.7%	45,668	10.1%
*CAGR 2004-13		10.3%		9.0%		10.0%

Compounding Annual Growth Rate
Unit: Thousand
Source: Shenzhen Statistics Bureau

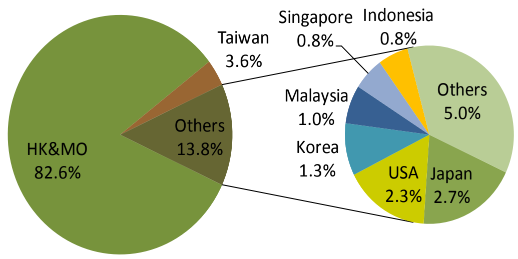
The pace of growth in visitor arrivals was slower in the years 2008, 2009 and 2012. In 2008, Shenzhen suffered from its severest cold wave in a century, resulting in dense fog and heavy rainfall over the city. The global financial crisis in 2009 as well as the eight provisions issued for government officers in 2012, also had an adverse impact on growth.

Domestic visitor arrivals registered a steady growth of **14%** in 2013 due to the gradual recovery of the national economy. However, **international overnight visitor arrivals** only grew by **0.7%** mainly because of the deterioration of Sino-Japanese relations. Additionally, by virtue of Japan being the top foreign feeder market for Shenzhen, the withdrawal of some Japanese companies from the city had a significant adverse effect on international overnight visitor arrivals to Shenzhen.

As a result of the stable domestic economic growth and a positive holiday effect in mainland China, domestic tourism in Shenzhen is projected to continue to rise in 2014. However, the demonstrations in Hong Kong will significantly reduce the number of mainland tourists passing through Shenzhen to Hong Kong on leisure, shopping trips or air transit. The High-end Private Tourism Trade Fair, the International Pharmaceutical Industry Exhibition, and the 2014 Asian International Golf Expo to be held in the second half of 2014 in Shenzhen will help to support the city's tourism market. Furthermore, with movement within the city anticipated to further improve (the Shenzhen Metro will have ten lines in 2016), Shenzhen is expected to attract more tourists.

Chart 3 illustrates that the number of arrivals from Hong Kong, Macau and Taiwan to Shenzhen accounted for **86.2%** of total international arrivals in 2013. Currently, the Hong Kong, Macau and Taiwan markets are rising rather slowly or even declining slightly, as Shenzhen only has limited cultural or scenic sites that appeal to the respective markets.

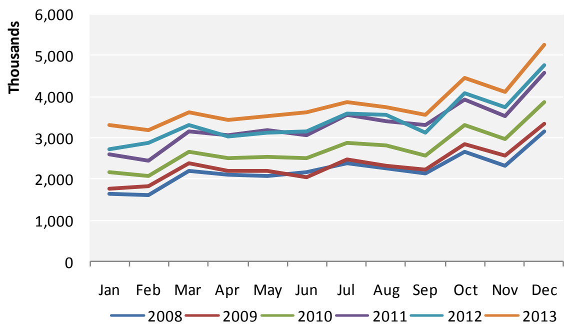
CHART 3: SOURCE MARKETS 2013



Source: Shenzhen Statistics Bureau

The largest overseas **source market** for Shenzhen is **Japan**, which represented **2.7%** of the total international arrivals to the city (including Hong Kong, Macau and Taiwan) in 2013. The reason being, most of Japan's well-known companies, such as Sumitomo Electric, Hitachi, Sanyo Electric, Fuji Xerox, Canon and EPSON, have production units in Shenzhen. Hence, there is a large amount of business travel as well as visits to family and friends. In addition, since 2005, charter flights have been operating from Hokkaido and Aomori to Shenzhen, as the latter has pleasant winter weather and has thus become an attractive golf destination for the Japanese. The USA is the second major international source market for Shenzhen, owing to the hundreds of US companies registered in the city and the abundant visitation from the country during the China International Medical Equipment Fair (Spring) and the International Pharmaceutical Industry Exhibition & Seminar every year. The other major source markets for the city are: South Korea, which contributed 1.3% to total international visitor arrivals in 2013, as well as Malaysia and Singapore, which respectively contributed 1.0% and 0.8% in the same year.

CHART 4: SEASONALITY OF ARRIVALS TO SHENZHEN 2008-13



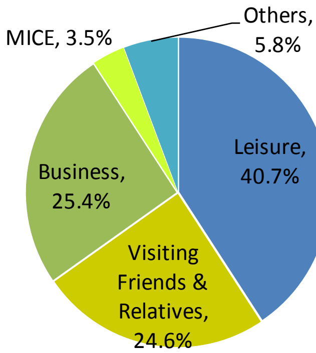
Source: Shenzhen Tourism Bureau

Chart 4 shows the **seasonality** of visitor arrivals to Shenzhen from 2008 to 2013. Summer school holidays and the Golden Week in October are the high seasons for tourism in Shenzhen, due to its pleasant weather and stunning coastline. December is the annual peak month, as shoppers from the mainland flock to Hong Kong via Shenzhen for the discount season.

Business visitation is relatively stable throughout the year. September until the Spring Festival is the high season for business and MICE travel, besides the peak months of March and October, on the back of several international exhibitions held in Shenzhen.

According to the Shenzhen Tourism Bureau, the largest **segment of visitor arrivals** to Shenzhen is Leisure tours, followed by Business travel. Leisure visitors are mainly from Guangdong and neighbouring provinces who visit Shenzhen by self-driving or by taking the high-speed rail during weekends and holidays. On the other hand, due to the increasing number of foreign institutions and foreign investment in Shenzhen, the Business Travel segment is growing rapidly. Consequently, a large number of foreign tourists also visit their family and friends working in Shenzhen.

CHART 5: PURPOSE OF VISIT 2013



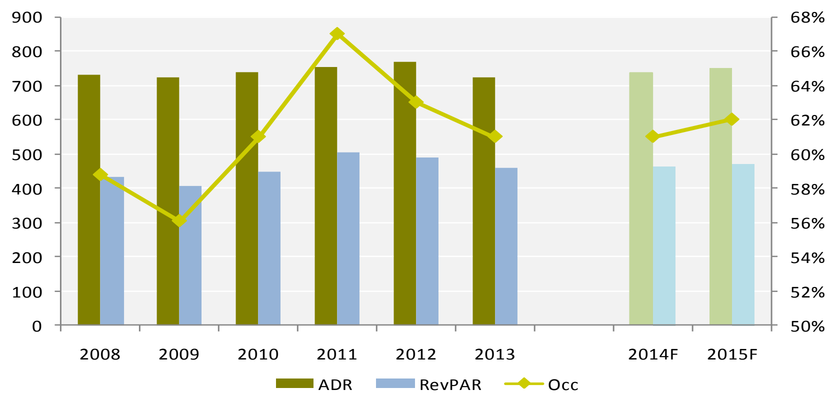
Source: Shenzhen Tourism Bureau

In addition to Beijing and Shanghai, Shenzhen has emerged as a major host-city for large exhibitions. The city boasts a modern, high-tech Convention and Exhibition Center, as well as a diverse range of hotels nearby and entertainment, sightseeing and other activities supporting the MICE industry.

Hotel Performance

Five-star hotel occupancy in Shenzhen declined from **67%** in 2011 to **61%** in 2013, owing to the Universiade event held in the city in 2011 and the negative impact of the government policy enforcing spending restrictions on travel. Moreover, hotel supply growth is expected to continue in 2014, as two five-star hotels will open with a total inventory of **718** rooms. The five-star hotel market in Shenzhen will thus face slower increases in occupancy levels in the coming years.

CHART 6: UPSCALE HOTEL MARKET PERFORMANCE 2008-15F (¥)



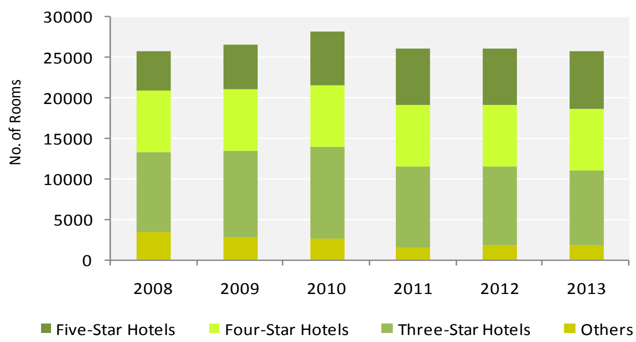
Source: HVS Research

Similarly, the average rate for five-star hotels decreased from **RMB767** in 2012 to **RMB722** in 2013. The development in Qianhai, Shenzhen Bay, Dapeng Bay and Daya Bay will be strong induced demand generators to attract more high-end business and MICE segments. Additionally, these proposed five-star hotels will contribute to drive the average rate in the market once they open. We expect average rates to grow modestly to **RMB750** in 2015.

Supply

Only star-rated hotels recognised by the China National Tourism Administration (CNTA) are captured in the annual statistics. Also, the newly opened hotels can apply for star rating only after one year from opening, which explains why the number of **five-star hotels** in Shenzhen did not change between 2011 and 2013. In fact, two five-star hotels opened in 2013: Four Seasons Hotel with **266** rooms and Hilton Shenzhen Shekou Nanhai (the first Hilton hotel in the city) with **323** rooms. Although, five-star hotel supply growth has moderated currently, its pace remains healthy.

CHART 7: HOTEL ROOM SUPPLY 2008-13



Source: Shenzhen Statistics Bureau

As shown in Chart 7, the number of hotel rooms in one and two-star hotels have decreased each year from 2008 to 2013, while higher-starred hotel room inventory increased in the same period. The structure of the Shenzhen hotel market is upgrading and optimising, and achieving remarkable results in attracting foreign investment and world famous five-star hotel brands. By 2013, five-star hotels accounted for **12.5%** of the total hotel room inventory in the city with **7,014** rooms.

New Supply

Hotel supply growth is expected to continue in 2014. The current year saw the opening of the 213-room Hilton Garden Inn Shenzhen Bao'an, the first Hilton Garden Inn Hotel in China. In May, the 144-room Hyatt Place Shenzhen Dongmen opened, marking the debut of the Hyatt Place brand in Asia-Pacific and in the China market. Consequently, both the Bao'an district and Luohu Dongmen area, which historically had no internationally branded hotels, are now better equipped to cater to the rising demand for hotel accommodation in these areas going forward.

Based on our research, in conjunction with the development in Qianhai and Dapeng area, we expect that the number of five-star hotel rooms in Shenzhen will be over **11,000** in 2019.

CHART 8: RECENT HOTEL OPENINGS AND DEVELOPMENTS

Anticipated Opening	Proposed Hotel	Location	No. of Rooms (Est.)
2014	Hilton Garden Inn Shenzhen Baoan	District Centre	213
	Hyatt Place Shenzhen Dongmen	District Centre	144
	Hilton Shenzhen Futian	District CBD	365
	OCT JW Marriott Shenzhen Baoan	District Centre	353
2015	Marriott Great Wall Centre Shenzhen	District Centre	180
	Marriott Jinsha Bay Shenzhen	Coastal	320
	Marriott Zhengshun Shenzhen	District CBD	220
2016	Aloft Shenzhen Longgang	District Centre	180
	Renaissance Shenzhen Bay	Technology Park	319
	Courtyard Shenzhen Bay	Technology Park	240
	Renaissance Shenzhen Longgang	District Centre	260
2017	Mandarin Oriental Shenzhen	District Centre	190
	Hyatt Regency Shenzhen Yatian	District Centre	299
2018	Solis Shenzhen	District Centre	204
2019	Park Hyatt Shenzhen	District CBD	200
Total Proposed Room Supply (Indicative)			3,687

Source: HVS Research

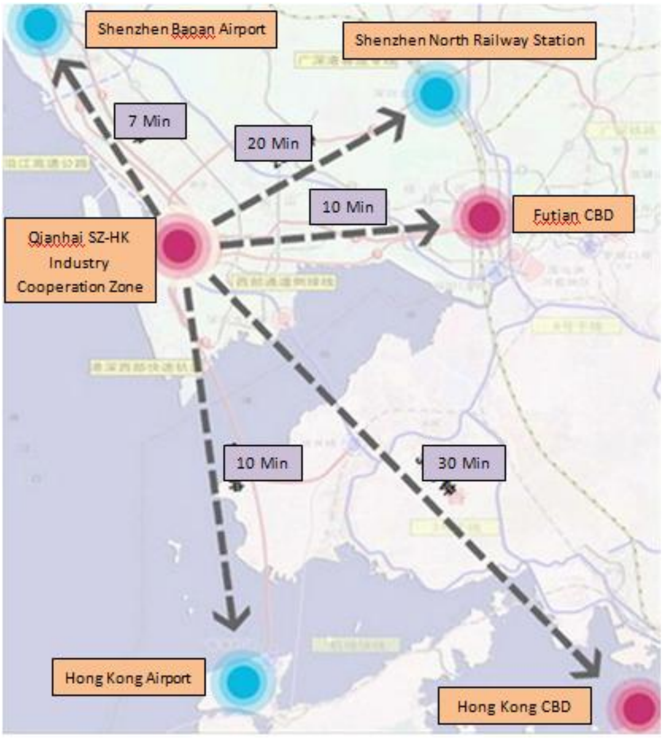
Qianhai

The **Qianhai Shenzhen-Hong Kong Industry Cooperation Zone** is located in the west of the Nanshan peninsula in Shenzhen, covering the western part of Nantou Peninsula and Bao'an central district. It has a land area of about 15 square kilometers, which has been under planning and construction since 2010.

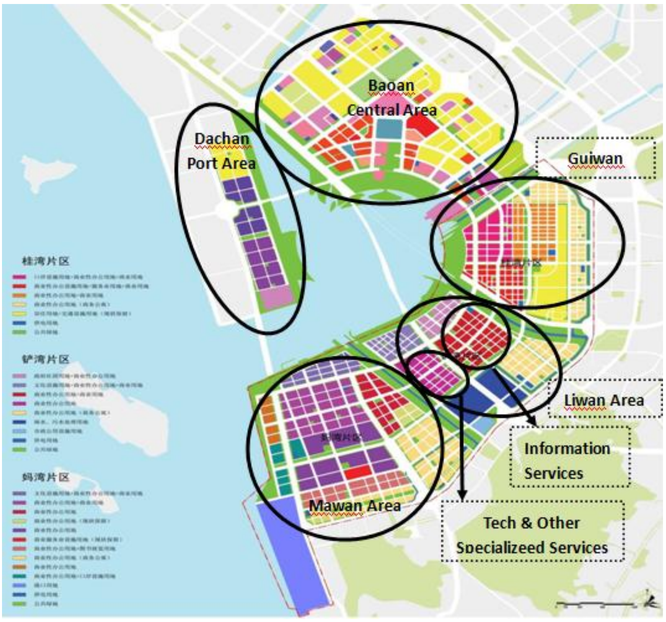
Qianhai is located close to two major airports – Hong Kong International Airport and Shenzhen Airport. Travelers will be able to access these airports from Qianhai within 10 minutes by train in the near future; in addition, Central in Hong Kong can be reached within half an hour. Furthermore, the following will closely link the Qianhai area with the Pearl River Delta (PRD): the Xiamen-Shenzhen railway and the Airport-Heao, Longgang District highway near Qianhai, along the Guangzhou-Shenzhen expressway; the Huizhou-Dongguan-Shenzhen intercity lines; the Western express line; and Metro Lines 1, 5 and 11.

The Qianhai Shenzhen-Hong Kong Industry Cooperation Zone is positioned as the 'Manhattan' of the whole PRD. The planning of the Qianhai Zone will focus on developing a high-end service industry, the headquarters economy and a regional centre, as well as on deepening cooperation between Shenzhen and Hong Kong. The whole area is anticipated to be fully developed by 2020.

ACCESSIBILITY OF QIANHAI



AREAS OF QIANHAI

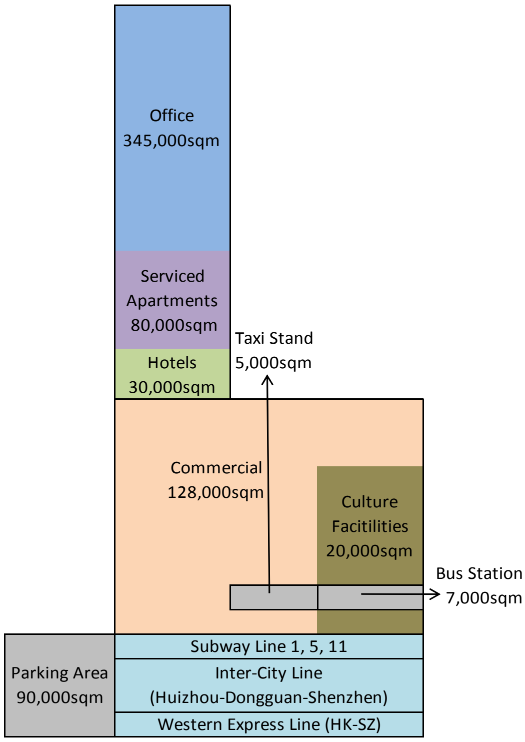


The **Guiwan area** is a business center area with a total construction area of about 9 million square meters, focusing on the development of modern service industries such as financial, information, trade, accounting and legal services. This area is positioned as a core area to showcase the city's image in order to attract more companies to establish their corporate headquarters in the area. The **Liwan area,** which covers 5.8 million square meters, is a comprehensive development area. Developments in this location will mainly focus on technology and information services and other producer services. Meanwhile, in the **Mawan area,** the spotlight will be on developing a modern logistics industry, creating a bonded port zone that will process regional production hub goods, and establishing a centre of international supply chain management, covering 10.6 million square meters.

Following the development of intercity and metro lines, the Qianhai Shenzhen-Hong Kong Industry Cooperation Zone will feature high-rise buildings anchored by offices, while planning to attract world-class hotels of a size of about **30,000** square meters. The lower space will be designed as large commercial facilities with transportation access.

In September 2014, the Qianhai Authority sent a delegation to the United Arab Emirates (UAE), Indonesia and Singapore in order to enhance economic and trade cooperation among the ASEAN, South Asian and Middle Eastern countries. The visit promoted cooperation between The UAE Holdings Group and China M&A Guild in the 'M & A Trading Center' project. The centre is expected to become the world's first property rights trading centre for mergers and acquisitions, and will provide a long-term and professional service platform for domestic enterprises. The platform is expected to form a fund size of at least US$50 billion from 50-100 domestic and international buyout funds, sovereign funds and funds-of-funds.

TYPICAL MIXED-USE DEVELOPMENT IN QIANHAI



Source: Authority of Qianhai

So far, the Qianhai Shenzhen-Hong Kong Industry Cooperation Zone has completed investment in fixed assets of **RMB4.93 billion**, an increase of **3.7 times** YOY. By August 2014, a total of **11,645** companies were registered in Qianhai with a total capital of RMB638.9 billion. There were **273** foreign-invested enterprises that registered in Qianhai from January to July 2014, contracing foreign investment of USD3.69 billion and accounting for 68.95% of overall foreign investment in Shenzhen. To date, Qianhai has registered **464** foreign-invested enterprises with a total contracted foreign investment of USD7.06 billion.

It is anticipated that local gross domestic product (GDP) will reach **RMB50 billion** in 2015. In 2016–2020, the Qianhai Shenzhen-Hong Kong Industry Cooperation Zone will complete building infrastructure to support a world-class, modern service industry cooperation zone. The development is expected to be a vital services centre in Asia-Pacific and an important base for world trade in services industry. The Qianhai area government projects a GDP of **RMB150 billion** in 2020.

The development of Qianhai is expected to bring more business and MICE travellers to the Shenzhen market.

Outlook

The sixth meeting of the Fifth National People's Congress of Shenzhen City 2014 first proposed the concept of a 'Bay Area economy' in the government work report, including the development of industrial clusters in **Qianhai** (service industries such as financial, information and technology, and modern logistics), **Shenzhen Bay** (high-tech industrial parks), **Dapeng Bay** (Marine Ecological Economic Zone and world-class eco-tourism resort) and **Daya Bay** (energy base). The report forecast that growth in the tourism and hotel industry in **Qianhai** and **Shenzhen Bay** will be primarily in business and MICE segments, whereas growth will be driven by sightseeing and leisure travel in Dapeng Bay.

In tandem with improvements in urban roadways, highways and high-speed rail in the PRD, the core **Leisure** source market will continue to grow. In the medium-to-long term, **international visitor arrivals** could potentially increase as Shenzhen develops and markets itself as a coastal resort city; the expansion of the city's airport and addition of international flight routes could also fuel visitor arrivals growth.

In the near future, due to an increase in supply, Shenzhen's hotel market is expected to experience a drop in occupancy. On the other hand, the average rate is projected to increase owing to the relatively higher quality of new supply entering the five-star market.

About HVS

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The Hong Kong team has worked on a broad array of projects that include economic studies, hotel valuations, operator search and management contract negotiation, development strategies for new brands, asset management, research reports and investment advisory for hotels, resorts, serviced residences and branded residential development projects. HVS Hong Kong's clients include New World Development, The Wharf, Sun Hung Kai, Samsung, SK, Lotte, Taj Hotels and Resorts, Agile Property Holdings, Citibank and LaSalle Investment Management, amongst others.

About the Authors

Ciao Liu is an analyst with the HVS Hong Kong (Shenzhen) office, specialising in Consulting & Valuation. Prior to joining HVS, Ciao gained experience in Sales and Front-of-House roles with the Ritz-Carlton, Conrad, InterContinental and Ramada brands, primarily during hotel opening periods. She has a strong understanding of luxury brands and pre-opening processes and operations.

Daniel J Voellm, Managing Partner HVS Asia-Pacific, is based in Hong Kong and has provided advice in all major markets across 18 countries in the region. Daniel started his career at HVS in the New York office; as Vice President at the global headquarters, he conducted a wide range of appraisals and market studies as well as underwriting due diligence services in 22 US states and in Canada. Daniel brings a strong understanding of the hospitality industry to HVS. His experience in hotel and food and beverage operations in Germany, Switzerland, England and the USA is complemented by an Honours Bachelor of Science degree from Ecole Hôtelière de Lausanne in Switzerland. Daniel works closely with key institutional and private owners of hotel properties, financiers, developers and investors, and has gained a strong understanding of their investment requirements and approaches to assessing the market value of investment properties. Daniel further advises on property and concept development and strategy.

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