

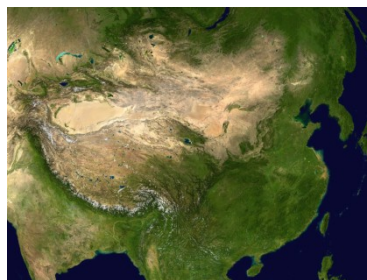


4<sup>TH</sup> QUARTER 2011

THE HVS QUARTERLY  
**HONG KONG, MACAU,  
CHINA & TAIWAN UPDATE**

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# An HVS Quarterly Hotel Market Update

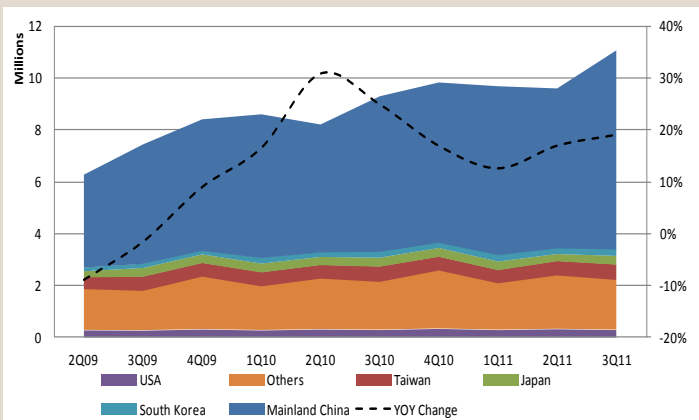
The global economy had an uneasy summer. The U.S. debt ceiling fiasco followed by the downgrade of the U.S. credit rating, coupled with the European debt crisis sent shock waves through global markets and raised concerns about the state of the global economy. While uncertainty escalates, markets in the region remain largely unaffected for the time being.

## HONG KONG

Total visitor arrivals to Hong Kong increased year-on-year by 19.0% in the third quarter of 2011, passing the 10 million mark to reach more than 11 million total visitor arrivals. Mainland Chinese remain the key driving factor behind the robust growth, where arrivals grew by 27.9% reaching a record high of 7.6 million in the third quarter, representing approximately 69% of total visitor arrivals.

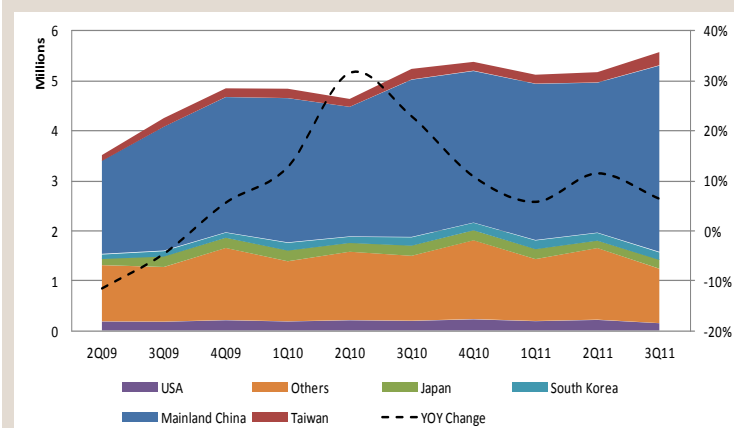
At the end of the third quarter, the Renminbi appreciated by 4.9% year-on-year (YOY) to the Hong Kong Dollar, compared to a 3.5% YOY appreciation at the end of the second quarter. The favourable exchange rate and strong demand for luxury products, made Hong Kong an even more popular summer holiday destination for mainland Chinese travellers. However, recent economic data indicates a slowdown in China's economic growth as global demand contracts, raising concerns for 2012. While Hong Kong benefits from its proximity to China, feeder markets continued to diversify in

### HONG KONG VISITOR ARRIVALS



Source: Hong Kong Tourism Board

### HK OVERNIGHT VISITOR ARRIVALS



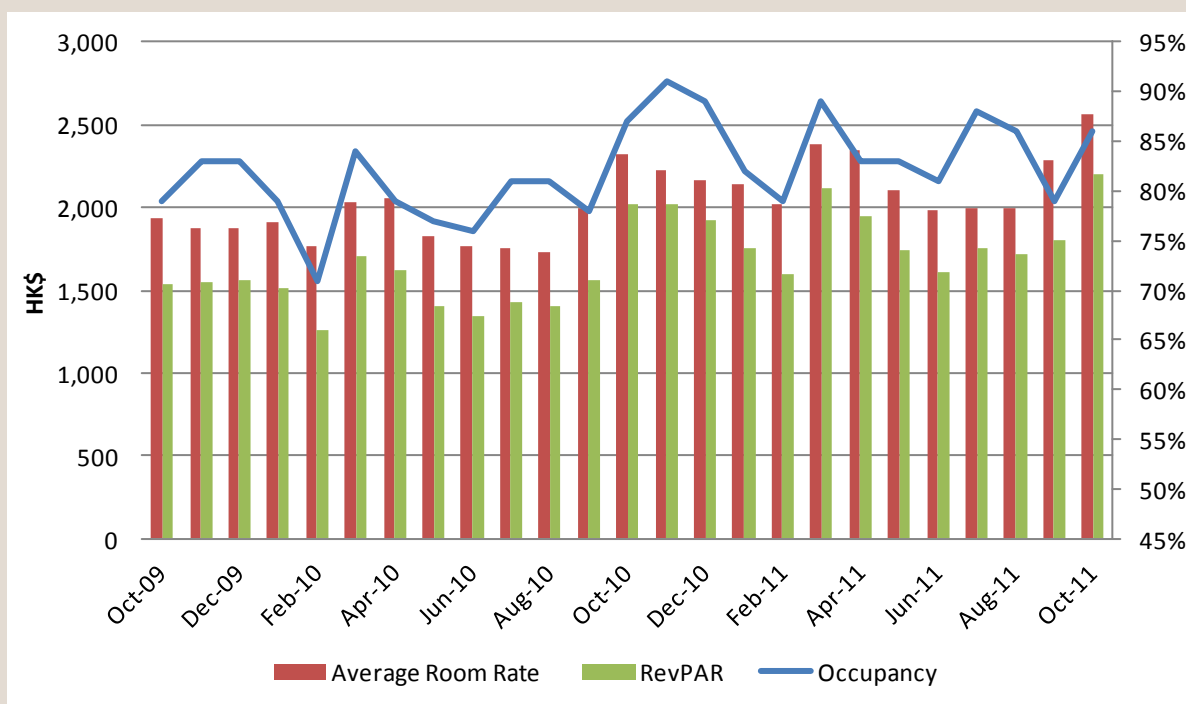
Source: Hong Kong Tourism Board

the third quarter through neighbouring countries in the region. South Korea, Malaysia, Singapore, Philippines and Thailand all posted above 10% growth YOY, attributable to the favourable exchange rates. Japanese visitor arrivals have yet to recover from the Tōhoku earthquake registering a decline of 2.5% YOY. The third quarter is a strong demand period for the Hong Kong tourism industry where July and August are the main summer holiday months. August was a triumph month for Hong Kong's tourism industry as visitor arrivals surged pass 4 million, posting a new monthly record. Third Quarter year-to-date visitor arrivals totalled more than 30 million, with the fourth quarter being traditionally a strong season, visitor arrivals are set to achieve the 40

million mark targeted by the Hong Kong Tourism Board for 2011.

In the third quarter of 2011, 50.0% of visitors to Hong Kong stayed overnight – a trend that is further declining as a result of an increasing number of same-day visitor arrivals from China and travellers’ struggle to find hotel accommodation as marketwide occupancy climbed to approximately 90%. While total visitor arrivals from Taiwan remained relatively flat YOY, overnight visitor arrival from Taiwan surged by 24.5% in the third quarter, supported by the favourable currency rate. Overnight visitor arrivals in the third quarter is driven by leisure demand, events in the U.S. and Europe this summer failed to strengthen consumer confidence and travellers there tend to take shorter and/or regional trips as opposed to long-haul travel.

### HONG KONG HIGH TARIFF A MARKET PERFORMANCE



Source: Hong Kong Tourism Board

The high-end hotel market in Hong Kong posted record RevPAR performance for eight out of ten months through October 2011. Average rate growth remained the focus for hoteliers, where monthly increases ranged between 12.1% and 16.9% through September. October showed signs of some softness, as average rate increased at ‘only’ 10.6% and occupancy decreased by one percentage point.

While a moderation in growth can be observed, the last quarter is traditionally high season for business and leisure demand and the market is on track to set a new record. From the trend observed, the High Tariff A hotel market is forecast to reach the HK\$1,850 RevPAR mark for the full year.

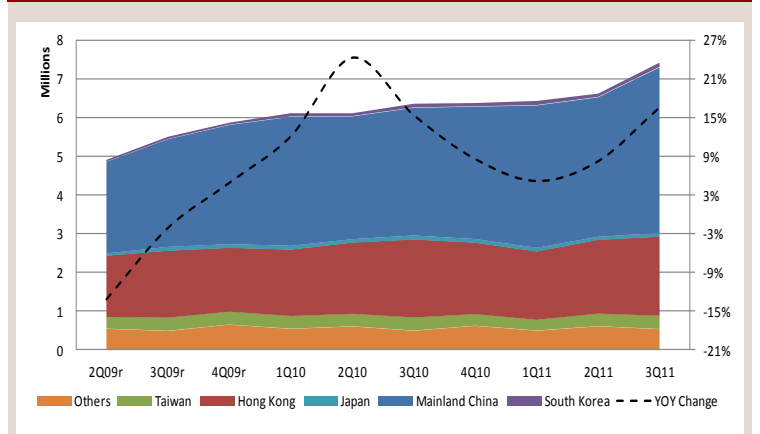
### MACAU

Visitor arrivals from mainland China attained a record number in the third quarter of 2011, reaching more than 4.2 million, supported by increased capacity at gaming tables and the appreciation of the Renminbi. Hong Kong visitor arrival levels are mature and resilient. South Korea is one of the main emerging source markets for Macau where visitor arrivals increased by 13.8% year-on-year in the third quarter, driven by increased air accessibility and favourable exchange rates.

Travel demand from Southeast Asian countries such as Thailand, Singapore and the Philippines posted double digit year-on-year growth in the third quarter. Though facing competition from Singapore, the strong Singapore Dollar increased the appeal of Macau to regional countries. Brazil, Russia and African countries are also emerging source markets to Macau. These long haul markets help to drive average length of stay. Future growth for the traditional source markets such as Taiwan and Hong Kong are likely to sustain their current, moderate levels.

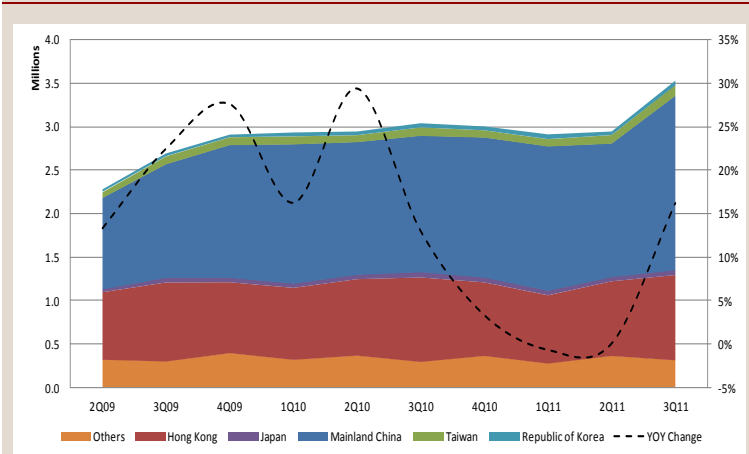
Overnight arrivals represent around 47.7% of total arrivals in the third quarter of 2011, up from 44.5% in the previous quarter. Although capacity

### MACAU VISITOR ARRIVALS



Source: Macau Government Tourism Office

### MACAU OVERNIGHT VISITOR ARRIVALS

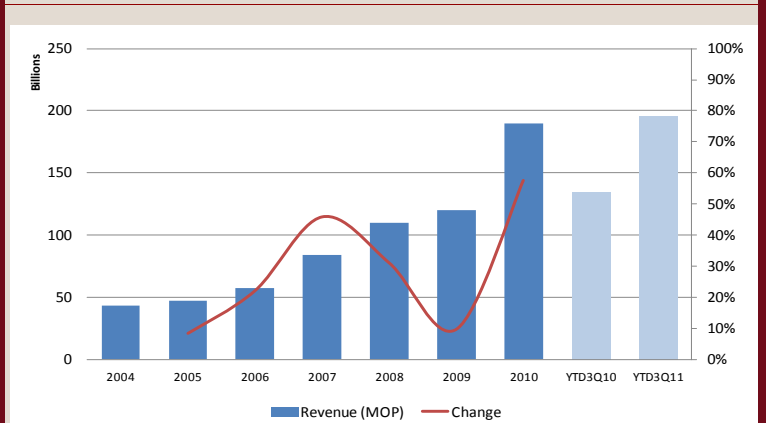


Source: Macau Government Tourism Office

was added to the market, strong marketwide occupancy levels in excess of 85% limited overnight visitor arrivals growth as of the fourth quarter of 2010. However, the addition of the 2,200 room Macau Galaxy Resort in July 2011 led overnight visitor arrivals to jump by 20.0% quarter-on-quarter in quarter three. On the back of strong demand, marketwide occupancy subsequently reached a record-high of 90.0% in the third quarter. This indicates healthy absorption for hotel inventory. Another 5,900 rooms are in the pipeline for 2012, which will provide the capacity for further growth in overnight visitor arrivals. Coupled with strong gaming demand from China and notwithstanding an economic decline, we anticipate a healthy absorption rate of the new supply in 2012.

Turning to the gaming industry, Macau is on the track to set another record in 2011. Data showed that total gaming revenue already surpassed 2010 level at the end of the third quarter in 2011, registering a 45.5% increase YOY. Strong regional demand fuelled the gaming industry growth with high consumption demand from the Chinese and Hong Kong market. VIP baccarat tables for Chinese and Hong Kong high-rollers are particularly driving revenues.

### MACAU GAMING REVENUE SURGES



Source: Macau Statistics and Census Service

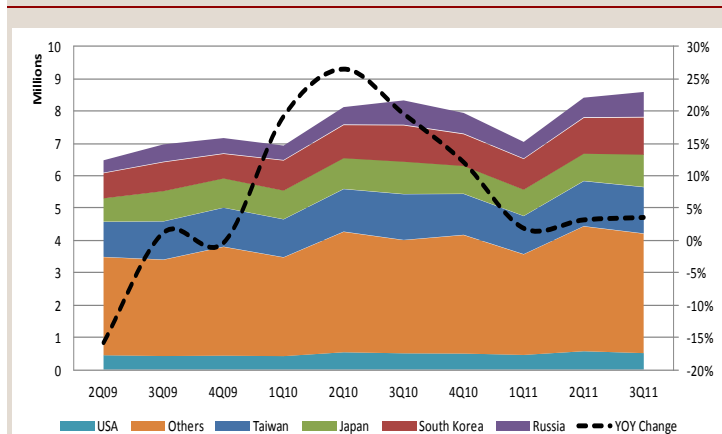
## CHINA

Asian source markets (excluding Hong Kong and Macau) account for more than 50.0% of total visitor arrivals to China. Given the large numbers of cross-border foot and car traffic between both Hong Kong and Macau and China, these two markets have not been included.

Visitor arrivals from Kazakhstan posted the strongest year-on-year growth rate of 48.0% in the third quarter. This is attributable to the increased collaboration between the two countries, particularly in the oil and gas industry. The strong bilateral relationship between Mongolia and China also boosted visitation level. Mongolia visitor arrivals grew by 23.4% year-on-year in the third quarter.

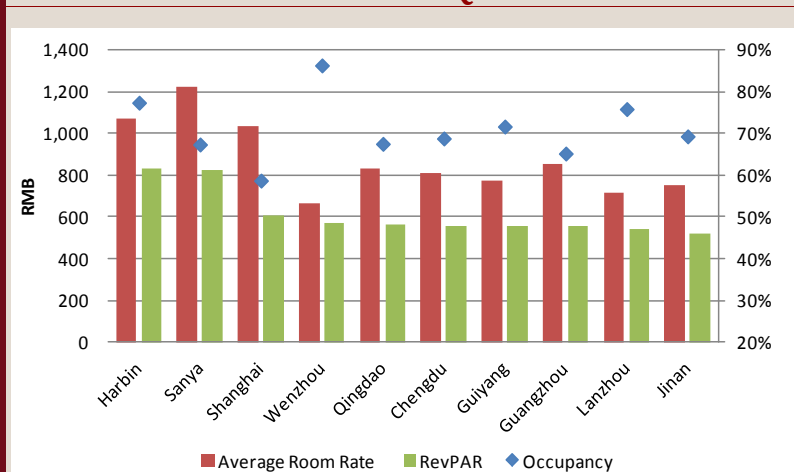
Other source market such as Kyrgyzstan and North Korea also saw robust visitor arrivals growth, both coming from a low base. The Russian market expanded at a modest rate in the third quarter; Russian visitors tend to travel to Europe during the summer given the favourable weather conditions. Growth in visitor arrivals from Taiwan slowed down as the market matures. South Korea overtook Japan in terms of visitor arrivals in Q1 2010, driven by the increased commercial activities of South Korean corporations and increased leisure travel into China. Among the European countries, Germany, the United Kingdom, Sweden and Netherlands saw positive year-on-year growth in the third quarter.

### CHINA VISITOR ARRIVALS\*



Source: China National Tourism Administration  
\* Excluding Hong Kong and Macau

### TOP 10 5-STAR MARKETS — 3Q YTD 2011



Source: China National Tourism Administration

In terms of 5-Star hotel market performance, Harbin registered the highest RevPAR in the first nine months of 2011. The successful opening of the Wetland Scenic Area attracted tourists to support the traditionally soft summer season. The limited number of five star hotels (two) in Harbin also supported hotel performance. Wenzhou, Guiyang, Lanzhou and Jinan registered healthy performance due to the limited five star hotel room supply. Average rate for the Sanya remains strong, supported by the strong demand during the summer season. Shanghai maintained a healthy average rate and stable occupancy despite oversupply pressures. Qingdao's performance caught up in the third quarter, benefitting from the peak summer season. The opening of the Jiaozhou bridge in July and the Beer Festival in August supported domestic and international visitation levels. Chengdu and Guangzhou are relatively mature markets where occupancy level remained stable. Chengdu benefited from the various exhibitions in September, such as the Motor Show and Alternative Energy Exhibition. *Note: Newly opened properties are only rated after the first year of operation.*

## TAIWAN

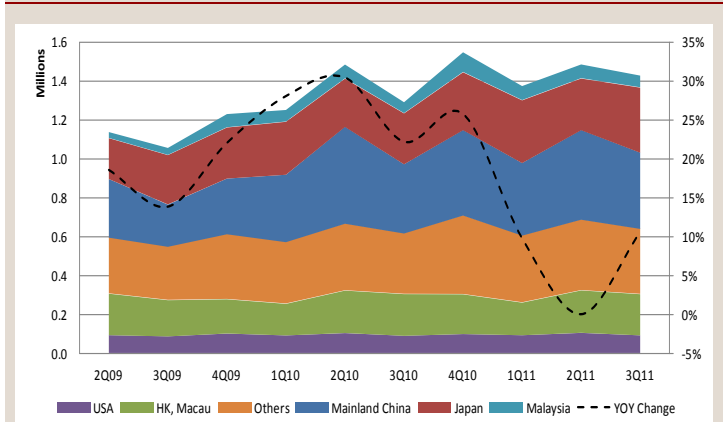
China emerged as the predominant source market to Taiwan in 2009 after Taiwan opened its doors to Chinese tour groups in 2008. In late June 2011, officials launched a pilot program that allows residents from Beijing, Shanghai and Xiamen to travel to Taiwan individually, which supported Chinese visitor arrivals to increase by 10.2% year-on-year in the third quarter. The program intends to attract middle-aged and younger travellers with higher spending power compared to tour groups.

Taiwan has always been a popular destination for the Japanese market. Recovering from the Tōhoku earthquake, coupled with strengthened relationship between the Taiwan and Japan Tourism Bureaus,

Japanese visitor arrivals surged by 27.8% year-on-year in the third quarter. In November 2011, Japan and Taiwan signed an open sky agreement, which is expected to further attract Japanese visitors to Taiwan.

Southeast Asia is a strong emerging market for Taiwan: Singapore, Indonesia registered above 29.6% and 27.1% year-on-year growth in the third quarter. This is attributable to the increased air accessibility to Taiwan and successful promotional campaigns by the Tourism Bureau. Visitor arrivals from Australia dropped in the third quarter, as visitors select long-haul markets, taking advantage of the strong Australian Dollar. Total visitor arrivals totalled 4.3 million as of quarter three and the Taiwan Tourism Bureau recently revised the full year target to six million.

### TAIWAN VISITOR ARRIVALS



Source: Taiwan Tourism Bureau

## HOTEL MARKET PERFORMANCE

### Hong Kong, Macau, Taiwan

Comparing the main markets in the area, Macau and Hong Kong benefitted from the deep Chinese source market, recorded double digit RevPAR growth year-on-year in the third quarter of 2011. Taipei and Kaohsiung registered a strong quarter; hotel performance in Taichung was lacklustre.

### EXUBERANT MARKETS IN HONG KONG AND MACAU, TAICHUNG SLOWING

Market		1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Hong Kong	Occupancy (%)	79.1	68.1	76.1	87.6	84.9	84.0	85.9	91.6	87.8	87.7	89.6
	Average Room Rate (HK\$)	1,070	984	937	1,102	1,108	1,106	1,091	1,360	1,302	1,286	1,281
	RevPar (HK\$)	847	670	714	966	940	929	937	1,246	1,143	1,127	1,147
	RevPAR YOY Change (%)	-19.8	-34.1	-26.1	-13.3	11.0	38.7	31.4	29.0	21.6	21.3	22.4
Macau	Occupancy (%)	72.8	68.8	78.3	84.6	83.8	83.5	83.5	87.8	85.0	87.6	90.0
	Average Room Rate (MOP)	1,027	1,088	1,006	1,091	1,129	1,120	1,168	1,234	1,302	1,291	1,336
	RevPar (MOP)	747	748	788	922	946	936	975	1,084	1,107	1,131	1,202
	RevPAR YOY Change (%)	-3.4	-1.9	6.1	8.7	26.6	25.1	23.8	17.5	17.0	20.9	23.3
Taipei	Occupancy (%)	67.9	67.5	70.3	77.7	72.4	75.9	69.6	83.1	75.9	71.1	71.0
	Average Rate (TW\$)	3,447	3,574	3,401	3,517	3,515	3,706	3,441	3,662	3,683	3,932	3,684
	RevPAR (TW\$)	2,341	2,412	2,391	2,731	2,544	2,813	2,395	3,042	2,794	2,794	2,616
	RevPAR YOY Change (%)	-13.8	-15.3	-1.2	-1.0	8.7	16.7	0.2	11.4	9.8	-0.7	9.2
Kaohsiung	Occupancy (%)	61.2	69.7	60.4	67.3	63.0	70.5	66.6	73.6	60.9	65.7	64.7
	Average Rate (TW\$)	2,460	2,239	2,380	2,194	2,506	2,170	2,276	2,226	2,497	2,307	2,487
	RevPAR (TW\$)	1,507	1,560	1,437	1,478	1,579	1,531	1,516	1,639	1,520	1,515	1,609
	RevPAR YOY Change (%)	-4.8	3.4	-10.2	-1.3	4.8	-1.9	5.5	10.9	-3.8	-1.0	6.1
Taichung	Occupancy (%)	54.9	57.8	57.1	68.9	62.9	69.3	67.4	79.6	67.4	72.3	66.1
	Average Rate (TW\$)	2,403	2,180	2,220	2,173	2,390	2,178	2,240	2,249	2,423	2,269	2,354
	RevPAR (TW\$)	1,319	1,259	1,268	1,497	1,504	1,509	1,509	1,790	1,633	1,641	1,555
	RevPAR YOY Change (%)	-16.8	-10.2	-13.9	-6.6	14.0	19.8	19.0	19.5	8.6	8.7	3.1

Source: HKTB, MOT, MGOT



### DISTINCT SEASONALITY IN TAIPEI



Source: Taiwan Tourism Bureau

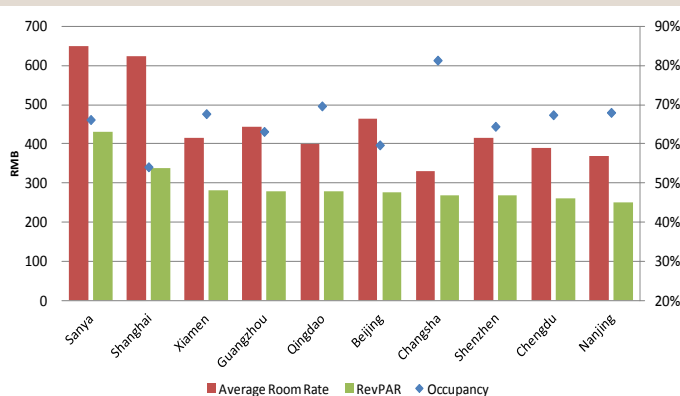
The Taipei hotel market is predominantly driven by leisure demand. Q2 and Q4 of the year are traditional peak seasons due to favourable weather conditions. Maintaining stable demand throughout the year continue to be biggest challenge for hotel operators.

Between Q1 2009 and Q3 2011, occupancy rate averaged around the low 70% mark with the Q4 2010 registering a record high of 83.1%. The opening of the 405-room W Taipei in February 2011 exerted pressure on marketwide occupancy, but supported healthy average room rate growth. Average room rate reached TW\$3,930 in Q2 2011, the highest since Q2 2008. New hotels coming online include the Mandarin Oriental and Indigo, which are expected to further drive average rate growth

### China

Among the Top 10 hotel markets, Sanya recorded the highest average room rate and RevPAR performance in the first nine months of 2011. Sanya also recorded the lowest number (57) of star-rated hotel properties. Maintaining strong demand throughout the year, particularly during the Chinese New Year and summer holiday seasons, Sanya outperformed all other cities in China.

### TOP 10 HOTEL MARKETS — 3Q YTD 2011



Source: China National Tourism Administration

Hotel markets in first-tier cities, such as Shanghai, Beijing and Guangzhou, benefitted from their underlying advanced economy and international visitation, which boost average rate positions. The top second-tier cities scored drove RevPAR performance through stronger occupancy above the 65.0%-mark.

Xiamen was the best- performing market among second-tier cities. As a popular destination with numerous attractions, the relatively small size of the hotel market drove occupancy levels close to 70.0%

Among the Top 10 markets, Changsha posted the highest occupancy level above 81.0% given its relatively limited supply and strong visitor arrival

levels. The secondary city markets of Changsha, Xiamen and Qingdao are set to register a strong increase in internationally branded hotels, providing upside potential for average rate coupled with oversupply challenges in the short-to-medium term.

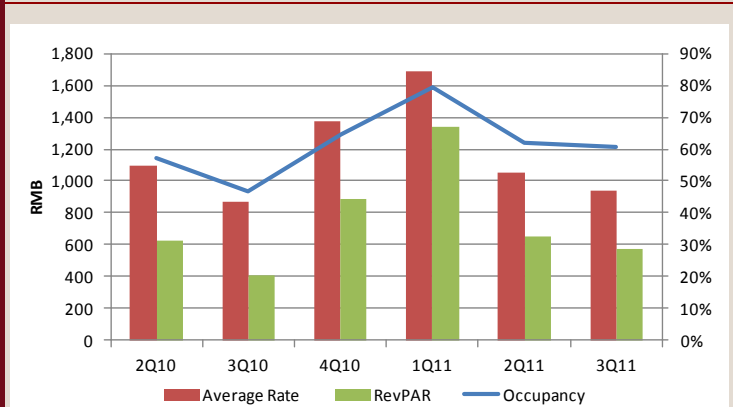
Notably, with the exception of the top two markets, Sanya and Shanghai, RevPAR performance for the other 8 markets ranged with RMB30. A very narrow band which reflects the balanced growth in average rate (and the quality of demand) and room supply on the other across a range of cities in different stages of economic development. Conversely, it is difficult for hotel operations to be profitable or create value for hotel real estate at such low RevPAR positions.

White sand beaches and a tourism product of national recognition make Sanya the most popular leisure destination in China. The five-star hotel market is the strongest during the first quarter, attributable to the Chinese New Year holiday and ideal weather condition. Increasing air travel cost to Sanya hindered tourism demand growth in the third quarter, despite it being the summer holiday season. As the Sanya international airport is operating above capacity, registering 9.3 million passenger movements in 2010 while its capacity is at 6.5 million.

Capitalizing on the strong demand growth, air fare to Sanya rose to a level where destinations such as Thailand are becoming more attractive.

While we expect sustained demand from high end travelers, the vast number (30+) of international branded, luxury hotels that are slated to open between 2012 and 2014 coupled with the bottleneck situation at the airport, market occupancy levels are forecast to come under significant pressure in the short-to-medium term until airport capacity is added. Given the severity of the situation, we anticipate average rate to also come under pressure.

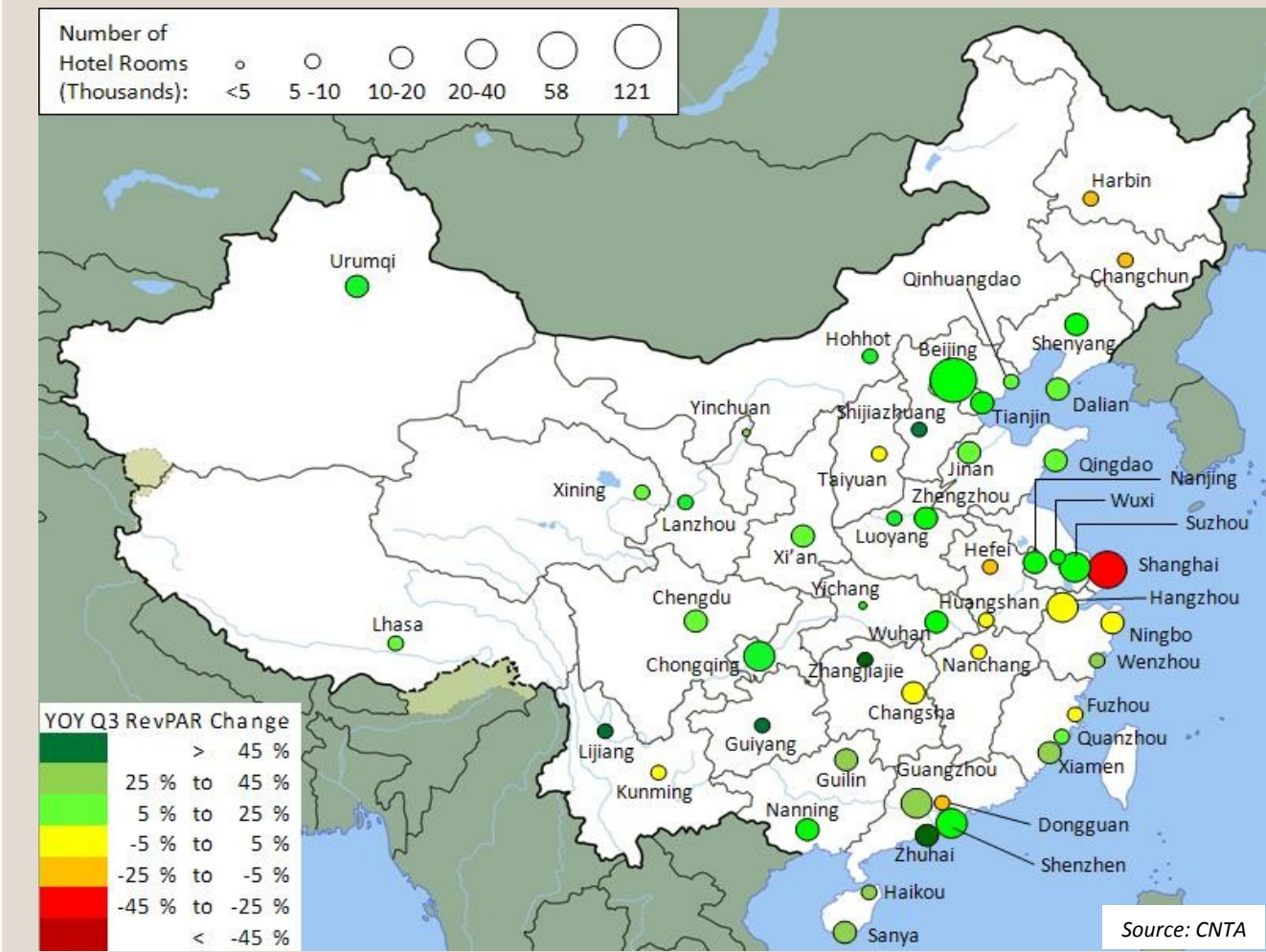
### 5-STAR HOTEL MARKET IN SANYA



Source: China National Tourism Administration

### 3rd Quarter YoY RevPAR Change and Size of Overall Hotel Market in 50 Cities in China

#### CHINA HOTEL INDUSTRY CONTINUES TO REGISTER ROBUST GROWTH



Source: CNTA



## Marketwide Performance of 15 Key Markets in China

### SURGING REVPAR IN GUANGZHOU, OVERSUPPLY IN SHANGHAI

		2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	3Q YOY Change
Beijing	Occupancy (%)	56.5	61.7	59.4	51.4	60.2	67.4	5.7 pp
	Average Rate (RMB)	437	418	456	460	472	458	9.3%
	RevPAR (RMB)	247	258	271	237	284	308	19.4%
Chengdu	Occupancy (%)	69.8	70.8	68.8	59.2	69.2	73.8	3.0 pp
	Average Rate (RMB)	325	344	389	386	411	370	7.6%
	RevPAR (RMB)	227	243	268	228	284	273	12.0%
Chongqing	Occupancy (%)	57.3	58.1	62.4	55.7	63.0	61.8	3.7 pp
	Average Rate (RMB)	283	246	288	268	284	286	16.4%
	RevPAR (RMB)	162	143	180	149	179	177	23.8%
Guangzhou	Occupancy (%)	63.9	62.1	66.1	59.9	65.0	64.5	2.4 pp
	Average Rate (RMB)	411	309	556	419	519	392	27.0%
	RevPAR (RMB)	262	192	367	251	337	253	32.0%
Sanya	Occupancy (%)	55.8	51.3	65.5	78.6	61.9	58.4	7.1 pp
	Average Rate (RMB)	547	423	666	917	538	497	17.5%
	RevPAR (RMB)	305	217	436	720	333	290	33.8%
Shanghai	Occupancy (%)	73.4	77.9	59.5	47.4	57.8	57.1	-20.8 pp
	Average Rate (RMB)	688	684	709	634	640	595	-13.1%
	RevPAR (RMB)	505	533	422	300	370	340	-36.3%
Shenzhen	Occupancy (%)	62.9	61.8	66.5	61.2	66.4	65.8	4.0 pp
	Average Rate (RMB)	393	389	400	414	419	412	6.1%
	RevPAR (RMB)	247	240	266	253	278	271	12.9%
Wuhan	Occupancy (%)	61.5	62.0	67.2	60.6	64.2	61.5	-0.6 pp
	Average Rate (RMB)	326	330	351	347	375	384	16.4%
	RevPAR (RMB)	201	204	236	210	241	236	15.3%
Nanchang	Occupancy (%)	62.8	66.3	72.1	68.9	71.0	71.8	5.5 pp
	Average Rate (RMB)	249	280	320	260	264	256	-8.5%
	RevPAR (RMB)	156	185	230	179	188	184	-1.0%
Changsha	Occupancy (%)	87.5	86.7	79.4	73.4	90.0	80.7	-6.1 pp
	Average Rate (RMB)	299	315	310	276	365	352	11.5%
	RevPAR (RMB)	261	273	246	203	328	284	3.7%
Zhengzhou	Occupancy (%)	66.1	65.3	69.4	61.4	67.7	69.0	3.7 pp
	Average Rate (RMB)	269	262	282	262	298	284	8.6%
	RevPAR (RMB)	178	171	195	161	202	196	14.7%
Hefei	Occupancy (%)	74.0	70.9	74.0	63.0	65.0	66.5	-4.3 pp
	Average Rate (RMB)	323	327	328	322	314	288	-12.1%
	RevPAR (RMB)	239	232	243	203	204	191	-17.5%
Huangshan	Occupancy (%)	51.4	49.2	43.0	27.3	50.7	50.1	0.9 pp
	Average Rate (RMB)	256	269	260	190	271	273	1.5%
	RevPAR (RMB)	132	132	112	52	137	137	3.4%
Dalian	Occupancy (%)	60.6	67.6	52.8	41.5	58.6	73.0	5.4 pp
	Average Rate (RMB)	294	342	313	274	304	361	5.5%
	RevPAR (RMB)	178	231	165	114	178	264	13.9%
Shenyang	Occupancy (%)	66.3	67.8	64.4	54.1	64.3	73.0	5.2 pp
	Average Rate (RMB)	303	333	355	316	376	361	8.5%
	RevPAR (RMB)	201	225	229	171	242	264	16.9%

Source: China National Tourism Administration

## BASEL III – THE LONG ROAD OF DELEVERAGING

The signs are becoming clearer and more frequent: the rules under Basel III are taking effect and influencing business across the globe. While the rules specifically target banks and their operations, the tinkering at the core of the economy has repercussions far beyond just the banks. Aircraft and ship lease financing is already being affected. We will briefly investigate what this could mean for hotels, through the example of a property in Hong Kong.

Basel III is a global regulatory standard on bank capital adequacy and liquidity, agreed upon by the members of the Basel Committee on Banking Supervision. Basel III was drawn up as a response to the global financial crisis (GFC), which, notably, Basel I and Basel II were not able to prevent, and Basel III has been criticised for focusing on a stable banking system while overlooking the wider, less-regulated financial system. Banks can thus continue to innovate around the scope of Basel III. At the same time, there is concern about the implications of Basel III on the wider economic system, given that it will significantly increase costs, resulting in lower growth. At the same time the economy has yet to fully recover from the GFC under the tougher Basel III standard.

The standard addresses a range of issues for banks. The four main areas are: a leverage ratio, minimum capital requirements, a liquidity coverage ratio and a net stable funding ratio. All measures are phased in over a period of time until 1 January

<b>BASEL III STANDARDS CONDENSED</b>										
Measure	2011	##	2013	2014	2015	2016	2017	2018	As of 1 January 2019	
Leverage Ratio										
	Supervisory Monitoring		Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015					Migration to Pillar 1		
Minimum Common Equity Capital Ratio			3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.50%	
Minimum common equity plus Capital Conservation Buffer			3.5%	4.0%	4.5%	5.13%	5.75%	6.375%	7.0%	
Phase-in of deductions from CET1				20.0%	40.0%	60.0%	80.0%	100.0%	100.0%	
Minimum Tier 1 Capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%	
Minimum Total Capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Minimum Total Capital plus Conservation Buffer			8.0%	8.0%	8.0%	8.625%	9.250%	9.875%	10.5%	
Liquidity coverage Ratio	Observation Period Begins				Introduce Minimum Standard					
Net stable funding Ratio	Observation Period Begins							Introduce Minimum Standard		

Source: *Basel Committee, BIS*

2019 as shown in the table on the right; phase-in periods are shaded.

Given the complex nature of the topic we will not discuss each measure individually. However, what becomes apparent from the Figure above is the timing and the significance of the new standard.

Throughout 2012 and already before, most lenders are adjusting their businesses in order to ensure compliance with the new standards coming into effect from 2013. This is an ongoing process and most attention should be paid to Tier 1 Capital requirements (as Tier 1 Capital has been redefined), the new deductions from common equity tier 1 (CET1), and a newly-introduced conservation buffer. The Liquidity Funding Ratio and Net Stable Funding Ratio ensure short-term and long-term solvency respectively, and standards have yet to be defined. This lengthy process of deleveraging will raise minimum total capital (plus the new conservation buffer) to 10.5% and apply stricter standards to the structure and computation of that capital. While these changes only affect banks internally, it is obvious that less capital will be available to conduct business, increasing lending costs as a result. Banks' borrowing costs have reportedly increased more than 100 basis points (bp) through 2011 and could increase another 100-200bp in 2012 and beyond. In turn, banks will be more stringent in loan underwriting and the terms available will be more conservative. Invariably, when available, interest rates on loans (recourse and non-recourse) will increase as banks clean up their balance sheets. As a result, businesses' cost of capital will be affected, with refinancing becoming a painful exercise that squeezes balance sheets. Both new financing and refinancing will be affected, and the ultra-cheap borrowing costs from before the crisis may not return.

The following is a simple analysis of a 400-room hotel property in Hong Kong that will generate HK\$125 million in net operating profit in 2012. The value as of 1 January 2012 is estimated at, roundly, HK\$2.56 billion. Assuming profits grow at the rate of inflation, profits will increase to, roundly, HK\$134 million by 2014. We note that this is a theoretical exercise as we did not consider changes in occupancy, average rate, and so forth.

## NOW AND FAST FORWARD TWO YEARS

	2012	2014
Number of Rooms	400	400
Date of Value	1/1/2012	1/1/2014
Tenure	Freehold	Freehold
Inflation	3.5%	3.5%
Year 1 Net Operating Income	125,000,000	133,903,125
<b><u>Valuation Conclusion</u></b>		
Net Value Rounded	2,555,000,000	2,409,000,000
Net Value Per Room Rounded	6,388,000	6,023,000
Loan to Value Ratio	35%	35%
Equity Yield	7.0%	8.5%
Interest Rate	5.0%	7.5%
Terminal Capitalisation Rate	6.0%	6.0%
Total Property Yield (SVF)	6.57%	8.29%
Average 10-year Debt Coverage Ratio	1.27	1.28
Average 10-year Cash-on-Cash Return	1.9%	2.2%

Source: HVS

As indicated in the table to the left, we have increased the interest rate by 250bp and equity yields by 150bp to reflect the re-pricing of non-recourse and recourse financing, respectively. For the purpose of this analysis we have assumed the loan-to-value ratio will remain stable at 35%. The following table indicates the changes in valuation for the debt and equity components according to the HVS' *Simultaneous Valuation Formula*.

## IMPACT ON VALUATION

Value	2012	2014	Variance
Total	2,555,000	2,409,000	-146,000
Debt	894,000	843,000	-51,000
Equity	1,661,000	1,566,000	-95,000

Source: HVS

As show in the table a bove, the impact of changes in interest rate and equity yield equate to a decline in value of HK\$146,000,000 or 5.7% in nominal terms.

The rate of leverage the economy enjoyed, and which stimulated growth, in the last decade will be partially pared back by Basel III. This deleveraging process will mark our current decade. It is important for investors to understand the opportunities that arise as a result of Basel III, particularly for distressed properties. Cash will be king.

**Are you tracking your assets' market values or need advice on investment strategies? Contact HVS for assistance.**



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## ABOUT HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980 by President and CEO Steve Rushmore, MAI, FRICS, CHA, the company offers a comprehensive scope of services and specialized industry expertise to help you enhance the economic returns and value of your hospitality assets.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to unparalleled range of complementary services for the hospitality industry. The company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe.

In Asia-Pacific, HVS is represented with six offices in Hong Kong, Shanghai, Beijing, New Delhi, Mumbai and Singapore. HVS hosts two of the main annual industry events in the region, namely the China Hotel Investment Conference (CHIC) in Shanghai and Hotel Investment Conference South Asia (HICSA). HVS publishes a wide range of leading research, which can be found in our [online library](#).

The Hong Kong team has worked on a wide range 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, LaSalle Investment Management, amongst others.

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