Overview of Hotel and Tourism Performance in Hong Kong

2015 was a challenging year for tourism and the hospitality industry in Hong Kong as there were various factors which have affected the desire of visitors to travel to Hong Kong. For example, the uncertain outlook for the global economy, continuous appreciation of Hong Kong dollar versus a number of currencies such as Japanese Yen, Korean Won and Euro, making these destinations more attractive to visitors. In the meanwhile, many countries have relaxed their visa policies and procedures for inbound travelers or rolled out a series of market promotions to draw visitors from China which results a highly competitive environment for Hong Kong.

Performance Highlights

According to the statistics provided by the Hong Kong Tourism Board (HKTB), the total visitor arrivals and hotel room occupancy rate have been declined in 2015 and 2016 (Jan – Mar) as compared with 2014.

Visitor Arrivals Statistics

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainland China</th>
<th>Short Haul Markets</th>
<th>Long Haul Market</th>
<th>New Market</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>45,842,360</td>
<td>8,286,122</td>
<td>4,284,287</td>
<td>882,827</td>
<td>59,307,596</td>
</tr>
<tr>
<td>2014</td>
<td>47,247,675</td>
<td>8,407,120</td>
<td>4,268,856</td>
<td>915,185</td>
<td>60,838,836</td>
</tr>
<tr>
<td>Change</td>
<td>↓ 3.0%</td>
<td>↓ 1.3%</td>
<td>↑ 0.4%</td>
<td>↓ 3.5%</td>
<td>↓ 2.5%</td>
</tr>
</tbody>
</table>

Visitor Arrivals Statistics (Jan – Mar 2016 vs 2015)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainland China</th>
<th>Short Haul Markets</th>
<th>Long Haul Market</th>
<th>New Market</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>13,886,909</td>
<td>2,769,925</td>
<td>1,499,216</td>
<td>265,376</td>
<td>18,421,426</td>
</tr>
<tr>
<td>2015</td>
<td>15,887,783</td>
<td>2,600,554</td>
<td>1,444,720</td>
<td>276,740</td>
<td>20,209,797</td>
</tr>
<tr>
<td>Change</td>
<td>↓ 12.6%</td>
<td>↑ 6.5%</td>
<td>↑ 3.8%</td>
<td>↓ 4.1%</td>
<td>↓ 8.8%</td>
</tr>
</tbody>
</table>

Hong Kong Hotel Performance Highlights

Performance of the Hong Kong lodging sector in 2015 was lackluster, with the overall tourist arrivals decline 2.5% year on year and Chinese mainland arrivals declined by 3% year on year. As a result, average room rates and average room occupancy rates were under pressure for the hotel operating environment. Recent trend continue to show that the room rates and room occupancy rates have declined further on the 1st quarter of 2016 mainly due to the global economic climate is still uncertain, marked by increasing risks, amid the modest and patchy economic growth of advanced economies, downward pressures on emerging markets and heightened geopolitical tension.

We anticipate that the hotel room demand trend remains weak in 2016, driven by a number of factors, including the number of visitors arrival in Hong Kong will continue to decline and the fall is likely to be more severe in 2016, the local economic performance will be affected by concerns over the uncertainties associated with the increase on the US interest rate and the dimmer global economic outlook.
Tourism Outlook for 2nd Half of 2016

Over the past few years, the mainland China represents the largest visitor source for Hong Kong. Consequently, Hong Kong’s tourism and hotel market is vulnerable to the impact from slowdown in Mainland’s economy growth, changes in travel preference of the Chinese travelers, and the adjustment to the travel policy on the Individual Visit Endorsements for permanent residents of Shenzhen from “multiple-entry” to “one visit per week”. Thus, the operating environment for the local tourism and hospitality industry will be challenging and expect to decline slowly in 2016. Moreover, in order to rebuild the positive image of Hong Kong as a hospitable travel destination, Financial Secretary will launch short, medium and long-term measures to reduce the industry costs of operation and enhance Hong Kong’s attractiveness and competitiveness in the 2016-2017 Budget.

In the medium term, Hong Kong government will spend HK$ 240 million in tourism and hospitality industry to launch five measures:

- Expand the scale of major events to be organized this year, for example, the Formula E Championship for the first time, the Hong Kong Wine and Dine Festival with more featured themes, the race of the Hong Kong Cyclothon to 50 kilometers to attract more overseas cyclists and additional Pulse 3D Light Shows at the Hong Kong Cultural Centre;
- Re-package Hong Kong’s tourism image with new promotional videos;
- Continue to promote Hong Kong’s natural scenery as well as the unique fusion of Western and Eastern history and culture;
- Support the tourism industry to open up new visitor sources including promoting tourist attractions, a unique shopping experience, MICE (Meetings, Incentive Travels, Conventions and Exhibitions) tourism and “fly-cruise” tours; and
- The Travel Industry Council of Hong Kong will support small and medium-sized travel agents for the information technology in order to enhance the competitiveness of the industry.

Moreover, in the long run, the Hong Kong Disneyland will open a new theme area based on Marvel’s Iron Man franchise and a new hotel with a theme dedicated to the spirit of exploration in 2016 and 2017 respectively. The first hotel in the Ocean Park and the water world will be completed in 2017 and late 2018 respectively. In addition, infrastructure developments such as the Hong Kong – Zhuhai-Macau Bridge and Guangzhou-Shenzhen-Hong Kong Express Rail Link will be expected to increase the number of cross border visitors from mainland to Hong Kong.

Source: Hong Kong Financial Budget 2016-2017

Hotel Sales and Investment Highlights in Hong Kong

Despite the number of visitors had begun to fall, and the economic slowdown in China, Hong Kong was still highly attractive market for foreign direct investment. According to the UNCTAD World Investment Report 2015, global FDI inflows to Hong Kong amounted to US$103 billion in 2014, behind only the Chinese mainland (US$129 billion) but ahead of the US (US$92 billion) and the UK (US$72 billion).

Investors are expected to take a more wait-and-see approach because the Hong Kong’s tourism and hotel market is vulnerable to the impact from slowdown in Mainland’s economy growth, changes in travel preference of the Chinese travelers, and the dimmer global economic outlook. We anticipate that the hotel investment activity in Hong Kong to remain quiet in 2016.

About Us

GCA Professional Services Group has industry experience and knowledge in all aspects of hotel and tourism operations. Our Hospitality and Leisure professional team capabilities include services related to strategic research, due diligence, market research, financial analysis, business plan, valuation and appraisal, hotel acquisition/disposition advisory and tourism studies and performance improvement.

We are committed to offering the highest quality of professional consulting standards and practices for hospitality and leisure clients.

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