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ASIA PACIFIC – SIGNIFICANT GROWTH OPPORTUNITIES FOR HOTEL CHAINS

Zhang Jiahao, ASSOCIATE
HVS Singapore

David Ling, CHAIRMAN
HVS China & Southeast Asia

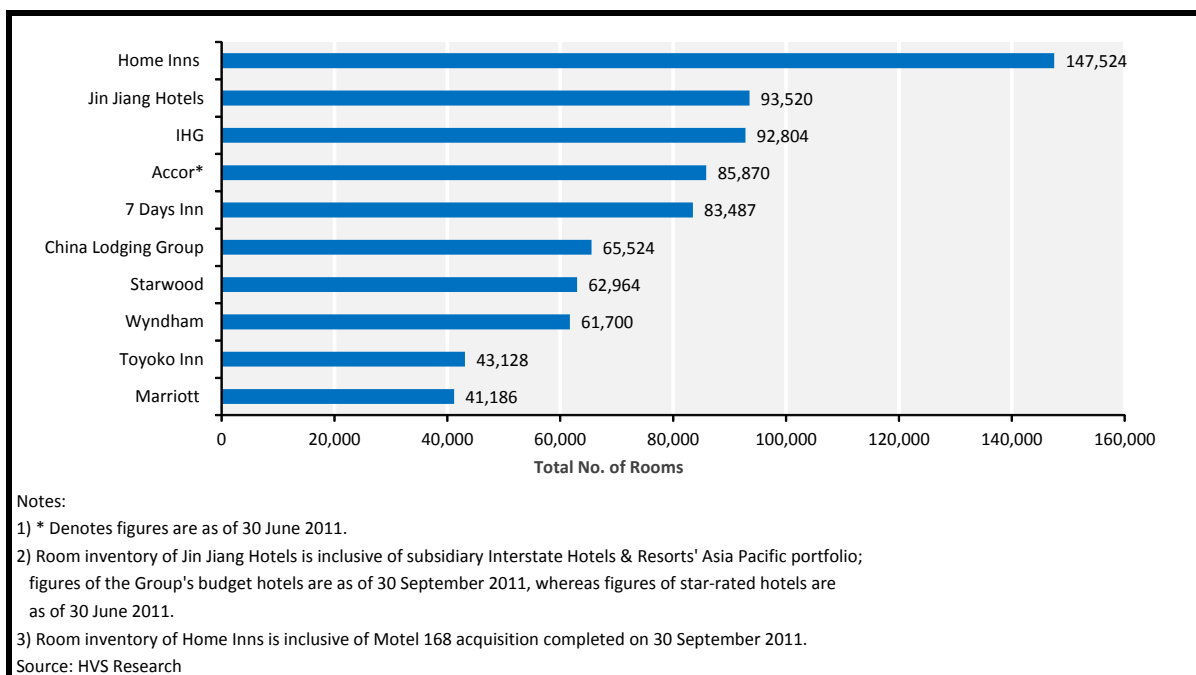


Introduction

Asia Pacific has provided hotel chains significant opportunities for growth. The top ten leading groups cumulated a total inventory of approximately 770,000 rooms under the management, franchise and/or lease models, as at the third quarter of 2011.

Among the top ten, there is a good balance of hotel groups which originated from Asia Pacific and those from outside the region. Out of the five hotel groups originating from Asia Pacific, Home Inns, Jin Jiang Hotels, 7 Days Inn and China Lodging Group have China as their primary market while Toyoko Inn focuses its operations primarily in Japan. The other brand leaders, IHG, Accor, Starwood, Wyndham and Marriott, have their presence more widely spread across the regional countries.

FIGURE 1: 10 LEADING HOTEL GROUPS IN ASIA PACIFIC, AS OF Q3 2011 (BY NUMBER OF ROOMS)



Exponential Growth Opportunities in China

The business development efforts of hotel groups focusing on China have paid off handsomely. Home Inns, a company which was only founded in 2002, experienced meteoric rise to become the top hotel group in Asia Pacific in less than ten years.

Home Inns tops the chart, breaking away from the rest with 147,524 rooms. Home Inns' strong presence is spread across 174 cities in China, cementing its position as a hotel industry leader in the country.

In second position is Jin Jiang Hotels Group. The inventory of Jin Jiang Hotels Group is at 93,520 rooms, including those under Interstate Hotels & Resorts (IHR). Next, IHG and Accor, both originating from Europe, took the third and fourth spots, with 92,804 rooms and 85,870 rooms, respectively.

With 83,487 rooms in 127 cities across metropolitan areas in China, limited service economy hotel operator, 7 Days Inn, closes up the top five ranking, opening up a gap of approximately 20,000 rooms over its domestic peer, sixth-placed China Lodging Group (65,524 rooms).

Following closely behind are Starwood, Wyndham, Toyoko Inn and Marriott with room inventory ranging from 41,000 to 63,000 rooms.

FIGURE 2: SNAPSHOT OF 10 LEADING HOTEL GROUPS IN ASIA PACIFIC, AS OF Q3 2011

Hotel Groups	Origin	Stock Listing	Total No. of Rooms in Asia Pacific (As of 30 Sep 2011)	Total No. of Properties in Asia Pacific (As of 30 Sep 2011)	Operating Model
Home Inns	China	Nasdaq	147,524	1,299	57% leased and operated, 43% franchised and managed
Jin Jiang Hotels	China	Hong Kong	93,520	608	31% equity interests held and managed by hotel group, 59% franchised, 10% third party agreements**
IHG	England	London	92,804	300	89% management contract, 10% franchised, 1% owned and leased
Accor*	France	Paris	85,870	446	58.6% management contract, 20.2% franchised, 8.7% owned, 9.9% fixed rent lease, 2.6% variable rent lease
7 Days Inn	China	Nasdaq	83,487	838	43.5% leased and operated, 56.5% managed (franchising brand name to third parties and managing hotels under 7 Days Inn)
China Lodging Group	China	Nasdaq	65,524	580	54.1% leased and operated, 45.9% franchised and managed
Starwood	United States	New York	62,964	197	75.6% management contract, 22.3% franchised, 2.1% owned
Wyndham	United States	New York	61,700	425	Direct franchising and master franchising
Toyoko Inn	Japan	Unlisted	43,128	217	Information not available
Marriott	United States	New York	41,186	131	Information not available

Notes:
 1) * Denotes figures are as of 30 June 2011.
 2) ** Computation of operating model does not include hotels managed by Interstate Hotels & Resorts.
 3) Room inventory of Jin Jiang Hotels is inclusive of subsidiary Interstate Hotels & Resorts' Asia Pacific portfolio; figures of the Group's budget hotels are as of 30 September 2011, whereas figures of star-rated hotels are as of 30 June 2011.
 4) Room inventory of Home Inns is inclusive of Motel 168 acquisition completed on 30 September 2011.
 5) Operating models are computed based on number of properties.
 Source: HVS Research

Economy Segment Leading the Growth

Among the top five largest hotel groups measured by rooms, the three China-based groups (Home Inns, Jin Jiang Hotels, 7 Days Inn) have focused largely on the economy segment.

Accor has 29% of its properties in Asia Pacific classified as economy hotels. Focusing on the economy segment appears to be the key to the Chinese domestic hotel chains' rapid expansion.

FIGURE 3: LEADING 5 HOTEL CHAINS' PROPORTION OF ECONOMY HOTELS IN ASIA PACIFIC, 2011

Hotel Groups	Luxury, Upper and Mid-Scale Rooms	Economy (Budget) Rooms	Total	Proportion
Home Inns	0	147,524	147,524	100%
Jin Jiang Hotels	26,049	67,471	93,520	72%
IHG	92,804	0	92,804	0%
Accor*	60,864	25,006	85,870	29%
7 Days Inn	0	83,487	83,487	100%

Notes:
 1) * Denotes figures are as of 30 June 2011.
 2) Room inventory of Jin Jiang Hotels is inclusive of subsidiary Interstate Hotels & Resorts' Asia Pacific portfolio; figures of the Group's budget hotels are as of 30 September 2011, whereas figures of star-rated hotels are as of 30 June 2011.
 Source: HVS Research

Public Listings as the Preferred Strategy

Among the ten leading hotel groups, nine are publicly listed. Toyoko Inns is the only unlisted hotel group. Jin Jiang Hotels is listed on the Hong Kong Stock Exchange, whereas Home Inns, 7 Days Inn and China Lodging Group are listed on Nasdaq. Accor and IHG are listed on the Paris Stock Exchange and London Stock Exchange, respectively, whereas Marriott International, Starwood Hotels and Resorts and Wyndham Hotel Group are listed on the New York Stock Exchange.

Public listing appears to be widely used by the original founders of these hotel groups, possibly as a means of access to additional capital funds and subsequent portfolio expansion. Perhaps, public ownership of the hotel group is a means to generate greater brand awareness to reinforce their positioning in the industry.

Preferred Operating Models

The franchise model appears to be the leading approach for the four China-based hotel groups. Having established a critical mass in the market, these four groups are now seeking a mix of lease and franchise models. Lease models enable hotel chains to have direct management and control over their hotels. They are also able to seamlessly introduce into the market new ideas for their brands.

Hotel franchisors such as Wyndham Hotels typically operate through a combination of direct franchising and master franchising relationships. Master franchising relationships allow the use of its brands by third parties in foreign countries. As direct franchising allows more control for the hotel chains than master franchising, we note that hotel chains tend to use direct franchising for more upscale brands in their portfolio.

Hotel groups whose primary business are in the upper market levels, such as IHG, Accor and Starwood, focus their operations primarily on the management model as this allows more control over the brand standards. Under this model, the hotel is independently owned, but the hotel chain takes over the day-to-day operations of the business in return for management fees.

Merger and Acquisition

Merger and acquisition appears to be a popular strategy for growth as developing new hotels is a time-consuming and capital-intensive process. Jin Jiang Hotels acquired a stake in IHR in March 2010, while Home Inns successfully completed its acquisition of Motel 168 International Holdings Limited in September 2011. Motel 168 International Holdings Limited was previously owned by Shanghai Motel Management Co, whom Morgan Stanley had a 59% stake in. Such merger and acquisition activities allow China-based groups such as Home Inns and Jin Jiang Hotels to build up their room inventory and expand rapidly in the competitive industry.

Asia Pacific as a developing market will continue to provide significant opportunities for hotel groups to expand over the next 10 to 20 years.

Outlook

Asia Pacific as a developing market will continue to provide significant opportunities for hotel groups to expand over the next 10 to 20 years. Opportunities will primarily be in China, India and the Southeast Asia region. The acquired positions of the hotel groups we have covered may be challenged in the coming years as other emerging groups and brands have similar ambitions to expand regionally. Mergers and acquisitions of hotel groups will likely gain momentum among the small to medium-size hotel groups, as well as larger chains acquiring the smaller to medium-size groups to leverage on the competitive advantages or economies of scales found in the respective partners.



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HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, 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. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

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HVS is also the founder and co-host of the most influential hotel investment conference in China – the annual China Hotel Investment Conference (CHIC) – attended by senior executives from over 25 countries. For more information, please visit www.chinahotelconference.com.

About the Authors



Zhang Jiahao is an Associate with HVS Singapore, specialising in market intelligence, hotel valuation and consultancy. Jiahao provides research and analytical support for a wide range of feasibility reports, research projects, and other consultancy assignments in Singapore and Asia Pacific. Jiahao graduated with a Bachelor of Science (Honours) in Real Estate from National University of Singapore.



David Ling, MSc, MSISV, AAPI is Chairman of HVS China & Southeast Asia responsible for valuation, consulting and investment advisory services. David completed the Master of Science in Urban Land Appraisal from University of Reading, United Kingdom and Bachelor of Business (with Distinction) from Curtin University of Technology, Perth, Australia. David is a Member of the Australian Property Institute (AAPI) and the Singapore Institute of Surveyors and Valuers (MSISV). He is also a Licensed Appraiser registered with the Inland Revenue Authority of Singapore.

To contact the authors for this article: Zhang Jiahao at jh Zhang@hvs.com; David Ling at dling@hvs.com

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