

A Year Full Of Promise For China's Hotels - Domestic Travel On The Rise

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With a strong economy, massive inward investment, a newly-mobile middle class and one of the biggest fixtures in world of sport just months away, China's influence on world tourism is going to become more and more significant.

Government investment in tourism infrastructure is already paying off, and despite some well-publicised criticism of China's stance on human rights in the run up to the Olympics, the outlook for 2008 - the year of the rat - looks excellent.

The country's GDP - at 10% - is still more than double the global average, and analysts expect the economy to remain buoyant.

According to Hotelbenchmark Survey by Deloitte, China's hotel operators managed to increase revPAR by 3.2% - to US\$86 - during 2007, with occupancy at 67.9%. Secondary* cities did best with revPAR growth of 6.9%, compared to 4.0% in primary locations. Primary* locations with more than 5m inhabitants did not perform as well as secondary cities and now operators are hoping that recent investments, increased tourism and the Olympic effect will help them achieve sustainable growth in both occupancy and revenue per available room (revPAR).

Domestic travel on the rise

International visitors to China rose by almost 9.6% in 2007 compared to the year before, according to the World Tourism Organisation (UNWTO), with more than 54.7m arrivals. International arrivals were surpassed by the sheer scale of the domestic market. During the same time frame, Chinese took 1.6 billion domestic trips to enjoy the many attractions of their own country as per the China National Tourism Administration (CNTA).

Hong Kong, the so-called Pearl of the Orient, is still the all-time favourite with 17.2m international visitors but secondary cities such as Chengdu and Nanjing are becoming more popular and therefore attracting the interest of hotel developers. Besides the two cities mentioned above the Hotelbenchmark Survey by Deloitte has also launched five other new secondary cities in China including Dalian, Guangzhou, Hangzhou, Suzhou and Tianjin.

Secondary markets benefit from the improving infrastructure, which is good news for domestic travellers, who tend to travel by train or car. The world's third largest rail network is being upgraded gradually and converted to a high-speed system, and talks are underway for another Euro-Asian Railway, linking Shenzhen with Rotterdam in the Netherlands. This would be the third railway connection between Europe and this vast country.

Domestic tourists are making good use of the expanding national highway and expressways network, which joins cities to the more rural areas. These routes also enable international travellers to move from province to province.

How cities compare

During 2007, Shanghai, China's largest city and a key economic driver for the country reported disappointing results. RevPAR was down 0.9%, while occupancy fell 3.5%. Room rates were up marginally to US\$139, an increase of 2.7%, but this was way behind Beijing and Hong Kong - both up by more than 10%. The increase in supply and more attention given to Beijing impacted Shanghai's performance.

Beijing is quickly closing the gap between average room rates in the two cities and is only US\$12 behind Shanghai's average of US\$139. Beijing also has a better occupancy rate - 70.8% rather than 67.2%. These moves are not surprising, given that China's capital and host city for the Olympics has received a significant amount of government investment during the past couple of years driving up demand for hotel rooms. However, Shanghai is staging the 2010 World Expo, and this should bring good business to the city.

Hello Hong Kong

Hong Kong, one of the main international gateways to Asia, has one of the best revPARs in the country. It was up by more than 10% last year to US\$161, with an average room rate of US\$193. The Closer Economic Partnership Arrangement (CEPA), which encourages trade between mainland China and Hong Kong, has contributed to hotel performance, with new legislation widening market access on both sides. Initiatives such as the individual visit scheme (IVS), which began in 2005 to allow more domestic travellers to visit Hong Kong, are also pushing up numbers. According to the UNWTO, domestic visitor arrivals from the mainland were up 24% in 2007, with more than 1.3m people coming over from mainland China.

This extra business traffic is good news to hoteliers across the Hong Kong Island, Kowloon and airport hotels, and makes the city the only one in China with occupancy over 80%. Even with a marginal dip of 0.4% in 2007, occupancy is still at 83.6%, compared to just over 67.9% for the country as a whole.

Just the beginning

Although occupancy rates in primary cities may have slipped slightly last year, China's tourism industry, both domestic and international, is undoubtedly on an upward path. Millions are expected to attend the Olympic Games, while many more will catch a glimpse of what this diverse country has to offer via the Internet and TV. In a couple of years' time, World Expo 2010 will beef up the country's already steady growth, and this is against a background of one of the fastest growing economies in

the world.

China, with a particularly healthy domestic tourism market, is already making an impact on both regional and global travel, and these new travellers are also big spenders. With two-way travel expanding rapidly, it's clear that China's sizeable contribution to the world's tourism industry has only just begun.

Hotel performance of selected Chinese cities 2007



Source: HotelBenchmark(TM) Survey by Deloitte

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