ECOLE HOTELIERE
LAUSANNE
Since 1893

HOTEL yearbook 2011

What to expect in the year ahead

Four Seasons CEO Kathleen Taylor
on the evolving concept of luxury

The post-crisis outlook in key markets:
20 exclusive situation reports from Horwath HTL

Best Western CEO David Kong describes the key issues
US hoteliers will have to tackle in 2011

The industry's most progressive approach to operations:
our interview with citizenM's Michael Levie

Plus ideas, expectations and insights for 2011
from the Chief Executives of 8 hotel groups

WADE & COMPANY HSYNDICATE Cornell University School of Hotel Administration WATG designing destinations

This excerpt from the Hotel Yearbook 2010 is brought to you by :

ECOLE HÔTELIÈRE DE LAUSANNE

The Ecole hôtelière de Lausanne (EHL) is the co-publisher of The Hotel Yearbook. As the oldest Hotel School in the world, EHL provides university education to students with talent and ambition, who are aiming for careers at the forefront of the international hospitality industry. Dedicated to preparing tomorrow's executives to the highest possible level, EHL regularly adapts the contents of its three academic programs to reflect the latest technologies and trends in the marketplace. Since its founding in 1893, the Ecole hôtelière de Lausanne has developed more than 25'000 executives for the hospitality industry, providing it today with an invaluable network of contacts for all the members of the EHL community. Some 1'800 students from over 90 different countries are currently enjoying the unique and enriching environment of the Ecole hôtelière de Lausanne.

HSYNDICATE

With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea 'ONE Industry, ONE Network', Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries… serving professionals relying on Hsyndicate's specific and context-relevant intelligence delivered to them when they need it and how they need it.

CORNELL UNIVERSITY SCHOOL OF HOTEL ADMINISTRATION

Founded in 1922, Cornell University's School of Hotel Administration was the first collegiate program in hospitality management. Today it is regarded as one of the world's leaders in its field. The school's highly talented and motivated students learn from 60 full-time faculty members – all experts in their chosen disciplines, and all dedicated to teaching, research and service. Learning takes place in state-of-the-art classrooms, in the on-campus Statler hotel, and in varied industry settings around the world. The result: a supremely accomplished alumni group-corporate executives and entrepreneurs who advance the industry and share their wisdom and experience with our students and faculty.

WATG

Over the course of the last six decades, WATG has become the world's leading design consultant for the hospitality industry. Having worked in 160 countries and territories across six continents, WATG has designed more great hotels and resorts than any other firm on the planet. Many of WATG's projects have become international landmarks, renowned not only for their design and sense of place but also for their bottom-line success.

Patchwork recovery

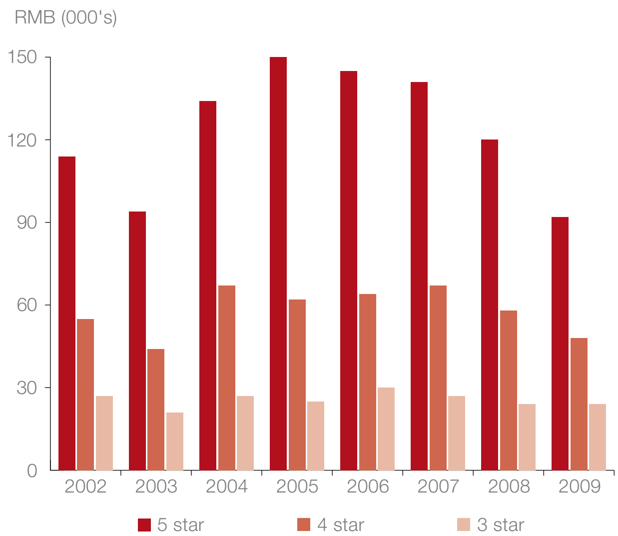
EVEN FOR ECONOMIC POWERHOUSES LIKE CHINA AND INDIA, THE ROAD HAS BEEN BUMPY THESE LAST COUPLE OF YEARS. TO FIND OUT HOW THESE AND SEVERAL OTHER ASIAN MARKETS WILL LIKELY FARE IN 2011, WE TURNED TO **HORWATH HTL**, WHOSE CONSULTANTS JUMPED INTO HIGH GEAR TO PRODUCE THIS SITUATION REPORT AND OUTLOOK, COVERING ELEVEN COUNTRIES.

CHINA

SITUATION REPORT

2010 for the China hotel industry will be remembered as a year in which the market had a positive turning point ending a number of consecutive years of declining performance levels and profitability. Based on data from the 2010 China Hotel Industry Study, in 2009 the Gross Operating Profit per room for 5-star hotels in China decreased to a low of RMB 91,752, the lowest level recorded in the eight year history of the Study. RevPAR had declined by about 20 % in 2009 following a decline in RevPAR of 10 % in 2008.

GROSS OPERATING PROFIT PER ROOM – CHINA HOTELS BY STAR RATING; 2002 TO 2009



Source:
China Hotel Industry Study (Horwath HTL & China Tourist Hotels Association)

In 2010, this RevPAR decline has been spectacularly reversed, with China generally recording a RevPAR increase of 31 % for year-to-date September according to STR Global data. Leading the way has been Shanghai, with improvements in performance levels well and truly exceeding expectations with RevPAR growth of about 63 % in 2010. While the 2008 Olympics made a big bang in Beijing, it was short and sweet and left the city with a massive hangover in 2009. The 2010 World Expo in Shanghai, on the other hand, has created a 6-month period of high demand in the city from which local hoteliers have taken full advantage. It has allowed the market to get its head above water and assisted in a pain-free introduction of new supply (at least temporarily). With both strong growth in occupancy (36 %) and room rate (19 %), Shanghai has at least set itself up to weather the storm from continued impacts from new supply once Expo closes its doors.

China's other primary hotel market – Beijing – has also had a positive year, with STR Global reporting growth in RevPAR of about 30 % year-to-date September. However, while these numbers sound impressive, the reality is that performance results are still very low for a major market, with occupancy at 62 % and room rates at approximately RMB 625. Beijing is still trying to get on top of its oversupply headache, and this can be particularly seen in its sluggish room rate growth of about 3 % year-to-date.

THE OUTLOOK FOR 2011

Actually, when looking at the performance levels for both Shanghai and Beijing in comparison to regional and global major markets, they do not compare well. Excessive growth in supply has severely impacted the performance of these markets and it will take at least another 12 or 24 months before we see performance numbers befitting their status as major commercial centres both in Asia and globally.

In fact, China as a whole continues to struggle from a burden of continuous strong supply growth and this will again be one of the major themes that we will see the market experiencing in 2011. There are many hotel markets across the country that have occupancy levels below 60 % and that still have to face the impact of new supply in 2011 and beyond. With so much investment continuing to be poured into the real estate market, and the typical requirement for many projects to include commercial components (most local governments favor hotel development), developers will continue to develop hotels not based on the investment potential of the hotel itself, but rather based on the profits to be made from selling residential properties.

So while I expect to see some continued improvement in performance levels across the board in China for 2011, I think that growth will be curtailed by continued additions to new supply, particularly in regard to the room rate growth potential of most markets. I will also find it interesting in 2011 to monitor the performance of the increasing spread of international 5-star brands into the smaller secondary and tertiary markets, as well as some deluxe brands into markets outside of Beijing and Shanghai. For me, there are question marks on the depth of these markets and their ability to support such brands at suitable price levels.

> China as a whole continues to struggle from a burden of continuous strong supply growth

Contributed by Damien Little

INDIA

SITUATION REPORT

The Indian hotel industry is clearly on a roll, although performance has been somewhat trailing the stronger development and investment interest.

The Indian economy recovered quickly and rapidly, leading to a return of international business travel to back sustained domestic business travel. Hotel demand has consequently shown healthy recovery in several leading business cities including Gurgaon/Delhi NCR, Bangalore and Mumbai. Room rates are yet to rise significantly, with average rates lower than the peak of 2007-08 by up to 30 % in several cases; on the other hand, the peak rates were unreal, and a correction was overdue and has occurred. Rates of $180-200 for first class hotels are generally being achieved and will likely be the typical range for the next 12-18 months. Introduction of new supply – between 1,500 to 2,000 rooms in each of the above markets in the last 18 months – has inevitably impacted city-wide occupancies and rates; however, the absorption of new supply has been faster than anticipated, and this points to a strong performance capability, particularly in the busier winter months. However, substantial catch-up is needed to get to comfortable occupancy levels in the mid-70 % range.

The leisure sector has been relatively much slower, particularly luxury leisure – occupancies fell sharply in the last season, between 30 % to 50 % of peak levels in some cases. Domestic leisure uses first class and lower segments and continued to be strong through the summer; however, resorts are clearly hoping for a much better 2010-11 winter season. Luxury leisure has however held onto its rates, with average rates of up to $450 at the highest levels and $140-170 in the first class segment.

Some markets such as Pune are working through the impact of a hotel glut, with several simultaneous hotel completions. On the other hand, several second tier cities such as Ahmedabad and Jaipur are attracting significant development interest.

THE OUTLOOK FOR 2011

2011 should deliver better results, with sustained business travel, continued growth of the Indian economy, attraction of foreign investments into different sectors and improved leisure sector performances. Room rates will, however, see only moderate growth as increased supply comes on board; the strengthening of the Rupee means lower local currency realizations impacting the average room rates.

Thus, there is an air of optimism; what it leads to is over-optimistic valuations and expectations which could limit

Patchwork recovery cont.

meaningful development. Private equity funding is available, but deals are limited by valuation issues. Development will diversify into different hotel segments, as compared to a more 5-star oriented attitude. Development will also diversify into smaller cities and towns, though one would only wish that the herd mentality would somehow go away; concentrated surges of development in specific markets hurts the medium-term performance and longer-term expectations often to the detriment of the destination.

> The world is looking at India, and will not be disappointed

The world is looking at India, and will not be disappointed – though the virtue of patience would be learned in the process.

Contributed by Vijay Thacker

JAPAN

SITUATION REPORT

Key performance Indices (KPI) in five key Japanese markets (Tokyo, Osaka, Kyoto, Nagoya, Fukuoka) had tumbled for the past two years. Specifically, occupancies at major full-service hotels in the five cities dropped by 3 to 12 %, ADR by 3 to 12 %, and RevPAR by 10-18 % in 2009 compared to the previous year.

Amid this turmoil, key hotel investment players dramatically changed in Japan, which is more notable when you look at the lineups of off-shore players. Until the recent global financial crisis, Western investors from the US or Europe had played a key role in hotel investments in Japan for decades. Horwath HTL estimates that at least 160 major hotels in Japan are now owned by overseas investors. Among them, the US-based Lonestar Funds alone held as many as 72 properties at their peak in 2009.

In contrast with Westerners, who are looking for exit opportunities now, Asian investors are now taking center stage in Japan, with the following recent visible transactions:

- Crown Plaza Kobe (592 rooms) purchased by TCC Land (Thailand)
- Hyatt Regency Hakone (79 rooms) purchased by Sun Hung Kai Properties (Hong Kong)
- Hilton Niseko Village (506 rooms) purchased by YTL Corporation (Malaysia)
- 70 % of total investment units of Nippon Hotel Fund (REIT) purchased by Real Estate Capital Asia (Singapore)

Since the beginning of 2010, occupancy in the five key markets has improved by as much as 1-12 % compared to the same period in 2009. While ADR is still below 2009 figures by 4-10 % in the five major cities, we project that ADR at some key cities start improving in the near future. From our past experience, average ADR for major hotels begins its upward trend when their average occupancy stays at about 78 % or higher for a few consecutive months.

THE OUTLOOK FOR 2011

Looking to the future, the most important factor that brings growth to the mature Japanese market will be the inbound segment, i.e. visitors from overseas countries. The Japanese government is targeting 15 million visitors from overseas by 2013, more than double from 6.7 million in 2009 according to the Japan National Tourism Organization. The increasing trend in overseas visitor arrivals will be further promoted by deregulation in tourist visa requirements for Chinese visitors and by new direct-flight operations by Low Cost Carriers (LCC) from key Asian cities.

> The Japanese government is targeting 15 million visitors from overseas by 2013

Regarding hotel investment, Asian money will be key, since many Asian investors are revealing their passion to acquire hotels in Japan. In 2011, as KPIs for major hotels improve,

Patchwork recovery cont.

we may see some one or more transactions for major hotel(s) in Tokyo, although the specific hotel name(s) are yet to be disclosed. Also, Asian investors are aggressively searching for resort properties in Hokkaido, Hakone/Izu (Mt. Fuji area), Kyoto, and Okinawa, all of which are particularly famous in the eyes of people in their home countries. Such active movement by Asian investors is sure to stimulate the market, which will lead to a comeback of both domestic and Western players in the near future.

Contributed by Koji Takabayashi

THAILAND

SITUATION REPORT

The past few years have been a challenge for Thailand, both economically and politically. Aside from the impact of the global financial crisis, the country has had to grapple with internal political and security issues. Since the coup d'etat in September 2006 which ousted then-Prime Minister Mr. Thaksin Shinawatra, the country has seen five prime ministers come and go. During this period of uncertainty, mega projects were stalled and frequent amendments of government and fiscal policies resulted in a loss of confidence on the part of investors and consumers. GDP growth slowed from 5.1 % in 2006 to -2.7 % in 2009, while growth in international visitor arrivals to Thailand also slowed from 19.5 % in 2006 to -3.4 % in 2009. According to STR Global, RevPAR of hotels in Thailand fell by 22.9 % year-on-year in 2009 – the largest negative growth since 2005.

The current Prime Minister Mr. Abhisit Vejjajiva was appointed at the end of 2008, but the road has been tumultuous as anti-government movements continue. The protests escalated and peaked in April/May 2010, when a violent clash broke out between government troops and anti-government protestors in downtown Bangkok, resulting in a curfew put in place for several weeks in Bangkok and 23 other provinces. High-end hotels in downtown Bangkok, such as the Four Seasons, Grand Hyatt and Inter-Continental were forced to close for a few days due to security reasons and extremely low occupancy.

Siam Kempinski Hotel

Other hotels in the city operated at occupancy levels of less than 30 %, and ADR was hit badly. Resort destinations such as Phuket, Pattaya and Samui, however, experienced minimal negative impact from the chaos in the capital. As of YTD September 2010, RevPAR of hotels in Thailand grew by 2.5 %

> Resort destinations such as Phuket, Pattaya and Samui, experienced minimal negative impact from the chaos in the capital

year-on-year, largely driven by a slight growth in occupancy, while ADR continued to slide as the mechanism for inducing demand during the periods of turmoil in Bangkok.

Since his appointment, Abhisit has administered two economic stimulus packages – a $40 billion, three-year infrastructure improvement plan, and a more than $3 billion program featuring cash subsidies and other initiatives to help the poor, elderly and farmers. This has helped the export-dependent country ride out the global financial slump. In 2010, the stock market and the value of the Thai Baht have rebounded to their highest levels since the 1997 Asian Financial Crisis, and Moody's Investors Service has lifted the outlook for Thailand's credit ratings from negative to stable in October 2010.

THE OUTLOOK FOR 2011

Looking forward into 2011, the market will be heavily dependent on the ability of the government to manage anti-government sentiments and continue to stimulate the economy.

In recent months, stalled hotel projects in Bangkok have been restarted and some hotels have finally opened their doors after much delay. The newest hotel to enter the market is the long anticipated 303-room Siam Kempinski Hotel, while hotels such as the Four Points by Sheraton Bangkok (Sukhumvit 15) and St. Regis Bangkok are expected to open in the coming months. Hotel developers have renewed their interest in the country, with more interest in resort destinations than the oversupplied capital.

Contributed by Ho Shyn Yee

INDONESIA

JAKARTA

The GFC effects on the Jakarta market were fairly light, especially compared to other parts of the world or elsewhere in the region. The sizable and relatively buoyant domestic market helped keep hotel performances from dipping significantly. Indonesia's rather stellar economic performance in 2009, and proceeding into 2010, has supported trading performances throughout the last 24 months.

Jakarta	2008 YTD Dec.			2009 YTD Dec.			2010 YTD Sept.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Top Tier	65%	$78	$50	60%	$71	$42	62%	$84	$52
Mid Tier	75%	$50	$38	72%	$49	$36	72%	$55	$39
Combined	70%	$64	$44	66%	$60	$40	67%	$69	$46

Industry practitioners are cautiously optimistic about the prospects for 2011 and further leading up to the next presidential election in 2014. Aiding the outlook is the limited supply pipeline in the top tier segment with the Raffles at Ciputra World currently the only confirmed project.

Patchwork recovery cont.

Raffles Hotel, Jakarta

By contrast, development of budget/limited service products under international and domestic brands such as Formule One, Holiday Inn Express and Amaris (Santika Group) has proliferated throughout Indonesia, while new budget-oriented products/brands such as Whiz, Tune, and Pop! are pursuing aggressive development strategies.

With improved accessibility facilitating increased domestic business traffic, the Indonesian government is looking to improve infrastructure further in order to boost tourism from both domestic and regional travelers, helping to drive additional developer interest in Indonesia's burgeoning budget hotel sector.

BALI

The most affected segment in Bali's hotel market in 2009 was the luxury sector, with an almost 20 % decline in RevPAR. By contrast, the RevPAR decline for the top tier sector was limited to 65 %, while the mid-tier sector managed a 5 % increase.

Bali	2008 YTD Dec.			2009 YTD Dec.			2010 YTD Sept.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Luxury	65%	$373	$243	56%	$348	$195	65%	$380	$245
Top Tier	76%	$131	$100	70%	$135	$94	76%	$137	$104
Mid Tier	81%	$74	$60	82%	$77	$63	85%	$78	$66
Bali Overall	77%	$111	$86	73%	$120	$87	76%	$134	$102

For YTD September 2010, however, all sectors have experienced a strong RevPAR rebound. Throughout the past three year period, Bali has been registering its best ever performance in foreign visitor arrivals, passing the 2 million mark and already half way to reaching 3 million. Initiation of the airport expansion project is expected to support and facilitate continued growth.

Although the new hotel pipeline is lengthy, many projects have been delayed due to financing issues, making completion forecasting difficult. However, some long delayed projects were finally completed this year or now appear to be moving forward towards completion. Among those opened recently are the Alila Villas Ungasan, Alila Villas Soori and Banyan Tree Ungasan, while new lower-tier entrants to the market include a variety hotels under the Aston, Best Western, Tune and Accor brands. Like the rest of the country, Bali is experiencing a boom in mid- to lower-mid-tier hotel development. One of the most anticipated openings is the W Seminyak, which is now on track to open in the first quarter of 2011.

Bali is expected to further expand on its status as one of Asia's premier holiday destinations with the opening of new resort products across all sectors. The durability of Bali's tourist

> The durability of Bali's tourist and holiday traveler appeal continues to make it a developer/investor favorite

and holiday traveler appeal continues to make it a developer/investor favorite. However, increasing traffic congestion and infrastructure strain in the traditional South Bali tourist areas such as Kuta, Jimbaran, Legian, Seminyak, Nusa Dua, Pecatu are becoming threats to the tourist experience and potential constraints to further growth. As an initial response, the new regional government of Bali seems to be directing development towards less congested areas via various incentives and facilitation, but confronting infrastructure deficiencies remains an urgent need to be addressed for sustainable tourism growth.

Contributed by Rio Kondo

PHILIPPINES

SITUATION REPORT

As with most of the ASEAN countries, the global economic crisis had a major impact on the economy as well as tourism in the Philippines in 2009. Despite the drop in several sectors of the economy, growth in Business Process Outsourcing activities and remittances from Overseas Filipino Workers (OFWs) lifted the nation's GDP by 0.9 %. However, unlike the economy that managed to rise, the tourism industry had some setbacks.

International tourism arrivals contracted by almost 4 % in 2009, primarily caused by a 13 % decline in Korean visitors (18 %), the country's largest source market, contributing between 15 and 20 % of total international arrivals to the country each year. The hotel industry was also negatively impacted by the slow economy and drop in arrivals. According to STR Global, average occupancy rates across the country declined by 7 percentage points, while ADR ended almost flat compared to 2008.

Nevertheless, there are some events in 2009 positively affecting the tourism industry moving forward. One of these is the opening of the Resorts World Casino complex, including the 342-room Marriott hotel. The complex has boosted tourism-related activity especially in the city of Manila. The last time a major international chain hotel entered the market was in 2004 (with the opening of the Hyatt Hotel and Casino).

Manila Marriott Hotel

Patchwork recovery cont.

Present indicators and 3rd quarter YTD performances are suggesting a major turn-around in the economic and tourism environment in 2010. Positive sentiments have been running high since President Benigno Aquino stepped into office. Fixed investments, both foreign and domestic, have poured in due to promising indications of better governance. The IMF has doubled its 2010 GDP forecast to 7 % (from 3.6 % in April) and is projecting a growth of 4.5 % in 2011. According to STR Global, September YTD 2010 occupancy performances of hotels across the country surged by an average of 8 percentage points while ADR grew by 2 %.

THE OUTLOOK FOR 2011

Unfortunately, the tourism sector has also had its share of setbacks in 2010 – the bus hostage taking situation in August and terrorist threats in November instigating travel warnings from the US, Australia and other governments. Despite these events, general sentiment remains very optimistic. Hoteliers in Metro Manila are anticipating strong performances to continue in 2010 and an increase of at least 5 % in ADR and a growth of at least 3 percentage points in occupancy performances in 2011.

Looking at 2011, we share the same optimistic views, especially with the rise in economic and tourism activities after the elections. However, the Philippines still warrants a cautious outlook given the historically unstable political environment and continuing security/terrorism threats. Political stability and safety are still the two most critical factors in determining economic and tourism industry performances in the country moving forward.

> Positive sentiments have been running high since President Benigno Aquino stepped into office

Contributed by Jerome Siy

MALAYSIA

SITUATION REPORT

In 2009, the H1N1 threat and the economic downturn across the region led Tourism Malaysia to revise its projected tourist arrival figures from 20 million to 19 million for the year. Despite this, the country recorded a 7.2 % increase in visitor arrivals to 23.6 million. However, the increase in arrivals did not result in

an increase in average occupancy levels of the hotel market (3-star to 5-star hotels) in Kuala Lumpur : 67.0 % in 2009 versus 73.0 % for the previous year. In terms of ADR, the hotel market registered a small decline of 4.0 % to RM 261 (US$ 74). This was attrributable to the market's reaction to the economic downturn in the country.

The Malaysian economy is expected to improve significantly in 2011, with a positive GDP growth target of 6.4 %, compared to a 1.7 % decline in 2009. Arrivals for the first 8 months of 2010 rose 5.2% compared to the corresponding period last year to 16.2 million (2009 : 15.4 million). The target of 24 million visitors for the whole year of 2010 set by the government is likely to be achieved. This represents a modest 1.5 % increase as opposed to increases of 7.2 % (2009), 5.1 % (2008) and 19.5 % (2007).

The average occupancy levels of the hotel market in Kuala Lumpur for the first 8 months improved by 4.0 percentage points to 70.0 % compared to the corresponding year in 2009. It is expected the whole year's average occupancy for 2010 will register between 70.0 and 72.0 %. As concerns ADR, it is estimated the hotel market will achieve a small increase of between 1.0 and 2.0 % ; i.e. between RM 263 and RM 266 (US$ 81 and US$ 82).

THE OUTLOOK FOR 2011

Malaysia has started negotiations with the European Union for a free trade agreement. Net investment outflow amounting US$ 47.2 billion over the last 5 quarters to Q2 2009 was reversed as net investment inflow of US$ 15 billion was achieved in the 4 quarters to Q2 2010. Recently, Malaysia was upgraded to « advanced emerging market » status in the FTSE global index. According to economic analysts, this upgrade could attract as much as US$ 3 billion in new funds into the country.

In the hotel market, 2011 is expected to see continuing growth in both the average occupancy levels and ADRs as confidence returns following the downturn of 2008/2009. The ADR growth is estimated to be between 3.0 and 5.0 %, while average occupancy levels are expected to register between 1.0 and 2.0 percentage points. No new major hotels are expected to open in 2011.

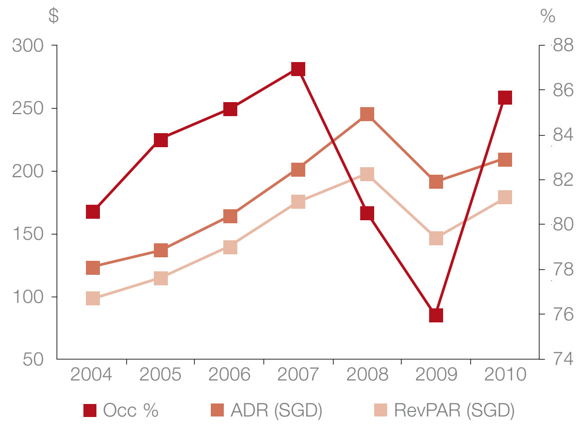
> The Malaysian economy is expected to improve significantly in 2011

SINGAPORE

SITUATION REPORT

After climbing to new record heights in ADR and RevPAR in 2008, the market came tumbling back to earth in 2009 with a 26 % drop in RevPAR as arrivals impacted by the GFC fell off nearly 5 % and room nights sold declined even more significantly, by almost 7 %. Hotels responded quickly with rate discounting to draw in regional visitors, helping limit the demand decline and occupancy drop to 76 %, but incurring an average 22 % cut in rates in the process.

SINGAPORE HOTEL MARKET PERFORMANCE 2004-2010 (YTD AUGUST)



Demand recovery actually began occurring in the fourth quarter of 2009, but the primary drivers of the steep « V » recovery witnessed in 2010 were the opening of the two highly anticipated mega Integrated Resort complexes : Resorts World Sentosa in January and the Marina Bay Sands in April.

Singapore's first casinos may be a primary draw of the Integrated Resorts, but Resorts World Sentosa also features a Universal Studios theme park, Festive Walk, four hotels (totaling 1,350 rooms) and soon-to-be-added Maritime Xperiential Museum, Equarius Water Park and Quest Marine Life Park, while the iconic Marina Bay Sands, topped off by its towering, gravity-defying, Sky Park, offers 120,000 m² of convention/ exhibition space, a 75,000 m² shopping mall, performance theater, museum and over 2,500 hotel rooms.

Patchwork recovery cont.

Marina Bay Sands

Despite introducing nearly 4,000 new rooms over the course of the first six months of 2010, market occupancy grew from 80 % in January to 90 % in July, clearly proving how, sometimes, when you build it, they will indeed come! The quantity of induced demand generated has helped not only to quickly absorb the new rooms supply, but also spread demand to uplift hotel occupancies across the market. Along with the incremental 1.4 million visitors year-on-year recorded as of YTD August 2010 (+22 %), market ADR also increased to reach nearly $210 (+11 %).

Resorts World Sentosa

THE OUTLOOK FOR 2011

Approximately 55 % of the incremental visitor arrivals in 2010 originated from within Southeast Asia, while another 25 % and 6 % originated from North and South Asia, respectively. Another one million induced/incremental visitors are expected in 2011, resulting in a forecasted 8 % growth in hotel demand. In addition to the pull of the two IRs for leisure travelers, Singapore's

> One million induced or incremental visitors are expected in 2011

attraction as an international MICE destination has been enhanced along with the increased capacity provided by the IRs' significant allocations of MICE facilities.

With only a « limited » increase in supply of approximately 4 % (+1,200 rooms), Singapore hotel owners and operators can look forward to another year of strong demand and occupancy conditions, and thus ripe conditions for increasing ADRs via further rate increases and business mix management. As a consequence, market ADR is expected to grow by at least 15 % in 2011, bringing with it record profitability to warm the hearts of existing hotel owners and certainly making Singapore Asia's hottest market for hotel investors and developers.

Contributed by Robert Hecker

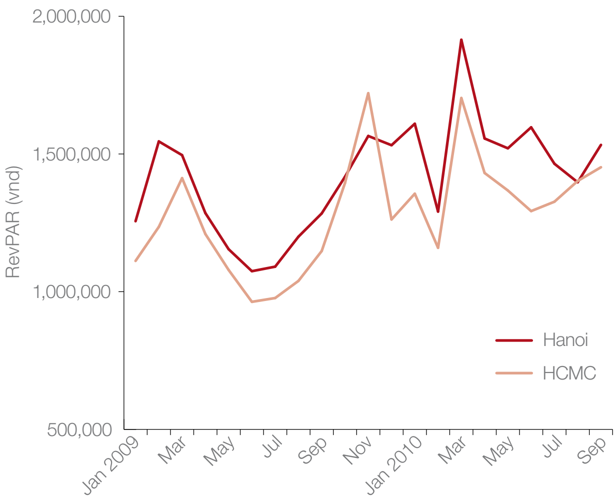
VIETNAM

SITUATION REPORT

After experiencing steady growth until 2007, the Vietnam hotel market saw weakening demand starting from the beginning of 2008 due to domestic economic issues, well before the onset of the GFC which exacerbated the market situation for most of 2009, during which RevPAR for the upscale hotel markets in Hanoi/HCMC fell by 12 %. However, the monthly demand trend turned positive from the last quarter of 2009 and, as of YTD

September 2010, occupancy surged by 10 percentage points to 61 %, while RevPAR has almost recovered to 2008 levels. This suggests the market is back on track.

HISTORICAL REVPAR COMPARISONS, UPPER-TIER MARKET, HANOI AND HCMC



Source: Horwath HTL

Both the Ho Chi Minh City (HCMC) and Hanoi upper-tier hotel markets have undergone tough times, but HCMC suffered slightly more, given its more corporate-oriented market. Historically, the HCMC hotel market has always overshadowed Hanoi in terms of RevPAR, but going through the recent recession, the gap between the two markets has noticeably narrowed.

The decreased number of inbound leisure travelers over the prior two years was somewhat counterbalanced by a booming domestic tourism market. As a result, hotels and markets focused more on the domestic market performed better in comparison to the Upper Tier hotels in HCMC and Hanoi that generally cater heavily to foreign corporate business. According to the 2008 annual Global Retail Development Index TM (GRDI) published by AT Kearney, Vietnam was selected the most attractive retail market in the world, driven by strong GDP growth and increasing consumer demand for modern retail concepts. The domestic tourism market also benefited from this trend and the country's major leisure destinations in central coast such as Da Nang/Hoi An and Nha Trang saw continued growth in domestic demand even during the global recession. As a result, hotels in the Da Nang/Hoi An area experienced only a minor 4 % drop in occupancy, while ADR and RevPAR have grown, albeit slightly.

Accordingly, most new hotel projects are seen in the central coast area. For instance, as of September 2010, there are approximately 3,800 new hotel rooms coming only in the Da Nang/Hoi An market area. About 70 % of these new rooms will be under international branding and management, some of which are scheduled to open by the end of 2010. By comparison, new hotel development in HCMC and Hanoi is moving at a much slower pace, with little international branded supply expected to enter the market within the next five years.

Hyatt Regency Danang

THE OUTLOOK FOR 2011

The booming domestic leisure market is expected to continue, as there is increasing demand for modern leisure life. As a result, hotel market growth will be driven heavily by the leisure demand segment in 2011 and the next several years. According to a recent Horwath HTL study, room demand in Da Nang/Hoi An is anticipated to grow by 15-20 % per annum for the next several years. The HCMC and Hanoi markets are also expected to grow, but at a slower pace, especially compared to the level of growth experienced during the boom period between 2000 and 2007.

Contributed by Steve Baek

Patchwork recovery cont.

AUSTRALIA

SITUATION REPORT

The Australian hotel industry has continued to recover in 2010 from what, in global comparative terms, was a mild downturn during the GFC. Having been one of the few countries to avoid negative GDP growth, Australia's real GDP is expected to grow by 2 % in 2009/10 and by 4 % in 2011/12, driven by surging mining exports predominately to China and India. Unemployment remains at only 5 % and corporate profits have held up, both of which have supported hotel demand.

Visitor arrivals are expected to reach 5.9 m in 2010 (up 5.5 %) however the domestic leisure market continues to suffer from cheaper outbound destinations, in part due to the sharp appreciation of the Australian dollar and the increased number of low cost carriers. Further growth in inbound demand will largely be dependent on the rate of recovery in Australia's major inbound markets (including New Zealand, Japan, USA and the UK) and on continued growth from China. Domestic business travel has also improved in several capital cities, resulting in many hotels experiencing stronger mid-week occupancies.

> The domestic leisure market continues to suffer from cheaper outbound destinations

As an indication of the strength of recent demand, data provided by STR Global reveals that in Q1 2010, Sydney achieved the highest level of occupancy (85 %) among any of the Asia-Pacific city markets that STG Global tracks. YTD occupancy for Sydney is 83 % (a 9 % increase over last year), while RevPAR has increased 13 %. Due mostly to recent new room supply, RevPAR for Melbourne has only increased 1.5 % in 2010 year to date.

HOTEL INVESTMENT

Demand for Australian hotels remained strong during the GFC and values held up well, although transaction volume fell markedly. During 2009/10, demand from cashed up Asian investors resulted in several notable transactions, particularly in Sydney, including the sale of Australia's largest hotel by number of rooms, the Four Points by Sheraton in Sydney. Sellers were predominantly domestic investment funds taking advantage of firm values and aiming to meet redefined investment strategies. Contrary to expectations, few distressed hotel asset sales occurred.

THE OUTLOOK FOR 2011

Buy sentiment for Australian hotel assets remains strong with sentiment survey data prepared by Jones Lang LaSalle Hotels in May 2010 indicating Perth, Brisbane and Sydney to be respectively the first, fifth and eighth most desirable markets for hotel purchases in the Asia-Pacific region. In contrast, the Gold Coast represented one of the highest sell markets in the survey.

Contributed by John Smith and Vasso Zographou

NEW ZEALAND

SITUATION REPORT

The New Zealand economy continues on a recovery path with export commodity prices increasing markedly, aided by recent currency depreciation and the strength of its key trading partners, particularly Australia and Asia. Household spending is growing firmly and private consumption is now close to pre-recession levels. As a result, GDP is expected to grow from 2.8 % in 2009/10 to 4.2 % in 2010/11.

International visitor arrivals to New Zealand in 2009 held up and in 2010 a modest lift is expected mostly from growth in short-haul markets from the Asia Pacific region. Demand in 2011 will be supported by New Zealand's hosting of the Rugby World Cup.

> Demand in 2011 will be supported by New Zealand's hosting of the Rugby World Cup

RevPAR in Auckland, Christchurch and Queenstown dropped by over 10 % during 2009, mostly due to rate discounting, and now faces the challenge of new hotel and serviced apartment supply increases during 2010.

THE OUTLOOK FOR 2011

Transaction volumes remain low and buy sentiment for New Zealand hotel remains weak with Auckland rating third lowest in Asia Pacific in the JLL May 2010 sentiment survey.

Contributed by John Smith and Vasso Zographou ■

Horwath HTL

Hotel, Tourism and Leisure

Horwath HTL - the global leader in hospitality consulting

Horwath HTL is the the world's number one hospitality consulting firm and are the industry choice; a global firm offering complete solutions, in markets both local and international.

Over the last 20 years, and through involvement in thousands of projects, we have amassed extensive, in-depth knowledge and understanding of the needs of hotel and real estate companies and financial institutions.

With 50 offices across 39 countries - whatever your requirements, large or small, national or global, Horwath HTL can help you succeed.

www.horwathhtl.com