



Horwath HTL™

Hotel, Tourism and Leisure

**Hong Kong
Hotel Market
Sentiment Survey
Amid COVID-19 Pandemic**

March 2020



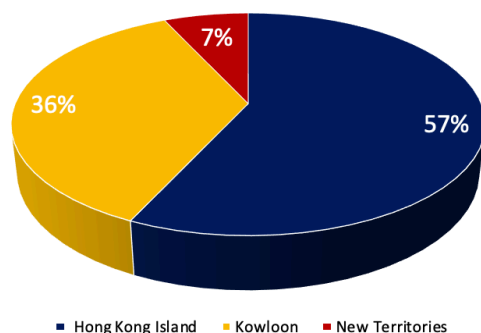
INTRODUCTION

The Horwath HTL Hong Kong Hotel Market Sentiment Survey is part of a broad global survey that gives a quick assessment of the market outlook for the global hotel industry. The survey in general focuses on the current outlook for occupancy, average room rates and total revenue and what the operators feel is going to happen based on their experience.

In this edition of Hong Kong Hotel Market Sentiment Survey, the questionnaire is specially designed to examine how the pandemic is impacting hoteliers' outlook for the Hong Kong hotel market given that the spread of COVID-19 upends markets and roils businesses globally. We also reviewed the trend of the overall Hong Kong hotel market performance in 2019 which was negatively impacted by the social campaign in the second half of the year.

SHARE OF RESPONDENTS

By Location



The six-question survey focused on the assessment of the degree of the influence on the hotel market by the Coronavirus Disease 2019 (COVID-19) outbreak, as well as the expectations on occupancy, ADR and total revenue for the first half of 2020.

Supported by our valued hotel partners, we aggregated the sentiment of 58 respondents as at 18 March 2020, representing 20 percent of all hotels in Hong Kong. 57 percent of the responding hotels came from Hong Kong Island, 36 percent from Kowloon, and 7 percent from the New Territories.

It is not surprising to find that most hoteliers have a pessimistic outlook for the first half of 2020. The following sections will detail and analyze the survey results.

Recent Market Review



Source: The Hong Kong Tourism Board

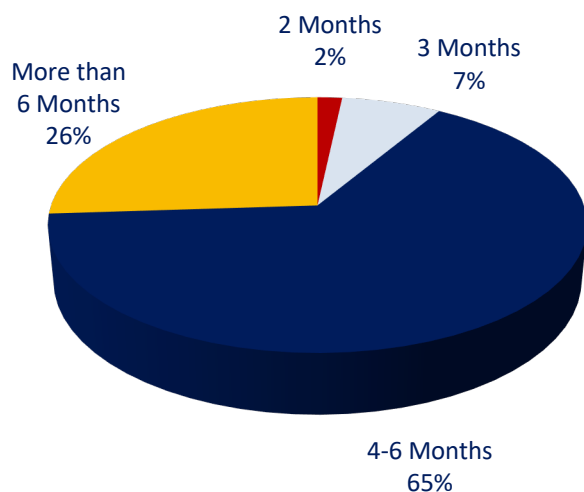


Source: The Hong Kong Tourism Board

Due to the ongoing protest chaos and the coronavirus outbreak, the Hong Kong hotel market is currently facing unprecedented challenges. As indicated by the graph above, the market has witnessed a significant decrease in both occupancy and average daily rate (ADR) levels since August 2019. After a prolonged period of high occupancy at around 90 percent, August 2019 was the first month that reflected the protest's notable impact. During August 2019, visitor arrivals to Hong Kong declined by 39 percent resulting in the lowest occupancy rate record at 66 percent, since the outbreak of SARS in 2003. As the visitor arrivals to Hong Kong continued to drop in Q4 2019, the occupancy level remained between 61 percent and 68 percent throughout to the end of the year. The year round occupancy rate plummeted by 13 percentage points to 79 percent compared to 2018, while the ADR decreased by 12 percent to HKD 1,206. As a result, the revenue per available room (RevPAR) dropped by 24 percent to HKD 953.

In 2020, the outbreak of COVID-19 exacerbated the decline. WHO declared COVID-19 a Public Health Emergency of International Concern on 30 January and later referred it as a pandemic on 11 March 2020. Starting the travel restrictions within the region to across the globe, visitor arrivals to Hong Kong continue to drop sharply. Starting from 25 March 2020, non-residents would not be allowed into Hong Kong, transit passengers included, for a two-week period. Accordingly, the local hotel market has been and will continue to be severely affected. To provide the Hong Kong hotel industry with a quick assessment of the future market, this survey is conducted to assess the market outlook amid the coronavirus outbreak.

Hotel Market Outlook



“Most of respondents expect that the impact of COVID-19 will last till H2 2020.”

Question 1:

Based on the current situation, in regard to hotels’ overall performances, how long do you expect the impact of this outbreak to last?

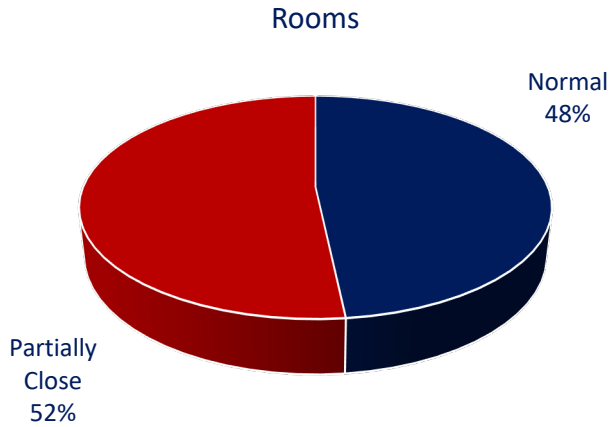
The first survey question gauged hoteliers’ expectations on how long the impact of COVID-19 on the overall hotel performance would last. 65 percent of the hoteliers believe that it will last for 4-6 months while 26 percent expect the impact to persist into Q4 2020. Only less than 10 percent of hoteliers believe that the impact of the coronavirus on operating performance will last for 3 months or less.

The first COVID-19 case confirmed in December 2019 and the outbreak appeared in late January 2020 in China. The virus later widely spreads to Japan, Korean, Europe and the States. As the number of confirmed cases continue to rise across the world, it is unlikely to wane in a short period of time.

The health crisis also poses challenges to the global economy and discourage all international travel. Given that travel restrictions and mandatory quarantine measures imposed by more than 140 countries resulting in drastic decrease in visitor arrivals, vast majority (91%) of hoteliers expect the impact of COVID-19 will last more than 3 months.

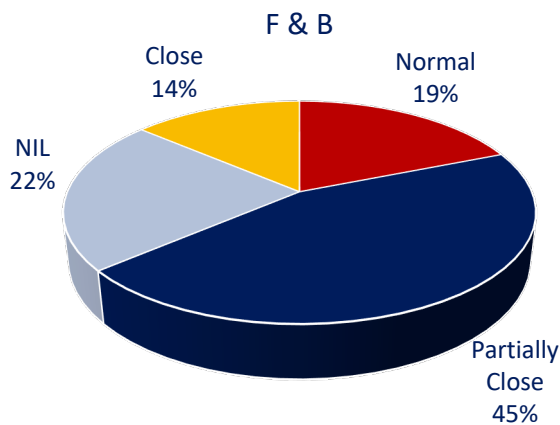
Question 2:

The status of operational departments during coronavirus epidemic:



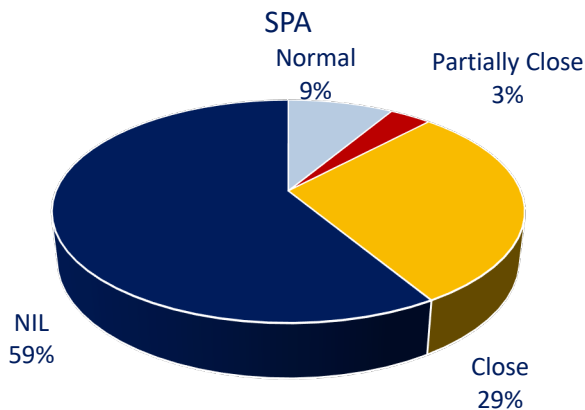
Rooms

Due to the rapid pace of booking cancellation, hotels operations are streamlined to reduce cost. 52 percent of participating hotels have partially closed their guestroom floors, 48 percent of participating hotels still operate their room inventory in full.



F&B

Only 19 percent of respondents claim their F&B outlets are in normal operations, while 14 percent of respondents have temporarily shut down their F&B outlets. 45 percent of responding hotels have closed some of their F&B outlets. The remaining 22 percent of respondents do not have on-site F&B operations.

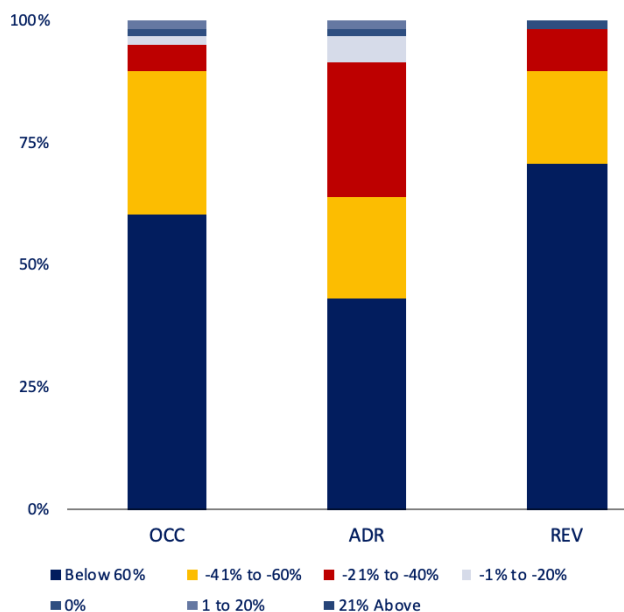


As a result of COVID-19, guests and locals avoid dining out and gathering in restaurant to mitigate the risk of infection. On the other hand, there is a considerably increasing demand for food delivery and takeaway services. To cater to this market, some restaurants at upscale hotels have started to promote and expand their takeaway and food delivery services that have never been seen before.

Spa

The operation of spa facilities is also affected severely due to public's health safety concern. Approximately 50 percent of the hotel spas have closed or scaled down their operations temporarily. Only 46 percent of the respondents operate their spa as business normal.

Hotel Performance Expectation



“The majority of respondents believe that Occupancy, ADR and Total Revenue will fall significantly in H1 2020.”

Market Expectations

-60% vs H1 2019

Occupancy	60%
Average Daily Rate	43%
Total Revenue	71%

Question 3:

Given the outbreak of COVID-19, what is your expectation for growth/decline of the overall Hong Kong hotel market in first half 2020 versus first half 2019?

Occupancy

More than 95 percent of respondents expect the occupancy of H1 2020 to drop compared to H1 2019. Specifically, 60 percent of respondents expect the occupancy to drop by more than 60 percent and 29 percent of respondents expect the occupancy to drop by 40-60 percent. Only 7 percent of respondents expect it to decrease by less than 40 percent. While 4 percent of respondents expect it to remain stable or increase.

Average Daily Rate

Again, over 95 percent of respondents expect the ADR of H1 2020 to be lower than that of H1 2019. Specifically, 43 percent of respondents expect the ADR to drop by more than 60 percent in H1 2020 versus H1 2019, 20 percent of respondents expect the ADR to drop by 40-60 percent, 28 percent of respondents expect ADR to decrease by 21-40 percent, 5 percent of respondents expect it to decrease by 1-20 percent and 2 percent of respondents expect status quo. Surprisingly, there is 2 percent of respondents expect the ADR to increase by 1-20 percent.

Total Revenue

As a result, 71 percent of respondents expect the hotel’s total revenue in H1 2020 to drop by more than 60 percent compared to H1 2020. 19 percent of respondents expect it to drop by 40-60 percent, 9 percent of respondents expect revenue to decrease by 21-40 percent, 9 percent of respondents expect it to decrease by 1-20 percent. Only 2 percent of respondents expect the revenue to remain stable.

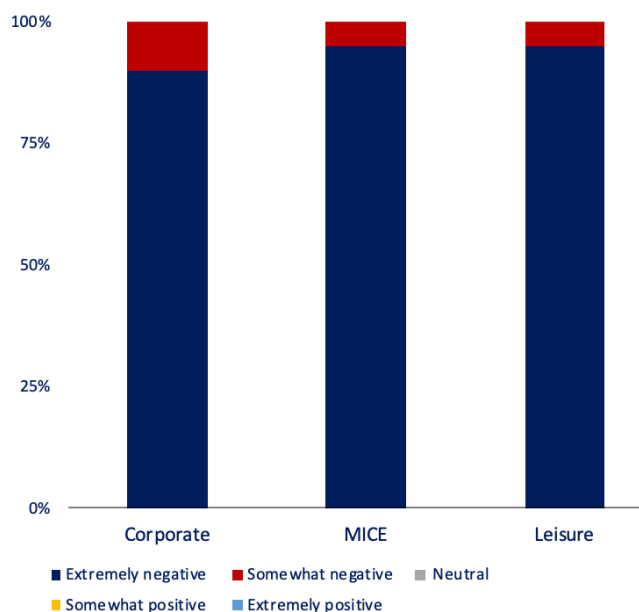
Question 4:

How are each of the major demand segments expected to be affected by the outbreak of COVID-19 in first half 2020 versus first half 2019?

The fifth survey question gauged our respondents' expectations for the major demand segments (Corporate, MICE and Leisure) in 2020.

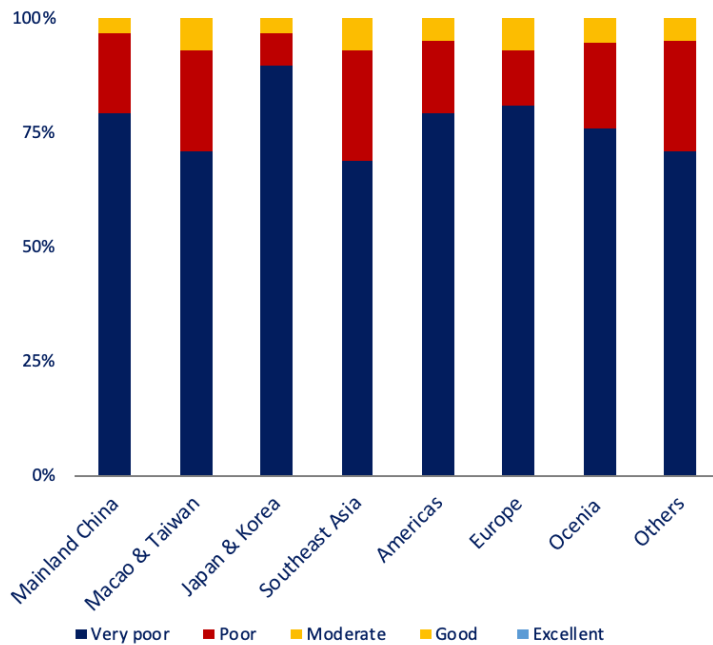
Hoteliers in Hong Kong are overwhelmingly pessimistic about all market segments, expecting poorer performance versus H1 2019. In particular, more than 94 percent of respondents expect extreme decline in MICE and Leisure markets.

The outlook for Corporate segment is relatively less pessimistic compared with other segments. Still, the majority of respondents show very negative about the future performance of the corporate segment, with about 90 percent expecting a much worse performance.



Question 5:

Under the impact of the coronavirus outbreak, what is your prediction on the performance of the following source markets in the first half of 2020?



Respondents generally show very negative views on all source markets. In particular, 90 percent of respondents expect Japan and Korea markets to have “very poor” performance in H1 2020.

In general, more than 90 percent of respondents expect all markets to either perform very poor or poor in H1 2020. Respondents are slightly positive on Macao, Taiwan and other southeast markets given that approximately 70 percent of respondents predict these three markets to perform very poor in H1 2020, while other markets including Mainland China unexpectedly are predicted to be performed very poor by over 75 percent of respondents.

Question 6:

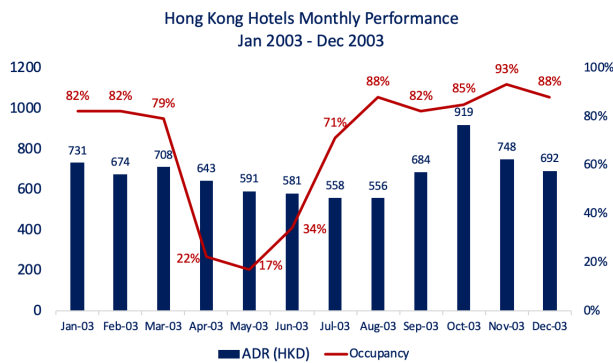
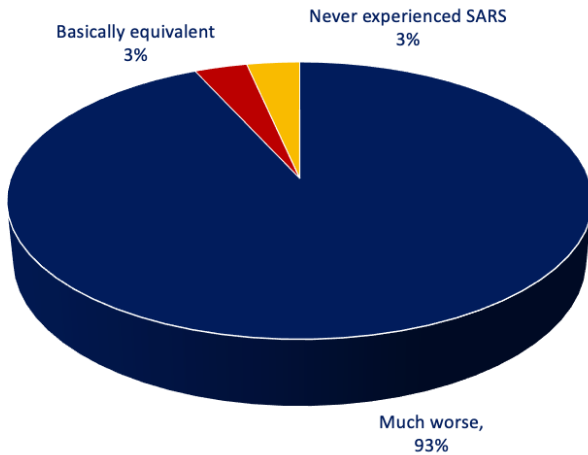
Compared to the SARS outbreak in 2003, do you think the impact of the coronavirus outbreak will be better or worse regarding hotels' performances?

The vast majority of respondents expect that the impact of COVID-19 is much worse and severe than that of SARS on hotel performances.

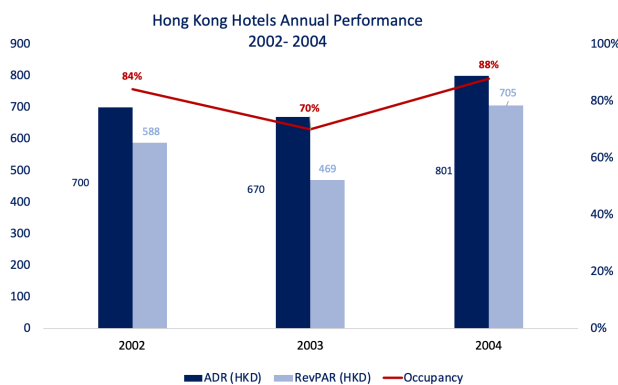
As at 26 March 2020, the confirmed cases of COVID-19 have surpassed 480,000 globally, which has far exceeded that of SARS. In 2003, the SARS outbreak infected around 8,000 with the majority of cases in mainland China and Hong Kong. Compared to SARS, the COVID-19 is spreading much more quickly and widely across the world.

Let's take a look at the hotel market performances amid and after the outbreak of SARS. The first SARS case was confirmed in December 2002. The outbreak was in April 2003 and it was controlled in July. As indicated in the graph on the left, the market had been essentially affected for a short period of time from April to June and began to witness strong rebound since July 2003. As a result, the year-round occupancy rate still managed to reach 70 percent while the ADR declined by merely 4.3 percent compared to 2002. The recovery continued in 2004 and resulted in record high occupancy and ADR levels.

Will Hong Kong hotel market see similar rebound after COVID-19? One should acknowledge that the strong recovery after SARS was greatly supported by the implementations of Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and Individual Visit Scheme (IVS) in 2003. In fact, there have been fewer and smaller-scale demonstrations amid fear over COVID-19. However, if protest in any form returns after the fighting of COVID-19, the economic recovery will likely to be prolonged. Therefore, it is unlikely that the Hong Kong hospitality industry after the end of COVID-19 could gain strong momentum like SARS at least in the short term. The market would require a longer period of time to recover, which explains why respondents think that the impact would be much more severe.



Source: The Hong Kong Tourism Board



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AFRICA

Ivory Coast
Rwanda
South Africa

ASIA PACIFIC

Australia
China
Hong Kong
India
Indonesia
Japan
Malaysia
New Zealand
Singapore
Thailand

EUROPE

Andorra
Austria
Croatia
Cyprus
France
Germany
Greece
Hungary
Ireland
Italy
Netherlands
Norway
Poland
Portugal
Serbia
Spain
Switzerland
Turkey
United Kingdom

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Brazil
Dominican Republic
Mexico

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