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# SANYA CONDO HOTEL INDUSTRY REPORT

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## Introductory Heading

Condo hotels began to first emerge in the 1990s in Sanya, Hainan Province, China. As a famous tourist resort city, Sanya boasts favourable conditions for development of condo hotels. With the gradual establishment of Hainan as an international tourism island, Sanya, which is located in the heart of the island, has witnessed rapid development of tourism properties and condo hotels.

### Case Studies of Condo Hotels in Sanya

After some 20 years of development, Sanya's condo hotel market has become the most established market in China and it acts as a good market indicator and reference for the development of condo hotels in other cities. Based on factors such as development size, developers' experience, grading of supporting facilities and type of hotel management company, we have selected five of the most representative on sale or for sale (to be sold in 2014) condo hotel projects in Sanya. They will be used as case studies to explain the current development of condo hotels in Sanya. This study presents an analysis of the location, main room type, average selling price and operation model. The projects include:

- Mangrove Tree Resort World Sanya Bay
- Beauty Crown Seven-Star Hotel
- Lihe International Centre Hotel
- Poly Phoenix Mansion Hotel
- Shuangda International Mansion Hotel

Mangrove Tree Resort World Sanya Bay, Beauty Crown Seven-Star Hotel and Lihe International Centre Hotel are high-end resorts; while Poly Phoenix Mansion Hotel and Shuangda International Mansion Hotel are five-star city hotels.

### Location of Selected Projects

The following map shows the location of selected projects. As shown, all selected projects are located in Sanya Bay, which is a mature area for tourism in Sanya. Similar to the normal hotels, location is still the most critical concern for the condo hotel developers. For example, Lihe International Centre Hotel, as a resort, is quite close to the seaside. Two city hotels, Poly Phoenix Mansion Hotel and Shuangda International Mansion Hotel, are adjacent to the city main roads and traffic lines.

SELECTED PROJECTS LOCATION MAP



### Main Room Type

The projects mainly feature small-size units, with the majority comprising standard hotel rooms or one-bedroom, one-living-room suites. The average size of a main unit from the five mentioned projects ranges from 61 to 110 square metres.

The similar configuration of the main units for each project is the result of high market demand for small-sized units. This is largely due to the fact that small-sized units require relatively smaller investment. Meanwhile, the supply of upscale standard rooms and small-sized suites is sufficient in meeting investors' demand. The 70 sq m small-sized units for sale in Lihe International Centre Hotel account for nearly 90% of its total rooms.

#### MAIN ROOM TYPE

Project	Size of Main Room Type (Sqm)
Mangrove Tree Resort World Sanya Bay	60-90
Beauty Crown Seven-Star Hotel	33-100
Lihe International Centre Hotel	70-120
Poly Phoenix Mansion Hotel	70-110
Shuangda International Mansion Hotel	74-131
<b>Total Average Size of Units</b>	<b>61-110</b>

Source: HVS Research

Compared to traditional hotel rooms, condo hotels provide larger standard rooms to better cater to tourists' demands. In terms of the main room type, most of the suites are designed with one bedroom and one living room, while the rest comprise multiple bedrooms and large suites.

Moreover, condo hotels generally feature more king-sized rooms than twin rooms. For example, king-sized rooms in Mangrove Tree Resort World Sanya Bay account for approximately 60% of its total inventory. As most investors who enjoy complimentary hotel stays are family-based, king-sized rooms are therefore greater in number.

#### STANDARD ROOM, MANGROVE TREE RESORT WORLD SANYA BAY



### Average Selling Price

The average unit price of our selected five projects is RMB33,600 per square metre. Compared to the constant growth in unit prices of traditional properties in Sanya, the average unit price of condo hotels has remained stable without significant increase.

This, in a sense, reflects the change in condo hotel developers' development strategies in China. Condo hotel investments are usually driven by the wealth of high net worth individuals. In 2011, the average selling price of standard rooms in condo hotels in China ranged from RMB200,000 to RMB400,000, which was considered a luxury purchase for most Chinese residents. The required down payment is also much higher compared to similar property investments in international markets, where there is only a required down payment of US\$8,000 on average, approximately RMB 60,000 in 2011 prices. In China, the normally down payment is 30%-50% of the total investment.

Property developers understand the problem and they are constantly improving their development strategies to target middle-class families as potential investors. They are no longer solely focusing on luxury projects, but also other projects. As part of their strategy to attract more potential investors, they are reducing their profit margins, implementing price-cutting strategies to stimulate investment and introducing more targeted promotional activities.

#### COMPARISON OF AVERAGE SELLING PRICE

Project	Average Unit Price (RMB/Sqm)
Mangrove Tree Resort World Sanya Bay	32,000
Beauty Crown Seven-Star Hotel	56,000
Lihe International Centre Hotel	28,000
Poly Phoenix Mansion Hotel	29,000
Shuangda International Mansion Hotel	23,000
<b>Total Average Price</b>	<b>33,600</b>

Source: HVS Research

Nowadays, practical size and quality have become the core advantages of projects. With smaller size of room inventory, higher occupancy can be ensured, which means relatively handsome gains for owners.

#### Operating Model

Condo hotels in Sanya are operated equally by owners and hotel management companies.

Hotel projects operated by hotel management companies are mostly small in size and developers generally lack hotel management capability and experience. Meanwhile, developers have also tried to attract investors and boost their relations with renowned hotel management companies.

#### OPERATING MODEL

Project	Management Nature	Operator
Mangrove Tree Resort World Sanya Bay	Owner-Operated	Mangrove Tree Resort
Beauty Crown Seven-Star Hotel	Owner-Operated	Sanya Shengshu Property
Lihe International Centre Hotel	Managed	Gloria Hotels & Resorts
Poly Phoenix Mansion Hotel	TBC	TBC
Shuangda International Mansion Hotel	Managed	Conifer Hotels

Source: HVS Research

Hotel projects operated by their respective owners are larger in size. Mangrove Tree Resort World Sanya Bay and Beauty Crown Seven-Star Hotel are such mega-projects. The developers generally have significant experience in hotel operations. Also, an owner's control over its hotel can help increase the synergy of various components in the project's development.

#### BEAUTY CROWN SEVEN-STAR HOTEL



#### Return on Investment

Investors in these five projects receive dividends from profits or fixed returns and are also entitled to 30 to 60 night complimentary stays at the hotels.

Research has shown that investors currently focus more on the value-enhancement of their own properties compared to the annual return on the investment. However, some projects have a lower priority on the annual return on the financial investment. Benefits such as complimentary stays and other leisure and entertainment facilities are attractive to investors, but are somewhat limited solutions.

However, we believe that investors would gradually realise the significance of annual returns on investment through the operation of their condo hotels. Condo hotels developed earlier in Sanya reap dividends from profits generated in their operations. As one of the earliest condo tourist resort projects in China, Phase I of Mangrove Tree Resort World Sanya Bay was soft launched in September 2012. In September 2013, the hotel paid dividends to its owners for the first year of its operations at RMB 11,700 for each standard room. This promising return justified the value of investment in tourism properties and overcame the skepticism about the difficulty of obtaining returns on investment in tourism properties.

Compared with profit dividends, fixed returns are more attractive to investors, but this has posed a greater challenge to developers.

Methods to measure return on investment for condo hotels have increased in numbers. Lihe International Centre Hotels provides unique property management models. The first is a commercial resort model in which investors are entitled to an annual return of 5% of the unit's purchase price and an additional 35 night



## RETURN ON INVESTMENT (ROI)

Hotel	Type of Returns	ROI	Complimentary Stay (Days)
Mangrove Tree Resort World Sanya Bay	Dividends from Profits	Dividends from Hotel Room Income	30
Beauty Crown Seven-Star Hotel	Fixed Returns	Annual Return of 5% of the Unit's Purchase Price	60
Lihe International Centre Hotel	Fixed Returns	Annual Return of 5% of the Unit's Purchase Price	35
Poly Phoenix Mansion Hotel	Dividends from Profits	Dividends from Hotel Room Income	TBC
Shuangda International Mansion Hotel	Dividends from Profits	Dividends from Hotel Room Income	TBC

Source: HVS Research

complimentary stay without restriction in peak or off-peak seasons. These investors can grant their friends and relatives an opportunity to stay in the hotel, and enjoy the hotel services during their stay. The second is a limited self-stay model in which investors are entitled to a 175-night stay without annual property costs, water and electricity expenses. Investors can also offer their friends or relatives an opportunity to stay in the hotel and enjoy the hotel services during their stay. The third is a full self-stay model in which investors are granted complimentary access to a swimming pool, outdoor children's play area and more. This includes the hotel's support services as well. Different models of return on investment provide more options for investors.

### Development Suggestions

In our research of condo hotels in Sanya, we have also summarised some related development suggestions and we believe these experiences would provide a better reference for the development of condo hotels in other cities across China.

**Chained exchange network.** International and domestic period exchanges are a major selling point for timeshare and condo hotels. Chained exchange networks have been growing domestically, and it will definitely become an international trend. While Mangrove Tree Resort World Sanya Bay boasts its rich experience locally, the chain services it provides domestically are its forte. Investors can choose to stay in any of the Mangrove Tree hotels across the country and enjoy room rates reserved for owners, when they make room reservation at Mangrove Tree hotels nationwide. Some websites, such as Tujia and Yidu, provide a online platform for condo hotel investors to exchange their complimentary stay quota.

**Localised improvements.** To cater to the demand and actual consumption level in China, localisation of

prices is an important tool. At the same time, supporting services should also take into account the characteristics of Chinese consumers. For instance, as the paid leave system hasn't been established yet in China, consumers generally take leave on weekends or during holidays. Hence, for owners who are purchasing condo hotel units, the total number of complimentary stays can be reduced accordingly, but complimentary stays on weekends and during holidays should be guaranteed.

**Specific target market positioning and establishment of multi-level condo hotels.** In China, residents have high consumption potential and enjoy differentiated levels of tourism consumption, so multi-level condo hotels can be established for different consumers. Condo hotels can be tentatively subdivided into upscale, mid-scale and economical ones by disposable incomes in the consumer market.

**Establishment of good faith image** Condo hotels are products for current purchase and future consumption. For consumers, there is a myriad of factors that requires consideration before their purchase. Therefore, developers should operate in good faith to establish a good corporate image, strengthen their operating profitability and increase their corporate transparency to boost investors' confidence and allay consumers' concerns.

**Group development and brand management.** Developers should build their own brand image, attract buyers by their size, brand and reputation, and establish a long-term, sustainable development mechanism. Backed by a strong brand image, it's easier to be accepted and trusted by consumers.



## About HVS

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