



2ND QUARTER 2016

THE HVS QUARTERLY
**HONG KONG, MACAU,
AND TAIWAN UPDATE**

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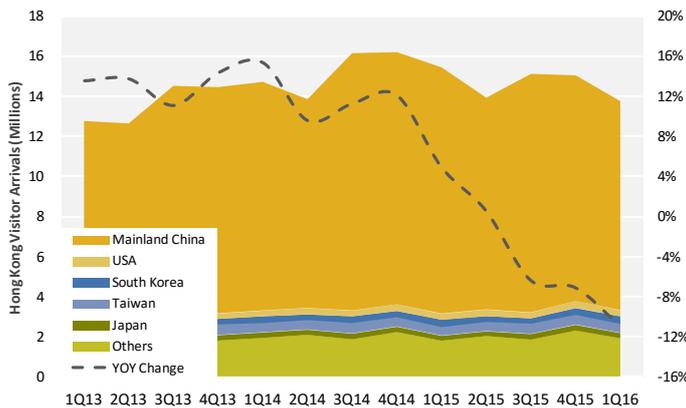


An HVS Quarterly Hotel Market Update

The setback from the decline in Mainland China visitation levels has extended into the first quarter of 2016, negatively impacting hotel markets across the region, especially in Hong Kong and Macau.

Hong Kong

FIGURE 1: HONG KONG VISITOR ARRIVALS



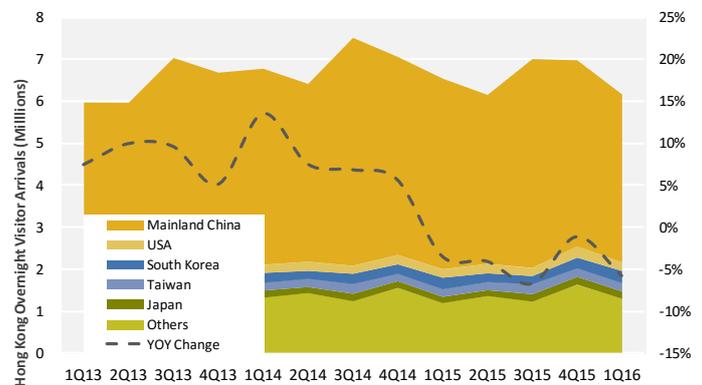
Source: Hong Kong Tourism Board

2015 was a rather difficult year for Hong Kong. Simultaneous declines in the housing market, along with the tourism and retail sectors on the back of heated local, political tensions were a major setback for the city. After an unfavorable year, Hong Kong was well prepared to rebound in 2016. However, disappointments continued as visitation levels did not perform as well as hoped. Total visitor arrivals fell 10.9% compared to same period last year, totalling 13.7 million arrivals. A major factor of this decline was the number of visitor arrivals from Mainland China. Buckling under paramount pressure, even the historically strong first quarter experienced a slump with Mainland China recording only 10.4 million arrivals, a 15.1% decrease from first quarter of 2015.

Despite the strained relations between Hong Kong and China through 2015 and into 2016, arrivals from other major feeder markets held their grounds. As a result of the strong effort to recover from a brief recession, Japan's improved economy led the country to register the highest YoY change among all major feeder markets with YoY of +6.5% with 264,000 arrivals, a 16,000 increase from first quarter of 2015. Trailing behind Japan was Taiwan with a YoY of +3.9% with 484,000 arrivals. In addition, both South Korea and USA recorded positive YoY changes as well, at 1.9% with 372,000 arrivals and 1.8% with 279,000 respectively. Although all major feeder markets increased their visitor counts, the decline from Mainland China impacted Hong Kong much more given its dominant 75.9% share of total visitor arrivals.

In comparison, overnight visitor arrivals did not suffer as severely. During the first three months of 2016, slipped by 5.8%. Despite the moderate decline, the major feeder markets played the same role as they did in the overall visitor arrivals. Mainland China, accounting for the biggest share of overnight visitation at 63.5%, posted a 11.9% YoY decrease with 4 million overnight visitors to Hong Kong. In attempt to compensate, legacy markets such as Japan and Taiwan posted strong performance for the quarter. At +16.8%, Japan sent 170,000 overnight visitors to the city, modestly offsetting the decline from Mainland China. To further support the effort by Japan, Taiwan registered 14.4% YoY increase with 204,000 overnight visitors to Hong Kong. Although comparatively not as strong, South Korea and USA also contributed to positive growth. 286,000 South Koreans were recorded to have stayed overnight in Hong Kong in the first quarter, while 197,000 Americans were recorded. Yet, the scale of these feeder markets still pales compared to the decline of overnight visitors from Mainland China. This 'new normal' will continue to challenge the tourism and hotel industry in the short-to-medium term.

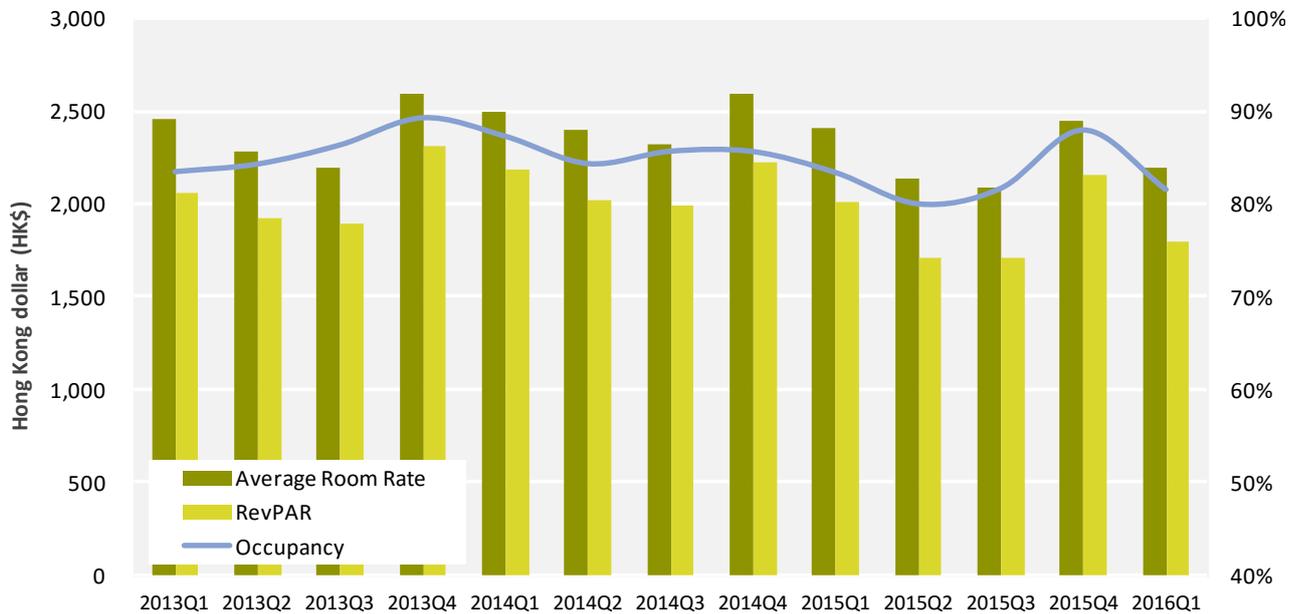
FIGURE 2: HONG KONG OVERNIGHT VISITOR ARRIVALS



Source: Hong Kong Tourism Board

Hong Kong High-Tariff A-Hotel Market Performance

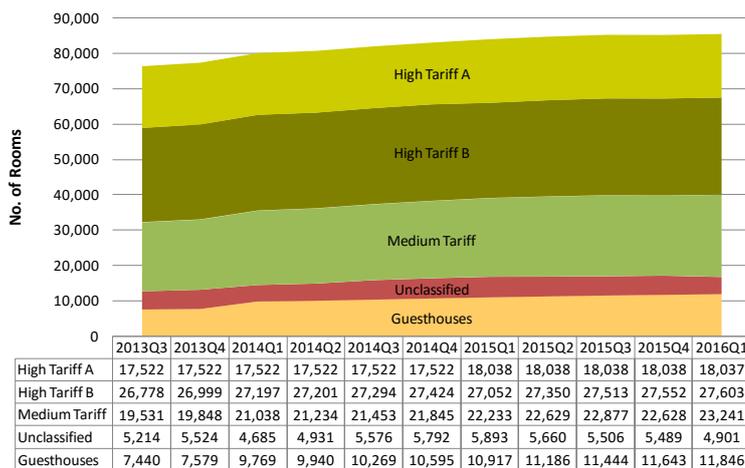
FIGURE 3: HONG KONG HIGH-TARIFF A-HOTEL MARKET PERFORMANCE



Source: Hong Kong Tourism Board

Reflecting the decline in visitation levels, the Hong Kong hotel market endured a full year of RevPAR declines. The impact was specially apparent in the High-Tariff A Hotel market, consisting of luxury and upscale hotels that generally prosper in global cities and yield more effectively during market compression. Over the first three months of 2016, High-Tariff A Hotels posted a modest performance only, falling short of that in the first quarter of 2015. Occupancy decreased by 2.2 percentage points to 83.5% while average rate decline by 9.3% YoY to HK\$1,291. Conversely, RevPAR for the quarter dropped to HK\$1,077 at -11.6% YoY.

FIGURE 4: HONG KONG OVERALL HOTEL MARKET SUPPLY COMPARISON



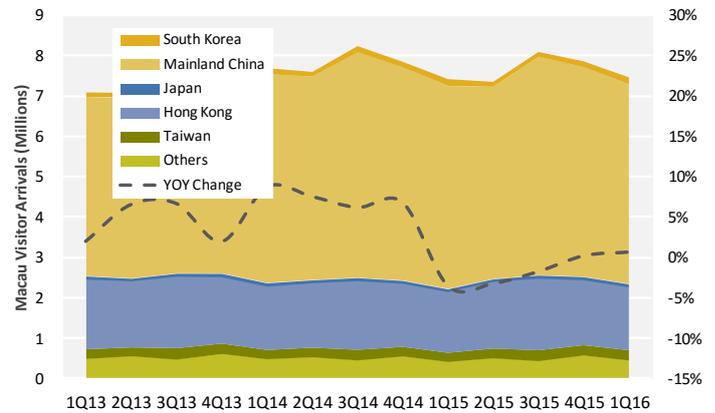
Source: Hong Kong Tourism Board

Despite the recent modest market performance, hotel supply - trailing the trend - continued to grow. Whereas High-Tariff A inventory remained stable, slight increases in the number of High-Tariff B and Medium Tariff hotel rooms, and guesthouses units continued to inflate supply, providing more options for leisure and business travelers. And decompressing the market during a period of declining demand. For the first time since first quarter of 2015, the Unclassified category experienced a decline of more than 500 rooms.

Macau

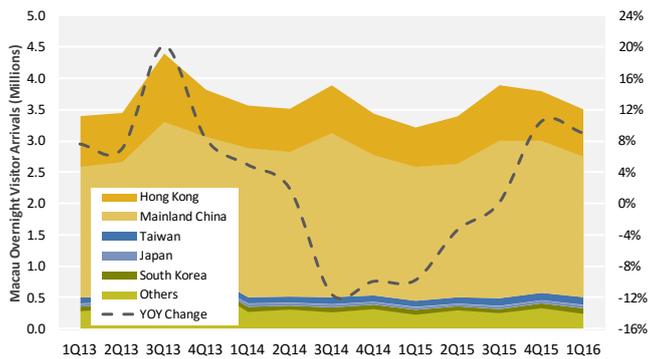
An hour ferry ride away from Hong Kong is another popular tourist destination: Macau. Similarly to Hong Kong, 2015 proved a rocky year for Asia's Gambling Capital. The first quarter of 2016, however, was a silver lining for the city as the almost year-long decline of visitation levels came to an end. Although the city registered a mere 0.6% YoY increase in visitors compared to the first quarter of 2015, this positive change was good news for Macau. The city was able to build momentum from its 0.2% YoY increase from the previous quarter. Notably arrivals from Mainland China recorded a 1.7% YoY decline with 4.9 million arrivals. Once again, Taiwan and Japan doubled down during the quarter. Taiwan registered 11.6% YoY growth with 251,000 arrivals, while Japan posted 11.0% YoY growth with 75,000 arrivals to Macau. As Macau's neighbor, Hong Kong helped build Macaus' positive momentum at 1.6 millions visitor arrivals or +3.6% YoY growth. Coming in closely behind in fourth place was South Korea with 174,000 arrivals at +3.1% YoY.

FIGURE 5: MACAU VISITOR ARRIVALS



Source: Macau Government Tourism Office

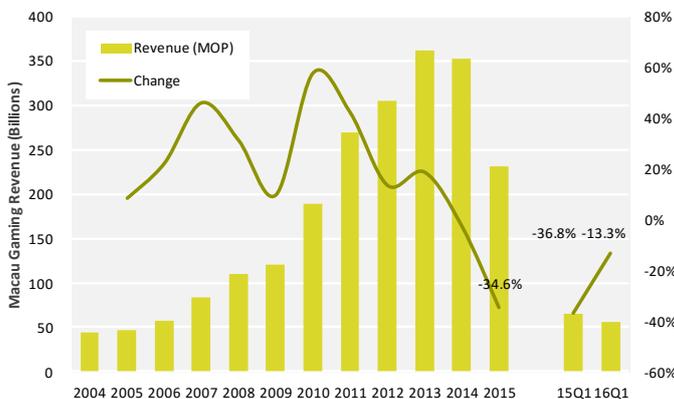
FIGURE 6: MACAU OVERNIGHT VISITOR ARRIVALS



Source: Macau Government Tourism Office

On the other hand, overnight arrivals to Macau continued with steady YoY growth, strengthening previous quarter's performance with a positive 9.0% YoY in the first quarter of 2016, facilitated by the growth in room inventory. Defying the struggles in the gaming industry, all major feeder markets posted impressive YoY growth during the quarter. Japan recorded the fastest pace at 25.5% YoY to 49,000 overnight visitors. At a 24.9% YoY increase, Macau recorded 125,000 overnight visitor arrivals from Taiwan. Hong Kong as the good neighbor, posted a 20.0% YoY increase for the first quarter with 755,000 overnight arrivals. South Korea registered a double-digit YoY growth of 12.3% with 86,000 overnight arrivals. Last but not least, Mainland China, albeit the economy decline, recorded a positive YoY increase of 4.9% to 2.3 million overnight arrivals.

FIGURE 7: MACAU GAMING REVENUE

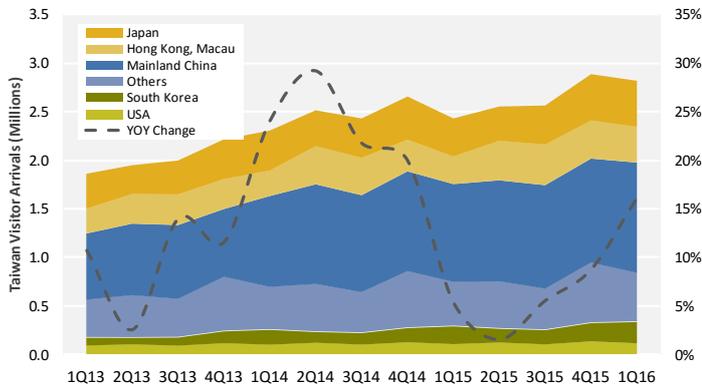


Source: Macau Statistics and Census Service

Gloom prevailed as Macau saw its gaming revenues falling short of a recovery in the first three months of 2016. After a battering 2015, the gaming industry took a heavy toll. Fortunately, Macau was able to start reversing the trend, posting a -13.3% YoY change for first quarter with MOP 56 billion in revenue. Compared to same quarter of 2015, this was an improvement, perhaps some early signs for recovery. However, the revival of gaming in Macau will require time. Regardless of the expansion of game tables, VIP Baccarat cashed in MOP 30 billion while Baccarat earned only MOP 19 billion, declines of 19.3% YoY and 6.5% YoY respectively.

Taiwan

FIGURE 8: TAIWAN VISITOR ARRIVALS



Source: Taiwan Tourism Bureau

Captializing on the ongoing city developments and tourism promotions and campaigns, Taiwan once again demonstrated its solid rising popularity with strong performance in the first quarter of 2016. Overall visitor arrivals recorded 10.6% YoY growth from the same quarter in 2015. Out of the 2.8 million arrivals, 1.1 million travelled from Mainland China, registering a 12.7% YoY growth. Accounting for 16.8% of the visitor arrival share, Japan recorded 475,000 arrivals with a 20.9% YoY increase. As a relatively affordable destination for vacation-hungry Hong Kong people, Taiwan has always been a top destination for vacationing. In the first three months of 2016, Hong Kong posted a remarkable YoY increase of 30.3% with 373,000 visitor

arrivals. Among the major feeder markets,, both South Korea and Japan also recorded positive YoY changes of 19.6% with 218,000 arrivals and 8.0% with 118,000 arrivals, respectively. Taiwan kickstarted 2016 with tremendous results across the board. It hopes to carry on with the upward trend for the next several quarters.

Hotel Market Performance

FIGURE 9: HOTEL MARKET PERFORMANCE IN HONG KONG, MACAU AND TAIWAN

Market		1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Hong Kong	Occupancy (%)	87.3	88.0	90.1	91.3	87.1	87.6	90.0	90.3	90.7	88.7	90.1	89.7	85.7	83.7	86.4	90.0	83.5
	Average Room Rate (HK\$)	1,483	1,412	1,413	1,643	1,472	1,376	1,359	1,580	1,496	1,431	1,411	1,555	1,423	1,249	1,226	1,454	1,291
	RevPAR (HK\$)	1,295	1,243	1,273	1,500	1,282	1,206	1,224	1,427	1,356	1,269	1,271	1,394	1,219	1,045	1,059	1,309	1,077
	RevPAR YOY Change (%)	13.3	10.4	11.0	4.8	-1.0	-2.9	-3.8	-4.9	5.8	5.2	3.8	-2.3	-10.1	-17.6	-16.7	-6.1	-11.6
Macau	Occupancy (%)	87.5	83.1	88.9	88.8	85.7	87.6	90.8	91.9	90.9	90.3	90.7	89.8	81.6	82.4	84.9	85.3	79.0
	Average Room Rate (MOP)	1,476	1,362	1,370	1,473	1,459	1,392	1,436	1,559	1,633	1,554	1,587	1,685	1,656	1,439	1,429	1,481	1,375
	RevPAR (MOP)	1,292	1,131	1,217	1,308	1,251	1,220	1,304	1,433	1,484	1,403	1,439	1,513	1,351	1,185	1,213	1,264	1,086
	RevPAR YOY Change (%)	16.4	0.3	2.5	-1.0	-3.2	7.8	7.1	9.5	18.7	15.0	10.3	5.6	-9.0	-15.5	-15.7	-16.5	-19.7
Taipei	Occupancy (%)	75.5	79.2	73.8	83.7	75.6	73.9	71.8	85.4	78.0	76.0	74.2	84.2	75.8	73.2	70.7	81.2	74.1
	Average Rate (TW\$)	3,975	4,182	3,930	4,258	4,388	4,437	4,061	4,520	4,472	4,598	4,322	4,683	4,625	4,603	4,308	4,681	4,681
	RevPAR (TW\$)	3,003	3,314	2,901	3,564	3,316	3,277	2,914	3,860	3,488	3,493	3,205	3,945	3,507	3,371	3,044	3,802	3,470
	RevPAR YOY Change (%)	7.5	18.6	10.9	7.9	10.4	-1.1	0.5	8.3	5.2	6.6	10.0	2.2	0.5	-3.5	-5.0	-3.6	-1.1
Kaohsiung	Occupancy (%)	61.3	68.6	66.7	71.7	60.1	64.7	67.4	72.2	71.9	72.7	66.5	72.8	66.8	69.3	70.0	75.6	69.1
	Average Rate (TW\$)	2,721	2,302	2,387	2,380	2,687	2,332	2,438	2,421	2,491	2,357	2,342	2,315	2,576	2,341	2,375	2,350	2,578
	RevPAR (TW\$)	1,669	1,579	1,593	1,706	1,614	1,509	1,644	1,749	1,791	1,713	1,558	1,686	1,721	1,622	1,664	1,776	1,782
	RevPAR YOY Change (%)	9.8	4.2	-1.0	-1.9	-3.3	-4.4	3.2	2.5	11.0	13.5	-5.3	-3.6	-3.9	-5.3	6.8	5.4	3.6
Taichung	Occupancy (%)	71.9	78.9	74.5	79.6	68.3	66.1	67.1	72.8	65.8	68.4	68.9	77.0	68.5	65.5	65.8	73.5	62.9
	Average Rate (TW\$)	2,603	2,272	2,440	2,438	2,675	2,458	2,475	2,468	2,564	2,393	2,467	2,429	2,642	2,405	2,462	2,584	2,691
	RevPAR (TW\$)	1,871	1,792	1,818	1,941	1,828	1,625	1,660	1,797	1,688	1,638	1,700	1,870	1,811	1,574	1,619	1,898	1,693
	RevPAR YOY Change (%)	14.6	9.2	16.9	0.0	-2.3	-9.3	-8.6	-7.4	-7.7	0.8	2.4	4.0	7.3	-3.9	-4.8	1.5	-6.5

Source: HKTB, MOTC, MGOT



About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary last year. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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The Hong Kong team has worked on a broad array of projects that include economic studies, hotel valuations, operator search and management contract negotiation, development strategies for new brands, asset management, research reports and investment advisory for hotels, resorts, serviced residences and branded residential development projects. HVS Hong Kong's clients include New World Development, The Wharf, Sun Hung Kai, Samsung, SK, Lotte, Taj Hotels and Resorts, Agile Property Holdings, Citibank and LaSalle Investment Management, amongst others.

About the Authors



A hospitality enthusiast, **Larissa Lam** joined HVS Hong Kong in 2015 as an analyst. Graduated with a Bachelor of Science degree Cum Laude from Boston University School of Hospitality Administration, Larissa seeks to facilitate

HVS researches and market studies with her prior experience in Finance, Sales Revenue, and Operations with several properties in Boston and Hong Kong.



Daniel J Voellm, Managing Partner HVS Asia-Pacific, is based in Hong Kong and has provided advice in all major markets across 18 countries in the region. Daniel works closely with key institutional and

private owners of hotel properties, financiers, developers and investors, and has gained a strong understanding of their investment requirements and approaches to assessing the market value of investment properties. Daniel further advises on property and concept development and strategy.