CBRE Hotels Newsletter

Greater China
June 2010

GREATER CHINA HOTEL PERSPECTIVE

MARKET OVERVIEW

Greater China's hotel industry is emerging from one of its most challenging periods in recent history which saw RevPAR levels in China decline by 26.2% during 2009, despite a national growth in GDP of 8.7%. Globally, the Asia Pacific region was the first to report an improvement in RevPAR in December 2009, driven by the return of international travellers. Many believe that the worst is behind them and that 2010 will be the start of a long road to recovery. The market will no doubt be boosted by ongoing economic growth and other drivers such as the Shanghai Word Expo

Probably one of the most major changes the global downturn has had on the hotel industry in China is the shift in mindset from focusing on international demand to domestic demand. As disposable income levels rise in China, the realisation that domestic demand is core to generating hotel business across all classes of hotels is becoming more apparent. Operators are adjusting their product and marketing channels to ensure they are well positioned to tap into this vast market.

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2010 Q1 Key Economic Indicators - Greater China

	GDP (Nominal) US$ (Million)	GDP (Expenditure) Growth (Real)	Inflation Rate	Unemployment Rate	Number of Tourist Arrivals
Beijing	45,637	14.9%	0.9%	1.4%*	35,795,000
Shanghai	55,793	15.0%	1.5%	4.3%*	1,714,599**
Shenzhen	28,958	11.1%	1.9%	2.6%	7,260,100
Hong Kong	53,750	8.2%	2.0%	2.2%	8,624,688
Taiwan	408,800#	4.72% #	1.3%	5.7%	1,249,636
Wuhan	16,175	15.9%	2.0%	4.2%*	64,268,900*
Macau	5,906	9.2%	1.9%	2.9%	6,115,221

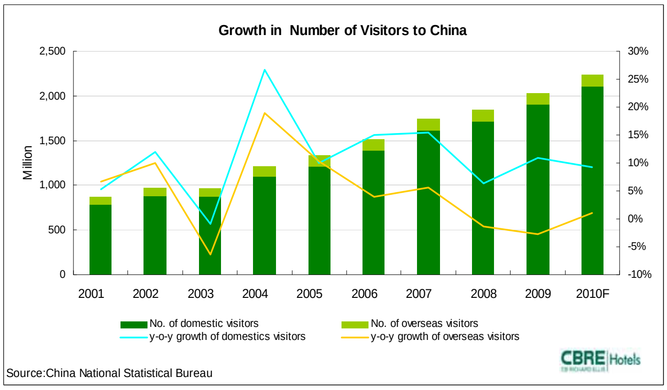
Source: National Bureau of Statistics of China, Census & Statistics Bureau, Tourism Bureau, M.O.T.C., Taiwan

* up to 2009 only **2010 Q1 inbound arrivals

2010 forecast

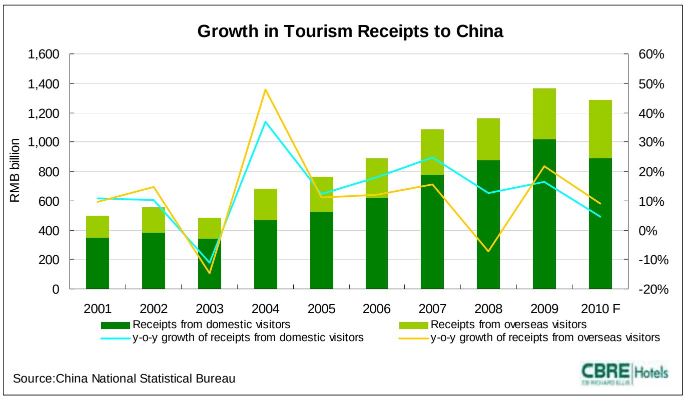
Figures released by PATA[1] indicate that the number of international travelers to the Asia Pacific region fell by around 3% y-o-y for 2009, which is an improvement over the first half of 2009 (which saw a decline of 6%). Full year international arrivals were down for Macau SAR (-5%) and China (-2.7%), whilst Taipei recorded a significant increase of 14% and Hong Kong an increase of 0.3%. Arrivals by mainland Chinese contributed to both these increases, with the relaxation of cross strait ties with China by Taiwan attracting many Chinese travelers. China arrivals make up over 60% of total visitor arrivals to Hong Kong.

In 2009 China recorded 126.5 million inbound international tourists. Domestic tourism accounted for 93.8% of total market share with a total of 1.9 billion domestic tourists recorded. Domestic arrival figures contradict most arrival statistics for 2009 in that they showed an 11% y-o-y growth over the previous year.



With continued economic prosperity encouraging both international and domestic travel, it is forecast that foreign visitor arrivals will continue to improve, and domestic tourism will record single digit growth levels during 2010.

Statistics show that foreign tourism receipts increased by almost 22% y-o-y in 2009, versus a more moderate increase in domestic receipts of 16.4%. Domestic tourism receipts accounted for 74.7% of all tourism receipts for 2009.



The global hotel investment market recorded dramatic falls in activity during 2009 as hotel fundamentals were weak and there was a lack of available and saleable stock. However, the relatively low leverage levels evidenced in Greater China meant that the local market was less dependent on external sources of financing and hotel values did not suffer declines to the same extent as Western counterparts.

Due to limited transactions, it is hard to gauge to what extent hotel values have been affected by the global crisis. However, we believe that values have rebounded and are now on the uptrend, albeit slowly. Potential investors are forecast to be mainly Asian-based, and would include those seeking to benefit from favorable pricing and currency fluctuations. However, investors are still cautious due to the general uncertain sentiment still lingering in the market, especially with the recent instability in European markets.

Since January 2010, key transactions in China include the sale of the Lanson Place Jinlin Tiandi in Shanghai by the Singaporean group Keppel Land,

[1] Pacific Asia Travel Association

and the acquisition of the Chengdu Shama serviced apartments by the hospitality arm of another Singaporean group, CapitaLand, Ascott. In Hong Kong, most notable transactions were also in the serviced apartments sector and involved the disposal of the three operating KUSH properties, which were bought by competitors and will be rebranded. There were no significant transactions in Taipei.

Separately, it is worth noting that 7 Days Inn, the second largest Chinese economy hotel player in terms of hotel count, raised $111.1 million in IPO (American depositary shares) and the China Lodging Group (Hanting hotels) had its US stock debut in March 2010. Both groups have seen a moderate increase in share price since listing.

Looking ahead into 2010 and beyond, China is still considered to be one of the world's leading growth markets with the second largest pipeline of hotels in the world and accounting for some nearly 59% of total new supply in Asia Pacific. The continuing increase in room numbers will create a short term oversupply situation in some locations and sectors, but with strong market fundamentals and ongoing growth in domestic tourism the return of foreign travelers, expanding business locations and an increase in urban population, it is likely that the new supply will be absorbed in the medium to long term. Occupancies are on the uptrend, and it is anticipated that ADRs may take some time to recover and improve.

Cautious optimism is the key word in the industry, with the markets expected to remain volatile and sensitive. The financial downturn has made hoteliers less complacent, and owners are becoming increasing savvy in their investment decisions with many taking the attitude that at the end of the day, it will be those properties which understand and cater to guests needs, and those which are best positioned to capture the future growth markets that will reap rewards and remain competitive.

BEIJING

On the back of the recovery of the global economy, long-distance business travel and holiday tours to China picked up during the Q1 2010. Total foreign inbound arrivals to Beijing reached around 945,000 during the Q1 2010, a significant increase of 22.1% compared with the same period last year. Moreover, as Beijing's office market demand picked up (vacancies have decreased around 1.9% in core locations), we expect a slight increase in Beijing hotels' corporate travel market over the next few months.

On the other hand, travel within China during the Chinese Lunar New Year holidays has become very popular, and many people visit the capital city to celebrate this festival. Domestic arrivals increased slightly by 4.6% compared with the same period last year to around 34.9 million. The rebound of both domestic and foreign arrivals have positively impacted the hotel business.

As at Q1 2010, figures from STR Global showed that the average occupancy rate for hotels in Beijing was 53.9%, an impressive 29.8% growth compared to the same period in 2009. However, the ADR of hotels continued to stand at a low level of around RMB 610, representing a y-o-y decline of 1.4%. The ADR of hotels declined dramatically during the downturn in 2009, and rates have yet to recover. Overall, RevPAR increased by 28% to RMB 329, driven by the strong growth in occupancy.

The late Spring Festival in February also helped January's hotel performance which was clearly better than the same period in 2009. The hotel market suffered the usual drop in business post Chinese New Year. In March 2010, the average occupancy rate increased to 67.1%, an impressive 17.3% y-o-y.

The strong growth is due in part to strong business travel after the Chinese Lunar Year. According to official sources, there were a total of 24 exhibitions/conferences in Beijing during March, while there were only two in the first two months of the year. However, the ADR continued on a downward trend and stood at RMB 653, representing a y-o-y decline of 4.18%.

As of March 2010, the number of high end hotels totalled around 173. There were no new significant hotels launched during this quarter. Nevertheless, nine hotels with 2,817 new rooms are expected to open within 2010, including the Hilton, Four Seasons, Sheraton Dongcheng and China World Summit Wing. Major International hotel operators, such as Marriott, Accor and Peninsula, continue to search new expansion opportunities in the Beijing hotel market. As the CBD expansion plan continues in Chaoyang District and New City Development in Tongzhou District, it is reasonable to believe Beijing's hotel supply will continue to grow over the next 12 months.

Although the hotel market in Beijing is presently in an over-supply situation, probably a post-Olympics situation, the continued strong growth of the China market, plus the anticipated continued recovery of world's economy are all expected to contributed to boost in both domestic and international travel. Further improvement to infrastructure and the staging of international events in Beijing such as the World Travel & Tourism Council Beijing 2010 Summit in the Q2 2010, are expected to have positive impact on the city's hotel market.

SHANGHAI

Demand for hotels in Shanghai is largely driven by the corporate sector, a reflection of Shanghai's position as the financial, trade and business center of China. As the world's spotlight focuses on Shanghai as the host of the 2010 World Expo, Shanghai's hotel market will benefit from an influx of both corporate and leisure travelers, from within China and abroad. Total inbound arrivals to Shanghai reached 1,714,599 during the Q1 2010 representing an impressive increase of 23% compared to the same period last year. International visitor arrivals also grew by 23%, and currently represent approximately two thirds of all visitors to the city. Visitors from Hong Kong reached 102,472, a slight escalation of 8.3 percentage points, whilst the number of visitors from Macau and Taiwan reached 4,248 and 129,490 respectively, representing a y-o-y increase of 14% and 26%.

The growth in visitor arrivals has boosted demand for hotel accommodation in Shanghai. According to STR Global, the average occupancy rate across all hotels for the Q1 2010 was 49.2%, an increase of 18.6 percent compared to Q1 2009, whilst ADR's remained stable with a 0.1% decline. Overall, RevPAR improved by 18.5% to reach an average of RMB 367 for Q1 2010.

Improvements in hotel performance are expected to continue throughout the year, with the market benefiting from additional demand generated by the 2010 World EXPO. For example, STR Global figures for the month of March 2010, show market wide occupancy at 60.4%, an impressive 24.8 percent increase on March 2009. The addition of new hotels in the market somewhat subdued the impact of increasing visitors arrivals on ADRs, with rates experiencing only a moderate increase of 5.5% over the same period to reach RMB 812. However, the overall positive impact of visitor arrivals on hotel performance was considerable, with RevPAR reaching RMB 491 in March 2010, an increase of 31.6 percent compared to March 2009.

The lack of growth in ADR is to some extent a reflection of the increasing supply of new hotels in the market. The current hotel market in Shanghai is characterized by high-end hotels, mainly targeting corporate demand and foreign arrivals whereas lower star-rated hotels mostly cater for domestic tour groups and price-sensitive tourists. Shanghai currently has over 123 high-end hotels, and further additions to supply are expected during 2010 and beyond from many major international hotel companies such Hilton, Shangri-La, Kempinski, Banyan Tree, IHG, Starwood and Accor. The hosting of the Shanghai World Expo has been a key driver in hotel development as investors seek to capitalize on increased visitor arrivals during this period.

The Shanghai World Expo will benefit the Shanghai hotel industry both during and after the event. An estimated 70 million visitors are expected to converge on the city during the Expo creating strong demand for hotels. The legacy left by the Expo on Shanghai will include a greater diversity of hotel products, improved infrastructure, and a heightened status of Shanghai on the international stage. Combined with long term ongoing developments such as the Disneyland Theme Park, Shanghai will continue to build on its reputation as an attractive destination for both business and leisure guests in the future.

SHENZHEN

Designated as the first Special Economic Zone in China, Shenzhen easily connects to Hong Kong and serves as a buffer between a more open border with Hong Kong and China. The number of visitor arrivals to Shenzhen in December 2009[2] was around 8.3 million, representing a y-o-y growth of 11.1%. Cumulative visitor arrivals at year end 2009 reached around 70.7 million, an increase of 4.7% y-o-y. International visitor arrivals amounted to around 8.9 million, reflecting a 3% of y-o-y growth.

Pursuant to the data from STR Global, the ADR of hotels in Shenzhen as at March 2010 was around RMB 723, representing a y-o-y growth of 12.9%. The average occupancy rate of 66.8% showed a y-o-y increase of 8%. Compared to 2009, the performance of hotels in Shenzhen saw a rebound in the first three months in terms of ADR and average occupancy, however the hotel market in Shenzhen was one of the least affected cities during the 2009 global financial crisis in terms of occupancy rates which did not fall as much as primary cities in China. It is expected that hotel performance shall further improve in the run up to the 26th World University Games (which will be held in 2011).

During 2009 a total of six new high-end hotels opened in the city, including JW Marriott, Grand Hyatt, Westin, Ritz-Carlton, Parkview O-City Hotel, and the Aqua OCT Boutique Hotel, increasing room supply by 1,955 rooms. A Hilton hotel is anticipated to open in the 2H 2010 in the new development known as International Finance Centre. In addition, three high end hotels will form part of the Phase 2 of Excellence Times Square project, Huanggang Business Centre project, and Rongchao Centre project, all presently under construction. In the next two years, two other luxury hotels will be launched at Kingkey Finance Center Plaza and Huanan City respectively.

In March 2010, a site which incorporates a high end hotel was acquired by Baoneng Investment Group in Jidiasha, Longgang district, for around RMB 622 million, almost ten times the opening bid. The project will most likely be completed by 2014.

Although the competition among hotels in Shenzhen is anticipated to be keen with a relatively large supply of existing hotels, and more hotels launching, the recovering global economy and large events such as the World University Games and China Hi-Tech Fair will no doubt generate demand for hotels. Shenzhen

[2] Latest available statistics as at June 2010

also benefits enormously from its strategic location near Hong Kong. Presently Shenzhen is divided into geographical submarkets of Luohu, Futian and Nanshan, but from July 2010, the Shenzhen Special Economic Zone will be enlarged to include Boa'an and Longgang districts. Although the main commercial districts including the key hotel clusters tend to be around Luohu due to the location of the train station from Hong Kong, the inclusion of new districts will disperse the market as new CBDs develop, and create new areas of business and tourist demand.

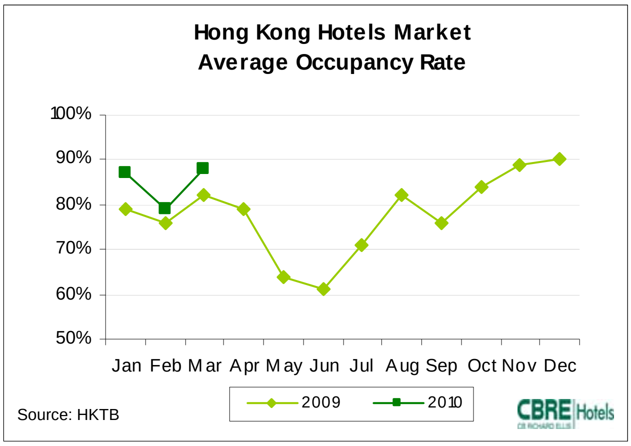
HONG KONG

The Hong Kong hotel market has been benefitting from a strong rebound from the international and long-haul markets. The market is well known for being resilient and historically it has bounced back from downturns very quickly, such as the 2003 SARs epidemic. There was a marked increase in international visitor arrivals in Q1 2010 with approximately 8.6 million arrivals, a rise of some 16.5% y-o-y. Visitor arrivals from mainland China and South Korea witnessed a growth of 18.7% and 42.6% respectively.

In March 2010, the number of visitor arrivals to Hong Kong was recorded at 2.5 million, a growth of 14.4% y-o-y. Cumulative visitor arrivals totaled around 7.4 million as at Q1 2010, an increase of 16.5% y-o-y. Statistics show that visitors from most countries showed a positive growth trend, which only further reinforces the market is rebounding. Total visitor arrivals during the Chinese New Year period increased 16.9% (to 782,160) over the same period of 2009. Arrivals from the mainland China make up more than 70% of arrivals.

At the same time, MICE travel has showed a similar growth trend, in line with the recovery from the global financial crisis, with total MICE arrivals of 281,787 in Q1 2010, an increase by approximately 28.9% compared to the same period in 2009. There were a total of 37 events held in Q1 2010 compared with only 29 events in the same period in 2009.

As at the end of March 2010, there were a total of 171 hotels in Hong Kong. During Q1 2010, four hotels/serviced apartments in Hong Kong opened, (including a second hotel from the Swire group, East Hong Kong, Regal iClub, Domus Queens, and Yi and Y-Loft) with an addition of 615 rooms.



The occupancy level fell to below average of 80% during 2009 and was the first time since 2003. In Q1 2010, the average occupancy rate for all hotels showed an increase of 6% y-o-y to 85%. The average occupancy rate of high Tariff A and B hotels increased by 7% and 4% respectively to 78% and 87%, whilst that for medium tariff hotels achieved 89%.

Since February 2010 ADRs of hotels have started to bounce back after having fallen to HK$882 (all hotels) in Q3 2009. As at March 2010, the ADR for all hotels was at HK$1,106. ADRs for high tariff A, high tariff B and medium tariff hotels stood at HK$1,907, HK$876 and HK$534 representing an increase of 0.9%, 6.6% and 7.7% y-o-y.

According to Hong Kong Tourism Board, there are 21 new confirmed hotel projects scheduled to be opened between April and December 2010, of which the most notable project is the Ritz Carlton Hong Kong to open in Kowloon West.

The Hong Kong Government implemented measures in April 2010 to revitalize old industrial buildings for their redevelopment or conversion into cultural and creative industries in six key areas in Hong Kong. The plan included the conversion of industrial building for hotel use and since the implementation. To date, the response by developers to these new measures has been positive; Ever Sun International Holdings have submitted plans to convert Wing Shan Industrial Building to feature exhibition and gallery space and a hotel. This is but one example of possible conversions to hotels under consideration by developers. Since the demand for medium tariff hotels in Hong Kong remains strong, more industrial building conversion proposals are expected to be applied for.

The outlook for the hotel market in Hong Kong is positive, the strong visitor arrivals gains in Q1 in 2010 and maintained strong demand growth for the visitors from Mainland China.

MACAU

During 2009, the Macau tourism industry was impacted by the global economic downturn, the H1N1 flu outbreak and the tightening of visa approvals for mainland residents, the total visitation in Macau declined. However, riding on its success as regional gambling hub, Macau seems to be recovering and has a showed a growth in tourist arrivals since the beginning of 2010.

The territory recorded some 6.1 million arrivals Q1 2010, an increase of approximately 12% y-o-y. Statistics show mainland Chinese and Hong Kong made up 82.8% of arrivals with the numbers from the former growing almost 21% y-o-y, despite strict visa restrictions, as a result of increased demand from the burgeoning Chinese middle class.

According to the Macau Statistics and Census Services, the gaming sector recorded gross gaming revenue of approximately US$1.7 billion in Q1 2010, a large 57% growth over the same period in 2009. Macau generated approximately US$14.9 billion in gaming revenue in 2009, almost 10% increase from 2008, which was itself a record breaking year. The increase in gross gaming revenue during 2010 in contributed in part to the growing middle class in mainland China and their strong desire for entertainment and gambling.

In March 2010, the government announced that the number of new gaming tables would be capped at 5,500 over the next 3 years and there will be no hotel/casino developments in five planned land reclamation projects. This decision was made to control the gambling market and in an attempt to diversify the territory to cater for families and create a more entertainment orientated destination.

Although this restriction may slow the overall pace of the gaming market in Macau, approved hotel/casino developments will continue as planned. This includes phase I of a new Sands casino which is expected to open in mid 2011 followed by phase II by the end year. Sands announced that a licensing agreement has been signed with Playboy Enterprises Inc to bring the famous Adult Playboy club to Macau. Galaxy Macau's HK$14.1 billion project, the first Asian-centric integrated resort is expected to open on schedule in early 2011. The Wynn Group is considering relocating their global headquarters from Las Vegas to Macau and plan to build a third major casino in Macau to be completed before the end of 2013. They opened Wynn Encore Macau, a "boutique" style casino, in April which has 61 tables.

As at March 2010, there were around 92 hotels in Macau providing approximately 19,408 rooms. This represents an increase of approximately 11% in terms of room number when compared with March 2009. The new hotels opened including the bundle of hotels at the City of Dreams: Hard Rock Hotel, Grand Hyatt and Crown Towers, and Hotel Lan Kwai Fong. The average occupancy rate remained high; in March 2010 it was recorded at 79.7%, reflecting a 14.2 percentage-point increase y-o-y. In Q1 2010, the average occupancy rates for 5-star, 4-star and 3-star hotels were 77.9%, 84.2% and 82.0% respectively.

During Q1 2010, the ADR of 5-star hotels in Macau was MOP 1,333, a slight increase of 2.1% over the corresponding period in 2009. The ADR of 4-star and 3-hotels showed an increase of 17.7% and 12.3% respectively

Statistics show that the average length of stay increased y-o-y from 1.39 nights in the Q1 2009 to 1.52. It is expected that this trend will continue to rise as Macau develops into a resort and leisure destination similar to Las Vegas.

Singapore's recent inaugurated Resort World Sentosa and Marina Bay Sands, have become a major competition for Macau. Sentosa reported that more than 149,000 visitors in its first full week of operations. However, based on anecdotal information Singaporeans will make up over 50% of guests for Resort World Sentosa, and if so, the impact on Macau will only minimal, bearing in mind also that the majority of visitors to Macau are from mainland China and Hong Kong.

The continuing strong economic fundamentals of China, particularly Guangdong Province and Hong Kong, are expected to continue support the future of tourism and gaming in Macau, and the outlook is positive, despite the large projects which have been completed over the last few years and the pipeline projects. Macau has developed a unique niche for itself as Asia's gambling destination.

TAIPEI

In 2009 Taiwan saw visitor arrivals increase by 14.3% despite the sluggish economic environment. Long standing number one source of visitors, the Japanese, accounted for 22.8% of visitor arrivals, whilst mainland Chinese arrivals accounted for 22.1%. During Q1 2010 total visitor arrivals reached nearly 1.3 million, demonstrating an increase of 28.1% y-o-y, and making mainland Chinese the official the largest source market to Taiwan as Japanese arrivals witnessed a mild decline. Visitors from mainland China and Japan accounted for 27.5% and 21.8%, respectively.

Visitor arrivals hit a historical high in March 2010 with approximately 516,000 arrivals. Compared with March 2009, the number of leisure visitors grew significantly by 46.0% to 303,714 mainly due to the growth trend of tourists from mainland China, however at the same time the number of business travelers also recorded a y-o-y growth of 21.4% to reach 91,664. These figures show that Taiwan is clearly in recovery mode from the global economy.

The hotel market is positioned well to be the beneficiary of the tourism boom in Taiwan, to cope with the influx of arrivals. During Q1 2010 the average occupancy rate for tourist hotels in Taipei City averaged 72.4%, trending upward from 67.9% over the same period last year. In the first 3 months of 2010, February saw a slight drop in average occupancy rate as a result of a fall in visitors from Japan. During the same period ADRs witnessed an increase of 2.2% y-o-y to NT$3,535, but ADRS showed a similar pattern of a slight fall in February as the number of Japanese arrivals dropped by 25.7% y-o-y during Chinese New Year. Advertising and promotional campaigns launched by the Tourism Bureau have been quite successful in attracting visitors from various countries.

As at the end of March 2010, there were 23 international tourist hotels and 10 standard tourist hotels in Taipei City, which collectively offer a total of 9,095 rooms. No new projects were launched during the Q1 2010, however the luxury Palais de Chine Hotel, operated by a local hotel operator, opened in May with 280 rooms. Separately the Fullon Hotel opened in Shenkeng Township, a short drive distance to downtown Taipei by expressway. A total of 317 guest rooms are provided by this new hotel.

International hotel chains are racing to boost their presence in Taiwan to tap into the booming tourism industry. Accor's first Novotel, the Novotel Taoyuan International Airport Hotel, Taipei, is set to open later this year; IHG plans to open its first managed Crowne Plaza in Kaohsiung by the end of the year. Other hotels that will open in the second half of 2010, include Starwood's W Hotel and Le Meridien, and the Kagaya (which is a renowned Japan-based hot spring hotel).

Most of the new global flags hotels are planned in Taipei's Xinyi district. Prominent local hotel group Formosa International Hotels also plans to open a new hotel – Silks Place Taipei in the district in 2013. This group announced that it acquired the luxury hotel brand, Regent, from Carlson Group earlier this year for US$56 million. As the owner of the Grand Formosa Regent Taipei, Formosa has a long history with the Regent brand. The group also plans to open a new brand of properties called Just Sleep that will be targeted at budget business travelers from the mainland. The first of 20 planned hotels will open at the end of June in the center of Taipei.

As mainland Chinese visitors have become a dominant market sector in Taiwan's tourism, the Taiwanese government has adopted several approaches to offer more convenience to mainland tourists. For instance, the government approved the use of China's UnionPay cards in Taiwan this May. Furthermore, Taiwan Strait Tourism Association, a quasi-official agency, opened its first office in Beijing in early May, which is established to introduce and promote Taiwan as a tourist destination to Chinese citizens. Of note, several Taiwanese hospitality groups are interested in setting up operations in China, including the Lalu Sun Moon Lake, a Taiwanese chain luxury hotel, set to open in Qingdao, and Les Suites Orient which opened its first hotel on the Shanghai Bund earlier this year.

Going forward, Taipei's hotel market is likely to remain highly competitive while hospitality industries in other regions in Taiwan are expected to see more hotel operators, local and overseas, tap into the market over the next few years. Overall, the hotel sector in Taiwan is fairly promising on the back of steadily increasing visitor arrivals and enhanced tourism infrastructure.

CITY FOCUS – WUHAN

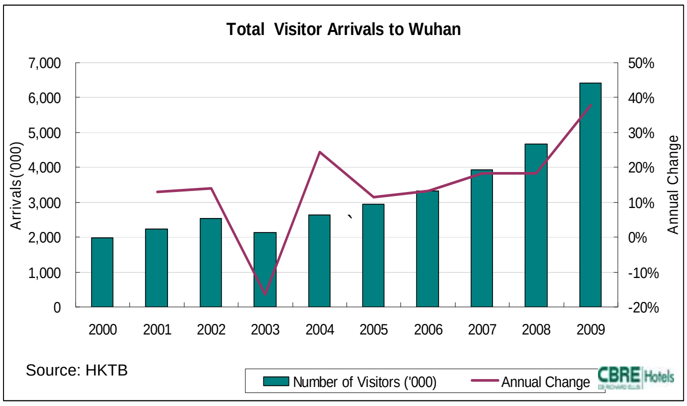
Wuhan is the capital city of Hubei province and is one of the most prominent secondary cities in Central China. The city's strategic location makes it one of the most important transportation hubs and communication networks in inland China, as it is approximately 1,000 km from key cities of Beijing (north), Shanghai (east), Guangzhou (south) and Chengdu (west), and is commonly referred to as a "thoroughfare to nine provinces".

The city has a permanent population of around 9.1 million and ranked in China's top 10 most densely populated cities. It is a major heavy industrial centre noted for the production of steel and vehicles, and is nicknamed the "Detroit of China".

The city has been the focus of the Central Governments growth strategy and this has created expansion in many industrial sectors and businesses, and foreign direct investment has been generally positive since 2001. There are a number of active large-scale real estate projects including Wuhan Xintiandi by Shui On Land, and the Wuhan Wangjiadun CBD development project on the old airport site, which is ear-marked to be a new commercial district.

Wuhan road and rail infrastructure has significantly improved over the last few years. Wuhan's was the fifth Chinese city to start a metro system (after Beijing, Tianjin, Shanghai, and Guangzhou) with the first metro line opening in 2004. By 2012, a further five lines are expected to be completed. In December 2009, the first commercial train for the Wuhan–Guangzhou High-Speed Railway (also known as the "Wuguang Passenger Railway") started services. The 968-kilometre line is operated by China Railway High-speed and is presently the world's fastest train service, with average speed of 313 km/hr. The journey time between the cities has been slashed from ten and a half hours to around three hours.

The Wuhan Tianhe International Airport opened in 1995, is one of the busiest airports in central China. It was selected as China's fourth international hub airport after Beijing Capital International Airport, Shanghai-Pudong and Guangzhou Baiyun Airports. A second terminal was completed in March 2008.



From 2000 to 2009, visitor arrivals to Wuhan has recorded double digit growth except for 2003 when total arrivals dropped by over 16%. Total visitor arrivals recorded y-o-y growth rates of 18.4% and 37.7% for 2008 and 2009 respectively. It is noted however that visitor arrivals are predominately domestic, taking up around 98& of market share. In 2009, foreign arrivals numbered around

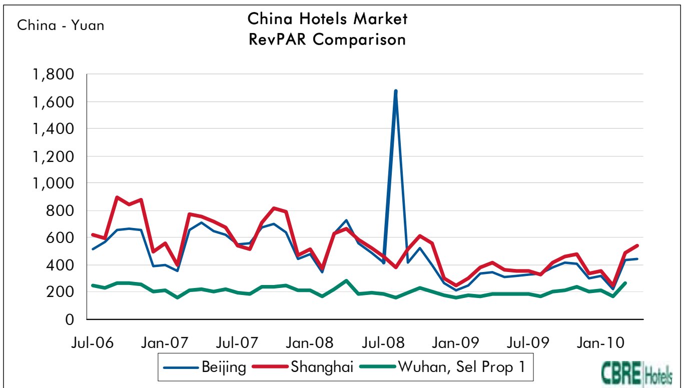
669,000,which is a significant increase over the statistics for 2000 which stood at around 221,600 arrivals.

When compared with primary cities and more established secondary cities in China such Chengdu and Hangzhou, the hotel market in Wuhan is still relatively immature in terms of the number of internationally branded hotels operating in the city. In the 4 and 5-star hotel market nearly 60% of hotels are still locally run hotels.

The existing supply of hotels is typical of a tertiary city in that it the market is dominated by domestic players, but increasingly global flags are opening hotels. One of the older international run hotels to open was the Shangri-La in 1999, and two Holiday Inns. According to the latest official data (2008), there were a total of ten 5-star rated hotels, twenty-five 4-star rated hotels and forty-eight 3-star rated hotels in Wuhan. International hotels in Wuhan include The Shangri-La, Novotel, Ramada, New World Hotel, Marco-Polo, Holiday Inn and Renaissance. Hotels in the pipeline include Westin Wanda (2011), InterContinental Wuhan (2012), Sheraton (2012), Harbour Plaza (2012), and several large domestic branded hotels.

Most hotel activity is found in the key commercial locations, of which there are four main clusters: Hangkou District (Hangkong Road and Jianshe Avenue) and Wuchang District (Zhongnan Road and China Optical Valley). Over 40% of existing high end hotels are found in Hankou, and around 30% in Wuchang.

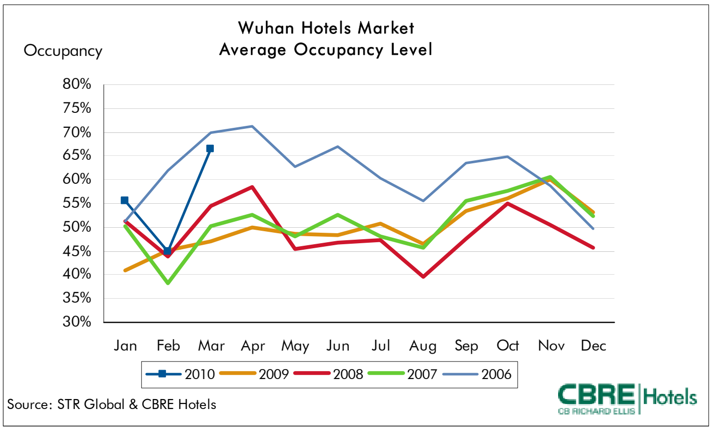
The performance hotels in Wuhan has been improving over the last few years as new high end hotels open, reinvigorating the market and raising the overall quality of accommodation performance, as the expectation of end users become more sophisticated. Overall, the market lags the national average in terms of both occupancy levels and ADRs, but statistics over the during the first three months of the year show that the occupancy rate in the Wuhan market has exceed the national average albeit by only a small margin. As at Q1 2010, the ADR of the general Wuhan hotels market stood at around RMB 450.

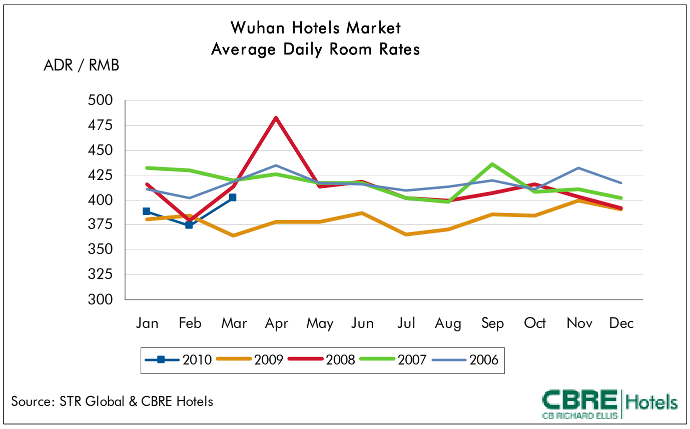


Source: STR Global/CBRE Hotels

In general the Wuhan hotels market underperforms that of the primary cities of Beijing and Shanghai in terms revPAR, as the market is less mature with a smaller collection of luxury hotels and different demand set.

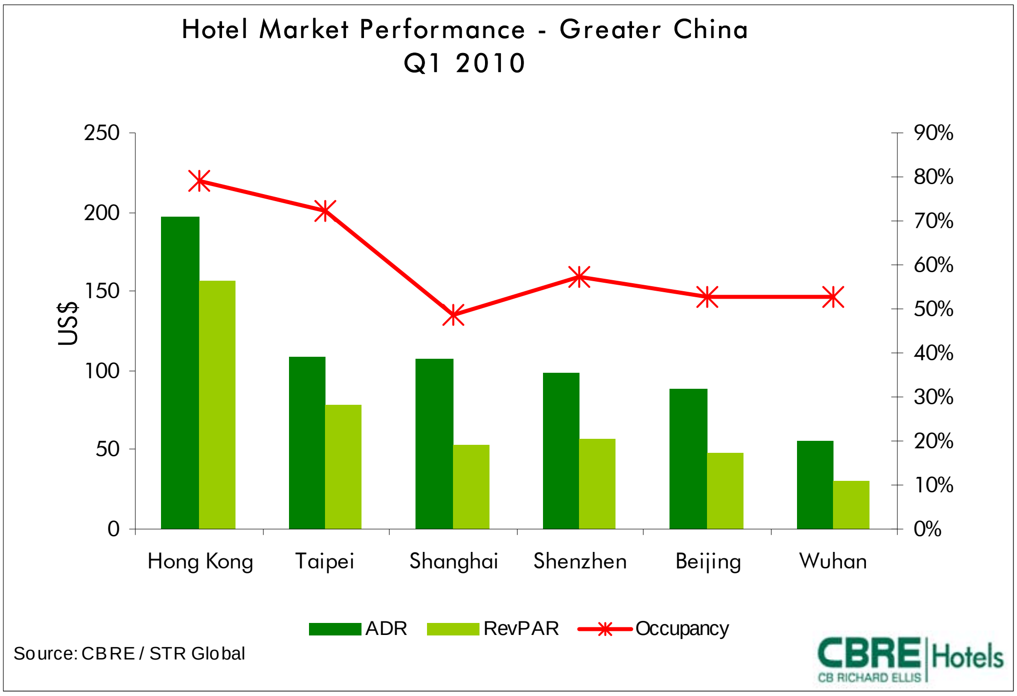
According to data from STR Global, as at March 2010 the average occupancy level of the overall Wuhan hotel market stood at around 66.4%, which is a considerable increase from the same month in 2009 (47.1%). Year to date occupancies at are 49.2%, versus the national average of 53.2%. Over the last few years the average occupancy has followed a downward trend, falling from an average of 61.4% in 2006 to 50.0% in 2009. The large number of new hotels opening in Wuhan has partly contributed to this fall; hotels which opened during this period include Howard Johnson, Ramada Plaza Optical Valley, Renaissance, New World Hotel and Marco Polo Hotel.





ADRs for March increased marginally y-o-y from RMB 364 in 2009 to RMB 401 recorded this year, and year to date figures show the same trend with Q1 2010 ADRs at RMB 390, reflecting a slight 3.9% increase y-o-y. Since 2006 ADRs have generally remained above RMB 410, though as with the whole market, 2009 was a weak year with ADRs falling to around RMB 380 for the year.

The Wuhan market has been less affected by the financial crisis than many other cities across China, but as with the overall market, there is still some uncertainty in the market. It is seen that though occupancies may increase, ADRs will take some time to recover, and the forecast pipeline will affect the performance in the short term. Overtime, there will be an upgrade of hotel quality with the increase of internationally run hotels opening, and the market will mature. Being a predominantly industrial location, Wuhan hotels will have a heavy reliance on domestic demand, which based on anticipated forecasts, remains positive.



Abbreviations:
ADR – Average Daily Room Rate
EMEA – Europe, Middle East and Africa
GDP – Growth Domestic Product
MICE – Meetings, Incentives, Conferences and Exhibitions
RevPAR – Revenue per Available Room
y-o-y – Year on year

Currency conversions:
US$ 1 to RMB 6.82900
US$ 1 to HK$ 7.75450
US$ 1 to NT$ 32.1915
US$ 1 to MOP 8.02541

Note: Some of the data quoted in this Newsletter is extracted from STR Global

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