HOTELS IN MAINLAND CHINA

Checking out the opportunities for future growth

October 2022

Greater China Research

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Executive Summary

The current market

According to data from Meadin (MTA), in 2022, it is estimated that the number of hotels in mainland China's first-tier cities is over 38,000, of which, Beijing, Shanghai and Guangzhou have around 10,000 hotels, while Shenzhen's total is around 7,400.

With regard to recent new hotel supply, the COVID-19 epidemic in 2020 has certainly impacted on volume numbers for each of the first-tier city markets. Having said this, the number of hotels opened in these markets is still considerable.

Looking at overall hotel market occupancy, average room rates and RevPAR change in the first-tier city markets between January-July 2019 and January-July 2022, a general market softening was witnessed. According to STR, all three market performance indicators across all first-tier cities dipped on the pre-pandemic-registered figures.

What's next?

Ahead, several factors, including:

- The changing demographics;
- Changing travel consumption behaviour;
- A greater want for convenience;
- A heightened awareness of health, safety and cleanliness, and;
- A growing desire for a unique stay experience...

...are and will increasingly come into play within the hotel sector in mainland China and hotel investors, developers and operators need to be aware of them in order to capture any new business opportunities.

The changing demographics

As mainland China becomes the world's second largest economy, the number of middle-class families is growing in mainland China. Today, the middle-income group in mainland China stands at over 300 million people.

Changing travel consumption behaviour

The hotel stay consumption behaviour of travellers in mainland China has undergone tremendous changes, and new segmented groups, such as girlfriends, online gamers, ,couples and famillies cannot be ignored.

A greater want for convenience

In recent years, with the rapid development of technology, hotel guests in mainland China have increasingly demanded new types of efficient and convenient hotel services which feature high-tech solutions. Three important areas where technology is and will play an important role in enhancing convenience are:

- Front desk and housekeeping services;
- Room services, and;
- Dining services.

A heightened awareness of health, safety and cleanliness

As COVID-19 first began to gain a footing in mainland China in early 2020, many hotel operators in the region quickly took steps to ensure hotel building health and safety levels were strengthened, in an effort to combat the spread of the virus. Much mitigation work was carried out at the time and is still being carried out, including the establishment of hotel entrance health and safety measures, and entrance registration procedures and protocols for all guests, visitors and staff entering the hotel.

Introduction

The hotel market in mainland China has been influenced by a number of factors over the last couple of years, not least by the COVID-19 epidemic and subsequent lockdowns and travel restrictions. This report generally examines the hotel sector in mainland China and looks to provide an understanding of the aspects that will influence new business opportunity generation in the region in the future. In particular, the report focuses on the following aspects:

- The current market, and;
- An indication of 'what's next?' for hotels in the region, including:
    - The changing demographics;
    - Changing travel consumption behaviour;
    - A greater want for convenience;
    - A heightened awareness of health, safety and cleanliness, and;
    - A growing desire for a unique stay experience.

A growing desire for a unique stay experience

Millennials and Generation Z travellers also want to explore the places they visit through a local perspective and are willing to find, plan and participate in those extra special activities that elevate the overall travel experience. As a consequence, more hotels in mainland China are beginning to place a greater emphasis on local and differentiated elements in their design and services in order to attract these groups of younger-generation travellers.

Hotels in mainland China – The current market

To understand what some of the new business opportunities might be in the future, for any real estate sector, let alone the hotel sector, it is important to have a grasp of the current market situation and circumstance.

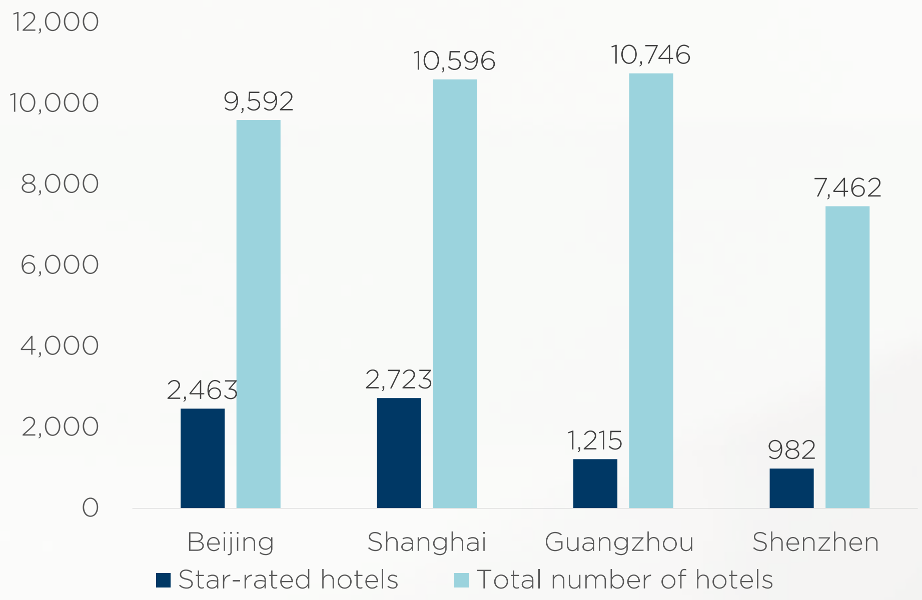
When considering the mainland China market, Beijing, Shanghai, Guangzhou and Shenzhen, as gateway cities in mainland China, are the cities which enjoy the highest level of mature hotel industry development, the largest industry demand and the most extensive industry brand coverage. Industry performance of late in these locations, however, has come under pressure due to a number of factors, with one of the most important being the impact of the COVID-19 Omicron variant outbreak and the subsequent imposed lockdowns.

Sector stock and supply

According to data from Meadin (MTA), in 2022, it is estimated that the number of hotels in mainland China's first-tier cities is over 38,000, of which, Beijing, Shanghai and Guangzhou have around 10,000 hotels, while Shenzhen's total is around 7,400.

As for the total number of star-rated hotels in the four cities, this is estimated to be over 7,300. Among them, there are about 2,500 in Beijing and in Shanghai, and about 1,000 in Guangzhou and in Shenzhen (Figure 1).

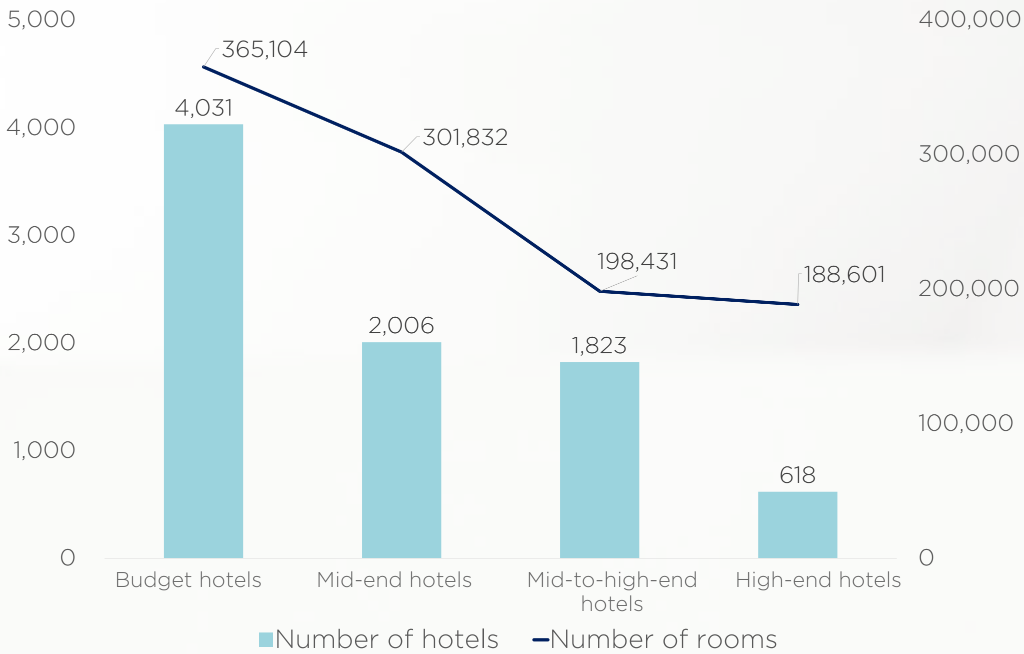
Figure 1: First-tier cities: Star-rated hotels and total hotel stock (2022)



Note: Star-rated hotels include listed star-rated hotels and hotels in accordance with the market star-rated standard. The total number of hotels includes non-star-rated hotels, such as hotels, homestays, apartments, hostels, etc.

Source: Meadin (MTA), Cushman & Wakefield Research

Figure 2: First-tier cities: Hotel and room stock by hotel category (2022)



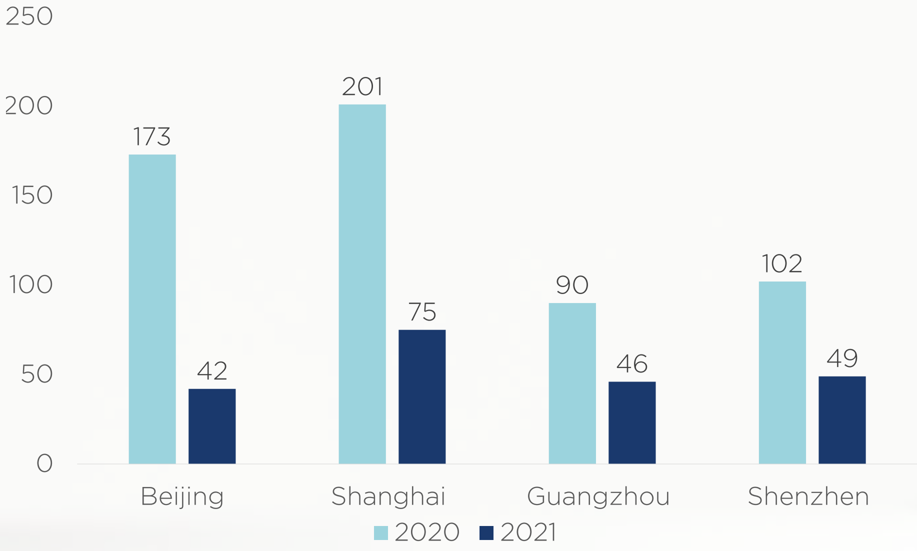
Broken down into hotel group subcategories, in these city markets, the largest number of hotels is taken up by the budget hotel category, followed by mid-end hotels, mid-to-high-end hotels and high-end hotels (Figure 2).

Note: High-end hotels are five-star standard hotels and above. Mid-to-high-end hotels are four-star standard hotels. Mid-end hotels are three-star standard hotels. Budget hotels are two-star and standard hotels and below.

Source: Meadin (MTA), Cushman & Wakefield Research

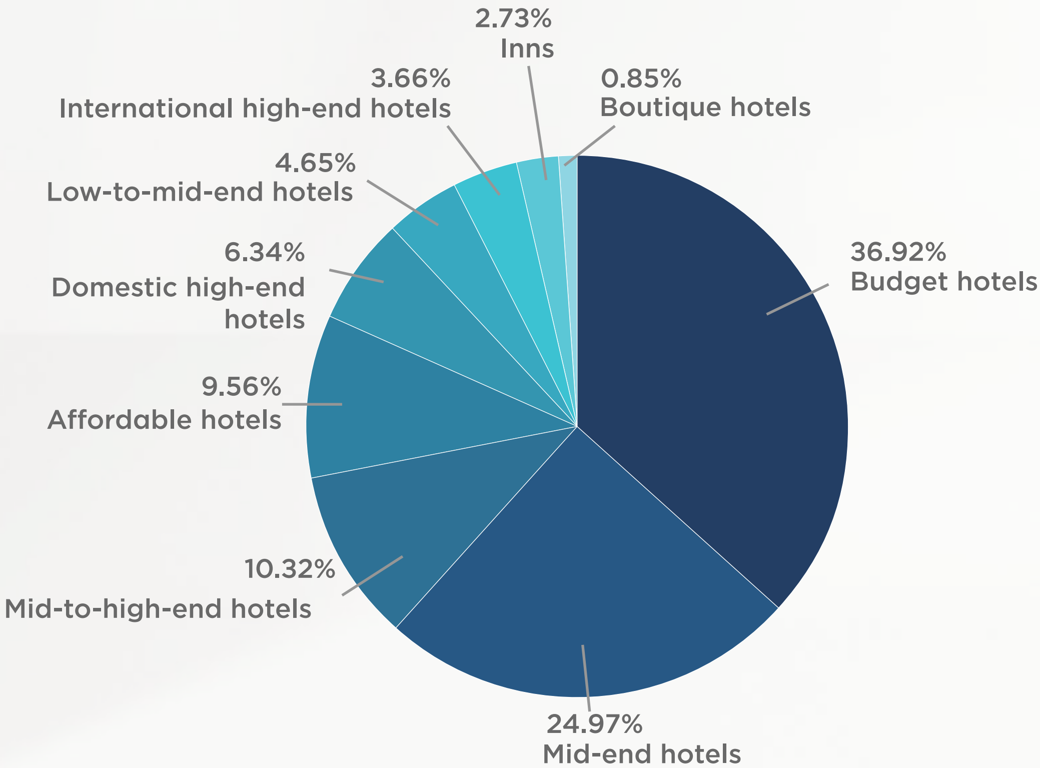
With regard to recent new hotel supply, the COVID-19 epidemic in 2020 has certainly impacted on volume numbers for each of the first-tier city markets. Having said this, the number of hotels opened in these markets is still considerable (Figure 3).

Figure 3: First-tier cities: Number of hotels opened (2020 and 2021)



Source: Meadin (MTA), Cushman & Wakefield Research

Figure 4: First-tier cities: Hotel category market share breakdown (2022)



Source: Meadin (MTA), Cushman & Wakefield Research

In terms of hotel group subcategory number make up in first-tier cities, budget hotels, mid-end hotels and mid-to-high-end hotels occupy the top three positions, accounting for 36.92%, 24.97% and 10.32%, respectively. Non-standard accommodation accounts for the least number of hotels, with inns and boutique hotels accounting for 2.73% and 0.85%, respectively. Affordable hotels, low-to-mid-end hotels, domestic high-end hotels, and international high-end hotels occupy the middle ground in terms of numbers, accounting for 24.21% in total (Figure 4).

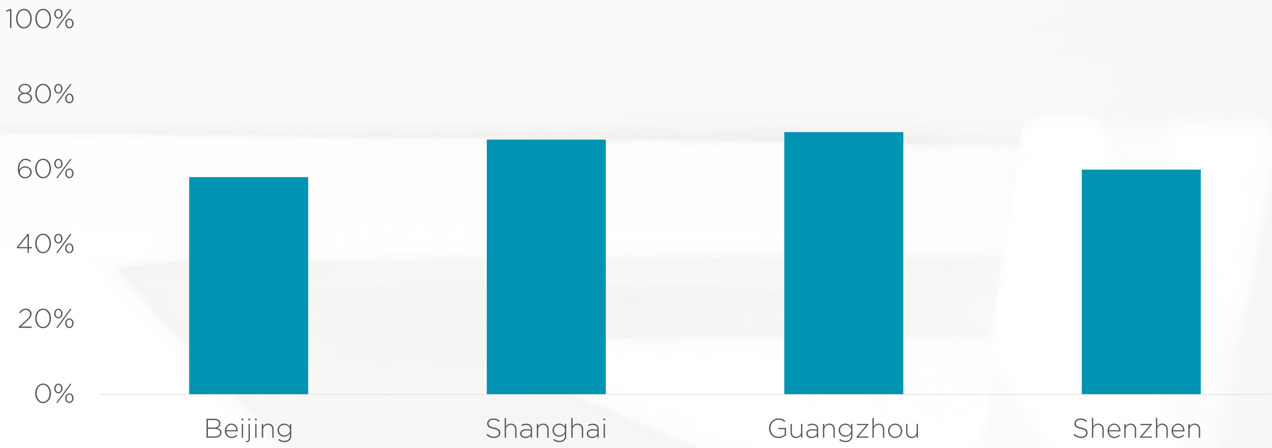
Further analysis on the number of hotels under a particular brand by Meadin (MTA) shows that the top three brands in first-tier cities are Hanting Hotel, 7 Days Hotel and Home Inn. Moreover, there are 14 brands with more than 100 hotels and 15 brands with between 30 and 50 hotels, all of which are mainly budget hotels and light and mid-end hotels.

Sector performance

When comparing the overall hotel market occupancy, average room rates and RevPAR change in the first-tier city markets in mainland China between January-July 2019 and January-July 2022, a general market softening was witnessed.

According to STR, the overall hotel market occupancy rate change figures for the respective first-tier city markets during the January-July 2022 time period hovered between 60% to 70% of the numbers achieved during the January-July 2019 time period (Figure 5).

Figure 5: First-tier cities: Overall hotel market occupancy rate change (January-July 2019 and January-July 2022)

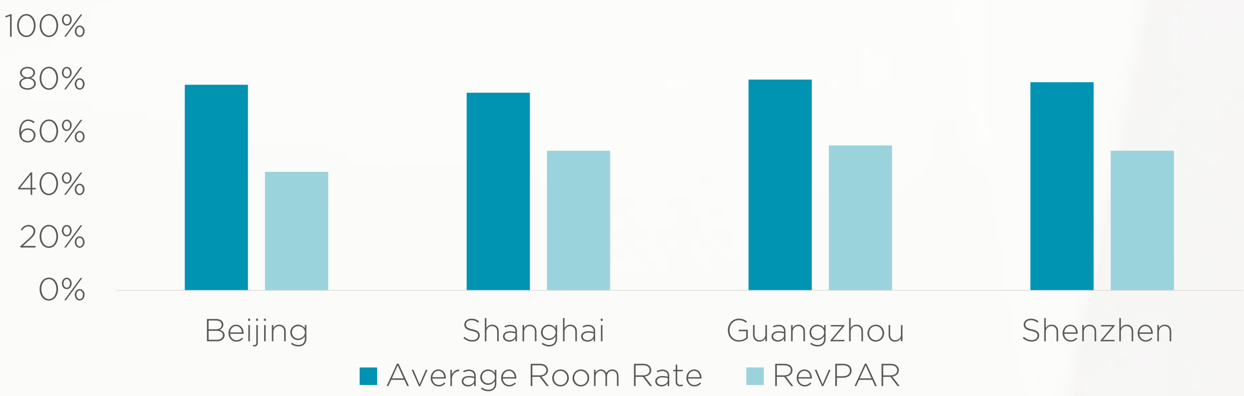


Note: January-July 2019 figures = 100%

Source: STR, Cushman & Wakefield Research

As for the overall hotel market average room rate figures for the same respective cities, according to STR, the numbers for the January-July 2022 time period floated between 75% to 80% of the numbers achieved during the January-July 2019 period. As a result of occupancy and room rate performance, RevPAR was also down, with Guangzhou being the best performing market (Figure 6).

Figure 6: First-tier cities: Overall hotel market average room rate and RevPAR change (January-July 2019 and January-July 2022)



Note: January-July 2019 figures = 100%

Source: STR, Cushman & Wakefield Research

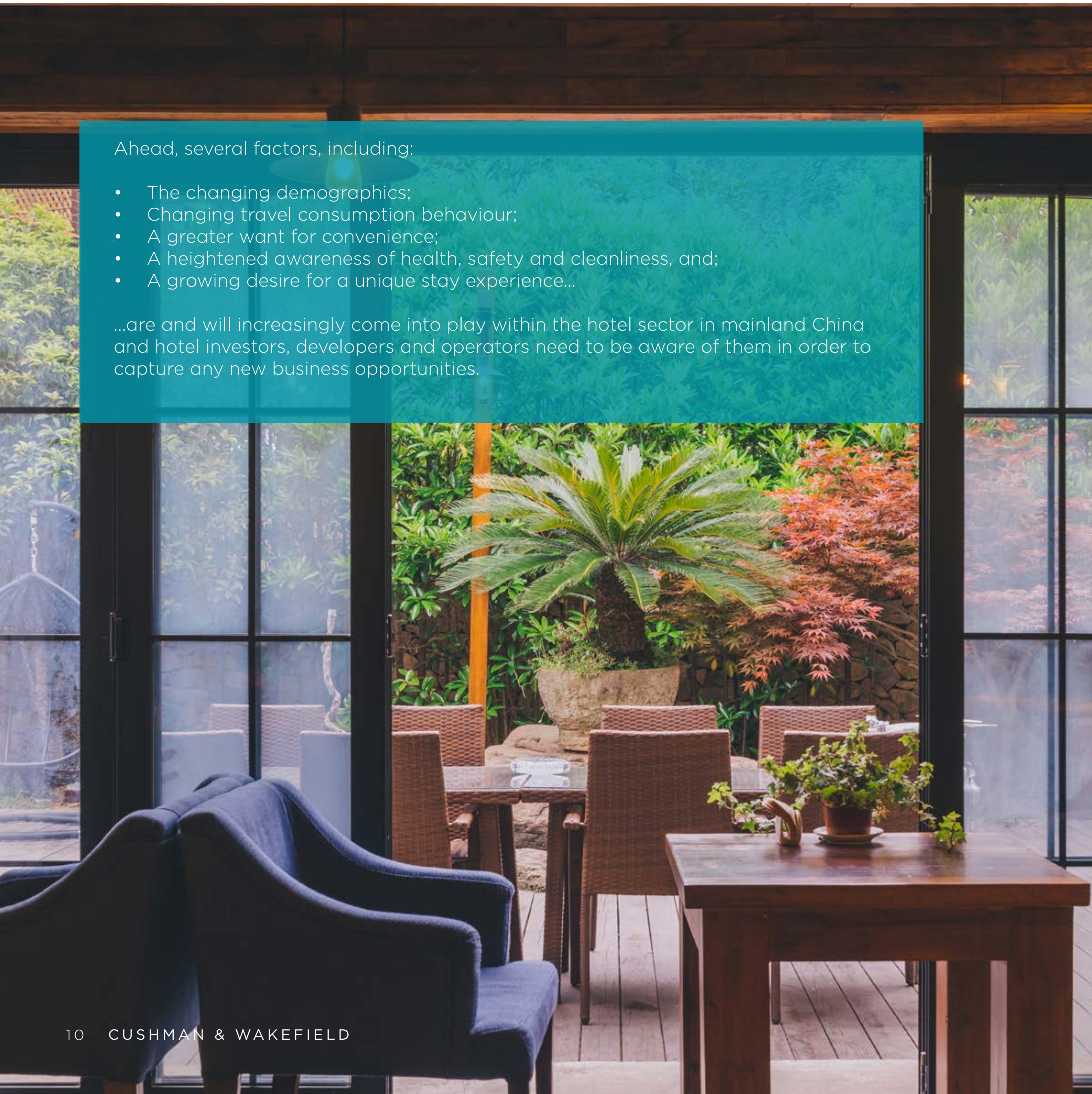
During this period, besides the revenue generated from rooms, many hotels in mainland China also looked to enhance revenue generation from other sources, including in-house dining, takeaway catering, livestreaming room and service sales, and so on.

Hotels in mainland China – What's next?

Ahead, several factors, including:

- The changing demographics;
- Changing travel consumption behaviour;
- A greater want for convenience;
- A heightened awareness of health, safety and cleanliness, and;
- A growing desire for a unique stay experience…

…are and will increasingly come into play within the hotel sector in mainland China and hotel investors, developers and operators need to be aware of them in order to capture any new business opportunities.

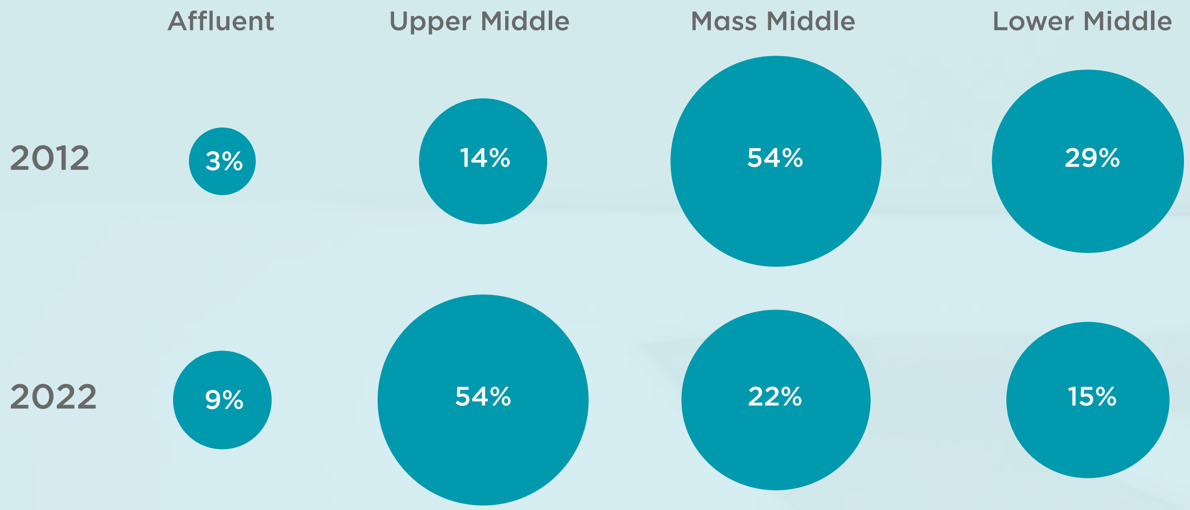


The changing demographics

Mainland China's "new middle class" — Consumption upgrading

As mainland China becomes the world's second largest economy, the number of middle-class families is growing in mainland China. Today, the middle-income group in mainland China stands at over 300 million people (Figure 7).

Figure 7: The middle-class population in mainland China as a percentage of urban households (2012 and 2022)



Note: Urban household incomes are calculated as:
1. Affluent households earning above US$34,000;
2. Upper middle-class households earning between US$16,000 to US$34,000;
3. The mass middle class earning between US$9,000 and US$16,000, and;
4. The lower middle class earning less than US$9,000.

Source: McKinsey & Company, China Briefing, Cushman & Wakefield Research

Moreover, it is expected that mainland China's new middle class will exceed 500 million people by 2025.

Millennials, (those born between 1980 and 1995) are the main generational group associated with the new middle class in mainland China. This group is followed by Generation X (those born between 1965 and 1980) and Generation Z (those born between 1995 and 2010). Most of the new middle class were born in the era of mainland China's reform and opening-up and one-child policy, are well-educated and married with children (Figure 8).

Figure 8: Mainland China's new middle class group profile (2018)

Average age	35
Top5 occupation	30% TMT, 18% Manufacturing, 11% Finance, 11% Real Estate, 6% Trade
Education background	72% Bachelor degree, 24% Master or Doctor degree, 4% College degree
Marital status	94% Married
Number of children	79% Only-child, 17% 2 or more children

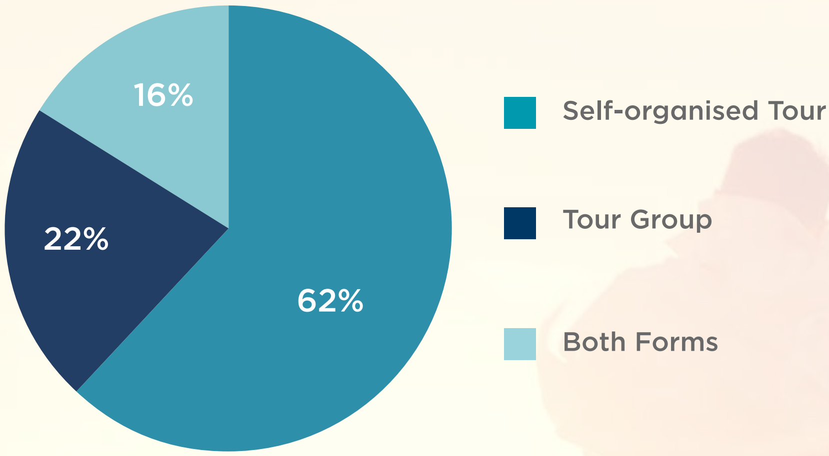
Source: Hurun Research Institute, Cushman & Wakefield Research

The steady growth of mainland China's middle-class group has brought about the upgrading and transformation of consumption, including spending on travel and tourism, and this change continues. This consumption transformation has the following characteristics:

More willing to pay for spiritual consumption

As the Millennials form the largest group associated with mainland China's new middle class, growing up in the era of great changes in mainland China, they are more independent and enterprising. They are no longer satisfied with material consumption but are more willing to pay for spiritual consumption, including self-organised tours and associated vacation hotels and resorts (Figure 9).

Figure 9: Millennials in mainland China – Preferred form of tours (2021)



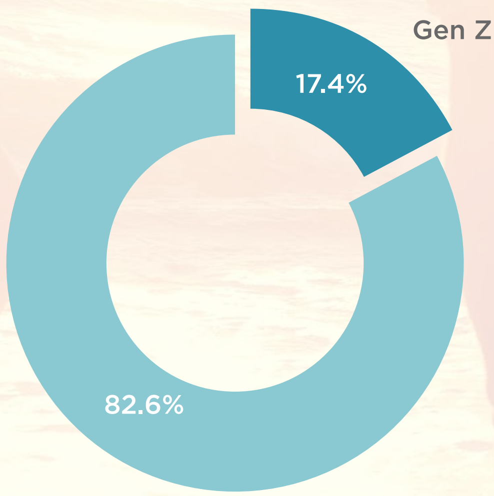
Source: Nextdoor, Ctrip, TravelGo, Cushman & Wakefield Research

"Generation Z" — To become the main force for consumption in the future

Globally, the population of Generation Z has reached 2.47 billion, accounting for 32.1% of the world's population – the largest generational group in the world. According to statistics from The Seventh Population Census in China, in 2020, there were about 265 million people counted as Generation Z in mainland China, accounting for 17.4% of the total population (Figure 10).

Generation Z was born in the era of mainland China's economic boom and the popularisation of the Internet, and their general lifestyle has undergone a qualitative change. In addition, they have enjoyed a higher material standard of living since birth, have strong consumption strength and have an advanced concept of consumption, including their spending on travel, tourism, leisure time and related hotel accommodation.

Figure 10: Population age structure according to the seventh population census in mainland China (2020)

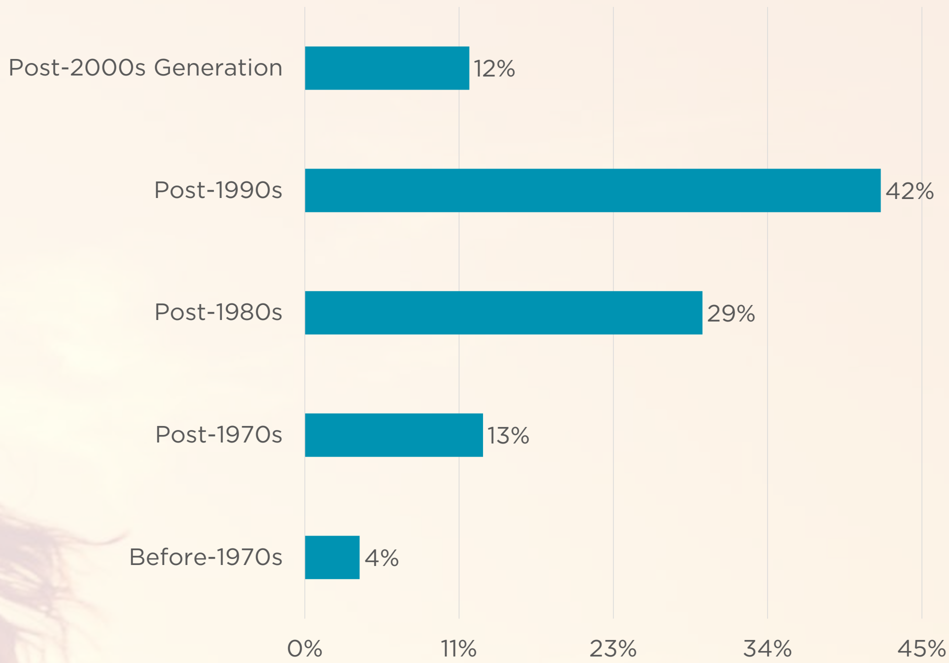


Source: The National Bureau of Statistics(China), Cushman & Wakefield Research

Changing travel consumption behaviour

The hotel stay consumption behaviour of travellers in mainland China has undergone tremendous changes, and new segmented groups, such as girlfriends, online gamers, couples and families cannot be ignored (Figure 11).

Figure 11: Female traveller age distribution in mainland China (2021)



Source: Nextdoor, Ctrip, TravelGo, Cushman & Wakefield Research

Therefore, the existing hotels in first-tier cities need to focus on these new segmented groups by creating trendy lifestyle gathering places by continuing to further develop hotel lobbies, gyms, restaurants and shared living spaces and refine services, such as catering and cuisine offerings.

E-sports, in particular, which integrate technology, culture, tourism and other elements, are becoming a new growth point for hotel business development in mainland China. Since the beginning of the epidemic, due to the suspension in business operations of various entertainment venues, the 'e-sports' hotel business, which provides young online gamers with suitable alternative leisure and entertainment venues, as well as accommodation, has expanded rapidly.

Lastly, given the epidemic and ensuing travel restrictions, according to Meituan data, travel consumers in mainland China, especially couples and families, have become more accustomed over the past couple of years to vacationing within a radius of 300-500 km from their homes. This has been a boon for hotels within large municipalities and surrounding provinces as they try to capture the growth in short-stay or staycation vacation travellers from within or from nearby large cities (Figure 12).

Figure 12: Selected reasons staycation vacations have become more prevalent in mainland China (2022)

1. COVID-19 travel restrictions and ease of travel
2. An array of leisure pursuits, such as culture, cuisine and outdoor activities
3. Popular with young travellers and families

Source: Cushman & Wakefield Research

A greater want for convenience

In recent years, with the rapid development of technology, hotel guests in mainland China have increasingly demanded new types of efficient and convenient hotel services which feature high-tech solutions. Three important areas where technology is and will play an important role in enhancing convenience are:

- Front desk and housekeeping services;
- Room services, and;
- Dining services.

Smart front desk and housekeeping

Throughout the whole process of reservation, check-in, residing and check-out, guests can enjoy the convenience and efficiency offered by smart services and smart technology.

Firstly, in terms of front desk services in smart hotels, they can be completed without the use of front desk personnel. At the reservation stage, guests can directly choose the room they would like to reside in after enjoying a full-scale and detailed visual view of hotel rooms via augmented reality (AR).

At check-in, guests will never be stuck in a long queue. All they need to do is to scan their identity (ID) cards and look at facial-recognition cameras to confirm their identities. Once checked-in, guests can activate the lift and open the hotel room door just by looking at the facial recognition terminal devices at the lift and at the hotel room door, respectively. In this case, physical key cards will be completely done away with so that guests will no longer need to worry about losing key cards and being kept out of their rooms.

Housekeeping can be ordered according to the needs of the guest. Cleaners will only show up at the appointed time and their cleaning quality will be checked by an artificial intelligence (AI) system according to the pictures and videos shot and uploaded during the cleaning progress. Finally, once guests click the check-out button on the app and pay online, the check-out process is done. This seamless and flawless experience, with as little direct human interaction or contact as possible, does fit the expectation of many tech-savvy travellers in mainland China today.

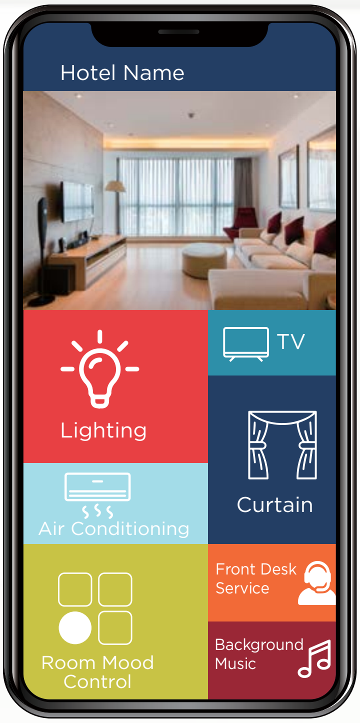
Unmanned operation does not mean that no regulation is present. After check-out, all smart devices will do self-checks automatically to ensure system workability. If deliberate human interference is spotted, this will be recorded on the system and violating guests will not only face financial penalties, but they will also face strict constraints in terms of future hotel bookings and use.

Many mainland Chinese hotel operators as well as high-tech firms have made a great effort to intellectualise hotels to make a smooth smart unmanned process implementable. In April 2018, Baidu-backed online travel agency (OTA) giant Ctrip, and Narada Hotel Group, a mid-to-high end domestic hotel chain that manages more than 32,000 hotel rooms in 22 provinces in mainland China, signed a strategic cooperation agreement to launch the 'Easy Live' platform. By utilising this platform, a 720-degree view, online room selection, self-check-in as well as smart housekeeping services can all be realised and executed on.

Smart rooms

In smart hotels, guest rooms have a plethora of incorporated smart control devices which can help to provide a safe, highly efficient, comfortable and convenient accommodation experience. From lighting, TVs, air conditioning to curtain switches, all devices are connected via an Internet of Things (IoT) platform and smartphones. Guests can then easily adjust/turn on/turn off room-located smart control devices (via their smartphones), by touch, by voice, by specific body/hand movement or by even footsteps (Figure 13).

Figure 13: An example of a smart hotel touchless control app operation interface



Source: Oealy, Cushman & Wakefield Research

In an ideal situation, even before guests enter a smart hotel room, lighting and the TV will be automatically turned on and adjusted to the preference of the guest (based on information and data received from a guest). Given the indoor temperature and humidity at any given time, the air conditioning will also adjust to the optimal comfort level required by the guest. At the same time, curtains will be gradually pulled open to make the sunshine spill into the room.

Even the bathrooms are not forgotten, with the water temperature and flow velocity adjusted automatically to suit the guest's preferences. Additionally, when the guests turn in, the TV can be turned off automatically and lighting gradually darkened after the curtains are drawn back. If requested, sleep-inducing music can also be automatically activated.

This type of smart, comfortable hotel stay experience is not a futuristic dream. It is something we can experience now. One domestic smart hotel chain which has incorporated some of these features is Leyeju Smart Hotel in Shenzhen (Figure 14 and Case study 1 in the Appendix).

Figure 14: Leyeju Smart Hotel, Shenzhen timeline

2016

Smart LYZ (the parent company of Leyeju Smart Hotels) was established in Shenzhen.

2017

The first Leyeju Smart Hotel was opened in Chengdu.

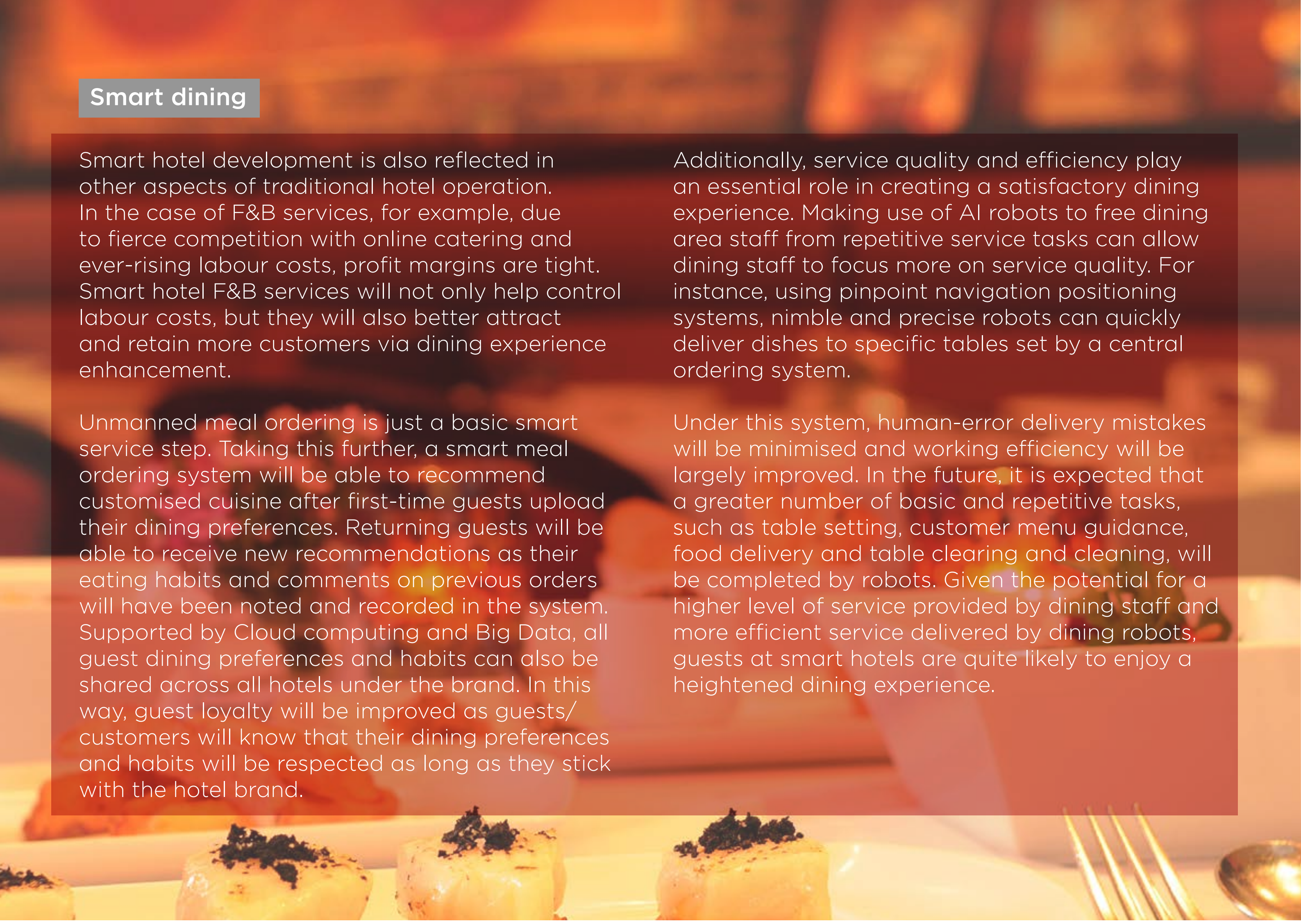
2018

Smart LYZ gained RMB5 million in angel investment.

2019

Leyeju Smart Hotels enter Guangzhou, Hangzhou and Chongqing to expand market penetration.

Source: Cushman & Wakefield Research



Smart dining

Smart hotel development is also reflected in other aspects of traditional hotel operation. In the case of F&B services, for example, due to fierce competition with online catering and ever-rising labour costs, profit margins are tight. Smart hotel F&B services will not only help control labour costs, but they will also better attract and retain more customers via dining experience enhancement.

Unmanned meal ordering is just a basic smart service step. Taking this further, a smart meal ordering system will be able to recommend customised cuisine after first-time guests upload their dining preferences. Returning guests will be able to receive new recommendations as their eating habits and comments on previous orders will have been noted and recorded in the system. Supported by Cloud computing and Big Data, all guest dining preferences and habits can also be shared across all hotels under the brand. In this way, guest loyalty will be improved as guests/customers will know that their dining preferences and habits will be respected as long as they stick with the hotel brand.

Additionally, service quality and efficiency play an essential role in creating a satisfactory dining experience. Making use of AI robots to free dining area staff from repetitive service tasks can allow dining staff to focus more on service quality. For instance, using pinpoint navigation positioning systems, nimble and precise robots can quickly deliver dishes to specific tables set by a central ordering system.

Under this system, human-error delivery mistakes will be minimised and working efficiency will be largely improved. In the future, it is expected that a greater number of basic and repetitive tasks, such as table setting, customer menu guidance, food delivery and table clearing and cleaning, will be completed by robots. Given the potential for a higher level of service provided by dining staff and more efficient service delivered by dining robots, guests at smart hotels are quite likely to enjoy a heightened dining experience.

A heightened awareness of health, safety and cleanliness

As COVID-19 first began to gain a footing in mainland China in early 2020, many hotel operators in the region quickly took steps to ensure hotel building health and safety levels were strengthened, in an effort to combat the spread of the virus. Much mitigation work was carried out at the time and is still being carried out, including the establishment of hotel entrance health and safety measures, and entrance registration procedures and protocols for all guests, visitors and staff entering the hotel.

Today, apart from lifts, hotel cleaning teams in mainland China systematically target-clean door handles, light switches, desk surfaces, chairs and telephones, as these are among the hotel items most frequently touched by guests, visitors and staff alike.

Just as in the case of normal flu, airborne transmission is another major COVID-19 mode of diffusion, and this important point has not been lost on hotel operators in mainland China.

Related to airborne transmission, for those hotels using central air conditioning, hotel operators in mainland China now conduct a systematic deep clean of the central HVAC system in their buildings on a regular basis, including regular checks and replacement of air filters. These same teams also ensure airflow throughout the building is correctly distributed, as this is also key to intra-hotel cross-infection prevention.

Following the theme of central air conditioning safety, for those hotels in mainland China which have central HVAC systems with disinfection and sterilisation capabilities, such as ultraviolet, nano-photon and catalytic oxidation technology, regular checks are now carried out on these systems to ensure they were operationally optimised at all times.

Hotel building airtightness and air pressure are also important features quickly recognised by hotel operators in mainland China as being effective precautionary measures to utilise to mitigate the airborne spread of COVID-19. To prevent air particulates from entering the building in the first place, many hotel operators in the country now

recognise the importance of creating a positive pressure environment throughout much of the hotel building. What's more, these same teams also recognise the importance of creating a negative air pressure environment in those specific localities within the hotel building, such as toilets, where the virus and bacteria can lurk, in order to funnel air out and away from other areas in the hotel building.

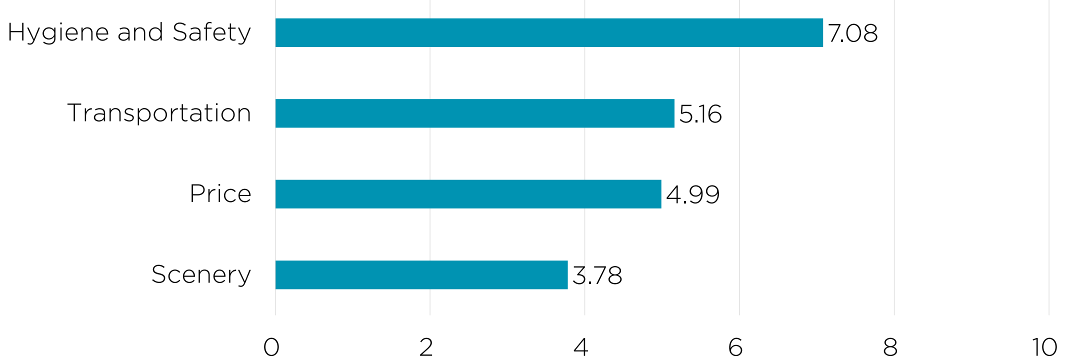
Many hotel operators in mainland China now also produce and provide their guests and staff with COVID-19 health and safety awareness documents, as well as supplies of sanitisers, disinfectant and other virus prevention products.

Moreover, with the advent of COVID-19 and following on the commentary regarding smart hotel technology above, the need for smart hotels may now have extra impetus. As mentioned previously, efficiency and convenience will still continue to be driving forces for change, but now so will hotel building health and safety enhancement, and smart technology can assist in this by:

- Utilising linked thermal scanners to quickly identify and isolate guests, visitors and staff who are unwell, as they enter the hotel;
- Engaging smart cleaning systems to more efficiently and effectively clean high-use areas and high-use surfaces in localities throughout the building;
- Automating the regular replacement of air filters in central HVAC systems;
- Ensuring a central HVAC system's disinfection and sterilisation capabilities are operationally optimised at all times;
- Making sure airflow throughout the entire hotel building is correctly distributed at any given time, as this is also key to intra-hotel virus cross-infection prevention;
- Making certain hotel building airtightness and air pressure are correctly utilised to repel virus penetration and spread, and;
- Employing smart touchless technology and devices, including room service delivery robots.

Ahead, driven by even greater awareness of the importance of hotel building health and safety by hotel operators, guests, visitors and staff alike, we expect hotel building health and safety measures in mainland China to be prioritised and to reach new heights in terms of standards (Figure 15).

Figure 15: Generation Z in China – Factors to consider when choosing a hotel (2021)



Note: Scoring is on a 1 to 10 basis, with 10 being of the most importance

Source: Nextdoor, Ctrip, TravelGo, Cushman & Wakefield Research

A growing desire for a unique stay experience

Millennials and Generation Z in mainland China crave the joy of adventure and new discoveries. They are no longer content with merely visiting a destination and having the same experience as everyone else. They increasingly yearn for a unique experience, which they can share via social media. For these two generations of travellers in mainland China, 'daka' is now a big overall travel trend. 'Daka' or 'punch card', is a type of check-in style travel that is linked to online sharing. Must-visit places are visited, and the event is then posted via photos or a video online to illustrate and confirm that the destination has been viewed and experienced (Figure 16).

Figure 16: How many Generation Z travellers in mainland China have a 'daka' list? (2021)

87%

Source: Mafengwo, Cushman & Wakefield Research

'Daka' is very social media-oriented in terms of its visualisation and appeal. Even though a 'daka' list can be inspired by personal interests, the list is also influenced by what is seen as being trendy at any given time. Many hotels in mainland China understand this now and, subsequently, many are continuously refining and updating their 'daka' list appeal in order to attract more of this type of social media-orientated traveller.

Millennials and Generation Z travellers also want to explore the places they visit through a local perspective and are willing to find, plan and participate in those extra special activities that elevate the overall travel experience. As a consequence, more hotels in mainland China are beginning to place a greater emphasis on local and differentiated elements in their design and services in order to attract these groups of younger-generation travellers.

If we look at design and if we use Shanghai as an example, we can see how the locality can influence this particular feature to produce a unique stay experience:

- ***InterContinental Hotel Shanghai Wonderland:*** A premium hotel that was built in an abandoned quarry, encompassing two floors above ground level, 16 floors being below ground level (within the quarry) and two floors below the waterline of the lake within the quarry;
- ***The Amanyangyun Hotel:*** A premium hotel that was built in traditional Chinese style, incorporating 13 Huizhou-style buildings from the Ming and Qing Dynasty, which was relocated and redesigned, and;
- ***The Bulgari Hotel:*** The sixth hotel to be officially named after the Italian jewellery brand, it comprises 82 rooms and suites – including one remarkable 400 sq m Bulgari suite, which is one of the largest hotel rooms in Shanghai.

Moreover, hotels located in renovated historical buildings certainly possess many congenital advantages. They are usually located in the heart of traditional downtown areas and are closely connected with neighbouring communities which are also often steeped in history and tradition. Staying in these types of hotels, guests can easily immerse themselves into local cultures and communities to explore a hidden oasis of history, culture, peace and tranquillity. Inside a renovated history/culture-sensitive renovated hotel, local design elements, such as locally handcrafted art and special local products, can give guests what they crave – a unique, authentic and memorable stay experience.

As for services, dining is an indispensable component of a hotel's service repertoire, as today's travellers in mainland China are often keen to try local cuisine. If the ingredients come from nearby farms or the hotel's own garden, guests will habitually be more impressed. A number of hotels today in mainland China, for example, require their restaurants to feature several special local ingredients on their dining menus. Local dishes and drinks served by a hotel can go a long way in helping achieve stay experience differentiation, which is a great way to improve customer loyalty.

Finally, by organising special culture-associated activities and services, such as local historical tours, hotels in mainland China can also allow guests to experience the destination in a way that goes beyond what is typically found in tourist guides. Additionally, presenting rich destination-based content on the hotel's own websites certainly helps hotels win more direct bookings and saves on online travel agency (OTA) channel costs. As tours offered on OTAs are usually dominated by usual sightseeing spots, they usually cannot satisfy the craving travellers in mainland China have for insider tips, such as where are the hip neighbourhood cafes and where are the latest pop-up food festivals. By offering insider recommendations or in-depth local knowledge that OTAs cannot easily replicate, hotels can create a compelling reason for travellers to visit their own websites instead of an OTA's website, therefore triggering more direct bookings and paying less commission to OTAs.

Key takeaways

The current market

In 2022, the number of hotels in mainland China's first-tier cities is over 38,000, of which, Beijing, Shanghai and Guangzhou have around 10,000 hotels, while Shenzhen's total is around 7,400.

The number of hotels opened in first-tier city markets in mainland China during the COVID-19 epidemic period is still considerable.

Between January-July 2019 and January-July 2022, according to STR, overall hotel market occupancy, average room rates and RevPAR change in the first-tier city markets dipped on the pre-pandemic-registered figures.

What's next?

Looking to the future, a number of factors, including:

- The changing demographics;
- Changing travel consumption behaviour;
- A greater want for convenience;
- A heightened awareness of health, safety and cleanliness, and;
- A growing desire for a unique stay experience...

...are and will progressively come to the fore within the hotel sector in mainland China and hotel investors, developers and operators need to be mindful of them in order to secure any new business opportunities.

Appendix

Case Study 1

Leyeju Smart Hotel, Shenzhen

Innovative use of artificial intelligence (AI) and the Internet of Things (IoT) has initiated a revolution in hotel operation.

2016 – Present

Summary:

Launched in 2016, Leyeju Smart Hotel has become a popular unmanned hotel brand, which is transforming the traditional labour-intensive hospitality industry through the use of technology.

Timeline of major events / milestones reached:

2016

Smart LYZ (the parent company of Leyeju Smart Hotels) was established in Shenzhen.

2017

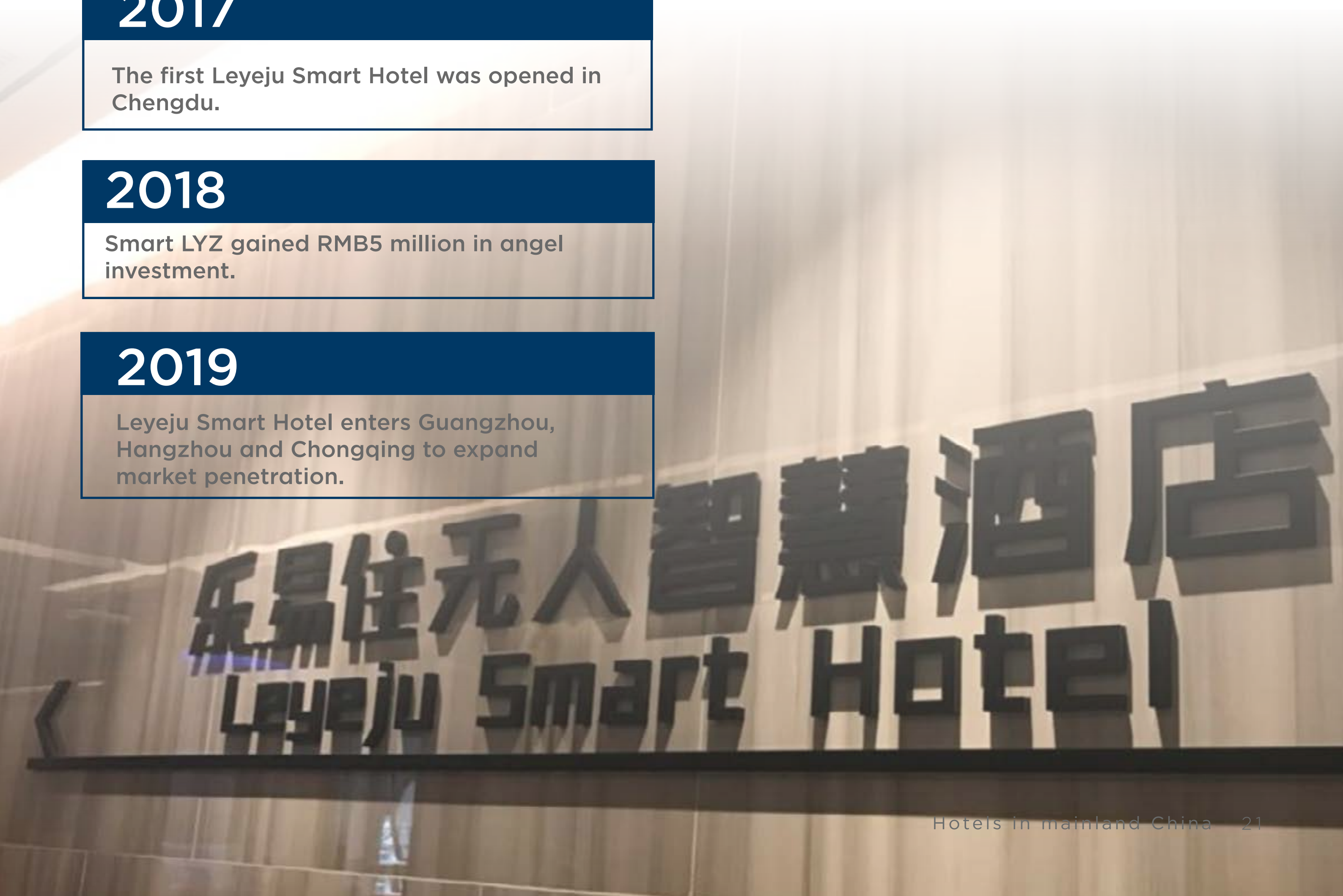
The first Leyeju Smart Hotel was opened in Chengdu.

2018

Smart LYZ gained RMB5 million in angel investment.

2019

Leyeju Smart Hotel enters Guangzhou, Hangzhou and Chongqing to expand market penetration.



Overview:

- The Leyeju Smart Hotel brand is owned by Smart LYZ, a high-tech company specialising in developing AI and IoT platforms as solutions for smart hotel services;
- The brand mission is to "stimulate the power of technology to create smart lives";
- By providing an affordable, high-tech oriented and comfortable accommodation experience, the Leyeju Smart Hotel group targets mainland China's Millennials and Generation Z;
- Smart LYZ plans to open a large number of Leyeju Smart Hotels in the next five years. Target properties are core-area Grade B office projects in which space can easily be transformed to a hotel.

Impact:

- Leyeju Smart Hotel incorporates Internet platforms, cutting-edge smart devices, Big Data and Cloud services into its properties. It seamlessly links these with hotel operation and management to create a new type of smart hotel, featuring unmanned services that are performed by the use of technology;
- By making best use of the latest AI and IoT technologies, the Leyeju Smart Hotel in Shenzhen solves the industry-wide pain points of homogenization and high labour costs. By solving these issues, the hotel is playing its part in pushing intelligent technology upgrading across the entire hospitality industry and establishing a new ecosystem for smart hotels.

How it was done:

- Utilising smart technology, front desk services can be completed without the use of hotel employees;
- All reservations can be made via WeChat or the hotel's app;
- Guests who have reserved rooms can scan their identity (ID) card to begin check-in and complete identity confirmation via facial recognition technologies. The room number and room-entry password will then be automatically sent to the guest's smartphone;
- The one-minute check-out process can be completed by clicking on the hotel's app;
- A comfortable accommodation experience is facilitated by AI and IoT technologies;
- Equipped with a navigation and positioning system, an AI robot called 'Xiaole' guides guests to their rooms and automatically opens room doors;
- Guest rooms are equipped with an assortment of smart terminal devices, which are connected together via sensors and AI algorithms. Room features, such as lighting, air conditioning, TV, electrically drawn curtains and shower heads can be automatically adjusted to suit a guest's desired preference;
- In terms of security, a monitoring system is installed throughout the common areas of the hotel. From the time a guest enters the hotel, background data is automatically uploaded, and the guest is identified. If the guest has an accident in any part of the common area, an alarm system will immediately issue a warning to security staff and they will be in a position to immediately respond, knowing exactly which part of the hotel the guest is located in at any given time;

Results:

- Lower manning costs enable the hotel to offer affordable room rates between RMB200 to 500 per night, attracting many cost sensitive business and leisure travellers;
- The pre-COVID-19 occupancy rate throughout the group's hotel portfolio in mainland China has reached 95% on average. What's more, 80% of hotel customers are returning guests.

Key takeaways:

- As the first unmanned hotel chain in mainland China, Leyeju Smart Hotels integrate AI terminals with machine leaning technology, Big Data and IoT platforms to create a unique high-tech accommodation experience. The realised cost reduction, along with the satisfactory operating performance, has proven the feasibility of following this particular unmanned hotel mode of operation;
- Many of mainland China's tech-savvy travel consumers have quickly accepted Leyeju Smart Hotel's concept for unmanned hotels, given the quality and convenience on offer.

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