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HOTEL yearbook 2013

Scenarios for the year ahead

Puneet Chhatwal, Steigenberger's new CEO,
shares his thoughts on the challenges in the year ahead

Dorchester Collection CEO Chris Cowdray on leadership

How will 2013 shape up for the key hotel markets worldwide?
30 exclusive country reports from Horwath HTL

Special section: "Spa 2020"
Leading experts explore the next decade in the spa industry

How is your company visualizing its future business landscape?
Woody Wade on scenario planning in the hotel industry

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Horwath HTL are the world’s largest consulting organisation specialised in the hospitality industry, with 50 offices in 39 countries. They are recognised as the pre-eminent specialist in Hotels, Tourism and Leisure, providing solutions through a combination of international experience and expert local knowledge.



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Promising !

THAT'S THE GENERAL PROGNOSIS FOR ASIAN HOTEL MARKETS, JUDGING FROM THE TEN COUNTRY REPORTS WE RECEIVED FROM OUR FRIENDS AT **HORWATH HTL'S** OFFICES AROUND THE REGION.

CHINA

China's hotel industry faces the following issues in the next several years :

HUGE SUPPLY... SOME EASING, SOME NOT

The huge amount of new supply entering many markets in China is well known. There are several markets where the pipeline of new properties shows no signs of stopping, and these are going to experience distress and most likely increased disputes between owners and operators! However, for a number of cities, the supply onslaught is reaching its peak and as it gradually recedes, the substantial demand growth that China's hotel sector exhibits should lead to quite quick market recoveries over a 2 to 5 year period.

TIME FOR ADR INCREASES

A historic challenge for China's hotel industry has been its low average daily room rates relative to other international markets and the quality of the product being sold. However, the government is now trying to shift the economy to a more consumption-led model, and this encompasses efforts to increase wages. At the same time, vast sections of China's middle class are reaching a point where they have acquired apartments, electronics, cars and other tangible goods – so spending is likely to move to more intangible items such as travel and leisure. Over time, these transformations can support average rate increases that could dramatically boost the profitability of the sector.

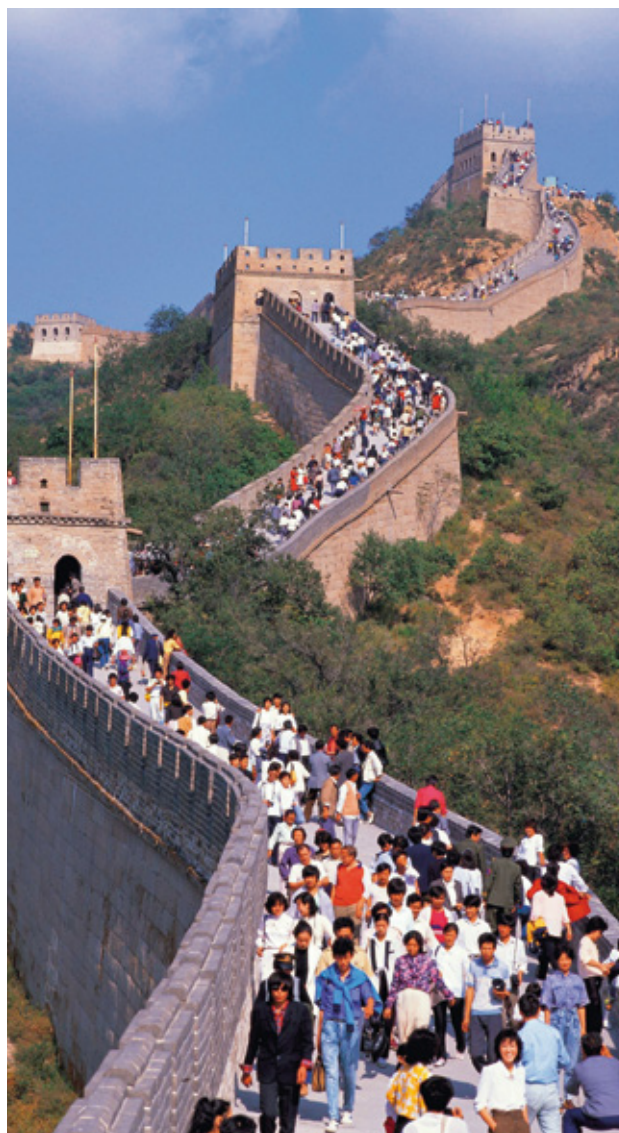
HIGHER WAGES BUT FEWER STAFF

Of course, many operators are also concerned about the impact of wage increases on profitability levels, but in our view these worries are exaggerated. Staffing levels in China are well above more developed markets, and there is huge scope for reductions. As a whole, we expect fewer, but better-paid staff to actually benefit hotels' bottoms lines – as well as the customer experience.

NOT JUST ROOMS

The hotel business in China is not just rooms. Several

international and domestic operators are strategically focusing on the food & beverage side of the business and managing to generate very significant revenue levels, which often exceed rooms, as well as healthy operating margins. Other groups are increasingly focusing very successfully on hot spring and spa revenues, while another just emerging trend is to put considerable resources behind recreational and entertainment facilities targeted towards local residents.



Promising! cont.

CRAVING FOR TRAVEL BUT "GOLDEN WEEK" HINDRANCE

The Chinese traveller continues to show an insatiable appetite, and this will continue to present compelling opportunities in the resort sector. However, the biggest obstacle so far has been the "golden weeks" policy that forces almost the entire population to vacation during the exact same weeks of the year. This is increasingly causing chaos and strain on hotels and travel infrastructure (not to mention the poor travelers themselves), so it is not unreasonable to expect that there will ultimately be a change to allow people to holiday whenever they choose throughout the year. When this occurs, the boost in demand for resort hotels will be staggering.

THE CITIES OF ONE MILLION PEOPLE

While many first tier, second tier and even third tier cities are becoming saturated with hotels, there are still many lower tier cities that offer development opportunities. These markets, however, are not suitable for luxury products, despite the wishes of local governments!



TIME FOR CHINA BRANDS

International brands have to a large degree dominated the third party management space for around two decades but various domestic groups are now making a competent push to gain ground, especially private companies. New China brands will become much more visible in the next couple of years.

| Nigel Summers

SINGAPORE

SITUATION REPORT

2012 continues to be a fruitful year for Singapore in terms of tourism. As of YTD May 2012, visitor arrivals were up 12 % YoY, on track to smash the record of 13 million arrivals set in 2011. Sources of visitor growth were mostly from regional countries such as China (+ 31 %), Taiwan (+ 33 %), ASEAN (+ 10 %) and interestingly, Europe (+ 15 %). The Euro crisis has so far had limited impact on the industry, suggesting Singapore can potentially weather a downturn given its wide spectrum of tourism offerings allowing it to target diverse business segments.

Even after operating for more than 2 years, the two integrated resorts are still generating incremental arrivals from their casinos, MICE facilities, retail malls, theatres and the Universal Studios theme park. Events such as the Singapore Air Show and Formula 1 Night Race have also been pivotal in boosting arrivals. In addition, as a regional financial hub, Singapore continues to benefit from the improving economies of its ASEAN neighbors, encouraging corporate and MICE related travel to the country.

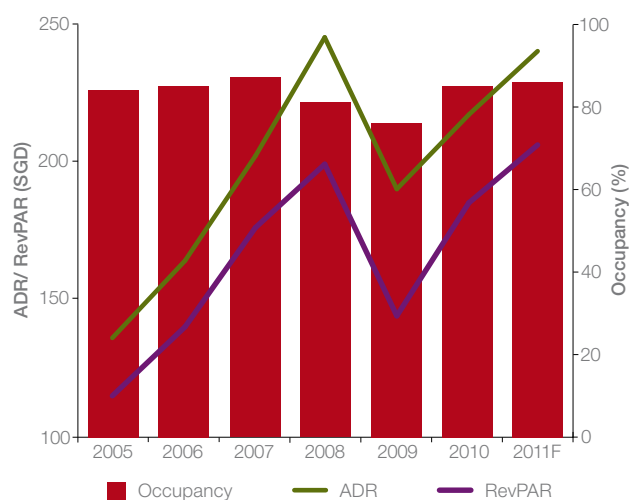


Source : Singapore Tourism Board

Promising! cont.

The hotel market also benefitted from the strong output from visitor arrivals. As of YTD August 2012, market occupancy improved to 87 %, up by 1 percentage point YoY, while ADR rose by 8 % to SGD 259. As a result, RevPAR grew by 9 % YoY.

With the exception of economy hotels, all hotel product categories showed good RevPAR growth as of YTD August 2012, albeit at a slower rate compared to 2010-2011. However, RevPAR growth was driven more by ADR with occupancy already at close to maximum given seasonality constraints.



Source: Singapore Tourism Board

OUTLOOK FOR 2013

With so many macro level uncertainties such as the Eurozone crisis, the slowdown in China's economy and the still weak US economy, a cautious outlook for 2013 is necessary. However, given the upbeat performances to date and the absence of any immediate indications of downturn, prospects for a solid market performance in 2013 remain intact.

The following are additional considerations supporting a positive outlook:

- The integrated resorts will continue to induce demand with the opening of new attractions including the Maritime Experiential Museum and the Marine Life Park.
- The opening of the new \$500 million Marina Bay Cruise Center cruise terminal and attractions such as Gardens by the Bay and the River Safari (at the Singapore Zoo) should further induce visitors.
- Further strengthening of Singapore's status as a regional hub for finance, research and development, medical tourism and MNC operations.
- Continued hosting of the Singapore F1 night race (a five year extension to 2017 was announced at the outset of the 2012 race).

Although bullish about the Singapore Hotel industry outlook for 2013, we expect growth to moderate given the limited catalysts for significant incremental growth such as what occurred with the opening of the integrated resorts. As well, although expected to be relatively quickly absorbed, the addition of new hotel supply in 2013 will still put competitive pressure suppressing rate growth.

Overall, Singapore is still considered one of Asia's hottest destinations and remains one of the most sought-after markets for hotel developers and investors.

| Jerome Siy

JAPAN

SITUATION REPORT

Japanese hotel performance has recovered to pre-crisis level. As summarized in the table below, the average RevPAR for 12 months to August 2012 has increased by 9.4 % compared to the same period to August 2011 and just below 0.9 % compared to the same period to August 2010, which well represents performance under the pre-crisis market conditions.

Promising! cont.

MAJOR REVENUE KPI'S FOR JAPANESE HOTEL MARKET

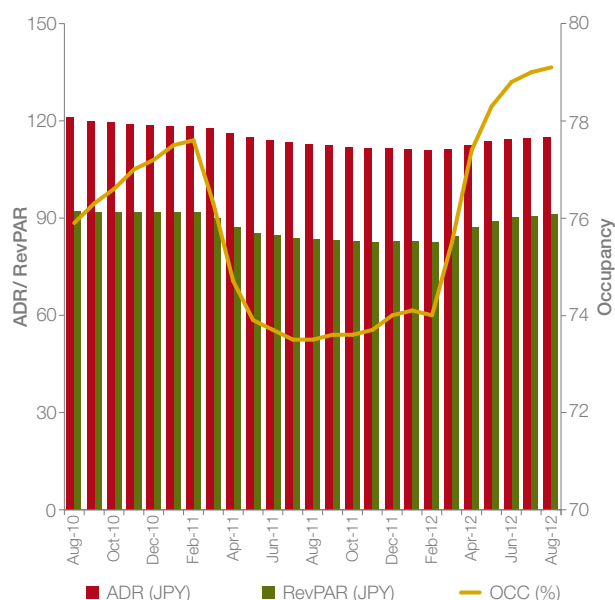
	Sep.2009 to Aug. 2010	Sep.2009 to Aug. 2010	Latest 12mths to Aug.2012
OCC	75.9%	73.5%	79.1%
ADR	JPY 12,099	JPY 11,272	JPY 11,506
RevPAR	JPY 8,201	JPY 8,333	JPY 9,117

Source: STR Global

The graph above shows a recent trend of major revenue key performance indicators, namely occupancy, ADR, and RevPAR, for the Japanese hotel market for the past two years. It is clear that the occupancy rate was on an increasing trend until March 2012, and then suffered from low performance after the East Japan Earthquake, bouncing back in spring 2012. ADR performance has also started to pick up in spring 2012. At the moment, both Occupancy and ADR are on an increasing trend, which has led to steady RevPAR growth since February 2012.

JAPANESE HOTEL MARKET PERFORMANCE

(12-MONTH MOVING AVERAGE, AUG. 2010-AUG. 2012)



Source: STR Global



The Gate Hotel, Asakusa (Tokyo)

The main driving force for the great recovery was the recovery of the occupancy rate in the Tokyo market. Accommodation demand in Tokyo was generated by continuous business activities in the capital city, combined with the recovery in the number of international arrivals, which had dropped 27.8% in 2011 from the year before and quickly bounced back to almost the pre-crisis level of 2010, in August 2012 year-to-date. An increase in the number of domestic leisure tourists, driven by new attractive destinations in Tokyo such as the new opening of "Tokyo Skytree" and several large scale shopping malls, also increased the accommodation demand.

In 2011, the total number of accommodation guests (both domestic and international) in the capital was approximately 41 million, representing about 10% of the total number of accommodation guests in Japan, 417.2 million people. Therefore, market performance in Tokyo has a large impact on the nation-wide performance results.

Promising! cont.

OUTLOOK FOR 2013

A quick recovery after the earthquake has proved that the Japanese market is resilient to a challenging macro environment. At the time of writing, it is safe to say that the market has returned to normal levels, with occupancy and ADR showing positive signs of growth. In 2013, it is reasonable to anticipate the RevPAR growth to continue.

By market segment, an increase in the inbound visitor arrivals is expected in the mid- to long-term future. In 2010, the Japanese government launched "Visit Japan Project" to promote Japan as a tourist destination and set a goal of 15 million visitors by 2013 and 30 million visitors in the long term. This project includes several government initiatives such as proactive promotional activities outside of Japan and deregulation of visa requirements.

Another supporting factor for the Japanese hotel market is the establishment of low cost carriers (LCCs) in Japan. Having LCCs means a wider choice of transportation for travelers, which will potentially increase the volume of leisure tourism for both domestic and international segments.

Looking into the hotel investment market, it has been rather active since the second half of 2011, despite the low market performance. We confirmed 31 transactions in August 2012 year to date, which is a 20% increase from the year before. We project at least 50 hotel transactions in total this year and even more deals in 2013.

All in all, the 2013 outlook for the Japanese hotel market is optimistic. The increased level of transactional activity indicates rising investor confidence, and we believe the RevPAR growth which has currently been centered in Tokyo will spread out to other major cities within six to twelve months, based on our past market experience.

| Koji Takabayashi and Sachiko Matsuda

MALAYSIA

SITUATION REPORT

Malaysia's gross domestic product (GDP) for the third quarter ended Sept. 30 expanded 5.2% year-on-year, supported by strong domestic demand and investment activities. The expansion in GDP beat economists' expectations of 4.8%. For the second quarter of 2012, GDP growth was revised upwards to 5.6% from 5.4%. Moving forward, the central bank maintained the GDP growth trend in the fourth quarter of 2012, and it would likely continue very much like the third quarter, but there uncertainties exist in the export sector on the back of uneven economic growth in the USA and recession looming in Europe – the fallout of the prevailing debt crisis. The central bank is confident that GDP growth for 2012 will come at the projected 5% or better. In 2011, GDP growth was 5.1%.

In 2011, Malaysia recorded the lowest increase in foreign arrivals at 0.6% (3.9% in 2010) to 24.7 million (24.6 million in 2010). For the first 5 months of 2012, total arrivals increased by almost 2% to 9.4 million from 9.3 for the same period in 2011. The low increase suggests strong competition from neighboring countries such as Singapore, Indonesia and Thailand. Decreasing air access to Malaysia is due to cutbacks by Malaysia Airlines and Air Asia on routes from Europe, Middle East and the Indian subcontinent in 2011 and early 2012, when both airlines restructured their routes on the back of falling yields.

OUTLOOK FOR 2013

The outlook for 2013 for the country's airline industry looks promising as Malaysia Airlines joins the One World alliance in February 2013 and will also seek closer cooperation with Qantas Airways. In addition, Qantas and British Airways, as well as Air France, are resuming flights to KL by mid-2013. A new KL-based low-cost carrier, Malindo Air, will take to the skies by the second quarter of 2013.

The opening of the 455-room Grand Hyatt in August 2012 and the 300-room Majestic Hotel, a YTL hotel, in December 2012 is not expected to impact the occupancy level of the Kuala



Lumpur hotel market in 2012. The average occupancy level of the hotel market in Kuala Lumpur for 2012 is expected to improve slightly by 1 percentage point to 73 %. Based on 8 months' performance to date, the ADR of the hotel market is projected to register an increase of not more than 3 % to RM 275 (US\$ 90). Looking to 2013, the permanent closure of the 565-room Crowne Plaza on January 2, 2013 and the opening of the 482-room Aloft in KL Sentral in March 2013 is not expected to impact significantly the average market occupancy where we expect the Kuala Lumpur hotel market occupancy at between 73 % and 75 % for 2013. However, with their ADR positioning of the Grand Hyatt and the Majestic Hotel at the higher end of the market, the market ADR is projected to increase between 4 % and 5 % for 2013.

The outlook for the islands of Penang and Langkawi are mixed, with the former continuing to enjoy increasing tourist arrivals and strong hotel performance, while the latter's hotel market performance is experiencing a decline. While the supply of new hotels in Penang is increasing over the next 3 years to cope with increasing demand, the supply of hotels on the premier tourist island of Langkawi over the last 5 years has stagnated. The outlook for the next 2 years for Langkawi is expected to remain unchanged. With the hotel market having the highest ADR in the country (US\$ 235 in 2012), the lack of new supply to add to the present mix of hotels, thereby increasing product offering

(unlike those in Phuket, Bali and Ko Samui), is not expected to generate any increase in ADR in 2013 for the premier island.

Since its launch in Nov 2006, Iskandar Malaysia in the state of Johor has recorded a total cumulative investment of RM 100 billion (US\$ 33 billion) as at Sept 2012. The state capital, Johor Bahru, is experiencing a spurt of new hotel development over the last two years in anticipation of increasing corporate and leisure demand. New supply, such as the DoubleTree, Renaissance, Traders, and the Somerset, is expected to commence business by 2014. While the market ADR is still below RM 200 with occupancy levels in the high 60 %, the outlook for 2013 is expected to be optimistic on volume especially, as demand generated by the theme parks of Legoland and the soon-to-be-opened family indoor theme park in Nusajaya, as well as spill-over demand from the integrated resorts in Singapore, is projected to contribute to healthy growth in market occupancy levels in Johor Bahru. With the Iskandar and the ongoing re-development of Desaru on the eastern coast of Johor into a destination resort (a Sheraton, Datai and an Amanresort property are being planned) the state of Johor is primed to be positioned as a new hotspot for hotel development in Malaysia over the next decade.

Over in East Malaysia, in the state of Sabah, the healthy growth of visitor arrivals to the state of close to 14 % in 2011 over 2010,

Promising! cont.

underlines the popularity of the state as a destination. With the re-instatement of air access between Kota Kinabalu and the main gateway cities of northeast Asia (which was rescinded in 2011), the tourism outlook for Sabah is positive. The mix of hotel products on offer in Kota Kinabalu was given a boost in 2012 with the opening of the luxurious 120-villa Gaya Island Resort (a YTL property) and the potential Marriott at the city's waterfront mixed-use project, targeted to open by 2014. The pending opening of another luxury YTL all-villa property on Pulau Tiga off the coast of Kota Kinabalu in 2013, is expected to enhance Malaysia's position as one of the most popular tourist destinations in Asia.

| Sen Soon-Mun

INDONESIA

SITUATION REPORT

Jakarta

Jakarta	2010 YTD Dec.			2011 YTD Dec.			2012 YTD Sep.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Top Tier	66%	\$86	\$56	68%	\$93	\$63	67%	\$108	\$73
Mid Tier	75%	\$56	\$42	74%	\$61	\$45	71%	\$65	\$46
Combined	70%	\$72	\$50	71%	\$78	\$55	69%	\$89	\$61

Source: JIHA, Horwath HTL

2011 represents another great year for the Jakarta hotel market, with a continuing upward trend that started in 2010 after the GFC, with particularly strong growth shown in ADR. Some say it is the best ADR the city has seen in 15 years. Combined top-tier & mid-tier hotels recorded 8+ % growth in 2011 compared to 2010, led by the mid-tier market, which recorded a 9+ % growth. Occupancy growth is not nearly as strong as ADR growth, only about 2 %, with the mid-tier segment registering a decline compared to last year's performance. 2012 up to September is showing flattening occupancy and continued strong increases in ADR.

On the socio-political front, residents of Jakarta are more optimistic after the election for governor concluded smoothly recently, resulting in a landslide victory of the popular candidates replacing the unpopular incumbent who has just completed only one term in office. Most believe that the new governor has got what Jakarta needs to take care of its chronic problems, like the traffic and flooding.

After a long period of hotel development hiatus in Jakarta, especially for high end products, new hotels began to be built again beginning in 2011, with at least 10 hotels of various tiers soon to be opened around Jakarta. Most of these, however, are mid-tier and limited service hotels. High land costs, reasonable construction costs and ease of access to supporting facilities like restaurants and bars in nearby shopping malls, are some of the many reasons why the developers are attracted to build mid-tier and limited service hotels.

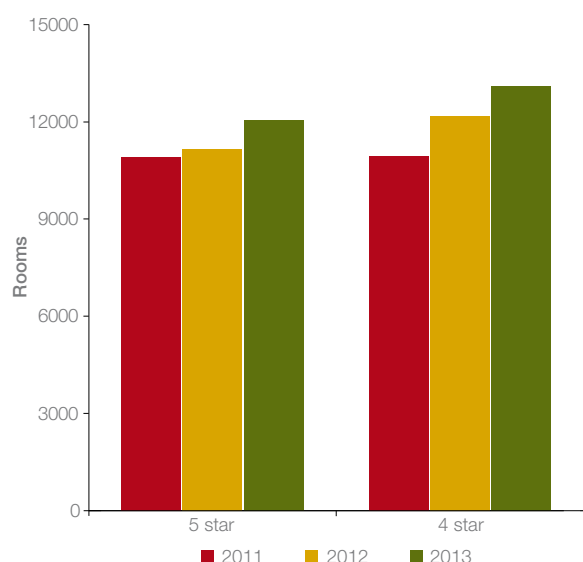
Accor has already opened four new properties recently in Jakarta, while the home grown chain Santika also opened four new Amaris, their limited service hotel brand. Aston also just opened two more hotels using Aston as well as their limited service Fave brand. InterContinental with their Holiday Inn and Holiday Inn Express brands have a number of projects in the pipeline in Jakarta as well, while Best Western is preparing their second property in Jakarta, which should come on line in 2013.

Higher end hotels are also expected to come on line from this year onward, including the Raffles and the W at the Ciputra World, Keraton (the Luxury Collection), which just opened, Pullman, Mercure, Novotel, and St Regis. Going forward, the Jakarta hotel market promises to be more active with development and should help refresh the landscape with new hotels after a long period of stagnancy. Other brands rumored to be on the lookout, or closing in on deals, include, Rosewood, MGM Grand, Nikko, Hilton, Sofitel and Westin.

The following chart shows the recent increase in hotel room supply in Jakarta.

Promising! cont.

JAKARTA SUPPLY



Source: JIHA, Horwath HTL

Bali

Bali	2010 YTD Dec.			2011 YTD Dec.			2012 YTD Sep.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Upper Luxury	52%	\$494	\$256	57%	\$528	\$303	55%	\$544	\$299
Luxury	74%	\$247	\$182	75%	\$274	\$205	78%	\$282	\$220
Top Tier	75%	\$134	\$100	78%	\$145	\$113	72%	\$143	\$103
Mid Tier	82%	\$77	\$63	78%	\$91	\$71	74%	\$82	\$61
Combined	75%	\$127	\$95	76%	\$140	\$106	71%	\$146	\$104

Source: BHA, Horwath HTL

Bali hotels seem to be holding on to their rate levels after the market recovered in a big way in the past few years after the GFC. This can be seen by the strong ADR, which continues to

climb in 2012, albeit at a slower rate than before. ADR growth is recorded in almost every segment of the market. The mid-tier market grew by a whopping 19% compared to last year's performance, while the luxury market showed the smallest growth compared to the others, with only a 7% increase over 2010 performance. Combined market performance is showing a growth rate of about 10%. As for the occupancy performance, the luxury segment led the way with 11% growth while mid-tier segment declined by about 6% compared to the same period last year. An example of hoteliers sacrificing occupancy to maintain the hard earned rates. Even though it is not as strong as the ADR growth, the occupancy performance still recorded a marginal positive growth of about 1% year on year.

The 2012 year-end outlook is predicted at about the same level as 2011 for most segments. While there is upward pressure continuing in 2012, all in all, the year will end as strong if not slightly stronger than last year. ADR growth seems to be continuing, although not nearly as phenomenally as in 2011. Occupancy, on the other hand, has stabilized and is staying flat when compared to last year.

Bali visitor arrivals continue to be strong, recording about 10% growth between 2010 and 2011, with 2.76 million arrivals at the end of 2011. Australians still dominate the Bali hotel market with about 29% of total arrivals. However, this upward trend has slowed down in 2012 when compared to 2011. The number of foreign visitor arrivals increased only by about 5% compared to the same period last year. The domestic market keeps going strong, with an average growth rate for the past 5 years (2007 – 2011) of about 23%. The greatest increase was recorded in 2010: 32% compared to 2009. In 2011, the growth rate is 22%, with 5.68 million domestic arrivals to Bali.

Continued strong demand in Bali, both domestic and international, is keeping the developers encouraged to build more hotels in Bali, despite the infrastructure deficiencies that have been highlighted in recent articles about the resort island. While the airport is being renovated and new roads built, the provincial government is also trying to put a brake on the

Promising! cont.



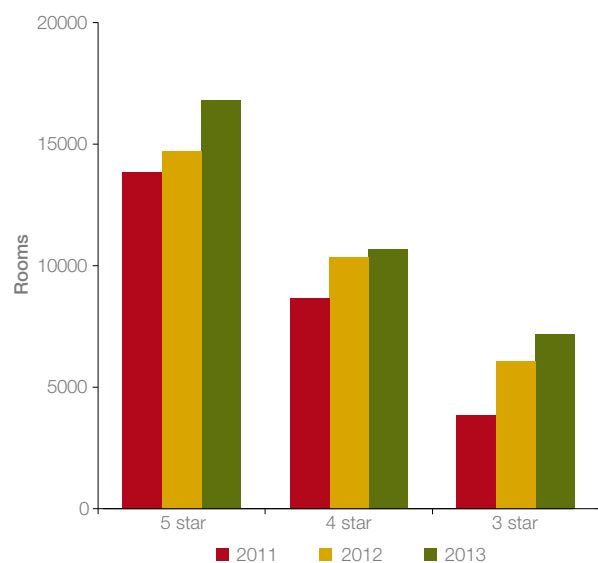
Promising! cont.

development in South Bali, where it is most densely populated by resorts, and trying to encourage developers to look more into the east, west and north of the island.

At the moment, limited service hotels seem to be the sweet spot for everybody in Bali, as it is in most parts of Indonesia. Accor, InterContinental, Aston, Santika and Tauzia are rushing to enter this segment with their own brands. Less densely populated areas on the east and west coasts, with lower land prices, seem to be the recent targets for the higher end hotel products. The sense of Bali becoming a bit overbuilt is becoming quite apparent, especially in south Bali where traffic congestion is much more common than before.

The following chart illustrates the hotel room supply trend in the past three years.

BALI SUPPLY



Source: BHA, Horwath HTL

OUTLOOK FOR 2013

Continuing economic uncertainties in Europe and the US, which is now seen to affect China and Japan, are starting to affect Indonesia in 2012 in terms of its export growth. However, the buoyant domestic market, with a population of 237 million, and the rapidly growing middle class at about 134 million now, are still holding Indonesia's economic growth at a very respectable level, especially compared to the rest of the world. Recently, the World Bank reported that the middle class in Indonesia is growing by about 8 to 9 million per year.

Indonesia's economic growth in 2011 was about 6.5 %, which was one of the strongest in Asia. Early in 2012, the Indonesian government was very optimistic and believed that 7 % growth for 2012 was reasonable and attainable. However, a myriad of challenges, both domestic and international, have made the government revise its target to about 6.3 % for year-end 2012, which is still very respectable compared to the rest of the region and the world.

The Minister of the newly formed Ministry of Tourism and Creative Economy is endeavoring to spread the tourism related development throughout the archipelago by encouraging secondary cities in Indonesia to catch up with the more developed destinations like Jakarta, Bali and Surabaya. It seems to be her belief that the domestic market is the biggest potential in the country for newly developed destinations, and has started to campaign for domestic travel rather than travelling regionally or internationally. One alternative to Bali, which has been promoted by the government recently, is Lombok.

Domestic travels contributed a whopping US\$ 17 billion in 2011, nearly double compared to foreign travelers, who contributed about US\$ 9 billion. With about 236 million trips made all over the country, thanks to LCC, the government believes that the domestic market has the potential to drive Indonesian tourism forward. The government set about a 4 % growth rate in 2012 for domestic travelers.

| Rio Kondo

Promising! cont.

THAILAND

SITUATION REPORT

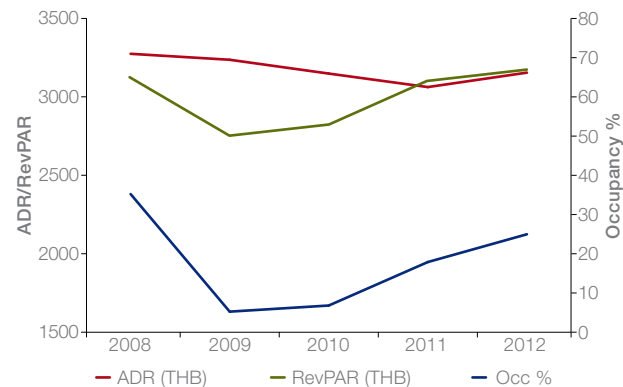
Thailand experienced an upswing in 2012 in recovery from years of struggle with the global economy crisis, internal political and security strain and natural disasters. However, while 2012 was encouraging (GDP growth of 4.2 % for the 2nd quarter), challenges still remain. The political situation, although currently stable, is still highly factional and complicated, while unrest in the south continues to be unresolved.

Nevertheless, tourist arrivals continue to grow, with 15 million international arrivals as of YTD September 2012, a YoY increase of 8 %. For full-year 2012, arrivals are expected to exceed the government target of 20 million visitor arrivals, well above the previous high of 19 million achieved in 2011. Based on August YTD 2012 figures, the key countries contributing visitor growth include China (+35 %), Japan (+10 %), Russia (+20 %), India (+8 %), Australia (+15 %) and Singapore (+18 %).

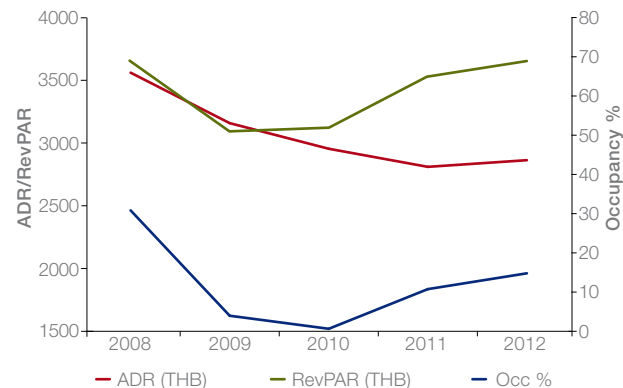
Hotel occupancy and average daily rate (ADR) performance has mirrored the country's economic and tourist arrival growth. As reported by STR Global, Thailand recorded YoY growth of 5.8 % in occupancy and 3 % in ADR as of YTD September 2012, combining to a significant 9 % growth in RevPAR at THB 2,124.

Key destinations, Bangkok and Phuket, have increased similarly in overall performance over the same period. While occupancy levels have recovered to a level similar or higher to the 2008 pre-crisis period, ADRs are still struggling.

THAILAND – YTD SEP

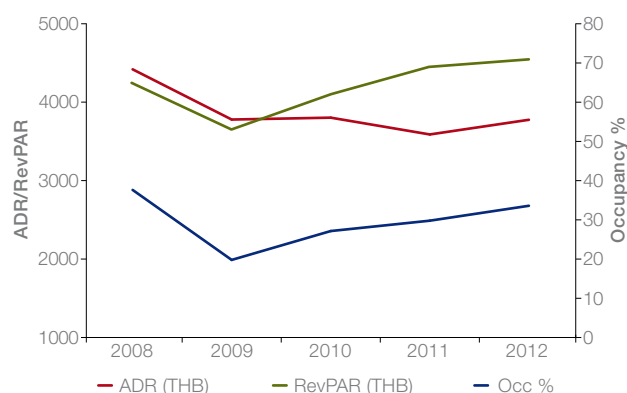


BANGKOK – YTD SEP



Promising! cont.

PHUKET – YTD SEP



Source: STR Global

OUTLOOK FOR 2013

While 2012 was a relatively stable year, a cautious outlook for 2013 is required, as the outlook for the global economy and Thailand's political situation remain unclear. A potential meltdown in the European economy, a double-dip US recession, economic slowdown in China and/or intensification in Thailand's political arena carry risks affecting Thailand's hotel market. However, as shown in the historical performance levels, Thailand is always resilient as a leisure and business destination.

A more pressing factor expected to impact Thailand's 2013 performance outlook is the anticipated increase in new supply across the country. According to STR Global's Market Pipeline Report for Thailand, the country is preparing to add about 49 new hotels between December 2012 to December 2013, representing 5% growth in hotel room capacity. About 67% of the new properties are of upper mid-scale positioning and above and will be located in Bangkok. As demand is not expected to increase in parallel with the supply immediately, this will negatively impact occupancy levels and put downward pressure on ADR as competitiveness intensifies.

However, with continual support from the government and the strong fundamentals of Thailand's tourism industry, the outlook for the country is still positive. Comprising 16.3% of the country's GDP in 2011, the Travel & Tourism industry is a key contributor to the economy, expected to grow by 2.1% in 2012 and 6.4% per annum from 2013 to 2016. Such growth expectations are supported by the Tourism Authority of Thailand's (TAT) strategies and programs designed to boost the country's reputation and profile. Accordingly, the TAT's target for visitor arrivals in 2013 has been set at 22 million, 10% annualized growth.

As part of the TAT's efforts to promote Thailand's tourism, a 2013 Tourism Action Plan has been constructed. Key highlights for the 2013 Action Plan include an increase in charter and low-cost flights from markets previously lacking direct access, increased marketing efforts such as trade shows and celebrity ambassadors, special focus on new digital media, and an emphasis on tourism intelligence and crisis management.

On the whole, with Thailand established as one of Asia's most popular tourist destinations, its proven resilience from negative shocks, and the government and commercial sector's efforts in enhancing the country's appeal, confidence is high for improving hotel industry performance in 2013.

| Clare Fu

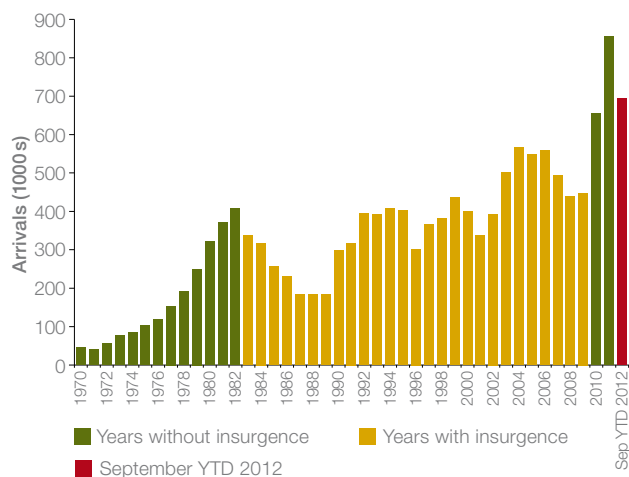
SRI LANKA

SITUATION REPORT

Sri Lanka's eventful history has the world intrigued. Following its independence in 1948 and up until the start of the civil war in 1983, the country attracted a steady increase in tourism arrivals. Between 1960 and 1983, visitor arrivals grew at an average annual rate of 21%. Twenty-five years of constrained arrival numbers followed, fluctuating with the intensity of hostilities and terrorists events, including a prematurely hopeful ceasefire period between 2003 and 2006, which saw arrivals exceed the 500,000 mark before falling back in 2007.

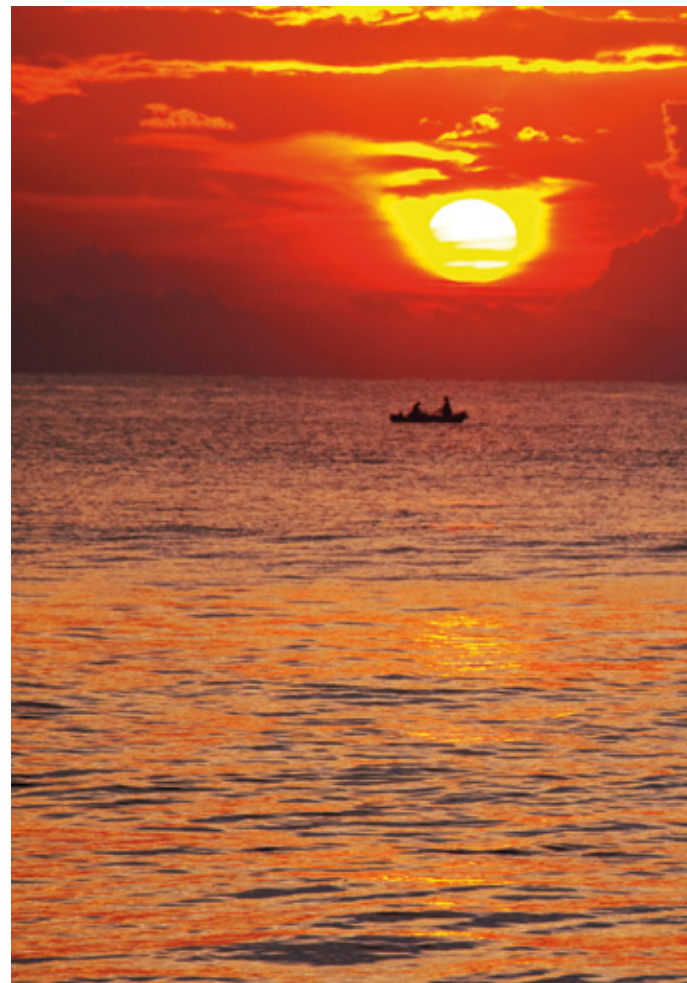
Promising! cont.

With the civil war finally placated in 2009, pent up demand quickly drove arrivals up by 46 % in 2010, a new high and a welcome surprise to existing hotel owners used to half empty properties. Further arrivals growth of some 30 % in 2011 helped push market occupancy to 70 % for the year, with particularly tight conditions existing during the peak European Winter season. New hotel development is underway, but will still be a few years away from addressing the short-term room demand needs during peak seasons. As of YTD September 2012, arrivals were up a further 16 % YoY, indicating the one million arrivals mark could be reached by year-end.



Source: Sri Lanka Department of Tourism

As of 2011, India was the largest feeder market for Sri Lanka, accounting for 20 % of total arrivals. The United Kingdom, previously the largest arrivals source due to the historical relationship between the two nations, is the second largest source market. Of the top feeder markets, Russia has grown the fastest with double-digit average annual growth over the past decade. However, as of YTD September 2012, China entered



the ranks of the top 11, surpassing Russia. Nonetheless, as the last quarter of the year tends to be a particularly peak period for arrivals from Europe, including Russia, a reshuffle in the source market rankings for the full year 2012 is expected.

Surprisingly, the strong growth in arrivals in 2012 did not translate into strong occupancy growth for the Sri Lanka hotel market. According to STR Global, September YTD occupancy for the country recorded a decrease of about 2 % YoY, with

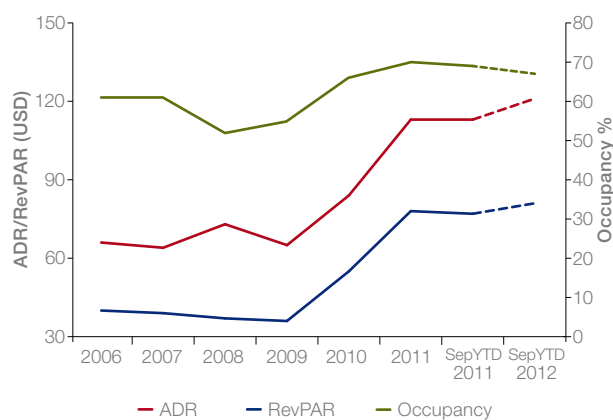
Promising! cont.



the lowest YoY drop in July at 18 %. The sharp drop in July corresponded with a sharp decrease in Indian arrivals due to political tension stirred up during the year between the two countries. Drops in occupancy were especially evident in the upper-tier in Colombo, which can be linked to reduced business travel associated with disruptions to the country's economic growth related to government mis-management resulting in stock market values declining, high inflation and increased cost of local debt. Compounding the situation in the

Colombo hotel market is a government mandate concerning minimum rates to be charged by 5-star hotels. By comparison, lower-tier hotels continued to do well over the same period as minimum rate restrictions were not applied to hotels below the 5-star level.

Reflective of the market conditions and influencing government mandate, market ADR grew to US\$ 120 as of YTD September 2012, representing 7 % YoY growth. As a result, RevPar growth was 5 % growth as of YTD September 2012.



Source : STR Global

Stemming from the closed economy and limited investment opportunities for foreign companies during the Civil War period, the hotel market is dominated by local players involved in inbound tour operations as well as hotel ownership/management. Such players include John Keells Hotels Group, Aitken Spence Hotels and Jetwing Hotels. International operators in the country to-date have been limited to Hilton, Aman and Taj. However, since 2009, regional and international hotel brands and operators have been entering the market with new deals and greater pace including Anantara, Starwood, Marriott, Shangri-La, Onyx, and Hyatt. While most of the

Promising! cont.

interest still lies in the capital city, Colombo, and established resort destination, Galle, the government is trying to develop and promote other areas of the country by improving transportation infrastructure and promoting investment opportunities for external supporting facilities such as golf courses, convention centers and shopping malls. Drawing upon tax holiday schemes and other investment incentives, the SLTDA aims to increase registered room capacity in the country by a significant 230 % by 2016 to 49,800 rooms from the current 15,079 rooms (as of July 2012).

OUTLOOK FOR 2013

Still in an early developing juncture, Sri Lanka is poised for positive long-term tourism growth. Confidence in the market is noted to be strong, indicated by the numerous mentions received during the recent 23rd annual Hotel Investment Conference Asia Pacific (HICAP) in October 2012, identifying Sri Lanka as one of the top emerging hotel markets in Asia. Other factors supporting the positive outlook include the implementation of a new visa-on-arrival scheme for more than 80 countries, increasing flights and routes, airport expansion and new development, improving roads and other critical infrastructure, increasing foreign investment and the entry of new international branded hotels inducing additional demand.

However, short-term growth is expected to be somewhat constrained, as most of the abovementioned points will require several years to come to fruition. As a result, some caution is required relative to the generally positive outlook due to the following factors:

- The existing infrastructure in the country is not sufficient to support the short-term boom in visitor arrivals. While improvements are currently being made, there will be a lag in many areas such hotel room supply and transportation infrastructure.
- The struggling economy indicated by a drop in exports, increased debt and slowed GDP growth.

- The current shortage of local capital for investment, high cost of debt and the related impacts on the realization of foreign investment projects counted on for introducing new generation hotel products to the market.

On balance, market growth will likely be constrained for the next few years as the country adapts to its post Civil War political environment and the sudden boom in arrivals and foreign investment interest, which will require improved government management of the economy.

| Clare Fu

UNITED ARAB EMIRATES

SITUATION REPORT

Despite the political and social unrest, which substantially affected the hotel market in parts of the Middle East in 2011-12, the United Arab Emirates (UAE) hospitality market rebounded, clearly benefiting from the redirected demand from the Arab Spring. The country is politically and social stable and as a result, international and regional tourists diverted their travel plans to the safer destinations of the UAE.

The tourism infrastructure in the UAE is very well developed, particularly in the Emirates of Dubai and Abu Dhabi, and repeat travelers continue to be attracted by the high quality hotels, leisure and shopping facilities and the excellent airlift to both of the destinations. Demand from GCC nationals was a major factor in increased business levels, with Dubai experiencing a large influx of regional tourists during the summer months and traditional holiday periods.

Year to date in 2012, the hospitality market in the UAE is again flourishing and showed continued growth, despite the typical drop in demand during Ramadan and the summer season, which coincided this year. In comparison to 2011, room occupancy grew by 3.2 % to hit 71 % (as of August 2012), along with an upswing of 5.5 % in average daily rates (ADR) to US\$ 199, resulting in an increase of 8.9 % in revenue per available room (RevPAR) to US\$ 141.

Promising! cont.

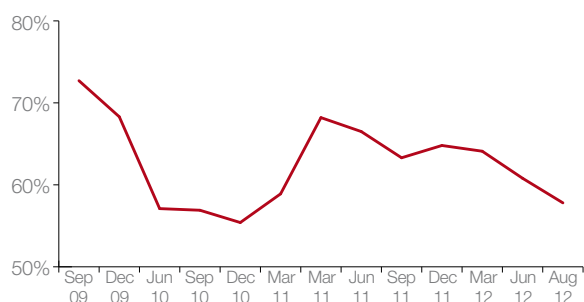
However, a closer look at the key cities in the UAE reveals significant differences in their market performance. Our situation report this year evaluates the Emirates of Abu Dhabi and Dubai separately, in order to get a clear picture of their respective trading performance.

In Dubai, occupancy increased to 76.4 % for the last 8 months. The Abu Dhabi Tourism and Culture Authority reported that in September 2012 there was a 15 % increase in tourist arrivals, but taking the data until August into account, an occupancy of 57.8 % was recorded, down 9.1 % compared to last year.

There was a also new record level of hotel nights in Abu Dhabi, which grew by 10 % in the last 9 months in comparison to last year, but the additional supply which came to the market put severe pressure on the rates. This situation created stiff competition between hotels and led to a price war among them, severely impacting the ADR, which decreased by 8 % to US\$ 146.

This stands in stark contrast to the Emirate of Dubai, which recorded a positive growth of 9.6 % in ADR to US\$ 226.

OCCUPANCY ABU DHABI



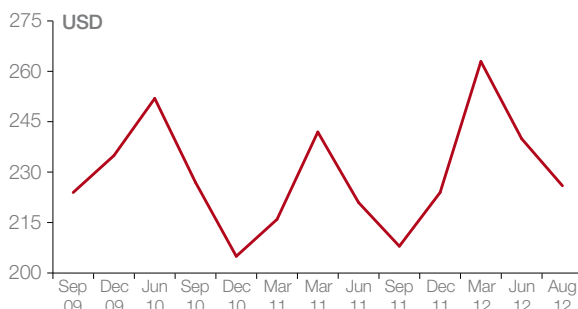
ADR ABU DHABI



OCCUPANCY DUBAI



ADR DUBAI



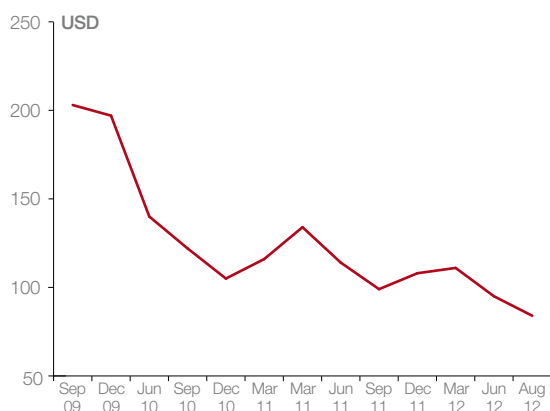
Promising! cont.

Due to the severe competition in the hospitality market in Abu Dhabi, the profit margin was down by more than 16.3% in comparison to last year, resulting in a RevPAR for the 8 months to August 2012 of only US\$ 84.37, having dropped 16.3% below the same period last year.

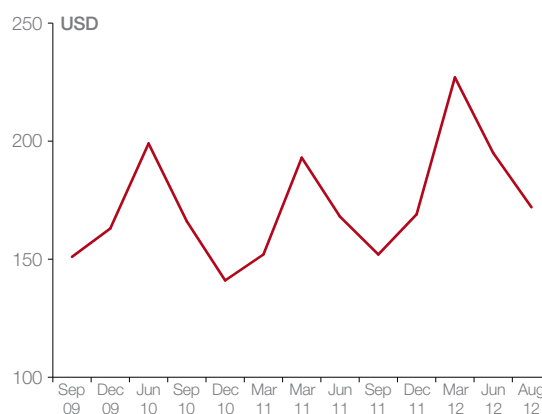
The Dubai hotel market is the region's success story, having developed into an all-encompassing destination, attracting demand in all segments, including leisure, corporate and MICE travelers. The leisure market remains the dominant sector, contributing over 40% of the total room nights. However, business demand is increasing due to the improvement in business sentiment in the region. Dubai has also become the preferred MICE destination in the region, hosting large international and regional events, including Arab Health, World Economic Forum, Cityscape and the Dubai Air Show. These events each attract upwards of 80,000 attendees over a period of 2-3 days each.

This has resulted in an uplift of the RevPAR to US\$ 172 for the 8 months to August 2012, which represents a growth of more than 15.5% over the same period last year. The trading performance of Dubai is currently among the highest in the region, and benchmarks favorably with key cities around the globe such as New York, London and Hong Kong.

REVPAR ABU DHABI



REVPAR DUBAI



In Dubai in 2012, growth in the supply of new hotel rooms slowed mainly as an after-effect of the widespread construction delays over the last two to three years following the credit crisis. However, the recent recovery in Dubai's tourism and hotel demand, and renewed confidence in its real estate, is encouraging developers to restart planned or stalled developments, including some landmark tourism and hospitality projects in Dubailand, Palm Jumeirah and Business Bay.

The influx of new room supply in Abu Dhabi over the last three or four years has caused an oversupply in the market, mainly in the five-star segment. Total rooms supply increased substantially from +/- 13,000 in 2008 to about 22,000 in the first half of 2012, according to government estimates. The upscale hotels' decision to cut rates in response to the growing competition to shore up occupancies has caused a ripple effect across the market as other segments followed suit to maintain market share, affecting room rates across the market.

SENTIMENT OF THE WORLDWIDE HOTEL INDUSTRY

The Horwath HTL Hotel Market Sentiment Survey has been designed to provide a quick assessment of the future market outlook for the worldwide hotel industry. This global initiative

Promising! cont.

Despite ongoing global economic, the sentiment in Africa & the Middle East remains optimistic

gathered responses from 1,557 respondents across 41 countries.

This report summarizes the result of selected hotels and hotel management companies, including those in Dubai and Abu Dhabi. By star classification, 62 % of the respondents were 5-star hotels, 4 % were 4-star hotels, 13 % were 3-star properties and 21 % hold a mixed portfolio or made no further specification in this regard.

According to the Horwath HTL Global Hotel Market Sentiment Survey, Africa & the Middle East recorded the highest sentiment score on a global level, at a level of 41 points in February 2012 and 29 points in July 2012, being the highest worldwide and well above the global average of 24 and 1 respectively. Despite ongoing global economic and geo-political uncertainties in certain countries, the sentiment in Africa & the Middle East remains optimistic.

BY REGION	SCORE					
	Jan 2010	Jan 2010	Jan 2010	Jan 2010	Jan 2010	Jan 2010
Asia	48	46	52	22	37	10
Oceania	41	52	58	38	35	-12
Europe	4	15	34	16	14	-8
Americas	21	8	37	9	17	28
Africa / Middle East	43	7	9	-6	41	29
Global Average	27	29	42	16	24	1

In response to the outlook on market-wide occupancy performance, a majority of 75 % of hoteliers replied that occupancy was better or much better than expected, while only



12 % of hoteliers felt that occupancy performance was worse than originally anticipated.

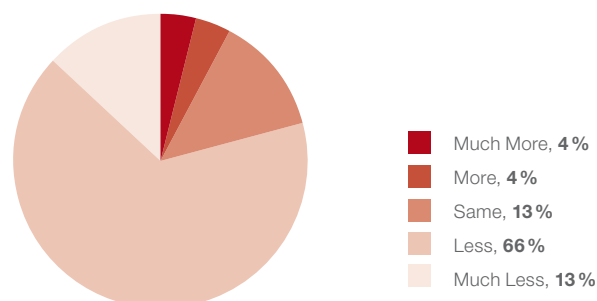
Approximately 62 % of respondents stated that they expect performance in all three metrics to perform better or much better than in the second half of the year when compared to last year's market performance. Almost two thirds of hoteliers are looking ahead with confidence and optimism.

Another indicator substantiates the positive sentiment of the UAE market in general, by comparing the impact of the financial crisis between the country and the rest of the world, and reveals a significant difference. While the global average records negative 8 points, the UAE registered a positive score of 59.

Promising! cont.

	SCORE
Asia	10
Oceania	-12
Europe	-8
Americas	28
United Arab Emirates	29
Global Average	1

When asked if the continued global economic uncertainty had impacted hotel demand as much as they had expected, only 8% of hoteliers responded that demand was still affected more or much more than expected, as shown in the chart below:



The overall sentiment for total revenue reflects the optimism registered for occupancy and rate growth, with 82% of the participating hoteliers indicating that continued global economic uncertainty impacted demand less than expected, indicating they expect a growth in revenue.

This can be seen as an indicator, which shows that the global economic crisis has notably less direct impact on hotel markets in the UAE than in other parts of the world.

OUTLOOK FOR 2013

The hotel market performance in the United Arab Emirates in 2012 was mixed, with Dubai reporting a strong growth in all three key performance indicators, while the hospitality market

in Abu Dhabi is suffering from hotel room oversupply.

Although the UAE government has taken some measures to control new hotel developments, it will need a consensus among the hotel operators to maintain an appropriate rate structure.

Against this backdrop, the outlook for both Emirates in 2013 is also different:

The hotel and tourism industry in Dubai has recovered very well, recording strong leisure, MICE and business demand, which stimulated developers to re-start projects that had previously been stalled. Although there are still challenges to obtain construction finance at suitable terms and conditions, the sky is slowly clearing over the Emirate of Dubai. There is untapped potential to diversify the hotel and tourism offerings, for example by focusing on the budget/mid-market segment and through providing special products which appeal to specific travelers, such as boutique hotels or the all-inclusive hospitality concept.

Looking forward, in Dubai there are a number of hotel openings expected in late 2012 into 2013, including high profile projects such as JW Marriott Marquis, which will be the world's tallest dedicated hotel when opened, and the Palazzo Versace Hotel.

In summary, the outlook for hotels in Dubai into 2013 appears to be buoyant, albeit with a relatively stable or marginally reduced occupancy levels due to the anticipated increase in supply. Given the positive market sentiment, double digit revenue growth is expected in 2013 for the Emirate of Dubai.

The outlook for the Emirate of Abu Dhabi is however cast with shadows as several challenges are shackling the hotel industry. The high number of new hotels, which came to the market recently, exacerbated an already existing oversupply and put severe pressure on the performance of the existing hotels. In the light of the announced new properties, to a level where the current inventory of available rooms will almost double, there will be a further decline and tightening of the future market environment.

Promising! cont.

The new supply is coming faster than the demand and the market cannot absorb it. The government needs to continuously market the destination and continue with the development of the infrastructure and tourist attractions to increase demand. Although the Abu Dhabi Tourism & Culture Authority (ADTCA) announced they are to freeze the issuance of new hotel licenses, a fiercely contested market and a further decrease in the main performance metrics is expected in 2013.

The Abu Dhabi Tourism Authority is implementing a demand diversification plan for the tourism sector as part of the larger Plan Abu Dhabi 2030, focusing on the development of MICE and leisure-related infrastructure in the Emirate. Key development projects on Yas and Saadiyat Islands, such as the Yas Waterpark and the Louvre and Guggenheim Museums, are seen as a positive step forward as they will increase leisure-related demand. These attractions should develop Abu Dhabi as an all-inclusive destination providing greater stability in the future as it diversifies demand away from the traditional markets such as corporate and government demand. However, the consensus of hoteliers in the Emirate is that material improvements in the key performance parameters are not likely to occur until 2014/15.

In this context, it is important to highlight that the ongoing uncertainties and a potential slowdown of the economies in a number of the countries in the Euro-zone could pose a downside risk on arrivals from Europe, which represents one of the most important feeder markets for inbound tourists for the UAE.

However, the UAE has cemented its position as a safe oasis within a turbulent region and continues to be considered one of the preferred places in MENA for leisure and business.

Hannes Schied

VIETNAM

SITUATION REPORT

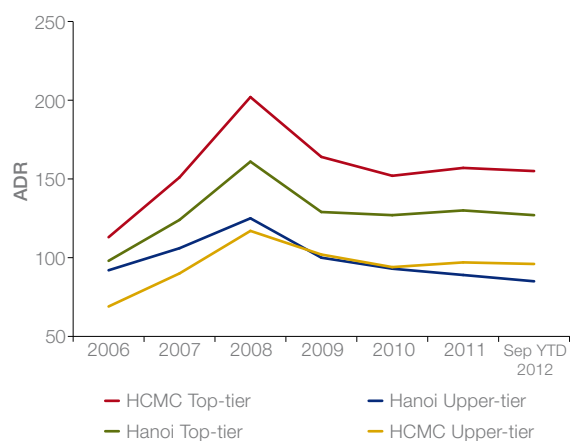
2012 was a tough year for Vietnam, albeit an improvement over

the sky-high inflation endured in 2011 (reaching 23 % at its peak in August). GDP growth for the first three quarters of 2012 was 4.73 %, down by one percentage point YoY, due to slowdowns in manufacturing, business transactions and consumption. Such growth was below the government's target of 5.5 % for the year. However, success was achieved in slowing inflation by almost half, though not quite reaching the goal of single digits.

The hotel and tourism sector was negatively affected by the poor economic conditions. According to STR Global, for the first nine months of 2012, the Vietnam hotel market recorded decreases in both occupancy (by 0.7 %) and rate (by 4.7 %), resulting in a RevPAR decrease of 5.4 % YoY.

The Ho Chi Minh City (HCMC) market followed the national trend with negative growth in all aspects, mainly due to the opening of 3 new hotels: StarCity, Nikko Saigon and the Novotel Saigon. In contrast, the Hanoi market recorded a growth rate of 6.3 % in occupancy, resulting in RevPAR growth of 4.4 % YoY.

TOP-TIER VERSUS UPPER-TIER HOTEL MARKETS IN HCMC AND HANOI



Source: STR Global, 2012

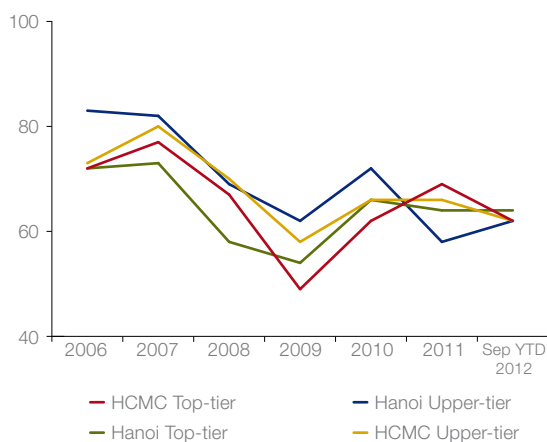
Promising! cont.



From 2006 to 2009, the gap in ADR between the top-tier hotel market in HCMC and Hanoi ranged between US\$ 15 and US\$ 41, mainly because the top-tier hotel market in HCMC developed earlier than in Hanoi, while the opening of the Park Hyatt Saigon contributed to the rate surge. From 2010 to September YTD 2012, with Vietnam's economy on the skids, the top-tier market in HCMC experienced a decrease in business travellers, resulting in a decreasing rate gap of about US\$ 24-27.

In contrast, the Hanoi upper-tier hotel market prior to 2009 achieved higher ADR than in HCMC. However, since that time, a large influx of new upper tier supply in Hanoi, such as the Crowne Plaza West, Grand Plaza Hotel, Hotel De L'Opera, and the Mercure La Gare, has negatively impacted room rates as a result of competitive rate discounting.

OCCUPANCY (%)

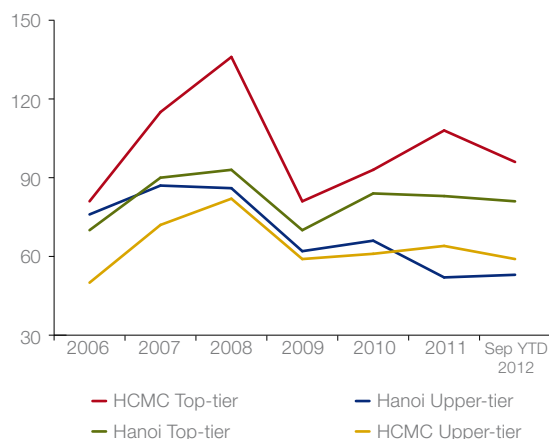


Source : STR Global, 2012

Promising! cont.

Occupancy rates across the top and upper tier markets follow a similar trend from 2006 through 2012, with the peak experienced in 2007, and the dip in 2009, in the immediate aftermath of the GFC. Occupancy rates have generally improved since 2009, except for Hanoi's upper-tier market, due to the influx of new supply. By September 2012, the top and upper tier markets converged around the 62 % mark.

REVPAR

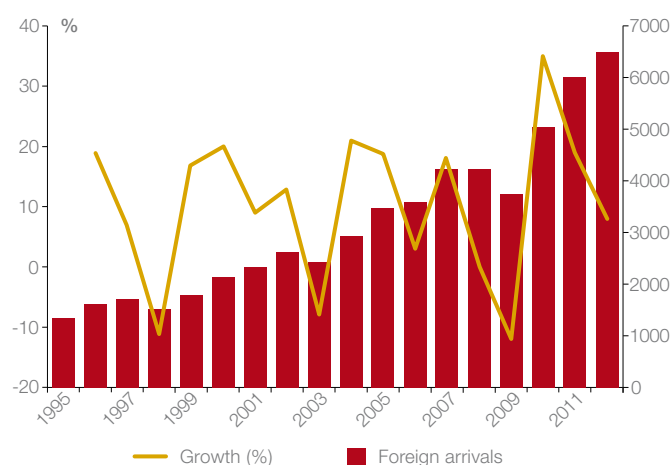


Source: STR Global, 2012

NEW SUPPLY

An emerging trend in 2012 was the expansion of local investment in the top and upper tier segments of the market with acquisitions of Victoria Hotels & Resorts and new development by the Vin Group. At the time, the addition of new and high quality hotels with international branded hotels, such as the Pullman in HCMC, Hyatt Regency and InterContinental in Da Nang and MGallery in Hanoi, is helping to enliven Vietnam's hotel product offerings and inducing new arrivals.

VISITOR ARRIVALS



Source: General Statistics Office of Vietnam

Chinese tourists continued to dominate international arrivals in 2012, accounting for nearly 1 million arrivals, or 21 % of total arrivals (as of September YTD 2012). South Korea and Japan were the second and third top source markets comprising 11 % and 9 % of total arrivals, respectively. In terms of YoY growth, however, China remained unchanged, while Japan and South Korea recorded increases of 26 % to 40 %, mostly associated with the continuous growth in investment in Vietnam from these two countries.

OUTLOOK FOR 2013

With the opening of Myanmar and the expansion of low cost carrier routes around the region, including such additional emerging markets as Cambodia and Laos, the attractiveness of Vietnam as an authentic and cultural Southeast Asian country has been affected. In addition, the repeat factor for Vietnam is much lower compared to Thailand, Malaysia, and Singapore. Without more incentives and promotion from the government and tourism authorities, it will be challenging to increase the number of leisure travellers over the near term.

Promising! cont.

At the same time, increases in corporate travellers will largely be contingent on improvement of the economy, especially lower inflation, and regaining investor confidence. Curbing inflation and stabilizing the economy are the government's top priorities for 2013, with economic growth and inflation both targeted at 6%.

With economic recovery far from guaranteed, the number of new hotel openings in 2013 is expected to strain occupancy and rate performance further. Such new hotels entering the market in 2013 include the InterContinental Landmark (359 rooms), JW Marriott (450 rooms), Hilton Garden Inn (86 rooms), Novotel Ciputra (250 rooms), Mercure Hado (380 rooms) and Holiday Inn Dong Da (300 rooms) in Hanoi; and Le Meridien (350 rooms) and Pullman Saigon Centre (300 rooms) in HCMC.

Overall, Vietnam is facing an arduous year ahead in 2013. However, on the flip side, more international branded and high quality hotel products are expected to help induce tourist arrival growth, while providing important infrastructure for supporting the country's tourism growth going forward. If the rest of the country's infrastructure development (transport and utilities) can keep pace, Vietnam will be well placed to utilize its tourism resources as a driver for economic recovery.

| Van Phan

PHILIPPINES

SITUATION REPORT

2011 turned out to be another milestone year for tourism in Philippines. Visitor arrivals to the country totalled 3.9 million, breaking the record 3.5 million set in 2010 and surpassing the 3.7 million target set by the Department of Tourism. Korea was the largest source market (24%), followed by the US (16%). Other major source markets include China (6%), Taiwan (5%) and Australia (4%).

The buoyant performance can be attributed in part to strong corporate travel, driven by domestic and foreign investments following the improved political and economic environment.

Much to the delight of investors, the government's concerted efforts to eliminate corruption and improve fiscal management earned the country a credit rating upgrade from S&P from BB to BB+ (one spot below investment grade). Remittances of Filipino foreign workers were also pivotal in boosting consumption and encouraging domestic travel.

Not surprisingly, the robust visitor arrivals performance translated to a better hotel market. According to STR Global, ADR grew by 4% (PHP 5,715) while occupancy improved by 1 percentage point (to 71%). As a result, RevPAR grew by a reasonable 5% (PHP 4,070) in 2011, while as of YTD September 2012, RevPAR is up a further 2.5% YoY.

Other than the limited supply of international class hotel products, tourism infrastructure remains a major hindrance to growth. The international airport in Manila, the main gateway to the country, is operating at full capacity. Although several alternatives are being considered to ease congestion at

There has been a drought in new big name hotel supply in Metro Manila for some time

the airport, including transferring some flights to Diosdado Macapagal International Airport in Clark and building a new airport, there are no definite solutions in the works at the moment.

OUTLOOK FOR 2013

While caution on the outlook is warranted due to global economic uncertainties and Metro Manila's outdated tourism infrastructure, no signs of an impending slowdown are currently evident. As of YTD August 2012, visitor arrivals reached 2.9 million, eclipsing the previous year's figures by almost 10%, with the majority of source markets posting positive growth. Although market RevPAR growth YTD is moderate, RevPAR



growth among the upper upscale and luxury hotel segments is trending higher.

There has been a drought in new big name hotel supply in Metro Manila for some time. The last time a major international chain hotel entered the market was in 2009 (with the opening of the Marriott). However, a number of strong players are expected to enter the market, including Fairmont (2013), Holiday Inn (2013), Shangri-La (2014) and Grand Hyatt (2015).

Additional considerations supporting a positive outlook include:

- The Pagcor Entertainment City, an ambitious integrated casino project in Manila Bay consisting of numerous hotels, casinos and entertainment facilities, is finally under way.
- Solaire and Belle Grande Manila, two of the four companies

authorized to develop hotels and casinos may open their casinos as early as 2013.

- The Department of Tourism has launched a new branding and destination marketing campaign which is so far generating a consistently positive response.
- The current administration's continued efforts towards eliminating corruption and creating a more attractive environment for foreign direct investment.

Overall, the outlook for the market remains positive as the Philippines, especially Metro Manila, appears to have the fundamentals to propel the industry to another record year despite all the uncertainties surrounding the global economy.

| Jerome Siy ■



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