香港酒店業主聯會
The Federation of Hong Kong Hotel Owners Limited

The Federation of Hong Kong Hotel Owners Position Paper on "Tourism Revival" Recommendations

Introduction:

The downturn in the tourism industry at a time of growth and change in the room capacity of the hotel industry has led to very difficult business conditions for Hong Kong hotels. The hotel industry has done its best to improve efficiencies and cut costs, but continues to be plagued by reduced revenues. Although there has been a slight improvement in tourist arrivals, Hong Kong hotels experienced a fall in room yields between the second half of 1997 and 1998. In the first half of 1999, total tourism receipts fell further by 1.7%, totaling HK$25.2 billion, despite a strong growth in visitor arrivals.

The average length of stay for visitors to Hong Kong has continued to decline. The average length of stay was 3.7 nights in 1996; 3.6 nights in 1997, and 3.4 nights in 1998.

The shorter period of stay has reduced demand for hotel accommodation and seen a corresponding drop in visitor spending and the economic spin-offs into other sectors. Per capita visitor spending fell 17.6%, from $6,722 in 1997 to $5,540 in 1998.

A worrying development is the drop in high-yield visitors from North Asia, North America and West Europe. For example, visitors from Japan dropped by 43% in 1997 and by 31% in 1998. Business visitors in 1998 also dropped to the level of 1993, or down 16% from the peak in 1996.

With the fall in high-yield visitor arrivals, a shorter length of stay and declining visitor spending, it was inevitable that tourism receipts have fallen. Hong Kong's total tourism receipts dropped almost 40% from its peak in 1996.

Difficult economic conditions look set to continue for some time. In view of more hotel rooms coming on stream over the next few years, the hotel industry can hardly be optimistic under this business climate. We sincerely urge the Administration to consider the following measures:

All correspondence are to be addressed to the Executive Director
109B, Basement One, Grand Stanford Harbour View, 70 Mody Road, TST East, Kln. Direct Tel No: 2369 1887 Direct Fax No: 2367 7805

- Create Hong Kong as a "must see" destination;
- Attract more high-yield visitors, both business and leisure, to Hong Kong;
- Encourage visitors to stay longer;
- Entice visitors to spend more; and
- Entice visitors to return again and again

This position paper tries to address matters of immediate concern to the industry and makes recommendations on steps to take to improve the short-term outlook whilst examining medium- to longer-term recommendations on how to enable Hong Kong to take full advantage of the opportunities likely to arise in the future.

Our recommendations are not meant to merely represent the hotel industry's own vested interests but rather are based on our wider concerns that Hong Kong needs to live up to the challenges posed by a more competitive environment in the 21st century and the new Millennium. It is time for us to undertake a bold and decisive revamp of Hong Kong's tourism industry from a broader perspective.

We also suggest some views and ideas to promote Hong Kong as a superb international metropolitan city with its unique Chinese culture coloured by colonial past, a shopping paradise with quality services and full range of choices, and as an international cuisine centre. All these areas are meant to promote Hong Kong and distinguish it from other Asian cities. We believe action must also be taken to relieve the hotel industry from the current difficulties. The following recommendations are divided into four main areas:

I. Concerns of the Hotel Industry
II. Favourable Macro-tourism Policies
III. Hong Kong New Image: World class facilities & Tourist Attractions
IV. A more Sustainable & Healthy Living Environment

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I. Concerns of the Hotel Industry

Hong Kong hotel industry is facing the most difficult time in recent history. There has been keen competition in the region together with cutthroat competition in struggle for survival amongst individual hotels. Revenue contracts drastically even though visitor arrivals increase. The followings illustrate hotel industry's difficulties and offer some recommendations to relieve the industry from this business hardship.

1.1. Change of Visitor Profile

In these past few years, the PRC has become the largest single broad source market. The mainland market share has increased steadily from 19.7% (1996), 22.1% (1997) to 27.1% (1998). PRC visitors' spending and length of stay has been satisfactory. However, they only spend more on shopping but less in hotels as compare to visitors from other source markets. Visitors from long-haul markets spend the most in hotels of about HK$4,900 or 57% of their total expenditure per head.

With the drop in business visitors in 1998 to the 1993 level, or 16% from the peak in 1996, high-yield visitors from North Asia, North America and West Europe also declined. For example, visitors from Japan in 1998 dropped 31% and 43% in 1997, respectively.

1.2. Hotel Burden: fees and charges

Hotels have been burdened with numerous fees and charges, ranging from government rates, licenses, energy costs, Trade Effluent Surcharges (TES) to copyright license fees, etc. These burdens have become heavier with decreasing revenues and have constrained hotels' competitiveness by increasing our cost structure.

Operation costs keep increasing although hotels have done their best to streamline their operations and tightened management controls. Costs like property maintenance, utilities, and wages and benefits, are difficult to cut. An experienced and skillful workforce is vital if hotels are to maintain their quality services. In fact we feel that the need for cost cutting in order to survive has already adversely affected quality services which if not quickly reverse could cost long-term irreparable harm in the industry as a whole.

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1.3. Hotel Cash Constraints

The downturn in the tourism industry has been longer than expected. Visitor arrivals have increased. However, room rates have driven down to historical low level. Hotels struggle to but just manage to operation break even. Some hotels operate at a loss and others have been driven to offer room rates at $200 per night.

When the Hong Kong Tourist Association released its latest figures, it stated: "hotel occupancy now averages 77% from 72% a year ago. However, this increase has been achieved on the back of a more that 40% cut in average daily room rate — a massive contraction — a return to rates of a decade ago". Hotel bills currently account for 24.7% only of visitors' expenditure, which is the lowest on record.

The average achieved hotel room rate for the past 12 months has continued to drop drastically. For High Tariff A hotels, room rates dropped 21% to HK$1,113 in the first half of 1999. High Tariff B hotels' room rate also dropped 23% to HK$508. Medium Tariff hotels, the most hard-hit category, dropped 27% to HK$340. If considering the percentage dropped by 1998 to 1997, the contraction of average room rate would be even more drastic.

1.4 Recommendations to boost the hotel industry

We sincerely urge the Administration to support the industry by considering the following:

<u>Reduce hotel industry tax and regulatory costs through:</u>

- Abolishing hotel accommodation tax;
- Providing 50% relief on property rates currently payable by hotels;
- Introducing a tax incentives e.g. tax credit, for capital expenditure; and
- Temporarily waiving or freezing government fees and charges, e.g. TES, hotel licenses and some other associated rent;

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Increase Hong Kong's attraction to visitors through:

- Temporarily waiving or reducing the airport tax;
- Introducing a tax credit for tourism-related staff training/retraining programmes and marketing expenses, e.g. course fees, air tickets and expenses of trade shows should be exempted from tax;
- Concessions to all forms of public transport, e.g. introduce concessionary tourist package tickets to be issued jointly by bus companies, KCRC, MTR, and ferries companies etc.

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