

HONG KONG'S HOTEL INDUSTRY CHALLENGING YEARS



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On the face of it, Hong Kong would appear to be an ideal market for investing in and operating a hotel. Visitor arrivals increased to 16.56 million in 2002, a massive 20 percent increase over 2001 and the prospect of Hong Kong Disneyland opening in 2006 is driving expectations of even greater future growth and substantial new hotel development.

In reality, however, Hong Kong's hotel market is struggling irrespective of the recent SARS outbreak (which is discussed at the end of this paper) and the Iraq War, primarily as a result of the following factors:

- ***Despite the increase in arrivals, demand for hotel rooms has actually remained somewhat flat over the last 5 years.***
- ***Average room rates have fallen by more than 50 percent to levels below those achieved in 1990.***
- ***Operating profits are low and below levels that make investment in the sector economically attractive.***
- ***Service and product quality levels, for which Hong Kong has been renowned, are coming under severe pressure as hotels are being forced to reduce employees and limit re-investment in refurbishments.***

Despite these problems, room supply is nevertheless projected to increase by around 30 percent over the next 3 to 5 years, thereby further putting pressure on the sector.