

ANYBODY INN ?

As the economic slowdown in the US causes repercussions, internationally, Asia, being no exception to the international rule, feels the knock-on in its lodging industry, the parlance to describe the business of running hotels, motels, and their like.

In major Asian business centres, such as the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), Taipei, Singapore, Kuala Lumpur, Seoul, and Tokyo, the international 'bite' is guaranteed to come – if it has not, already, hit home.

Where the rapid, US economic slowdown is likely to strike, fastest and with the mostest (as the saying goes), is in the upper bracket of accommodation – the so-called, 5-star accommodation.

International companies are known to be clamping down on the number of their employees, permitted to travel.

They are putting a cap on expenses, as well as instituting controls in respect of corporate spending on clients.

They are making greater use of the Internet for daily communication in order to save money on such things as conference calls and the like: A penny saved is a penny earned.

And these are just a few of the policies, now in place, in order to cut costs.

Regional economies live and die by the industries in which they specialise so that, in the case of the HKSAR, where the service industry has, already, started to account for the lion's share of the GDP – Gross Domestic Product – senior executives in banking, insurance, shipping and the like will have to start to tighten belts, more than just a notch.

The 5-star accommodation in the HKSAR, among the best in the world, in order to compete with its Asian neighbours, will have to cut their cloth in order to suit their wearers.

According to Mr Ernst Chem, Customer Relations Officer, Hongkong Tourism Board, statistics of incoming tourists in the HKSAR are declining.

Mr Chem supplied TARGET with the following statistics:

**Incoming Tourists to the Hongkong Special Administrative Region
of the People's Republic of China ***

	First Quarter 2001			Last Quarter 2000		
	January	February	March	October	November	December
Total Number of Incoming Tourists	1,068,646	967,771	1,160,619	1,194,407	1,118,517	1,226,398
Tourists from the PRC, only	31.40 percent	31.60 percent	28.41 percent	26.50 percent	27.20 percent	28.90 percent
Tourists from the USA and Canada	8.70 percent	9.30 percent	10.20 percent	10.30 percent	10.80 percent	8.80 percent

* The statistics for March and April are still being compiled, TARGET was told, today.

When studying the above statistics, one has to be very careful before jumping to conclusions because, in respect of tourists, coming from, or going to the PRC, there is likely to be a double body count.

At this time, the Hongkong Government does not consider and make the necessary adjustments for those tourists, who are residents/visitors of the HKSAR, who visit the PRC, proper, on shopping expeditions and/or for business meetings, only to return to the HKSAR on the same day.

It would appear to TARGET that very little may be gleaned from the above statistics because they could be interpreted in a number of ways.

Also, one has to consider how much credence one may place on them.

What is apparent, however, is that there has been little growth in the number of incoming tourists in the 6 months, October 2000 to March 2001, and it would not be unfair to state that there is more than the first hint of declining tourist numbers.

Further, the last quarter of the year has been, historically, the best of all quarters of any year.

But the statistics for the last quarter of 2000 do not seem to bear out that presumption since the month of March 2001 saw an increase of just 65,779 tourists, visiting the HKSAR.

One would have presumed that the figure should have been lower, not higher.

Many of the senior executives of many of the HKSAR hotels, contacted by TARGET, were not loathe to state that they expected declining occupancy rates for the second half of this year.

The US National Business Travel Association (NBTA), in a survey, carried out earlier this year, affirmed that many US companies are tightening up on expenses – and they are looking for further ways to reduce expenses.

The NBTA estimated that about 61 percent of the companies that were surveyed are eliminating all but essential travel.

That travel was not restricted to Continental America, the NBTA pointed out.

The NBTA survey, also, discovered that 57 percent of the companies that it surveyed were reducing the number of employees, authorised to travel outside their home states.

Many US airlines, in order to seduce companies to fill up the first-class compartments on US domestic routes with their executives, are offering large discounts, up to 60 percent in some cases.

But declining revenues are dogging such companies as Northwest Airlines Incorporated, American Airlines Incorporated and Delta Airlines Incorporated.

These carriers, historically, rely on business travelers for a significant portion of first-class ticket sales.

Carte blanche travel is, just about, over – at least, for the time being.

Cash-strapped companies in the US and Europe are squeezing hoteliers, especially those in Asia, TARGET has discovered.

However, most HKSAR hoteliers were reluctant to admit to any significant fall-off in room sales.

According to one Director of Food and Beverage in one of the HKSAR's major, 5-star hotels – TARGET has agreed not to publish his name – since the beginning of this year, business in the top hotels is off by between 20 percent and 30 percent.

And business is continuing to drop.

This statistic did not just apply to room sales, for food and beverage sales, also.

The worst, it appears, is yet to come.

RevPAR Recedes

Revenue per available room (RevPAR) in the HKSAR, an accepted method of calculating the efficient use of available bedroom resources of a hotel, as opposed, only, of calculating the number of rooms, being occupied over a given period of time, is dropping.

RevPAR has, already, dropped off significantly in most major financial centres in the US, as well as in major financial centres of Asia.

According to one, high-ranking source at Mandarin Oriental Hongkong: *'Please don't ask me. All I can say is that RevPAR is not what it should be.'*

Our source said that, earlier this year, The Mandarin, one of the best, 5-star hotels in the 416 square miles that constitute the HKSAR, raised its daily room rates in line with other HKSAR hotels of the same calibre, so that, insofar as pure income is concerned, the hotel will not get too badly mauled in the coming financial crunch.

At the same time, however, the official refused to state what he thought the near-term future would hold for his hotel.

Conrad Hongkong Hotel told TARGET that, for the first quarter of this year, business, in general, improved by about 8 percent in total sales.

However, occupancy levels were off by 4 percentage points to 75 percent.

Conrad has a total of 513 rooms.

As for food and beverage sales, Mr Dennis A. Clarke, Area Director of Operations, Asia, and Managing Director Hongkong, Conrad Hongkong, said that sales were *'flat'*, quarter-on-quarter.

He said that that was in line with the general trend, worldwide, due to the economic slowdown in the US.

According to the General Manager of Sheraton Hongkong Hotel, Mr Ananda Arawwawela, there has been a marked decline in spending from US guests, staying at this 5-star inn.

Mr Arawwawela said that for the first quarter of 2001, room nights are down about 5 percent, compared with the first quarter of 2000.

US guests at Sheraton Hongkong spent about 4 percent less on food and beverage, during this period, quarter-to-quarter, he added.

It is clear that, on the consumer side of the equation, incoming tourists to the HKSAR, in general, are cutting back on expenses; they are being much more cost-sensitive.

Lower-priced hotels, therefore, are likely to benefit in the HKSAR as the year drags on, with many 5-star hotels' RevPARs, falling back to 1999 levels ... or even lower.

In 1999, many 5-star hotels were happy if they could achieve a 50-percent, average occupancy level.

In order to entice tourists into the 5-star, luxury accommodation in the HKSAR, normally reserved for well-heeled corporate guests, it is likely that luxury accommodation will be offered to leisure travelers -- at heavy discounts.

With profits of many international corporations, continuing to fall, travel budgets are the prime targets of cost-cutting measures.

Thus, future reductions in RevPAR will come as no shock.

In New York, considered to be a guide to the economy of the US in respect of advertising and big business, the RevPAR of most hotels has dropped in the past year, back to the 2000, first-quarter figure of just shy of minus 10 percent.

At the beginning of this year, the RevPAR for most, 5-star hotels in New York was standing at about plus 15 percent.

In San Francisco, California, where established, hi-tech companies flourished alongside Internet Service Providers (ISPs) and IT – Information Technology -- companies, the situation is even more dramatic as the RevPAR has fallen in just a few months, from about plus 15 percent to minus 12 percent.

The Asian scene is unlikely to be immune from the international, cost-cutting epidemic, which is sweeping the US hotel scene.

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