

# Hospitality*Vision*

Autumn 2009

Asia Pacific Performance Review

## Mixed fortunes.



**Deloitte.**



# Welcome Alex Kyriakidis

Spiralling unemployment, reduced consumer confidence and dampened travel demand were some of the most immediate side effects of the economic downturn. Now that the worst recession since the great Depression appears to be over in number of countries, the aftermath and lasting side effects will become evident, continuing to challenge us in all facets of business.

For the hotel industry, an important unanswered question is – have we hit the bottom? Since the announcement of Q2 GDP showing growth in some major world economies, drops in hotel performance have marginally eased in some parts of the world including Asia Pacific. However, it is too early to rule out another dip in performance.

Regardless of whether the bottom has been hit or not, Asia Pacific is well placed entering into the economic recovery phase of the recession. Some of the world's fastest growing economies are in Asia Pacific and with a strong correlation between hotel and economic performance, the hotel industry is bound to benefit. In addition, intra-regional tourism should rebound quicker than international demand and, with over half of the world's population living in Asia Pacific, travel demand should return quicker here than in regions that rely more on international tourism.

Now that the regional economy appears to be picking up, this is the perfect opportunity to focus the business back on growth. The lessons learnt in surviving the recession thus far should mean that the industry will emerge stronger with a renewed focus on the basics of running a hotel business – delivering the brand promise efficiently and good old fashioned management of the balance sheet and cash flow!

I hope you find this Asia Pacific edition of Hospitality Vision useful and as ever, we value your feedback.

Best regard

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**Hospitality Vision**  
**Asia Pacific Performance Review**  
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# Highlights



**Seoul was the only city in Asia Pacific to experience an increase in both occupancy and average room rates, and also achieved the highest occupancy in the region of 78.6%.**

Visitor arrivals to Thailand dropped 16.1% between January and June amidst political unrest, and tourism authorities have announced significant plans and spending to stimulate demand.

The weakness of the Korean won helped attract 21.9% more visitors from East Asia and the Pacific, which made up over three quarters of Korea's international tourists.

**Visitors to Japan were down 27.8% and traffic from the country's biggest source market South Korea dipped 45.5%.**

The second quarter of 2009 saw Japan, Singapore, Hong Kong, Taiwan, Thailand, Malaysia and the Philippines reporting renewed GDP growth as fiscal stimulation packages began to take effect.

Bali achieved the strongest average room rate and revPAR growth in the Asia Pacific region. Low cost airline expansion between Australia and Bali should further boost the resort.

**Indian hotels suffered some of the largest drops in revPAR across Asia Pacific, down 39.6% in New Delhi and 36.9% in Mumbai.**

Beijing suffered a post-Olympic slump of 12 consecutive months of double-digit revPAR decline leading to the worst drop across Asia Pacific, down 56.2%.

Jakarta was one of the few cities in the region able to grow average room rates – up 11.9%. The long-term effects of the tragic suicide bombing in July remain to be seen.

**Despite falling revPAR, Sydney, Brisbane and Melbourne recorded the second, third and fourth highest occupancy levels in the Asia Pacific region.**

Australian visits to New Zealand were up 28.0% during June, July and August 2009 compared to the same three months last year, as Australians stay closer to home and a new agreement aims to streamline travel between the Pacific neighbours.

Shanghai has 103 hotels or 28,584 rooms in the pipeline which is the greatest amount of projects in any market throughout Asia Pacific.



# Unknown territory

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At the beginning of 2009 it was difficult to forecast how the year ahead would shape up. With the worst global economic outlook for decades, economists were divided over how badly Asia Pacific would be affected.

It was clear that consumer and business confidence were on a downward path, putting discretionary spending under the microscope. As the year has progressed this has had a detrimental effect on the tourism industry and hoteliers have endured decreasing travel demand from both corporate and leisure travellers.

Governments across the region have tried to kick start their economies with stimulus packages and quantitative easing to increase confidence and credit. Because the world economy has never experienced a downturn of this nature before, these measures have been put into practice with the final outcome unknown.

As second quarter results became available, the enormous stimulus packages in Asia Pacific had clearly started to filter through, lifting major economies out of recession. Malaysia and the Philippines followed Japan, Singapore, Hong Kong, Taiwan and Thailand in reporting gross domestic product (GDP) growth. This is good news but it remains uncertain whether this is the beginning of the recovery process, how long recovery will take and if GDP growth is sustainable without further stimulus.

## **Double blow**

In addition, H1N1 influenza or swine flu hit the headlines in April and the tourism industry braced itself for further reductions in travel demand. Although some people have avoided travel altogether, attitudes toward cancelling travel plans have varied. Swine flu is not so far affecting the industry to the same extent that SARS did in 2003 when hotel occupancy was crippled in the worst affected destinations in Asia. There still remains a risk that the pandemic could worsen and have more impact on the tourism industry.

Given these unfavourable conditions, dips in tourist volume and hotel performance were expected.

The Pacific Asia Travel Association (PATA) reported a 6.1% drop in international tourist arrivals into the region during the first six months of 2009, dampening demand for hotels.

Now that eight months of STR Global data is available, each market is telling a different story with some faring better than others. Here we look at the figures in more detail and the unique challenges faced by each market.

Table 1 – Global hotel performance – year-to-August 2009 v year-to-August 2008

|                         | Occupancy (%) |      |          | Average room rate (US\$) |      |          | revPAR (US\$) |      |          |
|-------------------------|---------------|------|----------|--------------------------|------|----------|---------------|------|----------|
|                         | 2009          | 2008 | % change | 2009                     | 2008 | % change | 2009          | 2008 | % change |
| Asia Pacific            | 58.5          | 66.5 | -12.0    | 116                      | 143  | -18.7    | 68            | 95   | -28.4    |
| Central & South America | 58.0          | 66.2 | -12.5    | 109                      | 122  | -10.0    | 63            | 81   | -21.3    |
| Europe                  | 60.5          | 65.9 | -8.2     | 128                      | 165  | -22.2    | 77            | 108  | -28.5    |
| Europe (€)              | 60.5          | 65.9 | -8.2     | 94                       | 107  | -12.2    | 57            | 70   | -19.4    |
| Middle East             | 61.9          | 69.9 | -11.5    | 197                      | 215  | -8.2     | 122           | 150  | -18.7    |
| North America           | 56.7          | 63.2 | -10.3    | 99                       | 109  | -9.5     | 56            | 69   | -18.8    |

Source: STR Global

Table 2 – Asia Pacific hotel performance – year-to-August 2009 v year-to-August 2008

|                  | Occupancy (%) |      |          | Average room rate (local currency) |           |          | revPAR (local currency) |           |          | US\$     |             |
|------------------|---------------|------|----------|------------------------------------|-----------|----------|-------------------------|-----------|----------|----------|-------------|
|                  | 2009          | 2008 | % change | 2009                               | 2008      | % change | 2009                    | 2008      | % change | ADR 2009 | revPAR 2009 |
| Auckland         | 65.7          | 72.8 | -9.7     | 139                                | 145       | -4.1     | 92                      | 106       | -13.4    | 82       | 54          |
| Bali             | 70.4          | 78.1 | -9.8     | 1,266,294                          | 1,025,183 | 23.5     | 891,627                 | 800,532   | 11.4     | 119      | 84          |
| Bangkok          | 50.8          | 71.3 | -28.7    | 3,229                              | 3,580     | -9.8     | 1,642                   | 2,553     | -35.7    | 92       | 47          |
| Beijing          | 48.2          | 59.2 | -18.6    | 630                                | 1,172     | -46.3    | 303                     | 693       | -56.2    | 92       | 44          |
| Brisbane         | 75.8          | 79.8 | -5.0     | 168                                | 178       | -5.8     | 127                     | 142       | -10.5    | 126      | 96          |
| Hanoi            | 53.7          | 63.6 | -15.7    | 2,147,051                          | 2,370,469 | -9.4     | 1,152,231               | 1,508,306 | -23.6    | 120      | 64          |
| Ho Chi Minh City | 50.8          | 68.9 | -26.3    | 2,477,072                          | 2,585,639 | -4.2     | 1,258,175               | 1,782,094 | -29.4    | 138      | 70          |
| Hong Kong SAR    | 70.0          | 80.9 | -13.5    | 1,213                              | 1,452     | -16.5    | 849                     | 1,174     | -27.7    | 156      | 109         |
| Jakarta          | 62.1          | 70.4 | -11.9    | 744,433                            | 665,429   | 11.9     | 462,009                 | 468,691   | -1.4     | 69       | 43          |
| Kuala Lumpur     | 63.1          | 71.2 | -11.3    | 341                                | 347       | -1.7     | 215                     | 247       | -12.9    | 95       | 60          |
| Manila           | 66.1          | 73.6 | -10.2    | 5,160                              | 5,211     | -1.0     | 3,411                   | 3,836     | -11.1    | 107      | 71          |
| Melbourne        | 74.1          | 78.5 | -5.6     | 177                                | 181       | -2.4     | 131                     | 142       | -7.9     | 131      | 97          |
| Mumbai           | 57.2          | 66.9 | -14.5    | 9,043                              | 12,247    | -26.2    | 5,173                   | 8,193     | -36.9    | 182      | 104         |
| New Delhi        | 60.0          | 73.2 | -18.0    | 8,671                              | 11,777    | -26.4    | 5,205                   | 8,620     | -39.6    | 174      | 104         |
| Osaka            | 70.8          | 78.7 | -10.0    | 11,348                             | 12,029    | -5.7     | 8,036                   | 9,464     | -15.1    | 119      | 85          |
| Phuket           | 53.7          | 68.4 | -21.5    | 3,884                              | 4,532     | -14.3    | 2,084                   | 3,098     | -32.7    | 110      | 59          |
| Seoul            | 78.6          | 75.1 | 4.7      | 172,148                            | 169,148   | 1.8      | 135,234                 | 126,950   | 6.5      | 129      | 101         |
| Shanghai         | 47.1          | 54.7 | -14.0    | 725                                | 956       | -24.2    | 341                     | 523       | -34.8    | 106      | 50          |
| Singapore        | 69.7          | 78.6 | -11.3    | 243                                | 308       | -20.9    | 170                     | 242       | -20.9    | 164      | 115         |
| Sydney           | 75.9          | 79.7 | -4.8     | 169                                | 186       | -9.1     | 129                     | 148       | -13.4    | 125      | 95          |
| Taipei           | 67.4          | 70.5 | -4.3     | 4,637                              | 5,380     | -13.8    | 3,126                   | 3,791     | -17.5    | 139      | 93          |
| Tokyo            | 68.2          | 75.3 | -9.4     | 20,869                             | 20,745    | 0.6      | 14,223                  | 15,615    | -8.9     | 219      | 150         |

Source: STR Global

# Beginning of the end?

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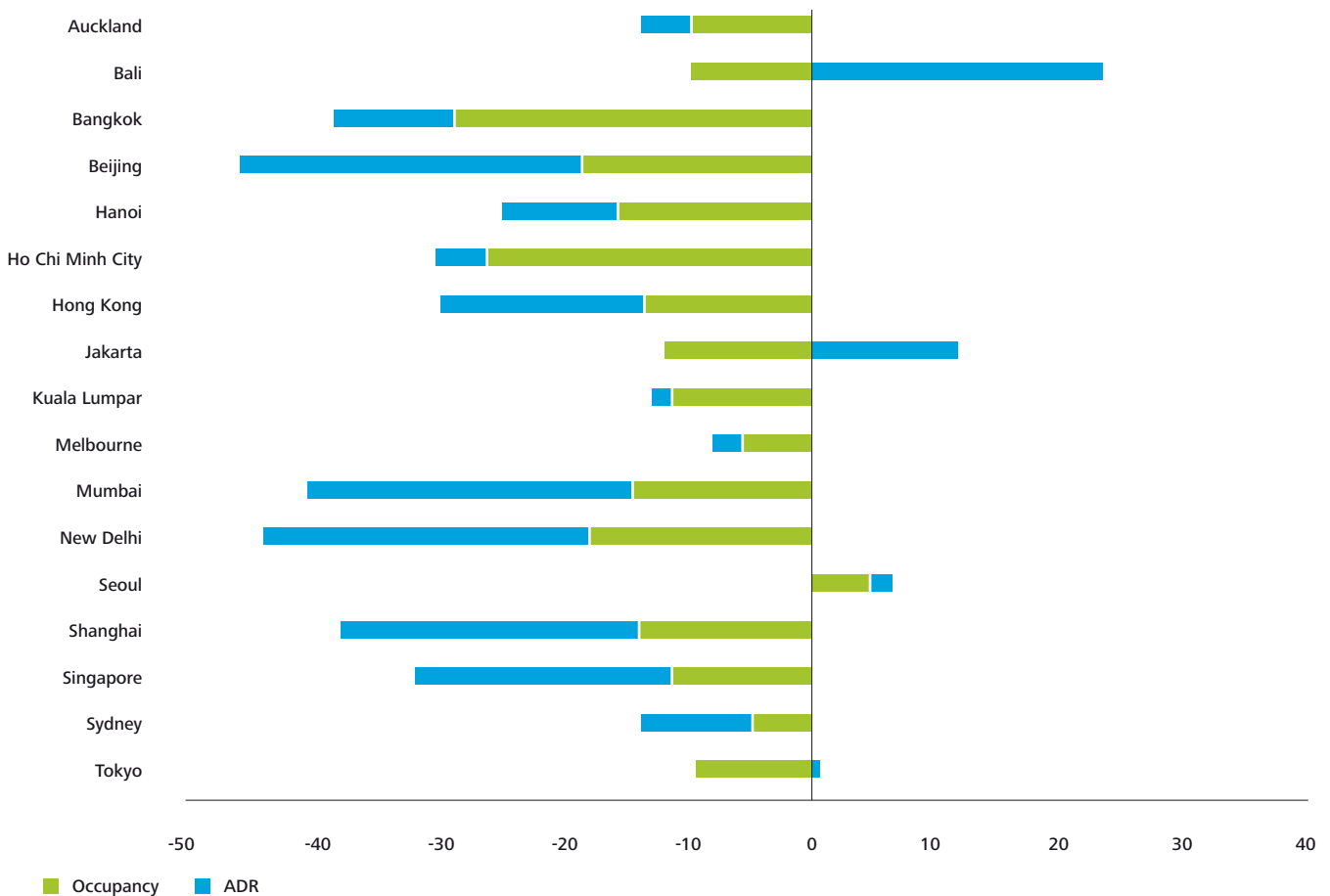
Global hoteliers continued to suffer declines in revenue per available room year-to-August 2009. Those located in Europe and Asia Pacific were the most distressed with drops of 28.5% and 28.4% respectively.



With some economies reportedly growing stronger, hotel results in Asia Pacific for the months of July and August alone were better than the previous six months. This demonstrates the strong correlation between economic and hotel performance, although it is still too early to declare this as the beginning of the recovery process.

Most cities in Asia Pacific experienced dips in occupancy and average room rates year-to-August as shown in figure 1. Destinations that have been dealing with additional impediments such as political instability, terrorism or a substantial amount of new supply saw the most drastic decreases in hotel performance. On the flip side, a handful of destinations including Bali and Seoul bucked the trend and managed to achieve revenue per available room (revPAR) growth.

**Figure 1. Occupancy and average room rates percentage change (local currency) for selected markets across Asia Pacific year-to-August 2009 v year-to-August 2008**



Source: STR Global



### Indonesia – Bali boost

Since the 2005 bombs in Bali, hotel performance has been steadily climbing with two years of solid double-digit revPAR growth in 2007 and 2008. Although occupancy in Bali has begun to falter, dipping 9.8% to 70.4% year-to-August 2009, growth in average room rates has accelerated from 20.9% at the end of 2008 to 23.5% year-to-August, the highest increase in the region. This performance also gave the resort the strongest revPAR growth across Asia Pacific again this year, up 11.4% to IDR 891,627.

According to the Australian Bureau of Statistics, the number of Australians travelling to Indonesia has increased 36% year-to-July 2009 with Bali among their favourite destinations. This growth looks set to continue with the low cost carrier AirAsia X introducing two direct daily flights connecting Perth and Bali in July 2009.

Jakarta was one of the few other cities in the region able to grow average room rates with an increase of 11.9% year-to-August. This growth counterbalanced the 11.9% drop in occupancy, resulting in a revPAR fall of 1.4%. On the 17th July 2009 the JW Marriott and Ritz Carlton hotels were targeted by suicide bombers. The long-term effects of this tragedy remain to be seen but there are fears that terrorism will damage Indonesia's reputation as a tourism destination. RevPAR drops accelerated to 13.9% in the month of the attacks.

### Korea – currency catalyst

Seoul was the only city in Asia Pacific to experience an increase in both occupancy and average room rates, and also achieved the highest occupancy in the region of 78.6%, up 4.7% year-to-August 2009. A jump in domestic tourism, due to the weakness of the Korean won, may have boosted hotel performance. According to the Korean Tourism Organization, 26.6% fewer Koreans crossed international borders year-to-August 2009

The weakness of the won against other Asian currencies also acted as the catalyst for a 21.9% increase in visitors from East Asia and the Pacific, which made up 77.5% of Korea's international tourists year-to-August 2009. Arrivals from other regions brought down the average but international traffic as a whole grew 14.9% year-to-August. This is a great result, given the depressed demand for tourism globally.

Korea is developing and diversifying its tourism products. Medical tourism is being promoted with a dedicated website with two information centres set up this year to make this market more accessible. Korea was also awarded its 9th UNESCO World Heritage site at the Joseon tombs this year, showcasing the country's tradition of respect for its ancestors.

### Japan – target in jeopardy

At the beginning of the decade, Japan set out to develop its tourism industry and overcome the perception of being an expensive destination. The government set goals to attract 10 million visitors by 2010 and 20 million by 2020. The tourism industry had a bumper year in 2008, when source market currencies (especially the euro, Australian dollar and other Asian currencies) surged against the yen. This made Japan a more affordable destination, resulting in 8.35 million international tourists according to the Japan National Tourism Organisation (JNTO).

The 2010 target appeared comfortably achievable given Japan's wide spectrum of tourist appeal from its traditional offerings to its popular modern culture. However the Japanese economy has been one of the worst hit by the economic crisis, reporting four consecutive quarters of GDP decline starting in the second quarter of 2008, and the government has been forced to pump several trillion yen of fiscal stimulus into the economy.

Japan is experiencing decreased global tourism demand from the economic crisis and swine flu, and the country is again becoming more expensive to visit as the yen appreciates against source market currencies. This has especially affected visitors from South Korea, traditionally Japan's largest source market, with 45.5% less traffic so far this year as the Korean won has dipped to its weakest point in years against the yen. According to the JNTO, provisional figures show that international arrivals into Japan were down 27.8% to 3.7 million year-to-July 2009. The 2010 target now looks less realistic.

The decrease in tourism demand is hitting hotels in Tokyo, but not to the same extent as other destinations in the region, with revPAR in the capital down 8.9% year-to-August. Hoteliers are actively managing their revenue by holding average room rates steady, resulting in 0.6% growth to JPY 20,869 and a 9.4% decline in occupancy to 68.2%.

### New Zealand – Aussie influx

Auckland achieved 0.9% revPAR growth in 2008, but this year is shaping up differently with a revPAR decline of 13.4% year-to-August. Occupancy is leading the decline, down 9.7% to 65.7%, while average room rates have dropped 4.1%.

Most overseas source markets are seeing visitor numbers fall but more Australians are visiting the country. According to Statistics New Zealand, Australian tourist arrivals were up 28% during June, July and August 2009 compared to the same three months last year. New Zealand is one of the few short-haul (and therefore less expensive) destinations for Australians to visit, and this trend is likely to continue while tourism spend continues to be scrutinised.

New Zealand will take centre stage for rugby enthusiasts when it hosts the World Cup in September and October 2011, enabling the country to show off its sporting talent and natural beauty to international feeder markets.



### Australia – strong occupancy

Australian hoteliers have experienced similar levels of decline to those in New Zealand. In Sydney revPAR fell 13.4% year-to-August while declines in Brisbane and Melbourne were less severe at 10.5% and 7.9% respectively. These cities nevertheless continued to achieve some of the strongest occupancies in Asia Pacific. Trailing behind Seoul, Sydney attained the second highest occupancy in the region at 75.9%, followed by Brisbane in third position at 75.8% and Melbourne in fourth achieving 74.1%.

According to the Australian Bureau of Statistics, short-term tourist arrivals into Australia have decreased 3.5% during the first seven months of 2009. To help combat this dwindling demand and streamline travel between Australia and New Zealand, the two Pacific countries have reached a new agreement. The trans-Tasman border agreement aims to decrease the time it takes for travellers to cross borders and could reportedly reduce flight prices.

### India – security concerns

Hotels across India have suffered some of the largest drops in revPAR across Asia Pacific, down 39.6% in New Delhi and 36.9% in Mumbai. The November 2008 terrorist attacks on some of Mumbai's most prestigious hotels led to occupancy plunging to 35.9% while revPAR dropped 57.8% to INR 3,761 in December. In subsequent months, drops were less extreme, but the downward trend continued into 2009 with a 14.5% drop in occupancy to 57.2% and a 26.2% fall in average room rates to INR 9,043 year-to-August.

Terrorist attacks have not been solely responsible for the decline. Occupancy levels fell for 12 consecutive months starting in November 2007 as supply and demand changed. The hotel building boom continues across the country and according to Lodging Econometrics (LE), 3,510 new hotel rooms opened across India in 2008. This surge in new supply is set to accelerate with an additional 9,787 rooms and 29,117 more to open in 2010 and 2011.



Meanwhile, corporate and leisure demand from important source markets such as the US and the UK remains suppressed for the time being, having a negative impact on hotel performance.

Apprehension about security at sporting events has also increased across South Asia since gunmen attacked the Sri Lankan cricket team in Lahore, Pakistan in March this year. The Indian Premier League cricket tournament was subsequently relocated to South Africa over concerns that Indian security forces would not be able to provide safety at the matches whilst the country held month-long national elections. Similar security concerns also led to the UK badminton team pulling out of the 2009 World Badminton Championships in Hyderabad in August.

India is fighting back and putting several proactive strategies into play. The country is upgrading security plans for the 2010 Commonwealth Games in Delhi when all eyes will be on India again. This event will be used as an opportunity to promote the tourism industry, improve infrastructure and showcase niche products such as medical tourism.

**Table 3 – Top five Asia Pacific markets with the most hotel projects**

|                  | Forecast for new hotel openings        |        |          |       |          |        |
|------------------|--|--------|----------|-------|----------|--------|
|                  | Total projects in the current pipeline |        | 2H 2009  |       | 2010     |        |
|                  | Hotels                                 | Rooms  | Projects | Rooms | Projects | Rooms  |
| Shanghai, China  | 103                                    | 28,584 | 23       | 5,575 | 47       | 12,540 |
| Hong Kong, China | 84                                     | 16,316 | 11       | 2,432 | 23       | 3,630  |
| Beijing, China   | 47                                     | 11,315 | 18       | 3,429 | 16       | 4,320  |
| Tianjin, China   | 39                                     | 11,489 | 5        | 1,998 | 6        | 1,711  |
| Bangalore, India | 38                                     | 8,836  | 5        | 1,231 | 13       | 3,397  |

Source: Lodging Econometrics, the Global Authority for Hotel Real Estate, Portsmouth, NH

Note: LE's Forecast for New Hotel Openings is derived from LE's Lodging Construction Pipeline, which consists of ground-up new hotel construction, condo hotels and real estate conversion projects that, when opened, will add to the future supply of guest rooms. The Forecast is based on current totals and trends as of the end of Q2 2009, and does not account for any unforeseen changes in economic or lodging fundamentals that would alter these trends going forward.

**Thailand – domestic troubles**

While most destinations are dealing with suppressed demand as a result of the economic downturn, Thailand's tourism industry is also fighting against the country's continuing political power struggle. Anti-government demonstrators targeted the lucrative tourism sector in November 2008 when they occupied Bangkok's airports, in addition to protests being held throughout the country. Protests continued in April 2009 and a state of emergency was declared, further harming Thailand's reputation as a politically sound, stable country and a top destination for tourism.

This unrest has caused governments from important feeder markets such as the UK to issue warnings against travel to Bangkok, resulting in fewer tourists and waning hotel performance across the country. RevPAR in Bangkok started to decline in September 2008 and has suffered from substantial declines for 12 consecutive months. Year-to-August 2009 revPAR stands at THB 1,642, down 35.7% over the same period last year. Further south in Phuket, revPAR started to decline in April 2008 and after 17 months of consecutive decline, year-to-August results fell 32.7% to THB 2,084.



This dip is being taken seriously in a country where tourism contributes around 14.7% to overall GDP (according to World Travel and Tourism Council calculations). The Tourism Authority of Thailand (TAT) has announced government plans to proactively stimulate both international and domestic tourism demand, compensating for the 16.1% fall in tourist arrivals between January and June 2009 according to PATA. Plans include increased lending of US\$149 million to smaller tourism operators, 50% discounts on national park entry fees, waiver of visa fees until March 2010 and several targeted, innovative marketing campaigns to revive the industry.

News that the Thai economy took a step toward recovery by achieving GDP growth during the second quarter of 2009, along with the plans put together by TAT, are giving the tourism industry hope that consumer confidence will rise significantly and that hotel performance will move out of the red.

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## RevPAR in Bangkok started to decline in September 2008 and has suffered from substantial declines for 12 consecutive months.

### China – Olympic hangover

The Beijing Olympic and Paralympic Games dazzled the world last August and September, but the host city's hotel performance was less than impressive. Before and during the games, strict visa policies plagued hotel occupancy resulting in seven months of occupancy decline. Since then, Beijing has experienced a post-games slump of 12 consecutive months of double-digit revPAR decline leading to the most extreme drop across Asia Pacific, down 56.2% to CNY 303 year-to-August 2009. According to LE, 27,121 additional rooms were added to its room inventory in 2008 and the city is struggling to absorb this huge amount of new supply while demand remains suppressed as a result of the global economic crisis.

To the south in Shanghai, August 2009 marked the 19th consecutive month of revPAR decline. Year-to-August average room rates declined 24.2% while occupancy decreased 14.0% to a humble 47.1%. This resulted in a 34.8% drop in revPAR. Shanghai has 103 hotels or 28,584 rooms in the pipeline, which as can be seen in table 3, is the greatest amount of projects in any market throughout Asia Pacific. This flood of new hotel rooms, as the city prepares to host World Expo 2010, plus suppressed travel demand are currently holding hotel performance back.

Despite some of the worst hotel performances in the region, there is some good news. Firstly, due to an enormous fiscal stimulus package, China's GDP growth projections have been revised upwards from 6.8% to 8% in 2009 according to the Economist Intelligence Unit. Secondly, international passenger volume has emerged from the red for the first month since April 2008, up 0.2% in July according to the Civil Aviation Administration of China. Both these reports, plus the increased demand from World Expo 2010 which is expected to attract 70 million visitors between May and October, should help to buoy the tourism industry next year.



# What's next?

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The tourism industry across Asia Pacific is currently in limbo with mixed messages coming from all angles. It is difficult to predict what the future holds.

Despite positive news about major economies pulling out of recession there is a danger that growth may not be sustainable. A further wave of the H1N1 virus in the final part of the year remains a possibility. With these two major unknowns, it is difficult to estimate how long it will take for tourism demand and hotel performance to recover to pre-recessionary times.

So far hoteliers who have avoided average room rate discounting, those who have added value to the guest's stay and those who operate in countries with weaker currencies have performed the best. Hotels in countries dealing with political instability, terrorism or new room supply have seen the most drastic decreases in performance. The operating environment for the hotel industry will continue to be a difficult one, but out of every crisis comes opportunity and new and successful business models will be born out of these challenging times.



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