



Embrace the Opportunities for Shared-Ownership in China's Tourism Market

Written by PAUL DEAN and MICHAEL QU

Abstract:

The continuous evolution of China's domestic tourism landscape and consumption upgrade has created some interesting opportunities for domestic Hotel Brands and Real Estate developers to adopt innovative solutions in order to meet changing consumer preferences and especially, a desire for better quality accommodation and leisure experiences. Statistics and trends bode well for the development of Alternative Vacation Products which have proved to be attractive and commercially successful in Western and some of the ASEAN countries for decades. In this two part article, we will elaborate on China's burgeoning domestic tourism market, and the evolution of Shared Ownership Product and related Business Models and our observation regarding industry best practices.

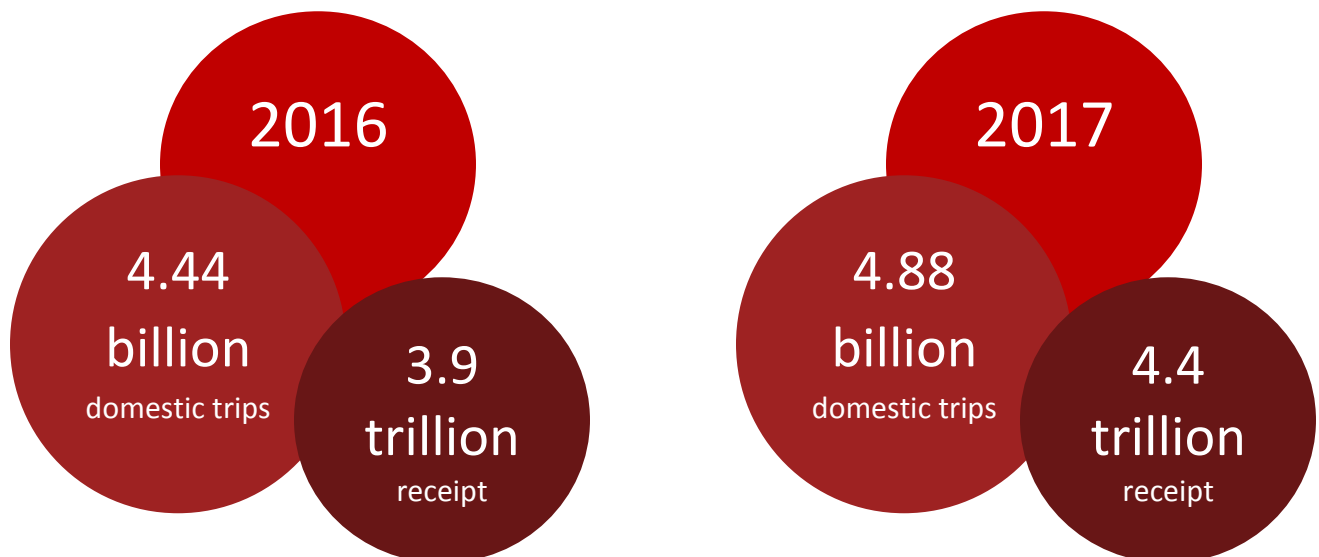
(Part I)

According to the China National Tourism Administration [“CNTA”], outbound travel from China showed slower growth in the first half of 2017, while an increasing number of travelers have been turning to domestic travel in order to seek new experiences. The data showed that 4.44 billion domestic trips were made in China in 2016, equivalent to three trips on average per person in China’s population. The total tourism receipt from domestic travel totaled RMB 3.9 trillion in 2016.

Whilst the growth of outbound tourism slowed In the first half of 2017, an increasing number of Chinese tourists traveled domestically. Domestic travel has progressed from moving from one destination to the next on coaches, to seeking quality and immersive experiences. Domestic tourism is expected to increase 10 percent year-on-year to 4.88 billion trips in 2017, with revenue rising 12.5 percent to 4.4 trillion yuan, according to CNTA data.

China plans to raise tourism revenue to 7 trillion yuan by 2020, the Chinese government has said. The nation will work to develop tourism into a major driver of economic transformation and upgrading. By 2020, investment in tourism is expected to grow to 2 trillion Yuan, and the sector will contribute more than 12 percent of GDP, according to a State Council five-year tourism plan (2016-2020).

Domestic tourism offers travelers the opportunity for quick getaways as China’s transportation systems have improved with high-speed railways, new airports, low-cost flights and expanded route networks and other enhanced traffic systems; travel products and services have also been upgraded in line with China’s more discerning consumers’ desire for better quality. The consumption mindsets of the post-80s and post-90s generations have also changed.



Domestic tourism more popular than outbound tourism

The number of China's domestic tourists increased by 13.5% to 2.537 billion in the first half of 2017, nearly 40 times that of outbound tourist traffic (62.03 million) in the same period, generating domestic tourism expenditure of RMB 2.17 trillion, up 15.8% YoY. The number of inbound tourists grew by 2.4% to 69.5 million in the same period, according to the Tourism Statistics Report in H1 2017 released by China National Tourism Administration (CNTA) on August 18. The growth rate of domestic travel in H1 2017 was above 10%, twice as high as the growth rate of outbound traffic, at 5%. Of the 2.537 billion domestic tourists in H1 2017, the number of tourists from urban areas grew by 15.8% to 1.757 billion, and the number of tourists from rural areas increased by 8.5% to 780 million. Domestic tourism expenditure grew by 15.8% to RMB 2.17 trillion, RMB 1.71 trillion of which was spending by urban tourists, up 16.1%, and the remainder was spending by rural tourists, an increase of 14.8%. It also needs to be recognized that currently, only around 4% of Chinese nationals actually hold passports.



Many popular regions

Based on the tourism statistics released by various provinces and cities as of 15th August 2017, Sichuan province received the highest number of domestic tourists. In the first half of 2017, most provinces registered 10% or higher growth in both tourist number and tourism income, where the highest percentage was 36.6%. Guizhou, Yunnan, Tibet and Shanxi saw the biggest percentage rise in tourist numbers. In addition, the growth rates of tourism revenue in most provinces and cities are higher than those of tourist numbers, indicating that the consumption of domestic travelers has visibly increased.

The national strategy also encourages development in resort areas such as island destinations in Hainan and Guangdong province (e.g. Hengqin Island), and ski destinations in Heilongjiang and Jilin province in concert with China's hosting of the 2022 Winter Olympic. Resorts in areas having hot spring facilities or mountainous scenery also have great attraction for domestic travelers. In addition, recent years have seen remarkable expansion of the cruise business in harbor cities. Shanghai, Shenzhen, Qingdao, Xiamen and Tianjin, are among the cities that are expected to benefit from this wave.

Trading Up – reflecting changing consumer preferences

According to the China Outbound Travel Report for Q1 and Q2 2016 published by Ctrip and the China Tourism Academy, ‘consumption upgrade’ and ‘respect’ were the most popular keywords for Chinese tourists in 2016. Ctrip confirmed the report’s finding that ‘consumption upgrade’ was a key driving factor for Chinese outbound travel in Q1 and Q2 of 2016 with over 75% of tourists selecting premium products.

McKinsey published a paper in October 2016 entitled “Chinese Consumers- Revisiting our Predictions” in which they noted similarities among Chinese consumers which mirrored the general trends economists have found among consumers around the world as economies develop. The general tendency is for consumers, as they earn more, to spend a lower percentage of their income on food, a little more on healthcare, and even more on travel and transportation, as well as on recreational activities.

This higher percentage of disposable income translates into greater consumer demand for premium travel experiences so that Chinese tourists are reaching higher levels of aspirational spending and, with it, they communicate greater status and respect among their peers. This is a manifestation of the “trading up” concept identified and well-documented in other mature consumer markets, where higher discretionary spending power enables consumers to select more premium priced products.

Trading up has significant implications for the China domestic travel market, especially regarding the quality of the accommodations and services which are now offered to domestic tourists. Very basic B&B’s are losing popularity in favour of more comfortable holiday accommodations which can cater for extended families and which, when carrying a recognized hospitality brand, also offer higher levels of guest services. China’s domestic hotel development pipeline is one of the largest on the planet as Developers look to capture a share of this burgeoning market.



The Sharing Economy

As China's economy continues to rebalance, new models of consumption such as the sharing economy are gaining in popularity. In a sharing economy, both assets and products are used more intensely, rather than sitting idle, allowing for a growth in consumption without the accompanying need for more natural resources while also unlocking the spare capacity in the system. The sharing economy is being propelled by a series of intersecting technological trends including the proliferation of smart devices; the arrival of near-ubiquitous internet connectivity; mobile payments infrastructure; social media-based trust and verification systems; and the collection and analysis of big data.

In 2015, China's sharing economy was estimated to be worth about \$229 billion domestically and it is predicted to grow at a rate of 40% annually over the next five years. By 2020 it could account for 10% of GDP, according to the State Information Centre in Beijing. China is poised to take the opportunity, with high adaptation rates of key technologies. In 2016, China had an estimated 980.6 million mobile phone users and leads the way globally in proximity mobile payments, with over 195.3 million people using the technology in 2016 (compared with 37 million in the United States, the next largest market).



The sharing economy has been applied to leisure real estate and resort accommodation very successfully not just by the likes of Airbnb but by global hospitality brands such as Disney, Hilton, Hyatt, Marriott, Sheraton, Westin and Wyndham through the establishment of their respective Vacation Clubs and market penetration for these products is now close to 8% of all income-eligible households within the USA. In the context of the sharing economy booming, the regulators now encourage innovative business models by offering holiday accommodation products such as house-sharing accommodation, timesharing, etc., according to the State Council five-year tourism plan (2016-2020).

Typical Holiday Accommodation options

The table below sets out the mainstream consumer options for holiday accommodations that are typically found in mature markets:

	Hotel	Rental	Vacation Club	Fractional Hybrid	Second Home
Advantages	flexible, brands, services	flexible, private	Membership provides pre-paid vacations plus exchange opportunities + hospitality services,	Membership conferring annual usage for a term of years with interest in the property and the proceeds of sale	equity, instant availability
Disadvantages	smaller rooms, can be expensive, depending upon quality tier; expensive for multi-generational travelers	unknown quality, management & services can be uncertain without a brand	As a leisure product, value lies in use over time; no appreciation in value	Needs careful design by reference to seasonality of location	expensive, security, ownership responsibilities maintenance, lack of services, policy restrictions on second home ownership

Some of these business models are not yet well understood within the Asian markets, both by Developers and Consumers but in China in particular, as the growing base of middle class consumers seek their “consumption upgrade” these new models have greater significance. On the other hand, while the curb for Chinese citizens to purchase overseas real estate property remains and restrictions on buying a second home have been spread in major cities, it is undoubtedly more difficult for developers to do their business in the traditional way now than before. Indeed, from a financial perspective, some have realized that adopting innovative programs has to be an integral part of their growth and work-out strategy.

Therefore, developers should seize the opportunity to capture a share of this

lucrative market through the introduction of innovative membership programs which offer buyers the certainty of high quality holiday accommodation and unique experiences as well as a range of other member benefits and privileges. In fact, the recent market has seen Chinese conglomerates starting to seriously consider tapping into the market of holiday products and a couple of multinational resort owners/operators progressively setting their foothold in the Chinese market. The timing to make a move has never been better.

In Part Two of this Article, we will take a detailed look at these alternative Business Models and the benefits which they can deliver both for the Developer, as well as for the Consumer and the manner in which they can be adapted to fit within China’s domestic tourism landscape. ■

About the Authors:



PAUL DEAN

Email: paul@dean-and-associates.com

Paul Dean has had over 30+ years involvement with international resort development and recreational real estate, with an emphasis on mixed use resorts. This includes hands-on involvement with the setting up of resorts and product legal structures in more than 20 jurisdictions. He has extensive experience of working with global hospitality brands including Hilton, Hyatt, IHG, Jumeirah, Kempinski, Mandarin Oriental, Marriott and Starwood as well as Gleneagles, Ping An Real Estate, Six Senses, Soneva, Onyx.

His expertise relates to all forms of Recreational Real Estate including Branded Residences, Condo-hotels, Fractional Interests and Private Residence Clubs plus vacation ownership. He provides feasibility analysis, financial modelling, concept development and product design, product legal structuring, usage plan design, preparation of operating budgets, reserve funding, marketing and sales strategies and subsequent project implementation.

Please check out the Dean and Associates website at: www.dean-and-associates.com for more information.



MICHAEL QU

Email: quqin@lawviewer.com

Michael Qu Qin is the managing partner of Law View Partners, a boutique law firm based in Shanghai, China, where his legal practice covers the areas of real estate, foreign investment and mergers and acquisitions. He has extensive experience as a lawyer for over 15 years. Michael has successfully represented investors in the real estate, retail and hospitality sectors, senior housing, asset management, in dealing with commercial transactions and disputes.

Michael is active in the hospitality and senior housing industry. He is a frequent speaker in real estate and hospitality seminars, such as Alternative Ownership Conference Asia-Pacific (AOCAP) and International Association for Housing and Services for the Ageing (IAHSA). He is also a lecturer of China's Legal Training Center, frequently deliver speeches on the topic of the practice on development and operation of commercial real estate.

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