

EXECUTIVE SUMMARY

In August 1997, the Federation of Hong Kong Hotel Owners Limited commissioned Jones Lang Wootton Limited to carry out a study on the future of the hotel industry in association with JLW Transact, the specialist hotel and leisure company of JLW.

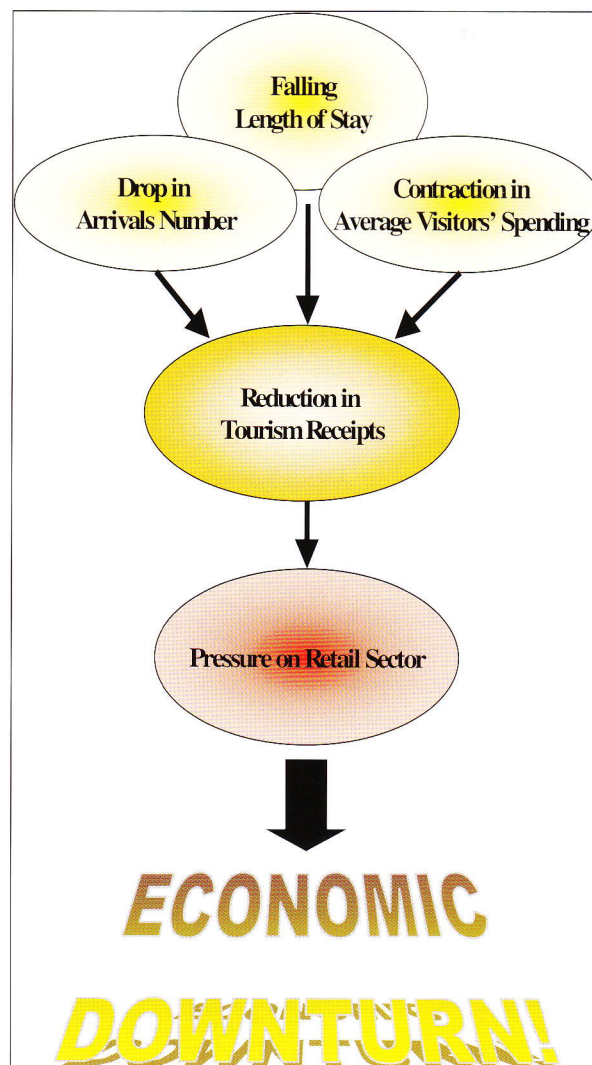
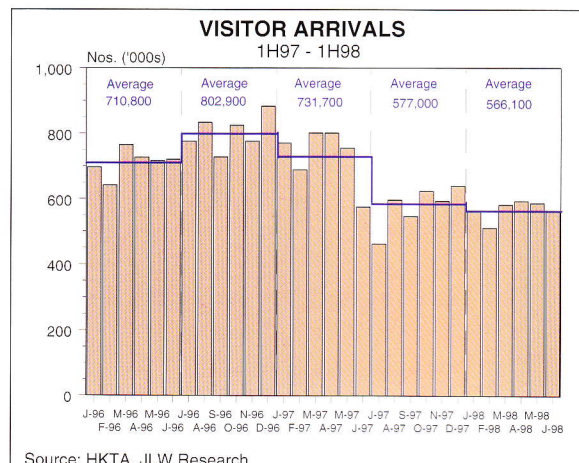
Since the start of the study, economic conditions in Hong Kong and many of its source markets have changed dramatically. The economies of Hong Kong and a number of other countries throughout the region have entered recession. In order to be in a position to take advantage of the long-term potential of Hong Kong tourism it is necessary for the private and public sector to work together in a flexible, pro-active way. This will help to mitigate the immediate negative impact of the regional economic turmoil and local economic recession on the tourism and hotel industries.

We have prepared two reports, which are published separately. In the first, we address matters of immediate concern to the industry and make recommendations on steps to improve the short-term outlook. In the second we examine the long-term prospects for the industry and the changing nature of the industry. We provide recommendations on steps to enable Hong Kong to take full advantage of the many opportunities likely to arise. The reports are titled:

- Turning the Tide; and
- Catching the Wave.

Tourism Industry in the HKSAR'S First Year

In very difficult economic conditions the performance of the tourism industry in the first year of the HKSAR was markedly down on the previous year. Visitor arrivals, length of stay, visitor spending, retail spending and tourism receipts all declined sharply between the first half and second half of the year. This has had a major impact on the Hong Kong economy. It requires urgent action to "turn the tide".



Hotel Industry in the HKSAR'S First Year

The downturn in the tourism industry at a time of growth and change in the capacity of the hotel industry has led to very difficult trading conditions for Hong Kong hotels. Reduced revenues despite the hotel industry's best efforts to improve efficiency and cut costs, particularly staff costs are squeezing net operating profits.

Recommendations

Difficult economic conditions look set to continue for some time. To mitigate the impact on the industry, a package of measures jointly promoted by the public and private sector is needed. This package should help the industry to boost revenue and cut costs in order to overcome its short-term challenges and provide a stable platform for the growth of the industry and the wider economy in the long term.

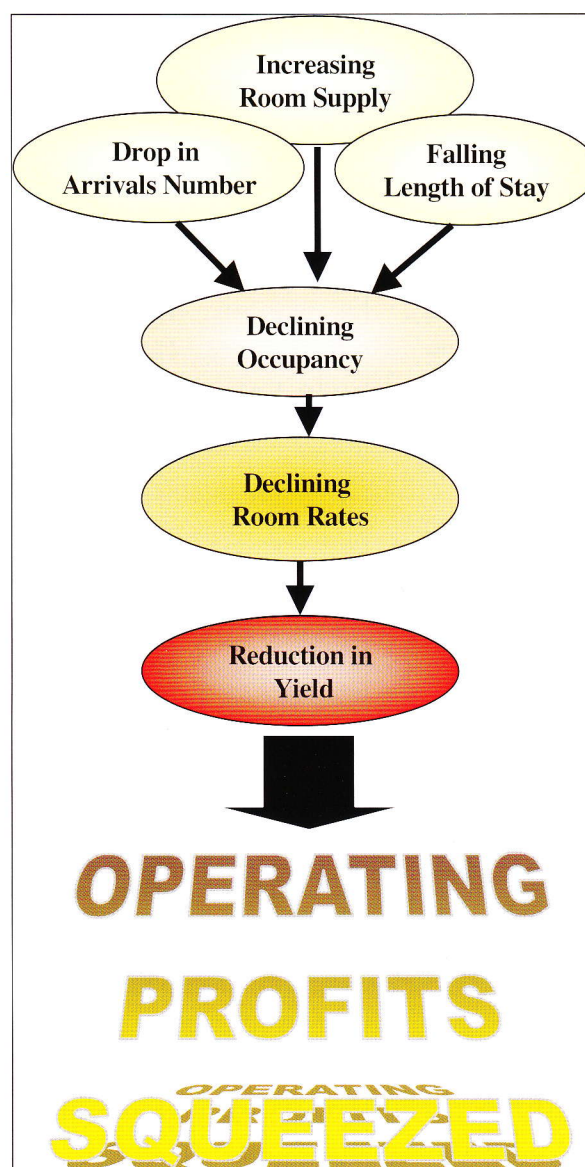
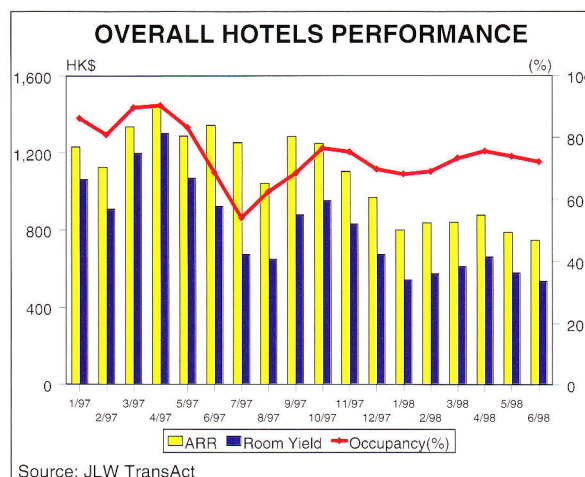
The Government, the Hong Kong Tourist Association and the hotel industry need to take immediate action to help the hotel industry to increase revenue. Measures are needed to:

- Attract more people to Hong Kong;
- Encourage them to stay longer; and
- Entice them to spend more.

To be effective, such measures need to be pragmatic and highly targeted on:

- Source markets in which people have the means and the motive to come to Hong Kong in the short-term;
- The promotion of current attractions and events to raise awareness of things for visitors to do while they are here;
- The provision and promotion of additional attractions and events; and
- Giving value for money.

Over the last year, reduced occupancy rates, room rates and yields have created very difficult trading conditions for hotels. In such circumstances, it is incumbent on hotel operators, owners and the Government (which imposes a regulatory and tax burden on the tourism and hotel industries) carefully to examine ways to reduce costs in order to encourage a healthy industry and to give visitors value for money.



KEY ISSUE	RECOMMENDATIONS TO ENHANCE HOTEL INDUSTRY REVENUES
To increase visitor arrivals in the short term and target the opening of new markets:	<ol style="list-style-type: none"> 1. Increase immediately the number of countries granted visa-free entry to Hong Kong; 2. Increase immediately the quota of visas granted to countries without visa-free entry; 3. Fast-track the negotiation of air services agreements to allow more airlines to operate more flights; 4. Ensure the additional landing slots at Chek Lap Kok are made available to existing and new airlines operating to/from new cities and countries; and 5. Target the promotion of Hong Kong tourism in 1998 on opening up new source markets and ensure that the necessary language and other skills are put in place to cater to these markets.
To make more of what we have and to enhance attractiveness:	<ol style="list-style-type: none"> 6. Strengthen Government policies and resource commitment to protect, preserve and enhance sites and buildings of historic and cultural significance; 7. Create a Reunification Heritage Trail incorporating : <ul style="list-style-type: none"> • The opening of Government House and/or Gardens for tours; • The establishment of an interim Reunification Heritage Centre at Tamar; and • A commemorative display at the Convention Centre including in the interim Reunification Gifts. 8. Invite the PLA to give Open Days and participate in ceremonial displays; 9. Use the Tamar site as a temporary events venue for festivals, arts, sports and tourism events; and 10. Expedite the planning for the development of new facilities and attractions for the medium term including: <ul style="list-style-type: none"> • A permanent Reunification Heritage Centre, at Tamar, to display the Reunification Gifts, commemorate the resumption of sovereignty events, give an appreciation of colonial Hong Kong and celebrate Chinese culture; and • A world class museum with, at minimum, facilities to host a major annual exhibition of world class art (Pharaohs, Incas, Chinese etc.) and a gallery for temporary display of local private collections; • A world class venue for international sports competition; • A world class venue for a performing arts to accommodate major touring productions of Broadway/West End Shows , International/Chinese Opera, and Western/Cantonese Concerts; and • A diverse range of convention and exhibition facilities to complement the Convention Centre, hotel and other existing facilities.
	RECOMMENDATIONS TO REDUCE HOTEL INDUSTRY TAX AND REGULATORY COSTS
To reduce hotel industry tax and regulatory costs:	<ol style="list-style-type: none"> 1. Abolish hotel accommodation tax; 2. Provide 50% relief on rates currently payable by hotels; 3. Assess the ratable value of each hotel annually; 4. Introduce a tax allowance for capital expenditure; and 5. Extend the grace period for compliance with new hotel regulations;
To increase value for money for visitors:	<ol style="list-style-type: none"> 6. Waive airport departure tax; 7. Freeze Government fees and charges; 8. Introduce a tax allowance for staff training/retraining programmes; 9. Extend the period of the introductory fare reduction on the Airport Railway; and 10. Consider extending concessions to other forms of public transport.