Where the industry is now

The global hotel industry

The global hotel industry comprises approximately 14.6 million rooms, according to Smith Travel Research, and these are broadly segmented into branded (multiple hotels under the same brand name) and independent (non-branded) hotels. Growth in demand is driven by economic growth and an increasing trend for domestic and global travel resulting in part from favourable demographics and globalisation of travel.

There are a number of key industry metrics which are widely recognised and used to track performance. These include revenue per available room (RevPAR), average daily rate and rooms supply growth. These are amongst the key performance measures actively monitored by IHG. IHG also monitors macroeconomic indicators such as gross domestic product (GDP) trends, which is a leading indicator in hotel industry trends.

The branded hotel market

Smith Travel Research estimates that the branded hotel market accounts for 51.5% of the total hotel market. However, this market is fragmented in terms of key brand players with the top five branded hotel companies (of which IHG is one) accounting for only 41% of the total branded hotel market in terms of open rooms and 72% of the development pipeline (hotels in planning and under construction but not yet open). However, as can be seen in the graph on the right, globally, the branded hotel market is increasing its share of the total hotel market, due to the advantages a brand can bring to hotel performance over that of independent hotels. Branded hotels have shown an increased resilience through the economic cycles, with the big branded players showing clear revenue outperformance, as well as benefiting from advantages in terms of economies of scale across a broad portfolio of hotels.

In the US, around 70% of the industry supply is branded. In fast developing markets, such as China and India, branded penetration is lower, at around 20 to 30%. However, this is expected to increase significantly over the coming decades as branded hotels gain traction due to the advantages of reliability, guest safety and security and consistency of standards that large global brands bring.

The different business models within the hotel industry

The global hotel industry operates under a number of different business models, depending on whether a hotel is branded or independent. The four models typically seen are owned, leased, managed or franchised:

• Owned hotels are owned and operated by an owner who bears all the costs associated with the hotel but also benefits from all of the income;
• a leased model is similar, except that the owner–operator of a hotel does not have outright ownership of the hotel but pays rental fees to the ultimate owner of the property;
• under a managed model, the owner of a hotel will use a third-party manager to operate the hotel on its behalf and will pay the manager management fees and, if the hotel is operated under a third-party brand name, brand licensing fees; and
• a franchised hotel is owned and operated by an owner under a third-party brand name and the owner will pay a brand licensing fee to the brand owner.

Whilst an owner–operated hotel enables the owner to have full control over hotel operation, it requires high capital investment. In contrast, for hotel brand owners, a managed or franchised model enables quicker rooms growth due to the lower capital investment, but this requires strong relationships with third-party hotel owners.

IHG’s business model is set out on page 16.
Where the industry is heading

Short-term drivers and global trends

Short-term industry trends are shaped by differing economic, political or physical factors impacting local geographical markets. Since the economic crisis of 2008/09, GDP growth has returned to key economies, leading to an increase in disposable income and an increase in demand for hotel rooms. Typically, the industry would meet this demand through an increase in the supply of rooms.

In developed markets, recent industry revenue growth has been driven largely by an increase in the room rate as occupancy levels have returned to previous peak levels, but the growth in supply of rooms has been below the long-term average. In emerging markets, growth has been as a result of both an increase in room rate and the supply of rooms. The industry is also impacted in the short-term by local market economic or political factors.

Long-term drivers and global trends

In the long term, growth in the hotel industry is driven by a number of trends:

Economic

The travel and hotel industries have benefited substantially from long-term macroeconomic trends. Global GDP growth in the last 10 years of circa 4% per annum has contributed to increasing disposable income and a greater number of middle-class households, particularly in emerging markets such as Greater China, with a greater propensity to travel.

Over the long term, global economic growth and more sophisticated financial markets in emerging countries has led to a 1.8% increase in global total hotel rooms supply over the last eight years.

Improvements in physical infrastructure, particularly in emerging markets, have allowed hotels to more effectively meet the needs of guests and to open up new destinations for travel.

Demographic

During the last 10 years the typical traveller demographic has changed. Travellers travel for a variety of reasons and no longer travel for a singular purpose, such as only business or leisure. Across the globe, the type of traveller can range from single people to multi-generation families. The younger workforce is driving more diverse and informal working patterns, with an expectation that hotels will cater for flexible working arrangements. A growing ageing population with the desire, and means to travel, is expected to significantly increase travel flows and lead to an overall increase in demand for travel services.

Technology

Technology has played an important role in shaping the travel industry. A decade ago, internet access and the role of digital technology in planning, booking and experiencing travel was very limited. Today, the reach and role of digital technology is very different. The internet, increasingly accessed through mobile devices, has established itself in developed markets as the preferred method to research, plan and book travel. In emerging markets, online purchasing and international travel are relatively new to travellers, and therefore personal interactions remain key, making the role of the traditional travel agent important. Industry experts estimate that about 12 to 15% of tickets and rooms are booked online in China and of that online market, approximately 70 to 80% are booked through third-party intermediaries.

The development of social networking and photo sharing has changed the way in which people think about travel, with the sharing of travel experiences, reviews and recommendations having a greater impact on travel decision-making. These recommendations, combined with the ability to compare prices and review the richer information that is available online, allow travellers to make informed decisions and book their travel options with greater control and immediacy, leading to an increase in travel to a variety of destinations.

IHG’s 2014 Trends Report (see page 20) found that the rapid rise of technology-enabled personalisation is helping to shape the experience guests want when they travel. It also found that personalised brand experiences which resonate with the local culture are particularly important for the fast-growing number of international travellers from emerging markets.

Changing technological trends and changes in consumer behaviour will continue to shape the industry.

Social

Other trends also present new opportunities to travel. Increased competition and capacity amongst airlines, lower air fares and more relaxed travel and immigration restrictions in many regions have made international travel a viable option for an increasing number of people.

Competitors

These long-term drivers and global trends are changing the competitive landscape within the travel industry. Competitors are no longer simply branded or independent hotels, but now include travel intermediaries and companies offering alternative lodging solutions and search options, providing inspiration for travel ideas and aggregating a range of travel solutions. Many of these businesses are also not subject to regulations such as fire and life safety, food safety and local industry regulations, which apply to traditional hotel operators.

Source: Smith Travel Research for industry facts.
Overall, global industry RevPAR increased by 4.4% in 2013 and IHG’s global RevPAR grew 3.8%. As would be anticipated, performance varied across regions and across segments (see page 29), with each facing different economic, social and physical conditions.

RevPAR is a KPI – see page 38.

IHG’s performance globally and in each of our regions during 2013 is detailed on pages 40 to 50.

### The Americas

**Industry**

The hotel industry performed strongly in the region. RevPAR grew by 6.6% with average daily rate increasing by 5%. On the supply side, the number of rooms only increased by 0.8%. Although RevPAR growth was strong, it was not consistent across all segments, with the luxury, upper upscale and upscale segments performing best.

The overall dynamic remains favourable in the US, with industry demand achieving record highs and supply growth still below the 2% per annum historic average. Reflecting this, US RevPAR increased 5.4% during 2013 with average daily rate growing 3.9% and occupancy also continued to grow. On a negative note, the US government’s reduced travel over 2012 and 2013 and complete shutdown in the fourth quarter of 2013, meant that some cities, such as Washington D.C., were impacted. However, this did not outweigh the positive economic trends that contributed to greater demand in the industry.

**IHG’s Americas region**

IHG’s comparable RevPAR increased 4.3% with 2.6% rate growth. The region is predominantly represented by the US, where comparable RevPAR was up 4.2%. Our upscale and luxury brands (InterContinental, Crowne Plaza and Hotel Indigo) outperformed the industry.

In the midscale segment, Holiday Inn and Holiday Inn Express maintained a rate premium to the segment. However, RevPAR grew at a lower rate than the market, reflecting the superior RevPAR performance versus the market in recent years and higher absolute RevPAR. Quality remained a focus, and 17,968 rooms left the IHG System. Overall the number of rooms open in the region increased by 1,807 rooms.

Source: Smith Travel Research for industry facts.

### Europe

**Industry**

Despite continuing challenging economic conditions in the eurozone, overall the industry performed well with RevPAR increasing 3.2% and average daily rate 1.5%. The number of rooms across the industry increased by only 0.9%. Europe is a diverse region and the industry figures were driven by the larger markets, in particular the UK and Germany.

In the UK, RevPAR grew 3.9%, predominantly led by occupancy growth, although average daily rate grew marginally (0.2%). The UK provinces, after a relatively protracted period of weakness, performed particularly well. London’s RevPAR growth was positive in 2013, despite an unprecedented level of new rooms and 2012 figures elevated by the London 2012 Olympic and Paralympic Games.

Economic growth in Germany has tended to be more stable in the recent past. Although RevPAR for Germany did increase by 1.7%, the industry is highly dependent upon trade fairs, which are not consistent in number or size year-on-year. Overall, there were fewer trade fairs in 2013 compared to 2012 and RevPAR growth was positive but not as high as the growth seen in 2012.

**IHG’s Europe region**

IHG’s comparable RevPAR increased 1.7% led by a 1.5 percentage point increase in occupancy. RevPAR growth was resilient in our priority markets, despite tough comparatives. In London, we outperformed the market, although across the UK we were marginally below market. Overall, comparable UK RevPAR increased by 3%. In Germany, RevPAR grew 0.8% reflecting a weaker trade fair calendar in key cities, particularly Berlin and Dusseldorf.

In France, RevPAR grew 2.6%, with 5.3% growth at our owned InterContinental Paris Le Grand.
Asia, Middle East and Africa (AMEA)

Industry
AMEA is a diverse geographical region comprising many individual country markets. Overall RevPAR increased 6.1%, led by a 5% growth in average daily rate. The number of rooms available across the industry increased by 2.6%.

Strong growth was seen in Southeast Asia, where RevPAR grew 7.9% driven by continued strength in Indonesia and Thailand; Japan, where RevPAR grew by 11.4%; and in the Middle East, where RevPAR growth of 5.5% was achieved despite continuing geopolitical unrest.

In India, 2013 was a challenging year with pricing challenges as a result of rooms supply growth of 4.6% leading to a RevPAR decline of 3.3%.

In Australasia, RevPAR was up 3.9% driven by average daily rate up 2.7%, reflecting strong economic conditions in Australia.

IHG’s AMEA region
IHG is represented widely across the region, both geographically and by brand, and comparisons across the industry are hard to make. In addition, almost all of our net room growth is located in developing markets, where initial RevPAR expectations are on average about 30% of the level achieved by a mature hotel in that region. Even after three to five years, hotels in these markets are expected to achieve around 70% of the absolute RevPAR of primary city hotels. Comparable RevPAR increased 6.1% in the year but, reflecting new hotels in the developing markets, total RevPAR growth was 2.8%. Overall strong trading in Southeast Asia and Japan led the performance with RevPAR up 9.9% and 9.6% respectively. In Australasia, RevPAR increased by 4.5%. In the Middle East, RevPAR was up 3.2%, driven by good performance in Saudi Arabia and the UAE, offset by geopolitical unrest impacting our business in Egypt and Lebanon.

Greater China

Industry
Hotel industry RevPAR in Greater China as lower than industry expectations in the full year RevPAR declining by 4.2%. The RevPAR decline was predominantly led by a reduced average daily rate (an annual reduction of 3.1%), combined with a reduction in occupancy levels. Overall demand for rooms increased over the year, but occupancy rates were impacted by supply growth of 4.6%.

The industry was impacted by a number of factors in 2013 including natural disasters, slower macroeconomic conditions as reflected in GDP growth of only 7.7% (the softest pace of expansion since 1999) and the impact of the China-Japan territorial island dispute. Despite the challenges, travel and tourism continue to be a strategic pillar of the Chinese government’s five-year plan and the continuing growth of the middle-classes and a shift in emphasis to a consumption led economy are all positive factors for the medium to long-term prospects.

IHG’s Greater China region
IHG’s comparable RevPAR increased 1% as the scale and strength of our business drove a significant outperformance compared to the industry throughout 2013. IHG has brands across multiple price points and hotels in 70 cities which positions us well across the region. Conditions were difficult, but we opened 7,669 rooms and added 15,000 rooms to our pipeline, including seven HUALUXE hotels taking our pipeline of this key new brand to 21 hotels. From a growth perspective, almost 70% of the hotels in the pipeline are under construction. As with AMEA, much of the room growth is located in developing tier 2 and tier 3 cities with lower initial RevPAR expectation when compared to primary city hotels.

IHG System

We continued to grow the IHG System size in 2013 (hotels franchised, managed, owned or leased under IHG’s brands – see Our business model on page 16). As at 31 December 2013, we had 686,873 open IHG hotel rooms (4,697 hotels) in nearly 100 countries and territories around the world.

Openings in 2013 v 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Rooms</th>
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<tbody>
<tr>
<td>2013</td>
<td>35,447 (237 hotels) in 33 countries and territories</td>
</tr>
<tr>
<td>2012</td>
<td>33,922 (226 hotels) in 26 countries and territories</td>
</tr>
</tbody>
</table>

Removals in 2013 v 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>24,576 (144 hotels)</td>
</tr>
<tr>
<td>2012</td>
<td>16,288 (104 hotels)</td>
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</tbody>
</table>

As part of our ongoing commitment to maintaining only high-quality hotels in our brands, we removed 24,576 rooms (144 hotels) during the year, an increase from 2012, actively strengthening the quality of our estate across our brand portfolio, particularly Holiday Inn.

Information on our preferred brands is set out on pages 17 and 20.

IHG pipeline

As at 31 December 2013, we had 180,461 rooms (1,120 hotels) in the development pipeline (hotels in planning and under construction but not yet opened; a contract for these has been signed and the appropriate fees paid); the largest pipeline in the industry.

Signed into our pipeline in 2013 v 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>65,461 (444 hotels) in 38 countries and territories</td>
</tr>
<tr>
<td>2012</td>
<td>53,812 (356 hotels) in 33 countries and territories</td>
</tr>
</tbody>
</table>

Net rooms supply is a KPI – see page 38.