

OVERSEAS INVESTMENT IN CHINESE HOTEL JOINT VENTURES

by Dr. M. A. Hines

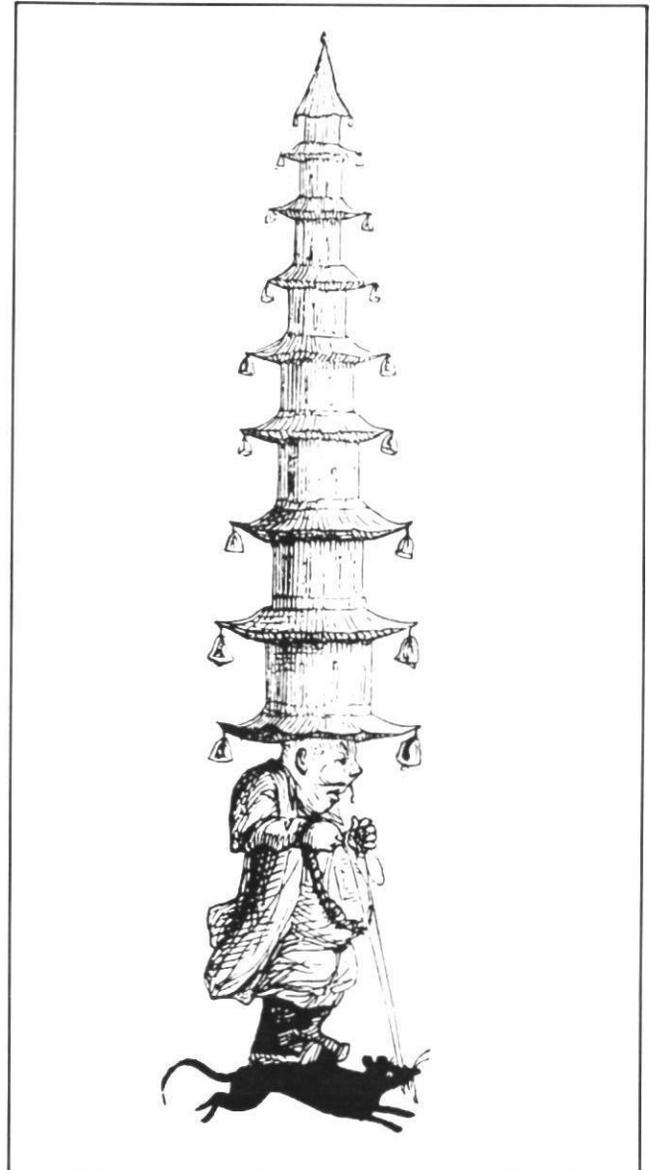
Several high-quality hotels built according to international standards have been financed and constructed under overseas joint ventures with the Chinese government and its organizational entities. Among the newly constructed hotels are the Great Wall Hotel of Beijing, the Jinling Hotel of Nanjing, and the White Swan and the China Hotels of Guangzhou.

Beijing Hotels Including The New Great Wall Hotel

Since Beijing is the Chinese government and political center, it attracts many visitors who conduct government and political business with China and its various ministries and departments. Beijing is also a tourist center because it offers a number of tourist attractions within its city, county and regional boundaries. For example, many tourists to China feel they must see the Panda bears of the Beijing Zoo, the Great Wall of China located two to three hours driving time to the northwest of Beijing, the Forbidden City, Mao's tomb, the numerous Ming tombs northwest of the city and the various shrines and temples located in various spots around Beijing. Therefore, visitors—business, government, political—need transient and perhaps long-term housing while they take care of their business in the city.

Historically, the Beijing Hotel accommodated visitors to Beijing. It particularly catered to those visiting the government and political leaders whose offices were within three to four blocks of the hotel. Since the Forbidden City is across the street, the hostelry attracted individuals and groups of tourists who wished to view the immense

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complex of the ruling families from former centuries. Today the Beijing Hotel consists of three distinct parts that together use the entire block of land on which the hotel is located. A central ground-level corridor links the three buildings together. The additions to the original hotel to the west have been made at different intervals by the Chinese government. The newest high-rise and most architecturally modern section lies to the east. The main driveway up to the door of the hotel is located now in this newer addition. The occupancy rate for the entire hotel is said to be unusually high. Part of the high occupancy status is due to the long visits of various foreign government and company organizations who do business in Beijing. Suites of rooms reportedly are being rented on a long-term basis by such organizations because appropriate office space is not available for purchase or rent in close proximity to the government and political headquarters. In some measure the Beijing Hotel, owned and managed by the People's Republic of China government, provides residential and office space for many of its clients.

In the eastern portion of the city, where the Beijing Hotel is located, lies the diplomatic section. Much of the central and northern sections of the east side of Beijing house the various diplomatic and military missions from all over the world. Some embassies have been located in Beijing for a number of years. One of the largest diplomatic complexes, that of the Soviet Union, is located in the central east side of the city. The transient and permanent members of the various diplomatic missions are housed according to their respective lengths of stay. Permanent members of the various diplomatic corps inhabit some of the luxury residential buildings. Their income levels normally far exceed that of the normal Chinese worker, and they may be the only prospective tenants or owners for many of the new and costly luxury apartment buildings in the area.

The Jianguo Hotel, Beijing's first joint venture hotel, was opened in 1982. It was designed by Clement Chen and Associates, a San Francisco-based firm for the joint venture group comprised of the Hong Kong and Shanghai Bank's subsidiary, the Overseas British Peninsula Group and a Chinese government entity. Some investment, made by the Hong Kong and Shanghai Bank through their subsidiary, complemented the investment in land and cash by the Chinese government. A management contract for 10 years was reportedly extended to the Overseas British Peninsula Group in order to train appropriate hotel management and staff to manage the hotel until the Chinese government would take full title and operation of the hostelry at the end of the 10-year period. The hotel operation utilizes the worldwide Peninsula Group reservations system. This mid-rise, five-story hotel facility strings out along the main east-west thoroughfare, Jianguomen Avenue. It features an assortment of cuisine ranging from Chinese and Japanese to Western so as to satisfy the palates of foreign travelers. Since the management contract and the overseas investment runs approximately seven to eight more years, it is

still too early to analyze the total investment returns of this well-known Beijing joint venture hotel. The Hong Kong and Shanghai Bank appears satisfied with the investment results through its Peninsula subsidiary. The company's representative banking office is housed in the premises of the hotel complex. The bank seeks more joint venture and direct income property investments in Beijing and other Chinese areas.

The Great Wall Hotel, opened in December 1983, is located in the northwest quadrant of Beijing along the main thoroughfare, North Donghuan Road. This business and tourist hotel—21-stories with 1,007 guest rooms—is located across the road from the principal section of Beijing devoted to foreign embassies. It is a natural location for a hotel serving visitors from most countries of the world with advanced industrialized economies. For example, the French Embassy lies within two to three blocks of the hotel's main entrance. This international-styled hotel housed U.S. President Ronald Reagan and his large staff during his 1984 Spring visit to Beijing.

The joint venture agreement was drawn up by a California construction company headed by an overseas Chinese representative and the China International Travel Service, an agency of the Chinese government. The management contract for the hotel calls for the overseas training of the hotel management and staff. At the end of the management contract the hotel and its complete operation will revert to the Chinese government. So far the management personnel have been acquired from foreign international hotel operations, and the training for this particular hotel's operations has involved the United States, Hong Kong and other worldwide training locations.

The Jinling Hotel Complex Of Nanjing

In the central business district of Nanjing lies the Jinling Hotel, 37-stories high and currently the tallest building in China. Nanjing, with a population of over three million people (a relatively short distance to the northwest of Shanghai), is the capital of Jiangsu Province (see Exhibit). The 760-room hotel has the first Chinese revolving restaurant and lounge, the Sky Lounge, on its 37th floor. The hotel is one part of a total income-producing complex embracing an apartment building, a multi-story parking facility and shopping center. This international-quality hotel, opened in the Spring of 1983, is another example of an overseas joint venture. The current chairman of the board of the Singapore Land Company headed an investor group whose other members were located in Hong Kong. The chief equity partner was born and raised in Nanjing. A management contract for approximately 10 years was signed by a hotel management group from Hong Kong affiliated with the investor group. The hotel management and staff is sent abroad for three- to four-week training periods. Some of the chefs are sent to the United States to learn the preparation of Western cuisine. Japanese and Chinese dishes are also offered in the hotel dining rooms. Financing came from

the Hong Kong and Shanghai Bank of Hong Kong. This foreign loan was paid off after one year and refinanced by the Bank of China. At present little foreign investment remains in the hotel's permanent financing. When the management contract ends, the Chinese government will take over the project's ownership and management.

When the hotel was constructed, separate and independent water and electrical systems were installed so the hotel does not rely on the city of Nanjing for treated water or electricity. Supplying good drinking water is still a problem for most Chinese cities. Electrical supplies adequate for a building's normal and peak operations are not always reliable at any location in the People's Republic of China.

Still to be constructed are a swimming pool, health club with sauna and massage facilities and a classic Suzhou formal garden. A retail building is scheduled to contain a department store, supermarket and small boutiques. Several government owned and operated department stores are located in the near vicinity. After nearly 18 months of operation, the hotel almost has a 55 percent occupancy rate. It caters to both the business and tourist trade. Nanjing, like many prominent cities of China, is an industrial, government, educational, and cultural center of the Jiangsu Province.

Guangzhou's White Swan And China Hotels

Guangzhou—often called "Canton" as an abbreviation—has approximately 57 hotels and guest houses that contain approximately 12,500 guest rooms. Overseas joint ventures involve two of the newest hotels—the White Swan and the China Hotels. The White Swan Hotel, staffed by 2,000 people, was opened in February 1983. The 28-story international five-star hotel is a joint venture of the Guangdong Tourism Bureau and Goodyear Investments Co. Ltd. of Hong Kong. The Chinese government permitted this luxury hotel to be built on a picturesque point along the Pearl River on Shamian Island in an area previously inhabited by the British and French government and company representatives. This business/tourist hotel is located approximately 20 to 25 minutes driving time across town from the Guangzhou International Trade Exhibition Hall. Products and services of mainland China and the Shenzhen Special Economic Zone in Guangzhou are displayed and promoted at the hall by company representatives at two international trade fairs per year in the spring and fall. Visitors from all over the world attend the fairs. This grand hotel, with its shopping arcade, coffee shop and informal lounge on the ground level, monopolized the luxury hotel market in the city until the China Hotel opened in Spring 1984 across the street from the International Exhibition Hall.

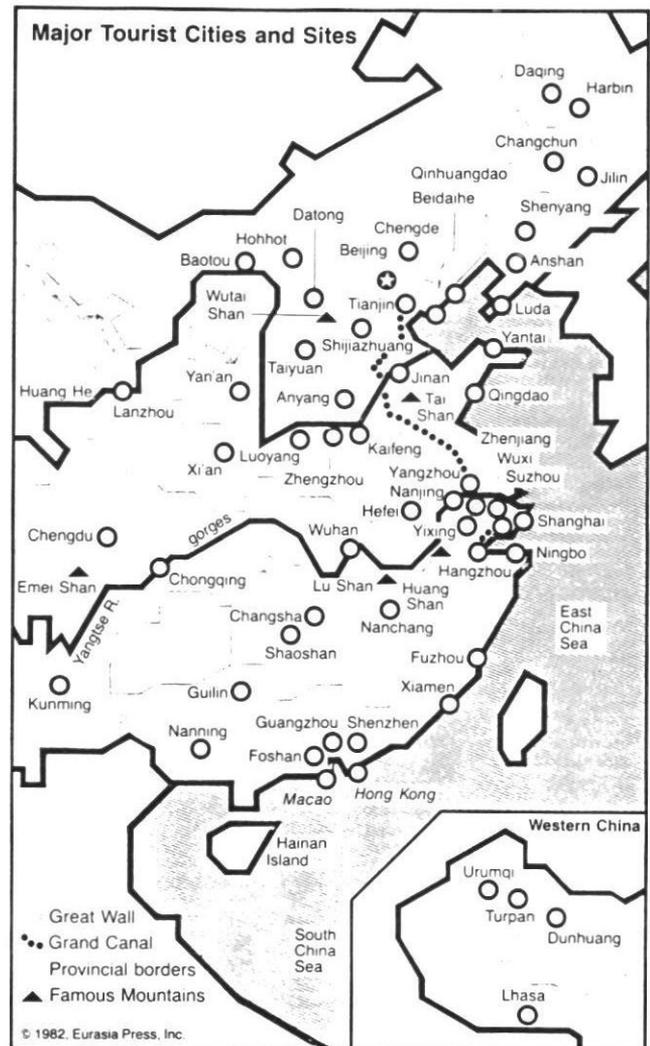
This overseas joint venture hotel represents debt financing from Citibank of Hong Kong and ownership by an entity of the Chinese government. When the Citibank loan is fully repaid (including capital repayment and interest on the loan) and the management contract terminates, the Chinese government will own the

unencumbered hostelry built to international quality standards. As cash flows are generated, Citibank's principal and interest are paid before the Chinese partner receives any portion of the cash flow. After the Chinese partner receives a specified amount, the residual cash flow is shared by the joint venture partners until China takes over the entire ownership and management.

The Future Of Overseas Joint Ventures For Chinese Hotel Development And Investment

Property developers and lenders from a number of countries including Hong Kong, Japan, and the United States are considering mutually profitable hotel investment in China along the lines of the Chinese-sanctioned joint venture. As the Chinese economy develops, more transient hotel accommodations will be needed to handle the expanding tourist and business trade.

EXHIBIT
Major Tourist Cities and Sites of China



Source: THE CHINA GUIDEBOOK by Fredric M. Kaplan and Arne J. de Keijzer. New York: Eurasia Press, 1984.