

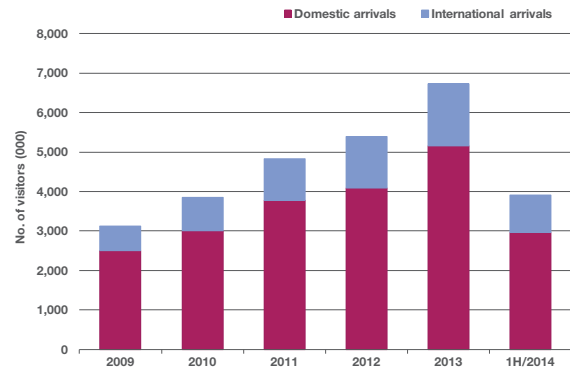


Asian Cities Report
Viet Nam Hospitality

2H 2014



GRAPH 1
Visitor arrivals in coastal cities*, 2009–1H/2014



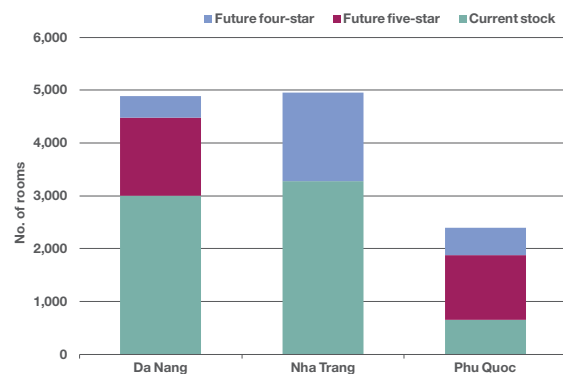
Source: Savills Research & Consultancy
* Da Nang, Nha Trang and Phu Quoc

MAP 1
Coastal cities in Viet Nam



Source: National Statistics Coordination Board (NSCB)

GRAPH 2
Estimated hotel supply by city/grade, 2H/2014–2017



Source: Savills Research & Consultancy

Tourism

Viet Nam is an attractive destination for both domestic and international tourists due to its natural landscapes, particularly its long and beautiful coastline and world heritage sites.

In 1H/2014, there were 27.7 million visitors, up 9% year on year, at 61% of the target for 2014. International visitors have significantly increased since 2010, at 13% per year on average. In 2013, there were 7.6 million international visitors, surpassing 7 million for the first time, up 11% year on year. Asian visitors dominate with 45% share, followed by Europeans at 34%. With an increase in direct flights and a 15-day visa exemption offered since 2009, Russian visitors have increased sharply by 77% per year on average since 2009, reaching approximately 300,000 visitors in 2013.

For both domestic and international tourists, beach holidays are favoured, especially in Da Nang, Nha Trang and Phu Quoc. The visitors to these coastal cities increased sharply from 2009 to 2013 at 21% per annum on average due to continuous improvements in accommodation and infrastructure. In 1H/2014, there were 3.9 million arrivals, up 21.3% year on year.

Despite the recent East Sea tension, international arrivals reached 945,000, up 21.3% year on year at 24% of total arrivals. Russian and Chinese visitors are these cities' largest inbound market. Following the East Sea tension, tour agents and hotel operators began targeting tourists from non-Chinese speaking Asian countries. There are two seasons: winter, from September to March, is the high season for international visitors and summer, from May to August, the high season for domestic visitors.

Supply

In 1H/2014, there were 6,930 hotel rooms from 44, four- to five-star hotel projects in Da Nang, Nha Trang and Phu Quoc. Nha Trang and Da Nang each have 15 hotels, providing approximately 3,300 rooms and 3,000 rooms, respectively. Phu Quoc has a modest supply of over 600 rooms in ten hotels, about 20% of Da Nang and Phu Quoc's supply, and will have its first five-star project in November 2014 when the Vinpearl Phu Quoc becomes operational.

From 2H/2014 to 2017, 5,300 rooms will become available on the market, 51% of which are from five-star hotels in Da Nang and Phu Quoc; all of the future supply of rooms in Nha Trang will be four-star.

Major players

International operators account for only 29% of market share. In Da Nang, they account for 41%, followed by Nha Trang with 22% and Phu Quoc with only 12%. The InterContinental Hotels Group dominates this market and will be the first international operator in Phu Quoc, with 400 rooms in 2015. Melia Hotels International and the Hilton Hotels Group will join Da Nang's market in 2016.

As the largest local developer in Viet Nam, Vingroup has a total of 1,500, five-star hotel rooms in these three coastal cities, with the largest national market share at 20%. Vinpearl Nha Trang on Hon Tre Island is the largest hotel/resort, with an entertainment park in Nha Trang. The Vinpearl Resort Phu Quoc, which is scheduled to open in November 2014, will be the first five-star hotel in Phu Quoc.

Market performance

In 1H/2014, Phu Quoc had the highest revenue per available room (RevPAR) at US\$104 per room per night, followed by Nha Trang at US\$98 and Da Nang at US\$67.

Phu Quoc's higher RevPAR is due to the high average daily rate from the operational costs for electricity and water. Power expenses alone can account for up to 15% of the revenue, whereas it accounts for only around 8% for hotels on the mainland. Also, Phu Quoc's occupancy is high, from 85% to 95% during the high season and 45% to 60% in the low season. Since the international airport opened in 2012, tourism has increased, improving the four-star hotel occupancy by 10% year on year to 75% on average in 2013 and 80% in 1H/2014.

Da Nang's low RevPAR is attributed to its large stock of rooms, up 271% from 2010 to 2014, reaching approximately 3,000 rooms in 1H/2014.

In Nha Trang, during the high season, four- and five-star hotel occupancy is high, up 79% from 2011 to 1H/2014. In the low season, the occupancy was down to 70%. New hotels entering the market from 2013 to 1H/2014 offer low average room rates; in 1H/2014 the average was -11% year on year.

Investment potential

Improving airway systems are vital to boosting the tourism industries in these coastal cities. With an international airport in each, they accommodated over 6.8 million total visitors in 2013; Da Nang alone accounted for approximately 70%. According to the Development Plan of the Airports Corporation of Viet Nam, all three airports will expand to serve over 18.5 million guests per year by 2020.

Despite being an isolated island with a shortage of recreational facilities, Phu Quoc holds potential for developers. It is in a strategic location between the capitals of the ten Association of Southeast Asian Nations (ASEAN), all within a

two-hour flight away. Phu Quoc's weather is pleasant and stable. The four- to five-star hotel and resort market is new and just beginning to grow thanks to the presence of a few major real estate groups such as Vingroup, BIM Group, etc. According to the approved master plan, Phu Quoc will be developed into a "special administration and economic zone" by 2020. To create the necessary momentum for the island to flourish, specific incentives and mechanisms will have to be applied, including the free use of land for up to 15 years, corporate taxes of 10% for 15 years and 30-day visa exemptions for foreigners.

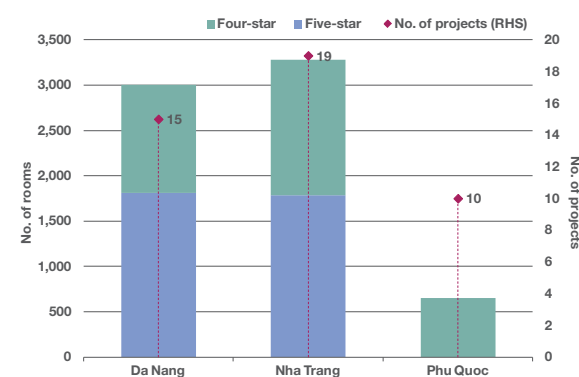
According to the Khanh Hoa and Da Nang Department of Planning and Investment, as of 1H/2014, over 50 future projects have been issued investment licences, the majority of which are in the high-end hospitality industry. ■

TABLE 1 **Future supply of five-star hotels, 2014–2016**

Hotel name	Operator	No. of rooms	Location
Melia Da Nang	Melia Hotel International	226	Da Nang
Crowne Plaza	InterContinental Hotel Group	600	Da Nang
Hilton Danang Hotel	Hilton Hotel Group	226	Da Nang
Crowne Plaza Phu Quoc Hotel	InterContinental Hotel Group	400	Phu Quoc

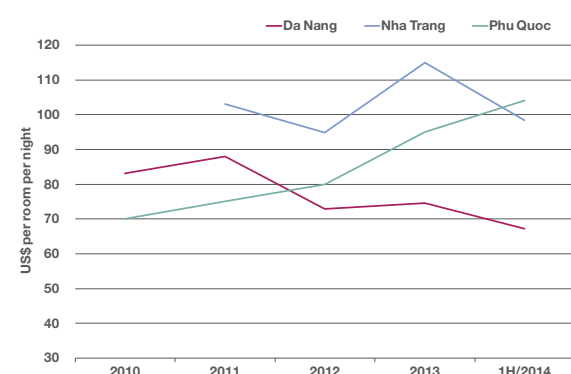
Source: Savills Research & Consultancy

GRAPH 3 **International operator by room stock, 1H/2014**



Source: Savills Research & Consultancy

GRAPH 4 **RevPAR by city, 2010–1H/2014**



Source: Savills Research & Consultancy

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