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MYANMAR

FIRST GLANCE AT THE GOLDEN LAND

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Myanmar has great potential to establish itself as a prime tourist destination in Southeast Asia. The development of the tourism industry was not a priority for several decades, but now the situation is changing. What is the current condition of the tourism and hotel industry? What are the opportunities for development in the country?

COUNTRY OVERVIEW

Myanmar is the largest country in the Southeast Asian mainland and it borders China to the north and northeast, Thailand and Laos to the east, and India and Bangladesh to the northwest. The country has a total land area of 676,578 km² and a 1,930-km coast line along the Bay of Bengal and the Andaman Sea. The majority (68%) of the population of 60 million is Burman; other ethnic minorities include the Shan, Karen and Rhakine. Myanmar has a tropical monsoon climate, with cool dry winters from November to February and a hot and monsoonal summer season from March to October. Temperatures average between 22 degrees Celsius and 27 degrees Celsius over the year. Central areas can reach 45 degrees Celsius during the summer, while the coastal regions can receive 5,000 mm of rain per year, mostly during the monsoon. Myanmar can be divided into Upper Myanmar and Lower Myanmar. Upper Myanmar is the geographical region that includes the states of Mandalay, Kachin and Shan. Lower Myanmar refers to the region that includes the low-lying Irrawaddy delta and the coastal regions. The capital of Myanmar is Naypyidaw. Yangon is the economic and commercial centre and largest city, with an estimated population of six million.

MAP OF MYANMAR



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Myanmar gained independence from the British Empire in 1948, ending a 62-year colonial era. Since then, the country has been battered by one of the longest-running civil wars between numerous ethnic groups and the government. Between 1962 and 2011, Myanmar was under military rule and faced wide sanctions from the West, driving it to political and economical isolation. The junta dissolved in 2011, with the establishment of a

priority of Myanmar's economic reform. Since mid-2011, the majority of the private and state-owned banks have been allowed to offer market rates. Since 2 April 2012, the official exchange rate has been revalued to match the black market rate, and it is intended to become free-floating as a major step towards creating a stable financial system. However, further appreciation would hurt exports, and the modest reserves of the central bank would expose the currency to speculation. While the economic reform is still in its infancy, comprehensive political reforms and improving relations with the international community bode well for Myanmar's economic development. The potential for development across all sectors – not just tourism and hospitality – over the next decade is tremendous and can be compared to that of China or Eastern Europe some 20 years ago, or that of Vietnam about 15 years ago.

TOURISM OVERVIEW

As a nation with a long history, pristine nature and a unique culture, Myanmar is rich in tourism products. With numerous sacred pagodas and holy sites, scenic Inle Lake, alpine mountains in the north, and white sand beaches dotting its coastline, Myanmar provides an ideal leisure environment for a range of demographics. At present, the tourism industry in Myanmar is in its infancy compared to other destinations in the region. It is readily evident how Myanmar is outranked by its neighbours:

Thailand welcomed approximately 48 times as many international tourists in 2011; Laos, 7 times as many; and Bangladesh, 1.1 times as many. The government has encouraged tourism development since 1992, while running the majority of tourism operations. Many human rights groups have called for a boycott of tourism in Myanmar, while others have encouraged

small-scale, responsible tourism that benefits the local community. Given this development trend and history, Myanmar's current tourism industry is characterised by high-end Western travellers (couples and some groups) who are hosted by a tour operator; backpackers who come to realise that Myanmar is not a cheap destination; and tour groups (predominantly from Asia) that are on shorter visits to major cultural sites and cities. Business travel is largely confined to Yangon and Mandalay, with government-related activities focalised at Naypyidaw.

Visitor Arrivals Profile

According to the Ministry of Hotels and Tourism (MOHT), international visitor arrivals to Myanmar registered a compound annual growth rate (CAGR) of 26.5% between 2008 and 2011, reaching 391,176 in 2011. The majority of tourists arrive in Myanmar through Yangon, at the main international airport in the country. Growth has been mainly driven by improved air accessibility. In 2011, a number of new international flight routes were launched, including direct flights to Yangon from Guangzhou, Phuket, Siem Reap and Ho Chi Minh City. Furthermore, additional domestic flights were launched in 2011 amid increasing demand, particularly during high seasons (October to April); four domestic airlines were also added to the market in order to boost inbound tourism. Myanmar Airways is planning to launch direct flights to Yangon from Hong Kong, Jakarta, Dubai, New Delhi, Tokyo and Seoul. However, no specific timeline has been confirmed. Amidst a rapidly changing political situation and in anticipation of an opening economy, business travel increased to unprecedented levels in 2011. With continued political and economic reform and increased accessibility to the country, international visitor arrivals are expected to sustain robust growth in the near future.

INTERNATIONAL VISITOR ARRIVALS, 2008-11		
International		
Year	Visitor Arrivals	% Change
2008	193,319	—
2009	243,278	25.8
2010	310,688	27.7
2011	391,176	25.9
*CAGR 2008-10		26.5%
* Compound Annual Growth Rate		
<i>Source: Ministry of Hotels and Tourism</i>		

Yangon

Located at the confluence of Yangon and Bago rivers in Lower Myanmar, Yangon is the largest city in Myanmar, with an area of 598 km² and around six million residents. Yangon is the centre of trading and commerce in Myanmar, as most of the country's import and export goods travel through Yangon via the Yangon River. The city's economy accounts for approximately 20% of the country's GDP. Light industry manufacturing, construction and tourism are the key drivers of Yangon's economy.

Major activities in Yangon are concentrated in the south of Yangon City, along the northern banks of Yangon River. The townships of Kyauktada and Pabedan in the south form the centre of downtown Yangon. The townships are the focal point of Yangon and Myanmar politics, housing the Sule Pagoda, various historical buildings, foreign embassies and upscale hotels. Dagon Township to the north of downtown Yangon features some of the most prominent tourist attractions, including the Shwedagon Pagoda (also known as the Golden Pagoda), the National Museum and the National Theatre. Dagon boasts many hotels, embassies and diplomatic residences. Bahan Township in central Yangon is the most prosperous township in Yangon; it is home to some of the most upscale residential neighbourhoods in the area. Kandawgyi Lake, located in southern Bahan, is best known for the Karaweik, a replica of the royal boat and an attraction for international tourists. Inya Lake, approximately 10 km north of downtown Yangon, is a popular leisure spot for locals. Some of Myanmar's most exclusive homes occupy the shorelines of Inya Lake. Batahdaung District to the east of downtown Yangon primarily features schools and hospitals. Rumor has it that Batahdaung could be the new designated hotel zone in Yangon; however, no specific plans have been announced.

Yangon has the largest hotel inventory in Myanmar. The number of hotel rooms in Yangon grew from 6,855 in 2008 to 7,934 in 2011, reflecting a CAGR of 5.0%. Yangon hotels are primarily economy hotels and they are independently managed. International brands that operate in Yangon include GHM, Orient Express, Shangri-La, Pan Pacific and Sedona. Hotel supply growth is expected to increase in the medium-term with growing interest from regional investors such as Vietnam and South Korea. However, land values are currently fairly high, limiting the attractiveness of development projects in terms of financial returns.

Demand is increasingly driven by business travel, given the city's position as the economic centre and transportation hub of Myanmar. MICE demand is growing in Yangon, facilitated by visiting economic delegations from the region. MICE groups are generally small to medium-sized as the city lacks the capacity to handle large MICE functions. As a gateway city, Leisure visitors (both FIT and tour groups) stop over at Yangon before and after they travel to other destinations within the country. Attractions such as the Shwedagon Pagoda, Scott's Market and colonial buildings are considered must-see places in Yangon and Myanmar. The average length of stay shortened from three to four days to two to three days after the government relocated to Naypyidaw. As



Legal System of Myanmar

The Myanmar legal system takes its roots from the common law system as a result of over 100 years of British rule. Generally, whilst customary laws govern domestic matters such as marriage and succession (for the majority of the Myanmar population who are Buddhists), Myanmar has a legal framework comprising a myriad of statutes which embody common law concepts and which govern matters of commerce.

The Government of Myanmar has, over the last two decades, introduced various laws aimed at regulating and reforming the manner in which business and commercial activities are undertaken in Myanmar. This positive trend has continued, and looks set to continue, with the current government, following its rise to power in April 2011, passing several bills to modernise and revamp the Myanmar legal system. This wave of reforms has led to Myanmar's welcoming of and engaging with foreign direct investment, post-September 2011.

Corporate Vehicles for Foreign Equity Holders

The new Investment Law of Myanmar ("New Investment Law") provides that foreigners may conduct business in Myanmar through two types of entities. The first is a 100% foreign-owned limited liability company. The second is an incorporated joint venture entity with a Myanmar citizen, in the form of a limited liability company with at least 35% foreign equity. The latter shall be deemed a "foreign" entity, notwithstanding that the larger proportion of equity is held by the Myanmar joint venture partner. The minimum capital requirements for the two forms of entities mentioned ("Foreign Entities") would depend on the business activities to be undertaken by those entities. For instance, the minimum capital requirement for Foreign Entities intending to carry out a manufacturing business is US\$500,000, while Foreign Entities providing services are required to inject at least US\$300,000 in capital.

Restrictions on the Ownership of Real Estate

Foreign nationals are not allowed to purchase and/or own any form of real estate in Myanmar.

Notwithstanding, pursuant to Notification No. 39/2011 on "land use under the foreign investment law of the Republic of the Union of Myanmar" (passed on 30 September 2011), companies registered with the Myanmar Investment Commission ("MIC") are now entitled to obtain a lease of land for a term of 30 years, which, subject to the approval of the MIC, may be renewed twice only and for an additional extended term of 15 years for each renewal.

In this regard, please note that nominee shareholder arrangements (whether for the purposes of owning land in Myanmar or otherwise) are hardly utilized – to date and to our knowledge. The law provides for penalties (including but not limited to the confiscation of relevant assets) enforceable by the courts of Myanmar against one who is found to have participated in such arrangements.

Build, Operate and Transfer ("BOT") Projects

Infrastructure development in Myanmar may take place through BOT arrangements. Through such arrangements, the government grants the right to occupy and develop land to an entity and may also participate as an equity holder in the entity which has been granted land use rights. In such a case, the said entity may acquire a specific status under the Special Companies Law.

Tax Holidays and Benefits

Under the New Investment Law, projects which are considered by the government to be beneficial to Myanmar may be granted various tax exemptions (including relief from payment of income tax on profits, tax on salaries of foreign employees and import/export duties) for a period of three to five years. The hospitality and tourism industry has been listed under the New Investment Law as one such industry, given that it provides employment opportunities in remote areas situated at or near Myanmar's vast coastline.



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ABOUT HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980 by President and CEO Steve Rushmore, MAI, FRICS, CHA, the company offers a comprehensive scope of services and specialised industry expertise to help you enhance the economic returns and value of your hospitality assets.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry. The company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe.

Daniel J Voellm, Managing Director of HVS Hong Kong, has provided advice in major markets, including China, South Korea, Hong Kong SAR, Taiwan, Thailand, Vietnam, Cambodia, Singapore, Indonesia and Maldives. Prior to heading the Hong Kong office, Daniel Voellm was Vice President at HVS' global headquarters in New York, conducting a wide range of appraisals, market studies and underwriting due diligence services in 22 states as well as Canada. Daniel brings a strong understanding of the hospitality industry to HVS. His experience in hotel and food and beverage operations in Germany, Switzerland, England and the United States is complemented by an Honours Bachelor of Science degree from Ecole hôtelière de Lausanne in Switzerland. Daniel works closely with key institutional and private owners of hotel properties, financiers, developers and investors, and has gained a strong understanding of their investment requirements and approaches to assessing market values of investment properties. Daniel further advises on property and concept development and strategy.

Cathy Luo is an associate of HVS Hong Kong, working primarily on hotel consulting assignments, including market studies and feasibility studies in the Asia Pacific region. Graduating with a Bachelor of Arts (Honours) degree in Hospitality Finance and Revenue Management from Glion Institute of Higher Education, Cathy has accumulated a number of working experiences in various hotel operation departments and has a solid understanding of hotel operations. Her previous experience in revenue management with Marriott International further enhanced her knowledge in hotel strategy planning and management. With work experiences in Dubai, Hong Kong and China, Cathy brings a comprehensive knowledge of the hospitality industry to HVS.

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