

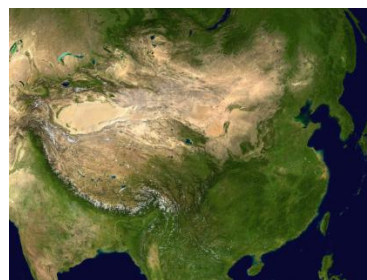


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IN FOCUS: YANGON

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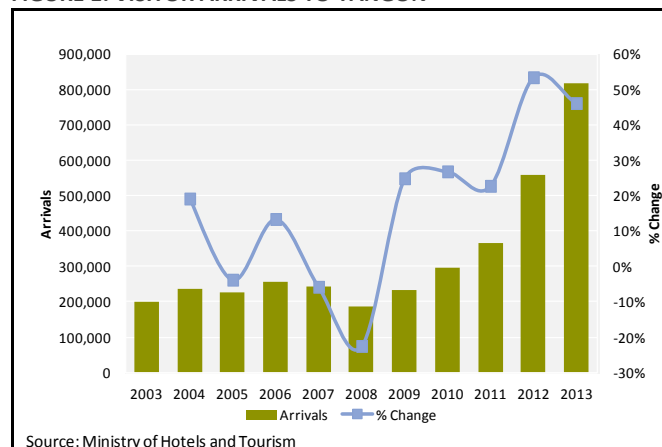
Although Myanmar's capital has been moved to Naypyidaw, Yangon still remains Myanmar's commercial center being the largest city with a population of more than 4 million. Yangon is the country's gateway city where international travelers stop enroute to exploring other regions of the country. As a result of the city's appeal to leisure and business travelers, many international hotel operators are eager to establish their presence in Yangon.

Airport Statistics

Yangon International Airport (RGN) was built in 1947 and it is currently owned by the Government of the Republic of Myanmar. Following an expansion in 2007, the airport has an 11,200 feet runway, which is sufficient for both narrow and wide body aircraft to land, and a 30,000 m2 terminal. It has a capacity to handle up to 3.8 million passengers per year. Currently, there are 24 international airlines flying to and from Yangon International Airport and connecting to over 20 destinations, including Doha, Shanghai, Bangkok, Singapore, Hong Kong and Tokyo. International legacy carriers include Thai Airways, Singapore Airlines, Qatar Airways and All Nippon Airways with a host of regional low-cost carriers.

There are plans to further expand Yangon International Airport, increasing its capacity to 5.5 million passengers. The expansion is scheduled to be completed in 2015. Furthermore, President Thein Sein has approved the construction of a new airport, located 60 kilometres north of Yangon. The new airport is designed to handle 12 million passengers annually and is expected to be completed in 2018. With the development of a new airport and the expansion of the current airport, Yangon will see its air capacity increase from 3.8 million in 2013 to 17.5 million passengers in 2018.

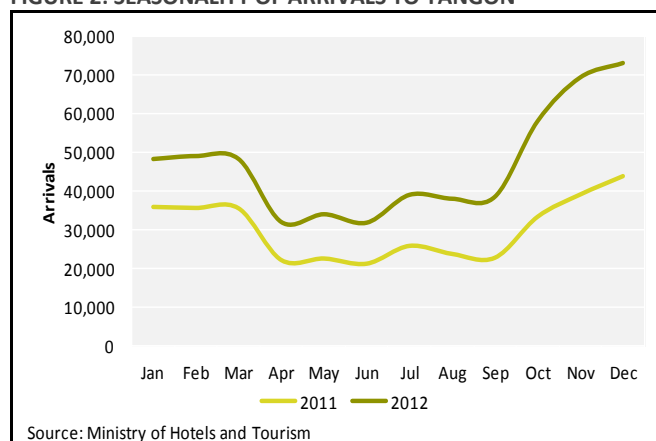
FIGURE 1: VISITOR ARRIVALS TO YANGON



Seasonality

Myanmar's tourism sector suffers from a significant trough during the monsoon season due to the high levels of precipitation. In Yangon, the low season begins with a decline in business visitor arrivals due to the extended public holidays for the water festival, Thingyan, in April. This is followed by a decline in leisure travelers when the rainy season begins at the end of April. Rainfall peaks in June and abates in October, marking the beginning of the high season. The slump in visitor arrivals during the monsoon season shows that visitor arrivals to Yangon are predominately generated by leisure travelers. Leisure travel to Yangon is not limited to the city itself, but mostly includes onward travel to other tourist destinations in Myanmar. Therefore, Yangon's tourism industry remains highly dependent on the development of tourist destinations and hotels across the country as well as the ability of the travel trade to effectively market what is commonly referred to as the "Green Season" during the monsoon months. The gateway status of Yangon compares to Bangkok's status in Thailand in the 1980s and 1990s.

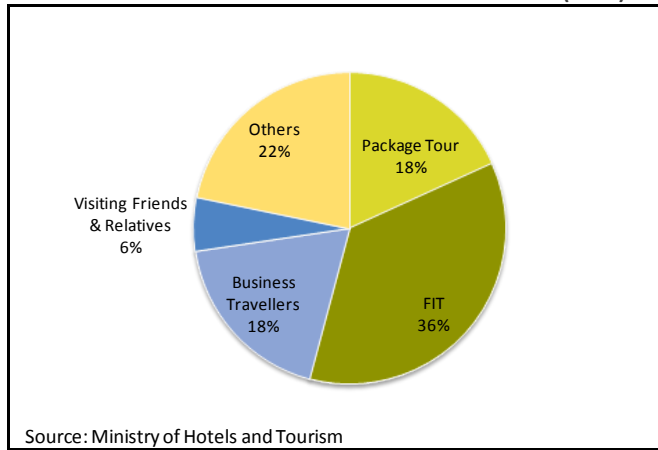
FIGURE 2: SEASONALITY OF ARRIVALS TO YANGON



Purpose of Visit

According to the classification of the Ministry of Hotels and Tourism, the largest segment of international visitor arrivals through the Yangon International Airport is Free and Independent Travelers (FIT) at 36%, followed by the Package Tours and Business Travelers, each at 18%.

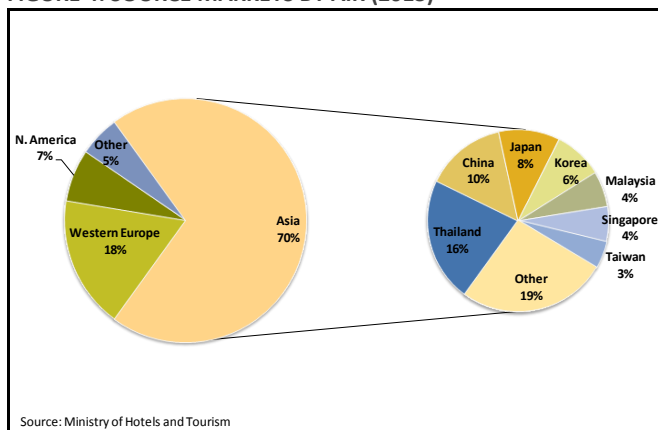
FIGURE 3: ARRIVALS TO YANGON BY PURPOSE OF VISIT (2013)



Myanmar is anticipated to experience a period of dynamic economic growth over the next decade. Yangon, maintaining its role as the commercial center, will be the main benefactor. Growth in the Business Travel segment is expected to be in tandem with the economic growth of Yangon and Myanmar. As a frontier market, growth will be very dynamic and dependant on regulatory changes for doing business. At the same time, the entry of Multi-National Corporations (MNCs) is expected to contribute significantly to the demand for both hotels and serviced apartments in the city, particularly at the higher end of the market.

Source Markets by Air

FIGURE 4: SOURCE MARKETS BY AIR (2013)



The graph pertains to the four air entry points into Myanmar; Yangon, Mandalay, Nay Pyi Daw and Mawlamyine, which excludes border tourism. It is worth noting that the number of arrivals through Yangon accounts for 90.8% of the arrivals at these four entry points.

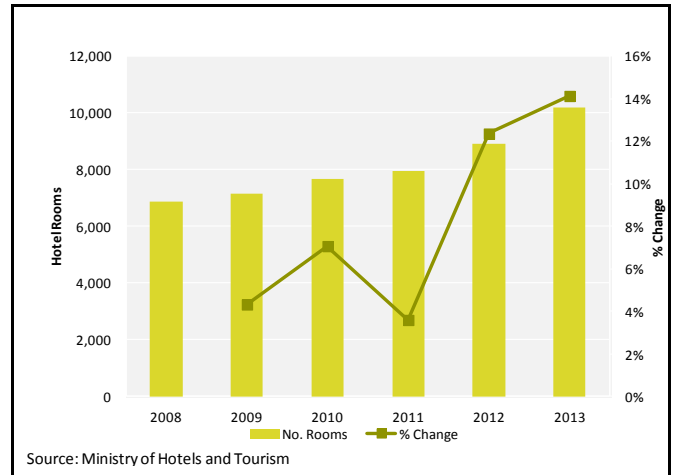
The largest source market into Myanmar is the Asian market. Within Asia, the largest source market is Thailand, which accounts for 22% of Asian arrivals by air or approximately 16% of total arrivals by air into Myanmar. The next three source markets are China, Japan

and Korea which account for 35% of Asian arrivals by air or approximately 24% of total arrivals by air.

Hotel Supply

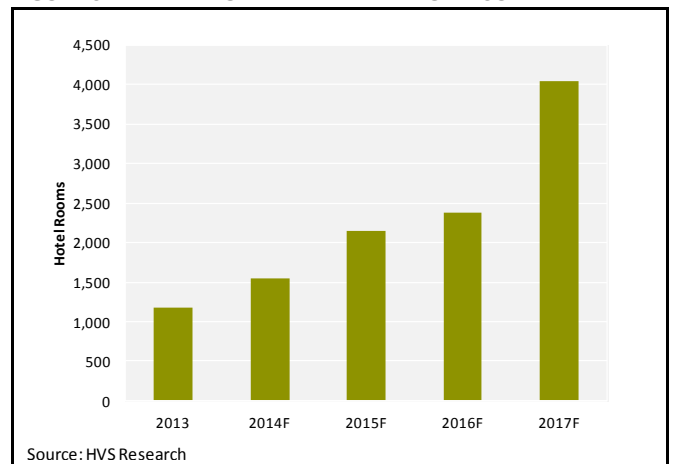
The Ministry of Hotels and Tourism classify Myanmar's lodging facilities in five broad categories based on their own star rating system. As of 2013, there are approximately 230 hotels with a total of 10,175 hotel rooms in Yangon registered with the ministry.

FIGURE 5: YANGON HOTEL SUPPLY



Out of the 10,175 hotel rooms in Yangon, there are approximately 1,175 internationally branded hotel rooms including The Strand, Traders Hotel, The Governor's Residence, Parkroyal and Chatrium. Many international hotel operators are keen to establish their presence in Yangon. Based on our research, we expect that the number of internationally branded hotel rooms in Yangon will increase to approximately 4,800 in 2018. This represents a compound annual growth rate of more than 40%. This large increase in room supply is expected to apply downward pressure on, what many currently consider to be, highly inflated room rates. Permit applications, challenges with construction quality to meet international hotel standards as well as other factors are likely to delay many hotel projects in the current pipeline.

FIGURE 6: INTERNATIONALLY BRANDED HOTEL SUPPLY



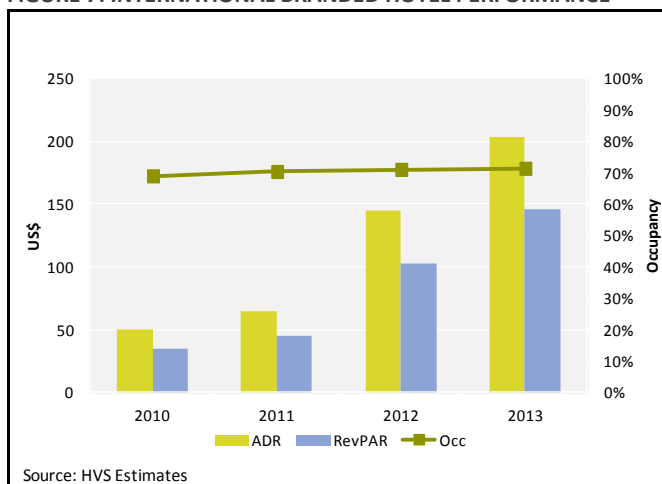
Hotel Market Performance

The political and economical reform pursued by Myanmar's government in 2011 has led to its reintegration with the global community and has resulted in a significant increase in tourism to the country. The surge in demand has led to a tremendous growth in Average Rate. However, occupancy remained stable as hotels free up room inventory that had previously been rented out as offices to accommodate part of the increasing demand.

Compared to regional peers, there is a notable gap in Yangon between room rates and the expected level of service and facilities that are currently being offered; hotels are commanding rates above their product and service levels. Room rates have reached a ceiling as they are displacing repeat as well as first time leisure visitors, resulting in unaccommodated demand.

As new supply enters the market over the next five years, Yangon will likely see room rates decline and move closer to the averages achieved by its peer capitals in the Mekong region.

FIGURE 7: INTERNATIONAL BRANDED HOTEL PERFORMANCE



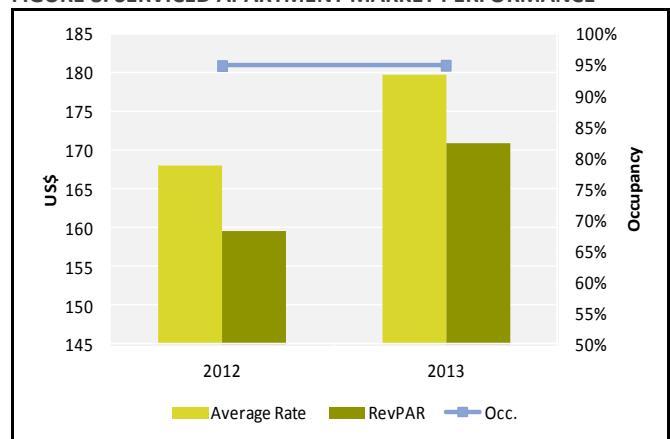
Serviced Apartment Market Performance

The overall economic development as Asia's "last frontier" has spurred the interest of the international business community and many are rushing to establish their presence in Yangon. MNCs from telecommunications, oil and gas, and the banking industries are establishing a physical presence in Yangon. Accompanying this is the byproduct demand for serviced apartment accommodation for expatriate executives.

Similar to the hotel market, the current supply is limited and generally of modest quality. Monthly rates for serviced apartments are reaching a market wide average of USD 5,000–5,500, significantly higher than in most Asian markets. While demand for serviced apartment

accommodation is likely to continue to rise over the next five years, so will the number of serviced apartment units as new supply enters the market. Similar to the hotel market, there will be downward pressure on rates. While future residential condominium projects with units for rent will also contribute to easing the current bottleneck in supply, well-managed and internationally branded serviced apartments will likely continue to be the accommodation of choice for expatriate executives.

FIGURE 8: SERVICED APARTMENT MARKET PERFORMANCE



Outlook

The Yangon hotel market will experience a rapid growth of internationally branded hotels. This growth is a reflection of investors' confidence in the growth of tourism and the development of the country as a whole. However, large improvements are still needed to be made to the country's outdated infrastructure in order for it to sustain its current high-growth rate prospects.

Over the next years, we expect Yangon to see a decline in the average rates of hotels and serviced apartments as a result of increasing supply and competition applying downward pressure on rates. Over the long run, with sustained growth in tourism, we expect the performance of Yangon hotel market to be more in line with other markets in the Mekong region.

Land prices in Yangon today are largely prohibitive for the development of income generating assets such as hotels and serviced apartments; however, as the city expands to the north, we expect to see these prices cool as new opportunities for development arise.



About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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HVS Asia Pacific is represented by nine offices in Hong Kong, Bangkok, Beijing, Guangzhou, Jakarta, Shanghai, New Delhi, Mumbai and Singapore. HVS hosts three of the main annual industry events in the region, namely the China Hotel Investment Conference (CHIC) in Shanghai, the Hotel Investment Conference South Asia (HICSA) and the Tourism, Hotel Investment and Networking Conference Indonesia (THINC Indonesia). HVS publishes a wide range of leading research, which can be found in our online library.

The Bangkok team has worked on a broad array of projects that include economic studies, hotel valuations, operator search and management contract negotiation, development strategies for new brands, asset management, research reports and investment advisory for hotels, resorts, serviced residences and branded residential development projects.

About the Authors



Christian Pucher is the Director of the Bangkok office of HVS, providing advisory services throughout Asia. Prior to joining HVS, Christian worked with Six Senses Resorts & Spas for seven years. As Director of Development at Six Senses, he worked on projects throughout Asia and the Middle East. His experience included generating leads and evaluating new resort opportunities, management agreement negotiations, generating financial projections and pre-opening budgets, creating concepts for luxury resorts, as well as experience in creating pre-opening operational plans. Through his experience in development, he has a unique understanding of the needs and expectations of both hotel operators and owners alike.

Prior to moving to Bangkok in 2006, Christian held several operational roles in hotels and restaurants in Europe. Christian holds a Bachelor of Science degree in International Hospitality Management from the Ecole Hôtelière de Lausanne.



Setthawat Hetrakul is an analyst at HVS Bangkok, working primarily on hotel consulting assignments, including market studies and feasibility studies in the Mekong region. Graduating with an Honours Bachelor of Science Degree in International Hospitality Management from Ecole Hôtelière de Lausanne in Switzerland and with previous work experience in hotel development, Setthawat contributes extensive knowledge of the hospitality industry to HVS.

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