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IN FOCUS:

SIEM REAP, CAMBODIA

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ANGKOR WAT, SIEM REAP



Source: Ministry of Tourism of Cambodia

The town of Siem Reap located Northwest of Cambodia is home to one of Asia's top archaeological attractions, the temples of Angkor Archaeological Park – a world heritage Site identified by the UNESCO in 1992. The ancient ruins of the Angkor dating as far back as 9th century are recognised globally and symbolic of the Khmer Empire. Consequently, Siem Reap in past four years has emerged as a popular tourist destination and witnessed roundly 18% compounded annual growth in international arrivals¹ since 2010 to 2014.

Highlights

- Cambodia experienced political uncertainty in the middle of 2014 due to clashes between the Cambodia National Rescue Party (CNRP) and Cambodia People's Party (CPP). By the third quarter 2014, both parties signed an agreement to work together to execute reforms in Cambodia with members from CNRP being allotted positions of authority in the government;
- Cambodia is heavily dollarised and the United States dollar is utilised as a medium of exchange alongside the Riel. The Cambodian Riel has held a relatively stable exchange rate to the U.S. Dollar in the past 5 years, experiencing only a 5% weakening of the currency. Currently the exchange is at approximately 4,007 Riel to a dollar. With the U.S. economy strengthening, this relationship will inevitably see the cost of travel to Cambodia increase.
- In June 2014, the government approved a five-year National Strategic Development Plan (2014-2018) and targets to spend US\$ 26 million, with focus on service and industrial sectors, including tourism;
- The last 12 months have seen the region being affected by political tensions in Thailand and Vietnam, resulting in a slowdown of tourist arrivals into Cambodia. However, with the easing of the regional tensions towards the end of 2014 Cambodia recorded positive growth of 7% increase in total international arrivals² in 2014 over 2013;
- Siem Reap witnessed a 15% growth in international arrivals at the Siem Reap International Airport in 2014 over the previous year. This growth was fueled by the wholesale travellers from China, Korea and Thailand. International arrivals to Siem Reap have been growing at double-digit each year for the last four years since 2010;
- In 2014 Siem Reap saw the entry four new flights flying from Busan, Korea to cater to this growing source market. Other airlines which have recently begun operations are Tianjin Airlines and Shandong Airlines from China;
- Siem Reap's luxury hotel market showed resilience despite regional tensions and the marketwide average rate grew at 5% Compounded Annual Growth Rate (CAGR) from 2012 to 2014. Notable hotel brands to enter the Siem Reap market in the past three years include the Park Hyatt (104 rooms), Anantara (38 rooms), Shinta Mani Club (39 rooms) and Shinta Mani Resorts (62 rooms).

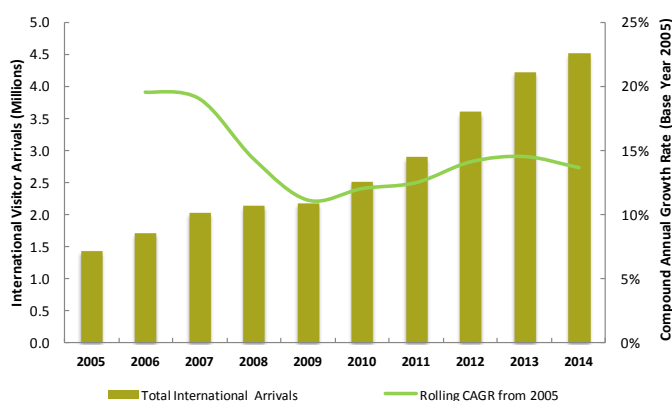
¹ Total Arrivals at Siem Reap International Airport Cambodia Airports 2014

² Tourism Statistics Report December 2014

Tourism Demand

Cambodia has witnessed strong and sustained growth in total international arrivals over the past decade, recording CAGR of 13.7%³ from 2005-2014. This growth has been fuelled by the rising middle class in Asia along with the proliferation of inexpensive flights and other factors. As of December 2014, the country has seen a 7%⁴ increase in international travellers over the same period in 2013. These travellers have entered the country via air (50.5%), land (47.4%) and water ways (2.2%).

CHART 1: TOTAL INTERNATIONAL ARRIVALS CAMBODIA 2005- 2014



Source: Ministry of Tourism Cambodia

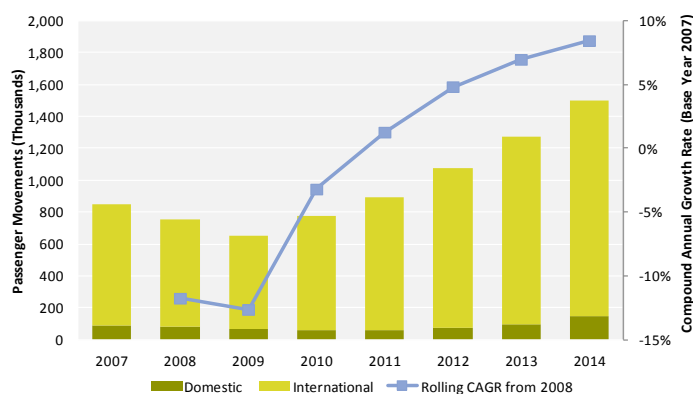
Siem Reap is home to the Angkor Archeological Park – a UNESCO World Heritage Site since 1992 and Cambodia’s main tourist attraction. The town is located north of Southeast Asia’s largest fresh water lake, the Tonle Sap, approximately 315km northwest of Phnom Penh and 150 km from the border with Thailand. Tourism is the main driver of the town’s economy, as interest in the temples have lifted this otherwise quiet town onto the international circuit of archeological sites. In an effort to diversify the tourism offer as well as support employment for the local community, other attractions have opened. These attractions include silk farms, artisan workshops showcasing local crafts (which are exported around Asia Pacific, finding their way to high priced boutiques in Singapore), fishing villages on Tonle Sap, balloon rides and the Cambodian Cultural Village (located along National Highway 6 ten minutes north west of the town centre). Siem Reap also features three world-class golf courses, the Angkor Golf Resort, the Phokeethra Golf Club and the Siem Reap Booyoung Country Club. These serve as an additional facility to visitors in Siem Reap, however the town has not achieved international recognition as a golfing destination.

Siem Reap is accessible by road, air and ferry though the most common mode of access for tourists is flight from a regional gateway city. Road access to Siem Reap has improved significantly in recent years with the completion of National Road No. 6 to Phnom Penh, which has shortened the journey to four hours.

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According to Cambodia Airports, total arrivals into Siem Reap International Airport recorded a CAGR of 18% from 2010 to 2014. In 2008 and 2009 international arrivals to Siem Reap decreased due in part to political instability in neighboring Thailand, as Bangkok is an important transit airport for Siem Reap. This was repeated again in the first eight months of 2014

CHART 2: INTERNATIONAL AIRPORT ARRIVALS SIEM REAP 2007- 2014



Source: Cambodia Airports

³ Ministry of Tourism Cambodia December 2014

⁴ Ministry of Tourism Cambodia December 2014

with political unrest in Thailand and riots in Vietnam. Towards the end of the year with the easing of the regional tensions, Siem Reap recorded total year-end positive growth of 15% in international arrivals over 2013.

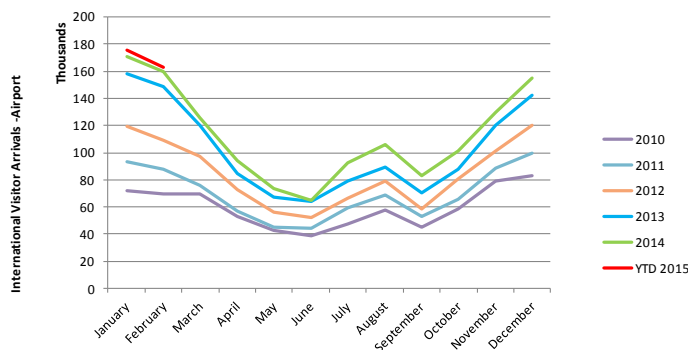
The Siem Reap International Airport offers direct flights to major international hubs in Asia Pacific such as Singapore, Kuala Lumpur, Bangkok and Hong Kong. There are no direct long-haul services provided at the moment and most tourists from Europe or North American transit through one of these cities. The domestic terminal is serviced by Cambodia Angkor Air with daily flights to and from Phnom Penh and Sihanoukville. Siem Reap International Airport is currently undergoing expansion, which will double its current capacity of 2.5 million passengers per year to 5 million by the end of 2015. The expansion project is being headed by Arup, the global design consulting firm. The New Siem Reap International Airport (NSRIA) is a one billion dollar project and funded by Korean Companies, Camco Airport Ltd and Lees A&A, located 60 kilometres away from Siem Reap city. The new airport is planned with a handling capacity of 10 million passengers annually. However, this project is has been delayed and official completion dates are yet to be announced.

In 2013, the primary source countries for Siem Reap were South Korea (28%), China (21%), Japan (12%), USA (5%) and Australia (3%). In total, the top five source countries accounted for approximately 65% of the total international arrivals into Siem Reap. China and Korea have shown increased travel into Siem Reap, due to their growing middle class. Their travel pattern are characterised by short stay, typically two to three days and comprise of all-day temple visits. This market drives demand into the midmarket and lower priced independent hotels. The trend of growth from regional feeder markets is expected to continue in the short to medium term with expansion of the airport, the open skies policies and rising trend of travel in Asia.

Seasonality

Siem Reap experiences strong seasonality in demand due to the pronounced heat from March to July, as well as the rainy season in September. The heat, which can reach 40 degrees Celsius, as well as the monsoon, can dramatically impact the visitor experience to the temples especially as visits to Angkor Wat tend to be a ‘once in a lifetime’ experience. Demand is therefore stronger from October to March, with the tourist arrivals peaking in December and January. These trends correlate with the country’s climatic dry season, which is coolest between November and January. Additionally, these months coincide with the Christmas, New Year and Chinese New Year holidays.

CHART 3: SIEM REAP AIRPORT ARRIVALS 2010 - 2014, YTD FEB 2015



Source: Cambodia Airports

Luxury Hotel Market

A number of international and regional hotel operators are present in Siem Reap namely Fairmont Hotels and Resorts, Belmond, Accor, Starwood Hotels and Resorts, Victoria Hotels and Resorts, and Sokha Hotels and Resorts. The regional hotel chains and three star category hotels witness a greater contribution from the regional feeder markets, while the international hotels witness more than a 60% contribution from the long haul markets.

The main long haul markets are UK, Australia, USA and Germany, which are typically higher paying. The travellers from these countries usually visit Siem Reap as one of the destinations on their itineraries and fly into Siem Reap via Bangkok, Hanoi, Kuala Lumpur or Singapore. Siem Reap luxury hotel market comprises of three main demand segments, wholesale leisure, individual leisure and groups. The town witnesses negligible corporate and meetings and incentives demand. Siem Reap market has not yet developed into a wedding destination due to the lack of necessary infrastructure, connectivity and resources.

Hotel Performance

Chart 4 presents a representative sample of 760 luxury hotel rooms in Siem Reap. The data presented is in United States dollars.

The luxury hotel set in Siem Reap experienced stable occupancy in 2012 and 2013, partly thanks to the closure of the former Hotel de la Paix, now the Park Hyatt Siem Reap. The hotel closed in mid-2012 and reopened late 2013 with a fully renovated and rebranded product.

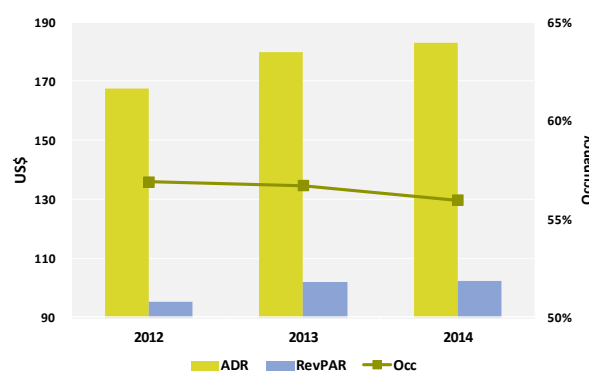
Despite strong seasonality patterns affecting the market’s ability to drive prices upwards hotels at all levels have benefitted from double digit growth in tourist arrivals, displacing demand upwards especially in high season. Average rate for the competitive set grew by an estimated 5% in 2012 and 2013. In mid-2014 saw the market felt the effect of political turmoil in the region; consequently there was a drop in year-to-date occupancies and ADR over same period last year. However the hotels recovered in the remainder of the year and maintained RevPAR in 2014 over 2013.

New Supply

Siem Reap’s seasonal demand has limited the occupancy and average rate performance of the market, consequently the attractiveness of Siem Reap for new hotels and investors. Between 2011 and 2013, Siem Reap’s hotel room’s supply increased at a CAGR of 7.9%.

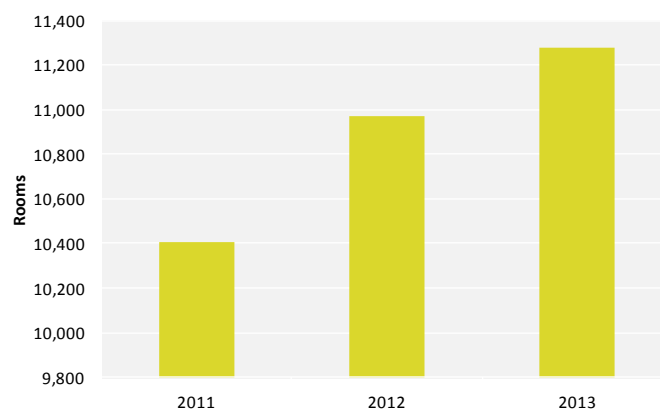
- Cheung Sheng Global Holdings from Hong Kong has commenced construction for a large mixed-use development in Siem Reap called Siem Reap Metropolis. This mixed use development located between the city centre and Angkor Archeological Park, is planned to house a theme park, retail, residential, convention facilities, office buildings and hotels spanning 22 hectares of land. This integrated retail development will be first of its kind in Siem Reap. As per the company timelines, the first phase of developments commenced in 2015 and is expected to be completed in five phases of development by 2019;

CHART 4: LUXURY HOTEL PERFORMANCE IN SIEM REAP 2012-14 (\$)



Source: HVS Research

CHART 5: HOTEL ROOMS SUPPLY IN SIEM REAP 2011-13



Source: Cambodian Ministry of Tourism

- The proposed Angkor Century Hotel (5 star) and CS Century Hotel (Boutique) will be proximate to the various recreational offerings of the Siem Reap Metropolis;
- Oasis Integrated Resort commenced construction in June 2014 and will be the city's first integrated resort located just outside city centre. When complete the development will include a 120-room hotel, retail and entertainment components;
- Sokha Resorts is presently developing a 600-key resort north-east of city centre at a ten minute driving distance. Additionally the town will see the opening of a 45 villa luxury resort, Zannier Phum Baitang and a 200 rooms Courtyard by Marriott by 2015 end.

Outlook for the Future

- **Seasonality:** Siem Reap experiences strong patterns of seasonality driven by weather patterns. To counter this the destination needs grow the variety of attractions available to tourists particularly during rainy season and the hot summer months. Activities such as silk farms outside Siem Reap, wood and stone carving sessions, and more. These activities in addition to adding more variety also support the local communities and can also allow hotels to extend the average length of stay during the low season.
- **Unrest in the Region:** As the town is served by regional gateway cities in Thailand, Vietnam and others, the political stability of its neighbors has been shown to impact tourist flow through to Siem Reap. After the recent lifting of the martial law in Thailand there is expected to be an improvement in travel within the region. However, internally political uncertainty remains and there is a need to resolve Cambodia's infrastructural and industrial issues before it can capture the large outbound intra-regional travellers.
- **Human Resource and Training:** As with many other destinations, hotels in Siem Reap face challenges in training and retaining talent, due to a lack of sufficient trained labour. There is high attrition among hotels as employees move quickly from one to another for marginal increments in compensation. Some hotels are now enforcing contracts which limit employees from joining competitive hotels.
- **Infrastructure Considerations:** High electricity costs, undeveloped roadway networks and poor education systems stand as key limiting factors of economic growth and investment in Cambodia as a whole — emphasising the need for significant infrastructure investment. Slow infrastructure development across the country may hinder economic growth and tourism development along with it.
- **Strong Dollar:** The strengthening of the US Dollar has resulted in a slowdown of demand from United States as these travellers are currently travelling to Europe to benefit from the weakened Euro. In the short term hotels catering to this segment are anticipating a slower growth in demand their key feeder markets whilst hotels targeting regional travel will be less affected. Also it is worth noting that the tourism economy of Cambodia is heavily dollarised, which may bring challenges to the overall market.
- **Siem Reap Tourism Development:** Siem Reap's tourism offer is centered around the Angkor Archeological Park. The tourism appeal of the destination has however been limited to the temples. In the coming years, with the diversification of the tourism offerings in Siem Reap we may witness a decline in seasonality patterns, emerging new segments and increase in tourists' length of stay.

- **Regional Airport Developments:** Significant amount of regional capital has been directed towards increasing the passenger capacity of airports in Siem Reap, Bangkok, Hanoi and Ho Chi Minh City. These are anticipated to have a positive impact on the tourism arrivals into Siem Reap.
- **Sustainability:** The APSARA (Authority for the Protection and Management of Angkor and the Region of Siem Reap) has been active in strategic management of tourist flows within the temple complexes. Part of this has included building roads and facilities around the park as well as extensive training for the temple guides to support a positive (educational) experience of the temples. Guides are also tasked with supervising the behavior of tourists in their groups to ensure the preservation of these ancient sites. Recently tourists have been allowed access to the more remote temples and several roads have been built to support this. Working to diversify the tourism offer by allowing visitors access to more temples will support a longer length of stay in Siem Reap or potentially a repeat visit. With the increase in visitors to the main temples and inevitable risks associated with the foot traffic through the ancient sites – Angkor Wat being the most at risk – the option of limiting the number of daily visitors has arisen. This would present logistical challenges however it may benefit the destination by encouraging visitors to book travel in advance to secure access. This may have the ripple effect of evening out the seasonality of the destination.

Conclusion

The government's Tourism Development Strategic Plan 2012-20 aims to attract 7 million international visitors into Cambodia by 2020, along with 10 million domestic travelers. Siem Reap is geographically well-positioned to become a regional Mekong air hub, tapping on the strong tourism growth in neighbouring Thailand and Vietnam. Given the heavy dependence of Siem Reap's economy on the thousand year old temples, maintaining them and ensuring continuity of tourism demand is of prime importance.

Furthermore, the archeological importance of the destination will continue to attract visitors from all over the world. There is anticipation that multi-destination itineraries will increase the length of stay and tourism receipts, and in turn increase the economic contribution of the tourism industry. The strong growing regional economies coupled with heightened intra-regional tourism flow, are considered significant drivers for Siem Reap's tourism growth in the short- to mid-term. Efforts need to be made to manage the tourism flow and the number of visitors visiting Angkor Archeological Park.

Siem Reap has seen increased support from foreign investors enabling the emergence of support industries, such as education and retail among others leading to an overall growth in Siem Reap's economy. Consequently the town should see long term social and economical benefits improving its capacity to cater to the increased tourism within Asia.



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About the Authors



Bhoomija Vadehra is a Senior Associate at HVS Singapore, providing advisory on consulting projects in South East Asia and Indian Ocean, including market studies, feasibility studies, and valuation. Prior to Singapore, Bhoomija worked at HVS India Office covering a variety of assignments throughout South Asia including strategic advice, feasibility studies and valuations. She also has operational experience with Taj Hotels and Resorts and Starwood Hotels. She has been based in Singapore since 2014. She graduated from the Asian Institute of Management in 2012 and holds a management degree in business administration.

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