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## Fiji Welcomes Investors

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**Fiji is emerging as the hot spot in the Pacific. Tourist arrivals are booming and many resorts are reaching full capacity. The introduction of low cost airlines, coupled with the appeal of Fiji as both a safe haven and one of the few remaining unspoiled tourist destinations is driving demand. Developers and investors appear enthusiastic about market prospects. This enthusiasm is also being stimulated by the Fiji Government, which is offering generous financial and tax incentives to encourage new development.**

Situated in the heart of the South Pacific, the Republic of Fiji comprises 333 islands. Sunny, unique and friendly, the Fiji Islands are one thousand miles of pristine white sand beaches, fabulous coral gardens and azure lagoons.

Fiji enjoys a tropical maritime climate, without undue extremes of humidity and temperature. The population of Fiji is approximately 832,000 people, most of whom live on the two main islands of Viti Levu and Vanua Levu and comprise a combination of native Fijians (53%), Indians (40%) and a balance of other races. In 1970 Fiji was granted independence and became a self-governing nation within the Commonwealth, after 96 years of British rule. Soon after the 1987 military coups, Fiji was declared a republic. It re-entered the Commonwealth in 1997.

Fast becoming a mature tourism destination, Fiji is now benefiting from many years of market development since the period following World War II when America, Australia and New Zealand created the initial offshore holidaying boom to Fiji. Although Fiji has been affected by several political and civilian disturbances in the past few decades, tourism arrivals have rapidly returned following times of unrest.

More recently Fiji has been considered a 'safe haven' for tourists in light of global terrorist activity and health scares. As a result, international visitor arrivals have burgeoned, experiencing growth of 14% per year on average since 2000 to exceed 500,000 arrivals in 2004. Australia is by far Fiji's largest inbound market, followed by New Zealand, USA and the UK.

As a result of this recent growth, Fiji is experiencing a new level in its tourism life cycle and, according to the Fiji Visitors Bureau (FVB), has reached a point of immediate need for new tourism product development, and particularly additional rooms to accommodate tourist demand.

## **Access**

Fiji's two international airports, Nadi and Suva, are located on the island of Viti Levu. The majority of international air traffic arrives in Nadi, which has now developed as the major tourism hub for the rest of Fiji.

The national air carrier, Air Pacific provides direct flights to Fiji from the key capital cities in Australia and New Zealand as well as from Tokyo, Honolulu and Los Angeles. Air New Zealand also operates direct flights from LA, Auckland and the Cook Islands. Flight time from LA to Fiji is 10 hours, Auckland to Fiji three hours and Sydney to Fiji takes four hours. Virgin Blue's low-cost sister carrier, Pacific Blue, launched direct flights from Brisbane and Melbourne to Nadi in September 2003. Additionally, in March 2003, Freedom Air, another low-cost carrier, commenced weekly services to Fiji from Palmerston North, Hamilton and Christchurch in New Zealand.

## Economic Snapshot

Fiji's income is principally derived from sugar production and tourism, with tourism being the main growth driver. The economic prospects for Fiji are considered to be quite solid following continuous improvements in global economic conditions and more particularly the positive outlook for Fiji's major trading partners, which include Australia, New Zealand, Japan, the Euro-zone and the USA.

### Fiji Islands Economic Snapshot

Year	GDP Growth (%)	Average Exchange Rate (USD)	Inflation (% change)
2002	4.3	0.4843	1.6
2003	4.8	0.5807	4.2
2004	4.7 <sup>1</sup>	0.5701 <sup>2</sup>	3.5 <sup>1</sup>

<sup>1</sup> Year-end estimates by Reserve Bank of Fiji

<sup>2</sup> Year to August 2004

Source: Reserve Bank of Fiji

## Visitation to Fiji

As a resort destination, tourists and leisure travellers dominate Fiji's market. Currently around 78% of visitors arrive for the purpose of holiday and the remainder for business purposes or are in transit.

Australia is by far Fiji's largest inbound market (32%), followed by New Zealand (21%), USA (14%) and the UK (11%).

Recently released preliminary inbound statistics indicate arrivals to Fiji in 2004 exceeded half a million for the first time, representing an 18% increase on the previous year. Notably, one of the successes of the year was to extend the peak season beyond the traditional May to October period, which relieved pressure on bed availability. Particularly strong growth was experienced out of New Zealand, attributed in part to the introduction of low-cost carriers.

The FVB forecast international arrivals to continue healthy growth in the order of 5.4% on average per year over the next four years, which is considered conservative by tourism stakeholders. The World Tourism Organisation's latest forecast predicts a 9% annual growth in visitor arrivals to Fiji over the same period, reinforcing the positive outlook for Fiji tourism in the ensuing years.

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#### **International Visitor Arrivals to Fiji (Year to Date August 2004)**

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Country	Percentage Share
Australia	32%
New Zealand	21%
USA	14%
Canada	3%
United Kingdom	11%
Continental Europe	4%
Japan	5%
Other Asia	5%
Pacific Islands	5%
<b>TOTAL</b>	<b>100%</b>

Source: Fiji Visitors Bureau

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#### **Visitor Arrivals By Purpose of Visit**

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Purpose of Visit	Percentage Mix
Holiday	78.0%
Business	7.4%
Conferences & Training	3.6%
Stopover	5.1%
Other	5.9%

Source: Fiji International Visitors Survey

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### **Investment Incentives**

The Fiji Government encourages foreign investment and offers significant tax concessions and other incentives to investors in tourism. The most notable incentive is the Hotels Aid Act's Short Life Investment Package (SLIP), which includes, amongst other incentives, exemption of income tax on development profit and exemption of corporate tax on hotel profits for 10 years for capital investments exceeding F\$10 million and 20 years for investments exceeding F\$40 million.

## Accommodation

Fiji is home to a diverse range of tourist accommodation represented by approximately 300 hotels with a total of over 7,600 guest rooms.

Island resorts constitute the largest number of accommodation properties in Fiji (70), with less than 20 guest rooms on average per resort, catering to a variety of markets from backpackers to luxury. The Nadi area hosts the largest number of guest rooms in Fiji with a variety of relatively large properties with 52 rooms on average, followed closely by the Coral Coast which accommodates most of Fiji's internationally branded resort properties.

### Number of Available Rooms in Fiji by Location

Area of Location	Number of		Number of		Average Number of Rooms
	Rooms	Ratio	Properties	Ratio	
N&E Viti Levu	460	6%	26	9%	18
Nadi Area	2,338	31%	45	15%	52
Island Resorts	1,298	17%	70	23%	19
Coral Coast	1,648	22%	42	14%	39
Suva Area	1,084	14%	39	13%	28
Northern	558	7%	63	21%	9
Cruising	268	4%	20	7%	13
<b>Total</b>	<b>7,654</b>	<b>100%</b>	<b>305</b>	<b>100%</b>	<b>25</b>

Source: Fiji Visitors Bureau

The following table illustrates supply categorised by published room rates. The largest number of rooms is in the under F\$75 category, closely followed by the rate category F\$250-\$749, illustrating the diversity in market attracted to Fiji.

### Number of Available Rooms in Fiji by Published Tariff

Published Tariffs	Number of		Number of	
	Rooms	Ratio	Properties	Ratio
\$750+	102	1%	8	3%
\$250-\$749	1,810	24%	50	16%
\$150-\$249	1,384	18%	32	11%
\$75-\$149	1,165	15%	55	18%
Under \$75	2,193	29%	160	53%
<b>Total</b>	<b>7,654</b>	<b>100%</b>	<b>305</b>	<b>100%</b>

Source: Fiji Visitors Bureau

## **Luxury Market**

The luxury hotel market is generally represented by those properties that are charging over F\$750 per night. The luxury market began to evolve in Fiji approximately fifteen years ago with the development of Turtle Island, a boutique island resort product, offering guests an experience of exclusivity and isolation in a pristine natural environment of palm fringed, white sandy beaches, crystal clear water and friendly Fijian locals.

More recently, the concept has proliferated with the development of a further seven exclusive island resorts offering a similar experience. While all resorts are independently managed, several are affiliated with the marketing and reservations referral group Small Luxury Hotels of the World. These luxury island resorts generally offer no more than 20 bures/ villas and promote an exclusive and tranquil guest experience targeted primarily at the high yielding honeymoon and couples markets. The resorts are generally sold as an all-inclusive package comprising room rates, meals and activities.

## **Upper Mid-market**

The upper mid-market comprises those properties falling in the F\$250 to F\$749 per night rate category. Although there are only 50 properties categorised in this segment, it accounts for the second highest number of rooms available in Fiji, largely represented by internationally branded resorts on the Coral Coast. Over the last decade this market category has experienced significant growth (8.9% p.a. on average), boosted by construction of the Sheraton Villas and the Outrigger Resort.

## **Mid-Market**

The mid-market comprises properties charging between F\$75 and F\$249 per night. This category includes 87 establishments comprising a total of 2,549 available rooms. Growth in the price-sensitive traveller to Fiji has fuelled, in part, the growth in room supply in this segment, which increased by 3.8% per year on average over the last ten years.

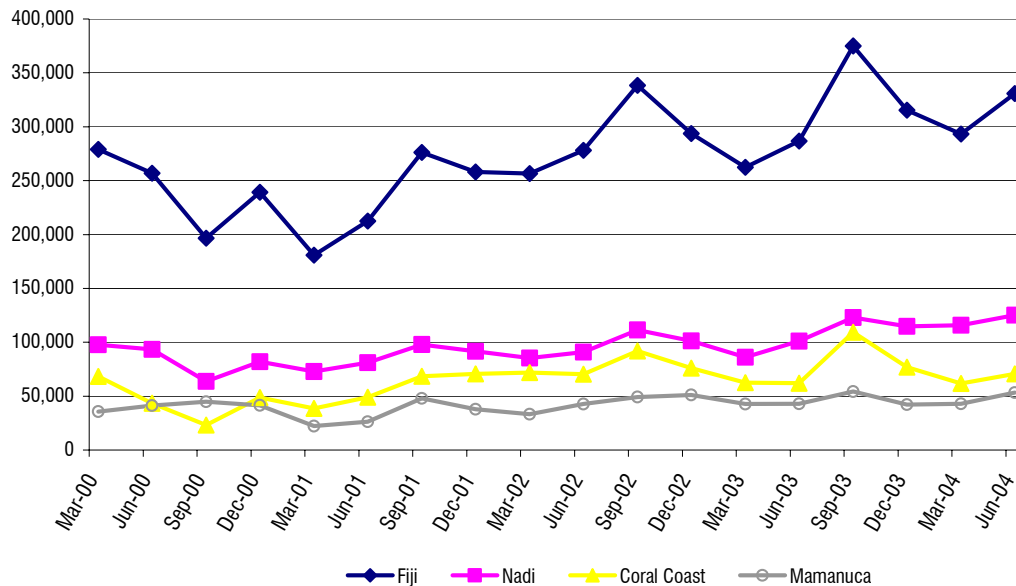
## **Budget Market**

The budget market comprises hotels charging less than F\$75 a night. This category has, by far, the highest number of properties available, yet only constitutes 28.7% of total rooms. This segment has grown rapidly in recent years in response to the discovery and subsequent development of Fiji as a backpacker destination.

## Hotel Performance Review

Demand for tourist accommodation in Fiji has fluctuated significantly. The political events of 2000 resulted in a sharp decline in overall hotel demand in Fiji; albeit to a lesser degree on the Coral Coast and the Mamanuca Islands. Notwithstanding, Fiji, as a tourism destination, has exhibited remarkable resilience with demand levels now well exceeding 1999 levels.

### Hotel Rooms Occupied in Fiji (2000 - 2004)



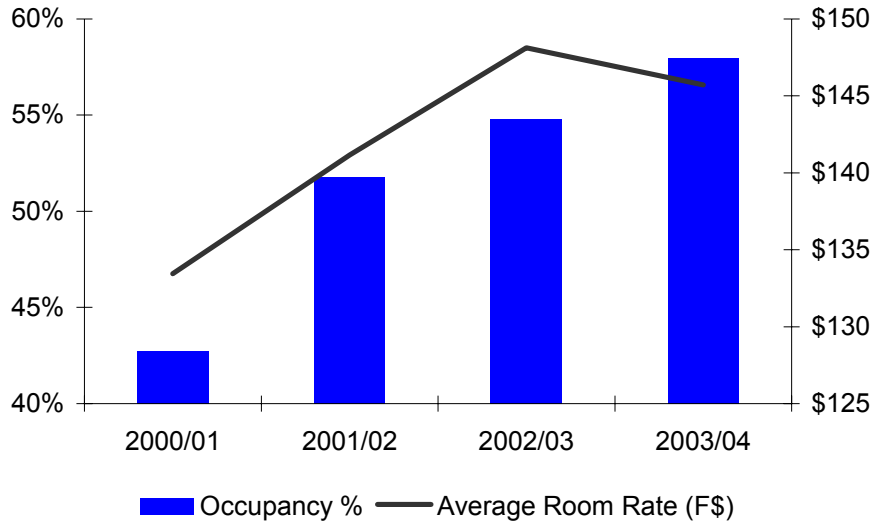
Source: Fiji Bureau of Statistics/ HVS International

Room rate movements in Fiji have coincided with changes in demand for accommodation. Average rates fell in 2000 from F\$146 to F\$142 and experienced a sharp recovery the year following to reach F\$150. A slight decline in room rate growth was experienced in 2003/04, likely as a result of tired state of many existing resorts in need of renovation.

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**Occupancy & Average Room Rate Performance - Fiji**

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Source: Fiji Bureau of Statistics/ HVS International

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### **New Development**

Whilst there has been very little investment in hotel development in Fiji in the last five years, there are now numerous hotel and resort projects proposed for development. Denarau Island and the Coral Coast are the primary focus for new development, with five major hotel projects having commenced construction in the last six months, representing a total investment of F\$445 million upon completion. In addition, in excess of F\$500,000 worth of known hotel and resort projects are proposed for development over the coming years.



## Proposed Hotel Development Projects

Project	Location	No of Rooms	Development Status	Estimated Opening	Estimated Cost	Operator
Natadola Marine Resort	Navo Island	120	Proposed	2008	F\$100 million	N/A
Natadola Marine Resort	Natadola beach	285	Commenced	mid-2007	F\$100 million	InterCon Hotel Group
Hilton Fiji Beach Resort & Spa	Denarau Island	489	Commenced	Stage 1 - 2005	F\$150 million	Hilton Worldwide Resort
Sofitel Resort	Denarau Island	296	Commenced	2005	F\$75 million	Accor Asia Pacific
Trendwest Resort Timeshare	Denarau Island	64	Expansion	N/A	Unknown	Trendwest
Golf Terrace Apartments	Denarau Island	88	Commenced	2005	F\$20 million	Independent
Fiji Marriott Resort	Momi Bay	250	Commenced	2006	F\$100 million	Marriott International
Fiji Ritz Carlton	Momi Bay	150	Proposed	2008	F\$75 million	Marriott International
Taunovo Bay	Pacific Harbour	125	Proposed	N/A	F\$120 million	N/A
Sovi Bay	Sovi Bay	Unknown	Proposed	2006	Unknown	Sovi Bay - Self
Likuliku Resort	Malolo Island	80	Proposed	2005	A\$83 million	Sonaisali - Self
Bounty Island Resort	Mamanuca Islands	N/A	Proposed	N/A	F\$44 million	N/A
Bayview Resort	Wailoala Beach, Nadi	240	Proposed	N/A	Unknown	N/A
Denarau Beach Resort	Denarau Island	125 villas	Proposed	2008	F\$70 million	N/A
Mana Island Resort	Mana Island	36 villas	Expansion	N/A	F\$7.5 million	Mana Island - Self
Sonaisali Resort	Mana Island	80	Expansion	N/A	F\$10 million	Sonaisali - Self
Shangri-La	Natadola	300	Proposed	N/A	F\$45 million	Shangri-La
Korolevu Bay	Korolevu	256	Rumoured	N/A	Unknown	Dusit
Nacula Island	Yasawa Islands	60	Rumoured	N/A	Unknown	Dusit
Vulani Lagoon Resort Project	Vulani	650	Proposed	N/A	Unknown	N/A

Source: HVS International

In addition to the above new hotel developments, several existing resorts have committed funds to the renovation of their guest rooms and common facilities, including the Fijian Shangri-la (F\$35 million), the Sheraton Fiji (F\$22 million), the Sheraton Royal (F\$19 million to be rebranded a Westin), extension of the Naviti Resort (F\$13 million) and the recent redevelopment of the former Pacific Harbour International (F\$15 million), now Rae's South Pacific.

## Market Outlook

The Fiji tourism industry is anticipated to change significantly over the next five to ten years with the addition of numerous internationally branded resort developments. As a result, the dynamics of the Fiji accommodation market are expected to undergo considerable change and the competitive hotel market dynamics that currently exist in Fiji are likely to become of minimal relevance to the supply and demand conditions that we anticipate in the future.

Fiji is still considered a relatively inexpensive destination, particularly for Americans and Europeans following the devaluation of the Fijian dollar in 1998. Notwithstanding, the development of exclusive island resorts targeted at the luxury market is altering the perception of Fiji from a mass wholesale market to a more up-market tourism destination.

Significant supply increases are expected over the next two to five years. Typically, major internationally branded hotels in markets such as Fiji are capable of stimulating demand growth varying in source, quantum and value in accordance with the market positioning and management strategies implemented at each new property.

As new high quality resort product enters the Fiji market, the image and reputation of Fiji will be progressively changed. Accordingly, the future of tourism in Fiji is heavily reliant upon the success and effectiveness of the tourism authorities in capitalising upon the evolution of Fiji as a “re-engineered” resort destination. We note the Fiji Visitors Bureau is now focussing its marketing efforts on niche markets such as the wedding, honeymoon and the mature-aged couples, in an attempt to influence the image and reputation of Fiji as a tourist destination. The proactive initiatives demonstrated by existing airlines to increase air capacity, combined with the introduction of low-cost airline carriers underpins the potential for Fiji to support strong tourism growth over the next ten years.