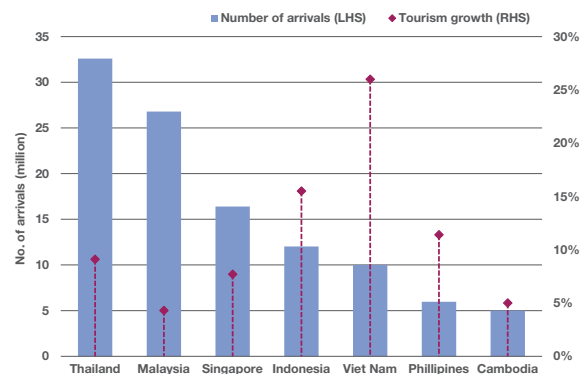


# Asian Cities Report **Vietnam hospitality**

1H 2017

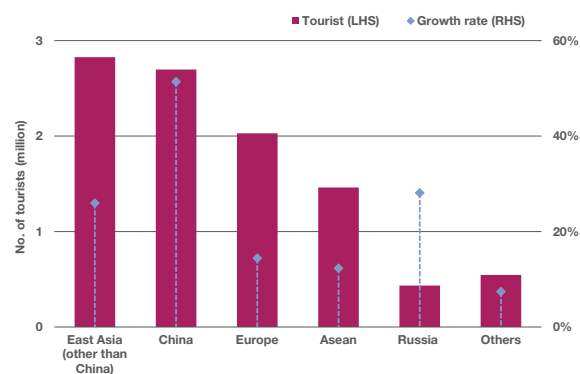


GRAPH 1  
International arrivals, 2016



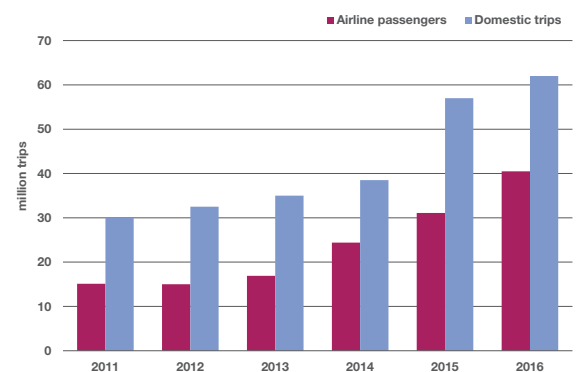
Source: Statistics agencies of surveyed countries

GRAPH 2  
Inbound markets, 2016



Source: VNAT

GRAPH 3  
Airline capacity and tourism by air, 2011–2016



Source: GSO and VNAT

### Viet Nam tourism growth

Viet Nam is a rapidly growing Southeast Asian tourism destination. However, inbound traveller numbers are less than half those visiting the most popular ASEAN locations of Thailand and Malaysia. This gap represents significant potential. Inbound travellers have tripled in the last decade and in 2016, a 26% year-on-year (YoY) increase saw Viet Nam outperforming other regional destinations.

According to the Ministry of Culture, Sports and Tourism, in 2016, there were approximately 10 million international arrivals to Viet Nam. This growth is expected to continue, with approximately 18 million annual visitors anticipated by 2030.

China and Russia are Viet Nam’s fastest growing inbound source markets. Russia has a tourist visa exemption and its population prefers Viet Nam for holidays, particularly because of its lower costs relative to other destinations in the region. Even in the wake of sanctions and a depressed ruble, Russian arrivals to Viet Nam have steadily increased over the past few years.

The growing middle class in China is creating greater outbound travel demand, especially for the more affordable ASEAN destinations. In 2016, Viet Nam had 2.7 million business travellers and tourists from China, a 50% increase on 2015. China-based ASEAN inbound visitors are forecast to double over the next 10 years (Goldman Sachs, 2015).

Viet Nam’s rich geographic and topographic diversity, and local micro-climates, appeal to a wide variety of tourists. Fast-growing increases in household and personal income over the past five years have contributed to a 15% expansion in Viet Nam’s domestic tourism. Low-cost airlines have been a growth catalyst, and from 2014 to 2016, Vietjetair increased their fleet size from 18 to 45 planes.

To further encourage growth in domestic tourism, the Government approved a decree allowing Vietnamese citizens to gamble in casinos under certain conditions.

While gambling remains labelled by the National Assembly as a ‘social evil’, this new legislation is indicative of the leadership’s commitment to support tourism growth and widen regional competitiveness.

By 2016, the total amount of rated travel accommodation supply in Viet Nam was up 18% YoY, to 420,000 hotel rooms, in line with the development of the tourism industry.

Enhanced tourist flows are creating more opportunities for the hotel market, especially in the upper-mid to high-end segments. From 2013 to 2016, the supply of four- and five-star hotels increased 20% per annum on average to meet international tourist demand for upscale resorts and luxury accommodation.

### Sub-markets

As major economic hubs, Ho Chi Minh City (HCMC) and Ha Noi attract the most tourists. Meetings-Incentives-Conventions-Exhibitions (MICE) and business travellers accounted for over 40% of total international arrivals to Viet Nam. In 2016, there were five million visitors to HCMC and 4 million to Ha Noi.

Previously the only international points of entry by air, arrivals to Ho Chi Minh City and Ha Noi are now being marginally undercut by growth in capacity and number of direct flights to other key cities. On the other hand, increased ease of travel has made Viet Nam far more attractive overall. Emerging coastal destinations such as Da Nang, Nha Trang and Phu Quoc are becoming more competitive, with direct international flights. Ha Noi remains the gateway for tourists to other northern provinces, and likewise HCMC remains the gateway to Mekong provinces, but the Central Region is becoming increasingly self-reliant.

In 2016, Viet Nam’s resort cities and islands outperformed HCMC and Ha Noi, with higher international inbound growth rates. Being both a tropical and island location makes Phu Quoc an attractive destination and new alternative for international travellers, with an arrival growth rate of 40%. Da Nang, at over 30%, and Nha Trang at 23%, also exceeded the

international arrival growth rates of HCMC (10%) and Ha Noi (19%).

HCMC has the largest hotel supply in Viet Nam, with approximately 16,000 three to five-star rooms, 70% more than Ha Noi. In 2016, both had similar occupancy rates of approximately 70%, but future supply rates will diverge. Over the next three years, HCMC expects 3,500 new rooms, a 22% increase. Pressure will be higher in Ha Noi, with the future supply accounting for up to 50% of the current stock.

Nha Trang has the largest hotel supply among coastal cities, with over 12,000 three to five-star rooms and the highest occupancy rates. In 2016, the city had 1.2 million international arrivals, which was 30% lower than Da Nang.

The average Length of Stay (LOS) varies amongst popular destinations. In 2016, the international tourist LOS in Nha Trang was 3.5 days, compared to 2.8 days in Da Nang and 2.6 days in Phu Quoc. Da Nang appeals to both domestic and international visitors, with an international airport and location along the Central Heritage Road, which comprises the Hoi An Ancient Town, My Son Sanctuary, the Imperial City of Hue and Phong Nha cave. However, this ease of access also diminishes Da Nang's ability to increase tourists' LOS.

Phu Quoc is an ideal destination for high-end hospitality, and as of Q4/2016, the five-star segment accounted for 71% of the 2,500 three to five-star hotel rooms. However, as an early-developed market, a large future supply may challenge developers to improve performance.

### Airport capacity

Rapid growth of the tourism industry has strained airport infrastructure. In 2016, total international arrivals by air reached more than 8.2 million, accounting for more than 80% of total arrivals. Exceeding their capacity are HCMC at 130% and Nha Trang at 320%. Da Nang airport operates at 113% of capacity despite a 2011 upgrade from 4.5 to 6 million passengers per year.

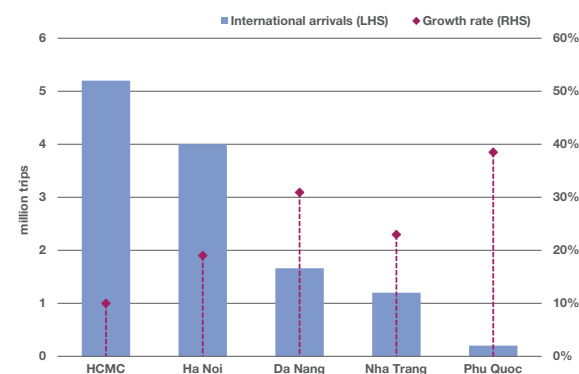
The Government has increased efforts to tackle airport capacity

constraints. Over the next two years, Tan Son Nhat (HCMC) will increase capacity from 25 to 38 million passengers per year. By 2017, the current Da Nang domestic terminal capacity of 9 million passengers per year will be expanded by an additional 4-6 million passengers/year. Nha Trang is behind schedule, with operation of the first phase of the Cam Ranh airport expansion pushed back from early 2016 to Q1/2018. With 4.8 million arrivals in 2016, the planned capacity upgrade to 2.5 million passengers per year will be insufficient, even given current levels.

According to the Government's master plan, approximately US\$5.6 billion in investment is needed for airport infrastructure up to 2020.

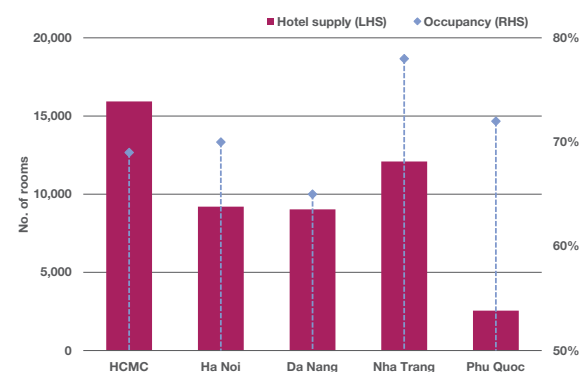
Infrastructure development is key when evaluating hospitality development, particularly as there has been new supply growth of up to 30% per annum over the past three years in Da Nang, Nha Trang and HCMC. ■

GRAPH 4 International arrivals by cities, 2016



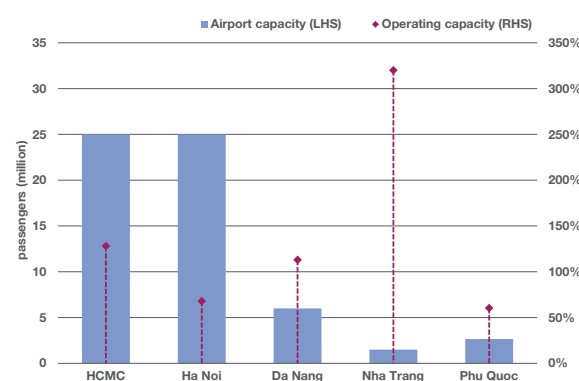
Source: Provincial Tourism Departments

GRAPH 5 Hotel market performance, 2016



Source: Savills Research & Consultancy

GRAPH 6 Airport capacity, 2016



Source: ACV and other sources

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