

Press Release

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SAVILLS VIETNAM REPORT ON VIETNAM HOSPITALITY IN THE FIRST HALF YEAR 2016

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National Overview

Viet Nam is one of the fastest growing tourism destinations in Southeast Asia, driven by the entrance of international hoteliers, an improved visa policy and investment into key infrastructure. Viet Nam was listed by UNWTO in the top 5 ASEAN countries for the highest international visitor volume with approximately eight million arrivals, a CAGR of 9% over the last five years.

With a tropical climate and long beautiful beaches, coastal regions are the primary destination for Viet Nam's international visitors; in the last decade, more than 70% of international visitors spent their holidays along the coast. Most visitors to Viet Nam hail from the temperate climates of the USA, Europe, Russia and China. Accordingly, coastal cities in the south and centre with year-round warm weather were the most favoured by these groups. From 2010 to 2015 Da Nang, Khanh Hoa and Phu Quoc achieved significant tourism growth around 23% pa and accounted for 30% of international arrivals nationwide. Increased tourists from prosperous markets have led to an increase in demand for rated accommodation, especially upscale hotels. There has been a construction boom in recent years, noticeably 2015 when 5-star rooms increased 37% YoY to more than 24,000 units, 30% of which were in Da Nang, Khanh Hoa and Phu Quoc.



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Demand drivers

Visible demand is tourists from prosperous countries supported by reputable hotels. With greater discretionary income, these international tourists spend more compared to domestic citizens, who often choose three-star or lower rated accommodation.

The development of international airports over the last five years has supported tourism growth. Last year, total arrivals

by air reached more than 6 million, or approximately 80% of total arrivals. Charter flights from key markets such as China and Russia have become popular into Da Nang, Khanh Hoa and to a lesser degree Phu Quoc. Since 2013, total passenger volume to Da Nang airport has grown by 21% per annum, 34% per annum in Khanh Hoa and 45% per annum in Phu Quoc.

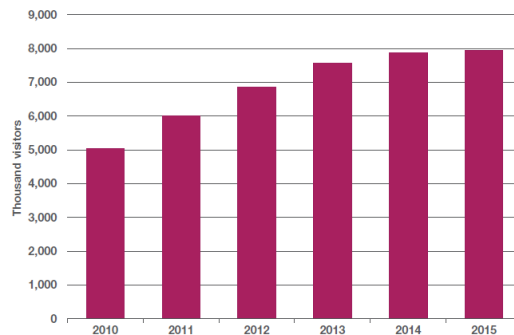
Newly eased visa policies have also helped the already burgeoning tourism industry. In 2015, 39% of the world's population could travel without obtaining a traditional tourist visa prior to departure, compared to only 23% in 2008 (UNWTO). Seizing the moment, Viet Nam has taken steps to expand visa waivers. In July 2015, tourists from the UK, France, Germany, Italy and Spain were

entitled to visa free entry for a maximum stay of 15 days. Phu Quoc became the first destination in Viet Nam offering visa waivers for all travelers up to 30 days. New waiver

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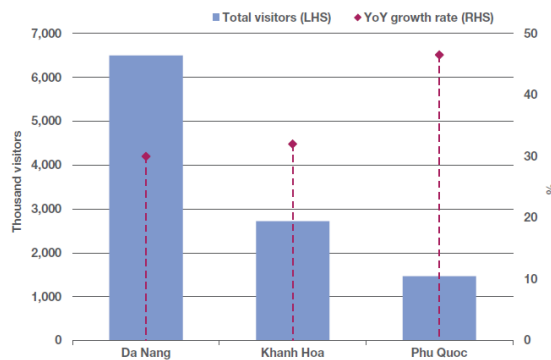
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GRAPH 1
International arrivals, 2010–2015



Source: VNAT

GRAPH 2
Visitors by air, 2015



Source: Statistic Office of Da Nang, Khanh Hoa, Phu Quoc

programs explicitly target tourists from developed countries with high discretionary incomes, indirectly expanding the demand for upscale accommodation.

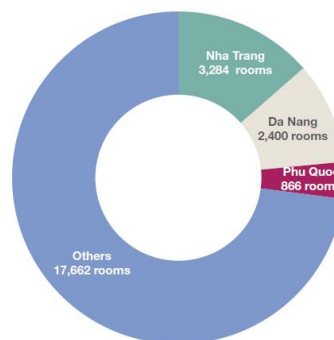
Luxury hotel performance

Da Nang is the most mature coastal market, catering to a range of visitors, including traditional and MICE. Whilst it has beautiful beaches it is also the economic hub for the centre of Viet Nam. The majority of upscale accommodation is found along the white beaches of Ngu Hanh Son district. In 2015, occupancy of the 5-star segment was 67%, the highest among the three mentioned cities.

While most 5-star accommodation in Da Nang is in the form of resort hotels, accommodation in Khanh Hoa (Nha Trang) so far follows a city-hotel concept and therefore a lower ARR, equivalent to 80% of Da Nang. The abundance of upscale hotels in Nha Trang has pressured pricing; since 2012 the 5-star ARR has fallen by -15% per annum. In 2015, approximately 1,400 five-star rooms came on line, an increase of 68% YoY, making Nha Trang city the largest supplier of upscale coastal stock.

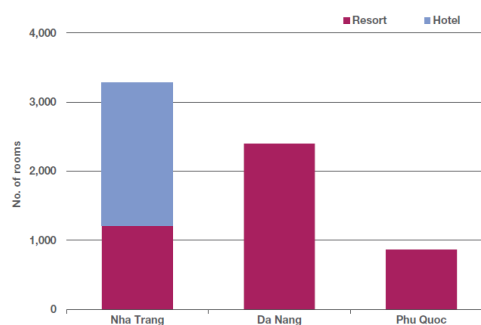
As the newcomer to the luxury market, Phu Quoc has only two 5-star resorts: both operational since 2015. With 866 rooms, Phu Quoc is equivalent to only 20% of Da Nang and 30% of Nha Trang. Due to limited supply and higher operating expenses, the comparable

GRAPH 3
Five-star hotel rooms in Viet Nam, 2015



Source: Savills Research & Consultancy

GRAPH 4
Five-star supply by type, 2015



Source: Savills Research & Consultancy

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ARR is US\$281 per room per night, followed by Da Nang at US\$164 and Nha Trang at US\$130.

In all coastal locations villas for sale are a key part of the development process. There is a large range in type and offer available. Recently condotels have proven popular, mostly among local purchasers.

Investment activity

International hoteliers have continued to show interest in Viet Nam's coastal tourism destinations. Many projects will be coming to the market in the next couple of years, especially in Khanh Hoa and Phu Quoc.

The Cam Ranh peninsula is an emerging destination and by the end of 2015, more than 30 projects had been approved for construction, with 13 underway and slated for launch in the next few years; most projects are four- or five-star and are located along Bai Dai Beach. The popularity of the area has drawn in international operators such as Accor, Carlson Residor and Mövenpick.

Phu Quoc is late to the upscale market but expected to expand quickly. Though 5-star supply is limited it has garnered large-scale investment into its tourism industry. Five-star supply has grown rapidly with several new projects in 2016 – 2017, such as Crowne Plaza Hotel, Novotel Resort, Sonasea Villas and Resort, and Sunset Sanato Premium Complex. These projects will provide international standard rooms, services and amenities from the reputable brands of InterContinental, JWMarriott, Accor, and Starwood.

Most hotel resorts are offering villas for sale which generally offer luxury quality with beach views, an international operator and a management rental pool. A recent marketing tool is guaranteed returns from the developer ranging from 3 to 10 years at returns of 6.0% to 10% per annum. Sales of resort villas are strong with robust interest from the local market through to offshore purchasers looking to hedge a relatively stable currency, combined with potential capital growth. Prices of coastal villas generally range from US\$400,000 through to above US\$5.0 million.

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