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Alternative Strategies to Counter Headwinds

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Market competition is stiff amid the recent decline in total foreign arrivals in Yangon but shows promise with an increase in foreign business travellers. While supply is set to rise substantially over the next few years, we expect average daily rates to trend downwards. Upper-scale hotels therefore need alternative solutions to boost market shares. Colliers recommends hotel owners to capitalise on the rising number of business travellers by aligning offerings to their expectations. Likewise, modern hotels designed with leisure and recreational amenities could also be effective draws for the local market with staycation concepts gaining traction to become a more common industry practice.

Forecast at a glance



Demand

Demand is set to improve in the long term with interest coming especially from foreign business travellers. However, sustained high daily rates could hamper the growth potential.



Supply

New supply continues to trend upwards despite an underwhelming occupancy performance in recent years. Colliers sees improvement in quality to persist going forward, reinforced with upcoming modern developments.



Occupancy rate

Citywide occupancy rate increased for the first time in at least the past three to four years, perhaps owing to the substantial reduction in average daily rates. However, a strong pipeline may well exert downward pressure on occupancy especially within two to three years.



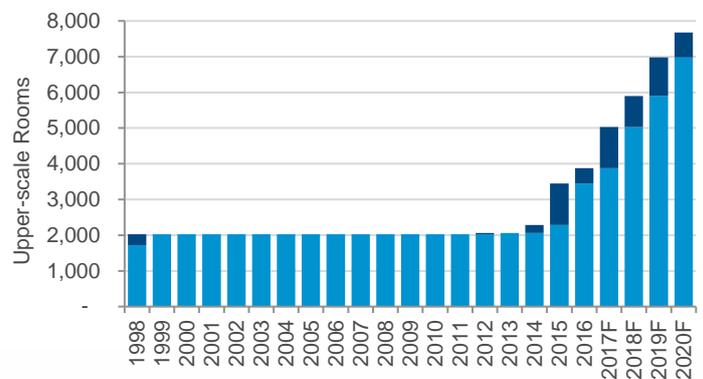
Average Daily Rate

In the near to medium term, we expect daily rates for older upper-scale hotels to correct downward, while newer upcoming hotels are likely to set rates at competitive levels.

Advent of Modern Hotels

Yangon's upper-scale hotel room stock increased following the completion of Lotte Hotel Yangon. As of Q3 2017, the total stock exceeded 4,200 rooms, a growth of 9% both YOY and QOQ. We expect Lotte Hotel to represent the only new stock for 2017. Looking ahead, however, we expect supply to rise considerably, with completed stock likely to grow by more than 50% by 2020.

Yangon Upper-scale Hotel Supply



■ Additional supply during the year ■ Supply at the start of the year

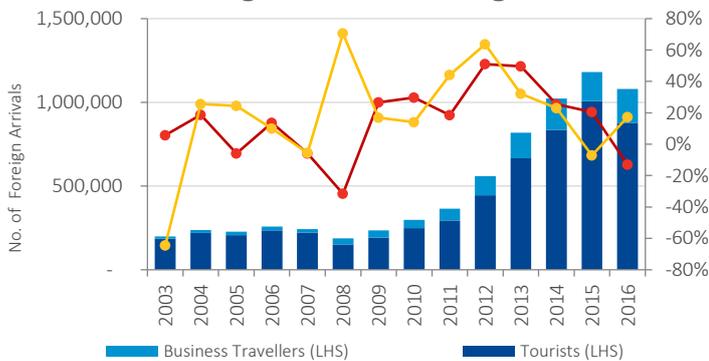
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Along with the increase in supply, modern hotels with wider range of offerings are also becoming evident. In fact, these have started to define clearer disparities over older upper-scale developments. Recently built hotels now reflect higher-quality fit outs, interior designs, fixtures, furniture as well as expanded range of amenities and facilities. The improving trend is likely to continue, reinforced with the opening of Pan Pacific Hotel and Pullman Hotel in the next three to six months, additionally with the entry of other international brands i.e. Sheraton, Wyndham, Kempinski, Peninsula, and Dusit Thani within two to three years. As competition further heightens, Colliers advises older hotels to start modernising their offerings, such as revamping decorations and upgrading facilities - while reinstating and highlighting the building's original unique character. While these upgrades boost higher value creation to the overall development, Colliers also encourage hotel owners to complement these offerings to serve a predominantly business traveller's market.

Number of Business Arrivals Hit New Record High

The latest *2016 data released by the Ministry of Hotel and Tourism revealed that the number of foreign arrivals in Yangon dipped for the first time since 2008. In particular, there were 1.8 million travellers recorded in 2016, a drop by 8.4% compared to 2015, notwithstanding, business arrival level has improved remarkably. The number reached more than 203,000, up by 17% YOY, hitting a new record high. Despite the new record, the growth rate is still lower compared to those during 2011 to 2014 when the market first opened up with rates ranging between 23 and 64%. Business interest in the country has been strong since 2011 save perhaps during 2015 awaiting the results of the national elections. Supported by the government's increasing leniency towards visa free entry to some of its regional neighbours, the latest numbers reflect the continuous foreign interest towards Myanmar's business prospective. Flight frequency has likewise increased YOY from more than 13,000 international flights to Yangon in 2015 to more than 16,000 flights in 2016. The most frequent scheduled flights are from Bangkok, Singapore, Kuala Lumpur Kunming and Hong Kong SAR. Colliers expects that the improvements in accessibility to Yangon will further facilitate the entry of foreign businesses, and eventually stir hotel demand. We advise hotel owners to focus on design functionality being a key feature in enticing business clientele. Besides a highly accessible location, shuttle services to and from the airport will also be convenient services. Strong internet access as well as business.

Number of Foreign Arrivals in Yangon



Ministry of Hotel & Tourism; Colliers International
*Myanmar Fiscal Year April 2016 to March 2017

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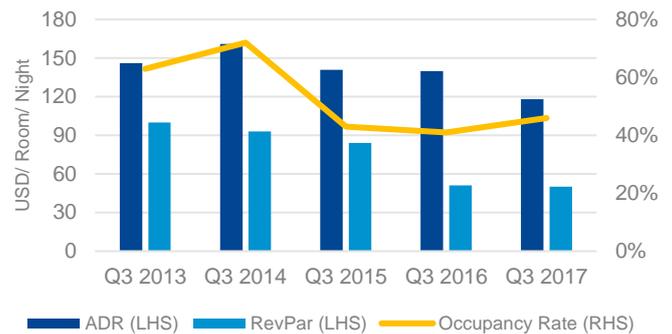
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facilities (i.e. business lounge with complimentary afternoon drinks, on-site conference and meeting rooms,) and services (i.e. concierge, secretarial and translation services) are also value added essentials. Moreover, the in-room design and amenities while basic and straightforward, should overall be highly efficient. To maximise the revenue potential for the conference rooms and ballrooms, we further advise hotels to capitalise on the lack of event venues in Yangon. In fact, requirements for corporate functions, business and promotional events, product and project launches, along with other major gatherings (especially weddings), have been visibly rising over the recent years.

Local Demand to Buoy Occupancy

Yangon Upper-scale ADR & Occupancy



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As of Q3 2017, the citywide occupancy rate increased for the first time in at least the past three to four years, perhaps driven by the substantial reduction in average daily rates (ADR). While the average occupancy improved by 5% YOY to 46%, the number is still well below 2012 level which hovered at between 70 and 80%. The entry of more modern hotels could also exert downward pressure on the daily rates for older upper-scale developments; with newer ones likely to set rates at competitive levels. These adjustments in ADR are likely to continue especially as supply becomes substantial in the next two years. In the meantime, to help buoy occupancy, Colliers advises hotels to start tapping domestic demand through "staycation" packages. Better quality developments with wider ranges of amenities and facilities are well positioned to provide such offering. These bode well for locals opting to save travel costs and time especially during the holidays. In fact, Myanmar's long list of annual holidays would reinforce the strategy. Data from the Ministry of Hotel and Tourism shows that for 2018 there are roughly 32 possible vacation days considering the 19 official public holidays and the adjoining weekends that make for several long weekends. We advise hotels to start planning early and implement strong marketing campaigns to ingrain and popularise the concept.

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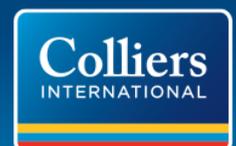
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