

CBRE Hotels presents

Vietnam Hotel Market Overview

Presented by

Robert McIntosh

Executive Director, CBRE Hotels, Asia Pacific

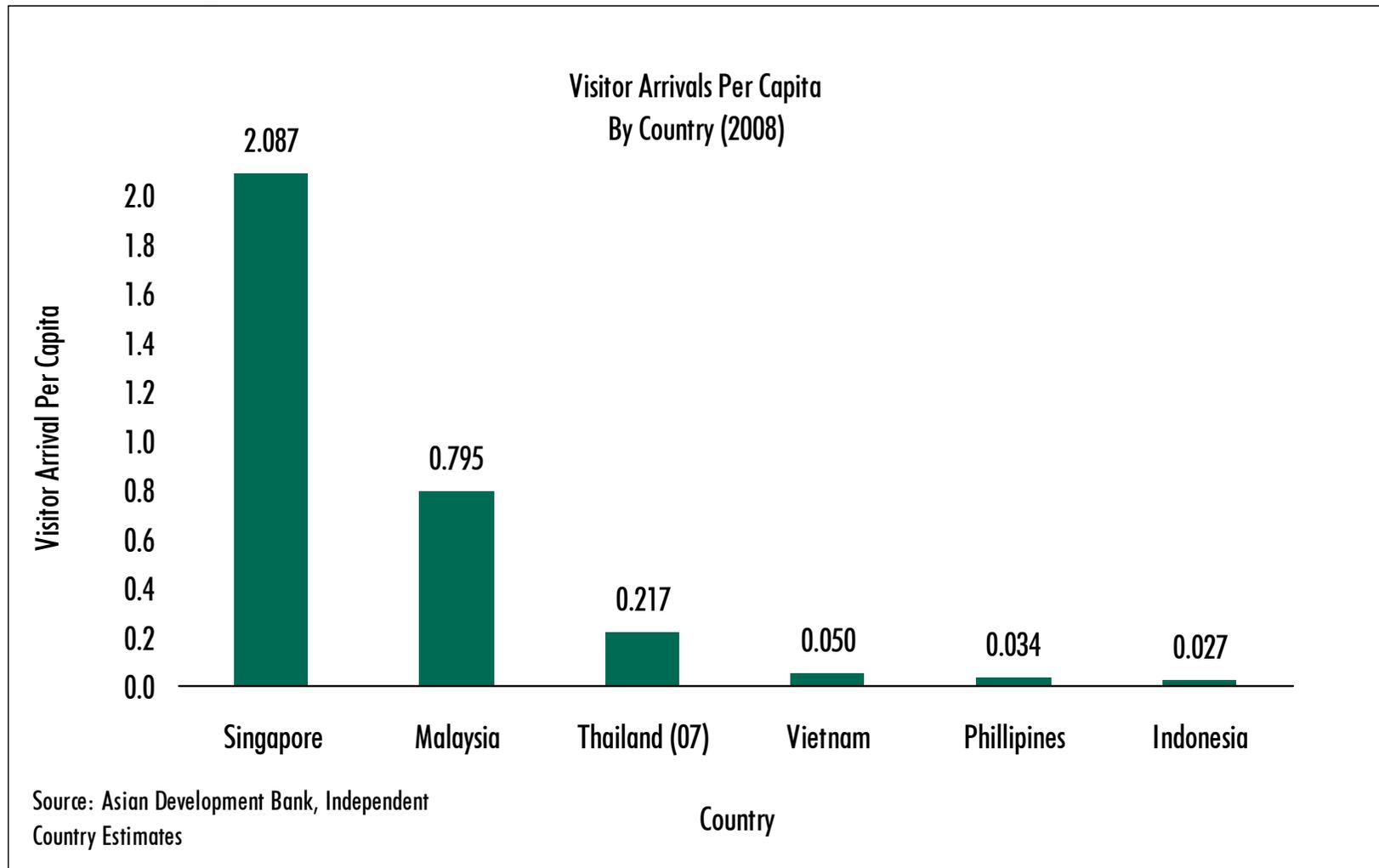
23 September 2009

Presentation Outline

1. Hotel Performance – Regional
2. Hotel Performance - Vietnam
3. How to Maximise Returns
4. Management Options
5. Future Opportunities

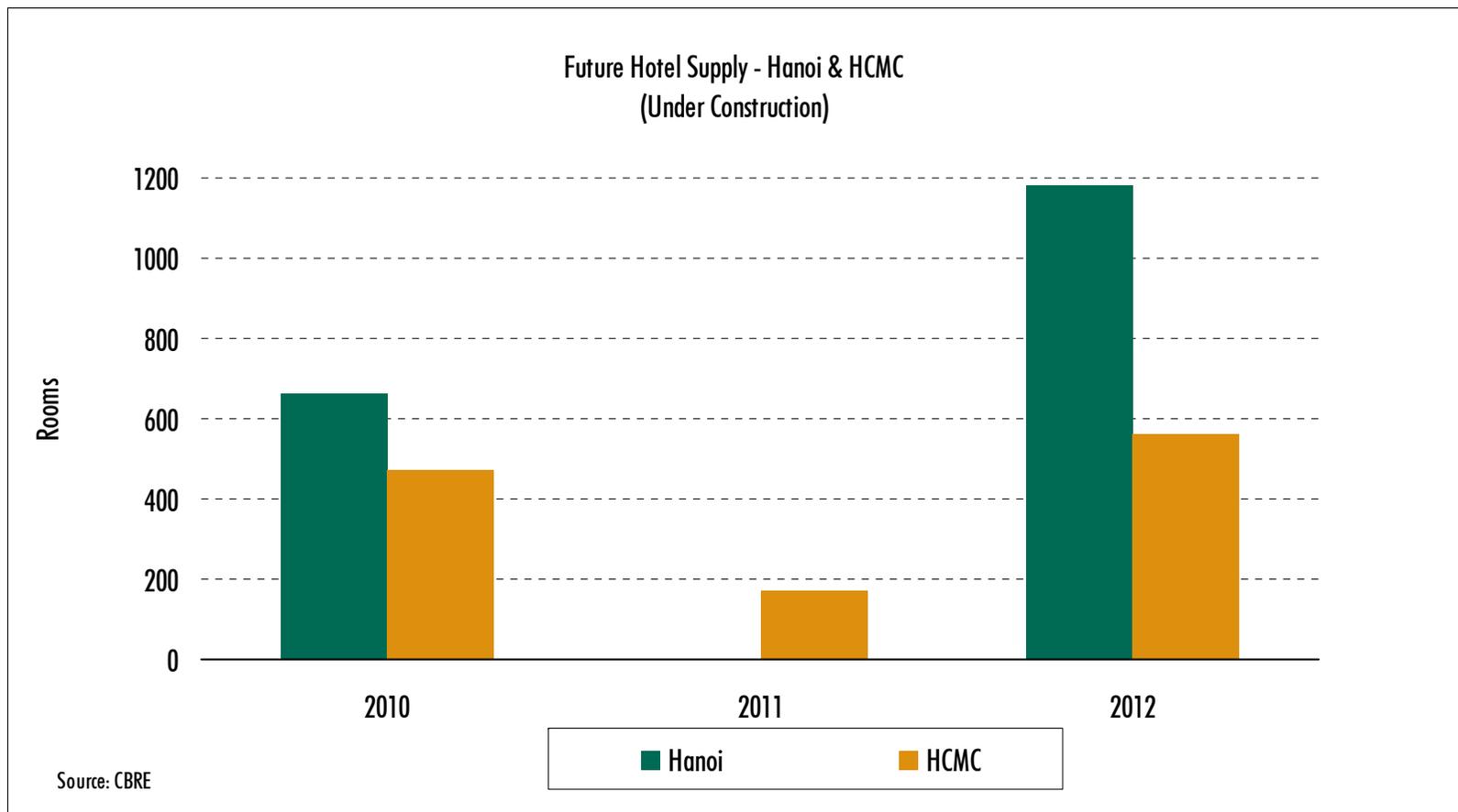
Hotel Performance - Regional

- Vietnam has one of the smallest visitor arrival per capita ratios in the region



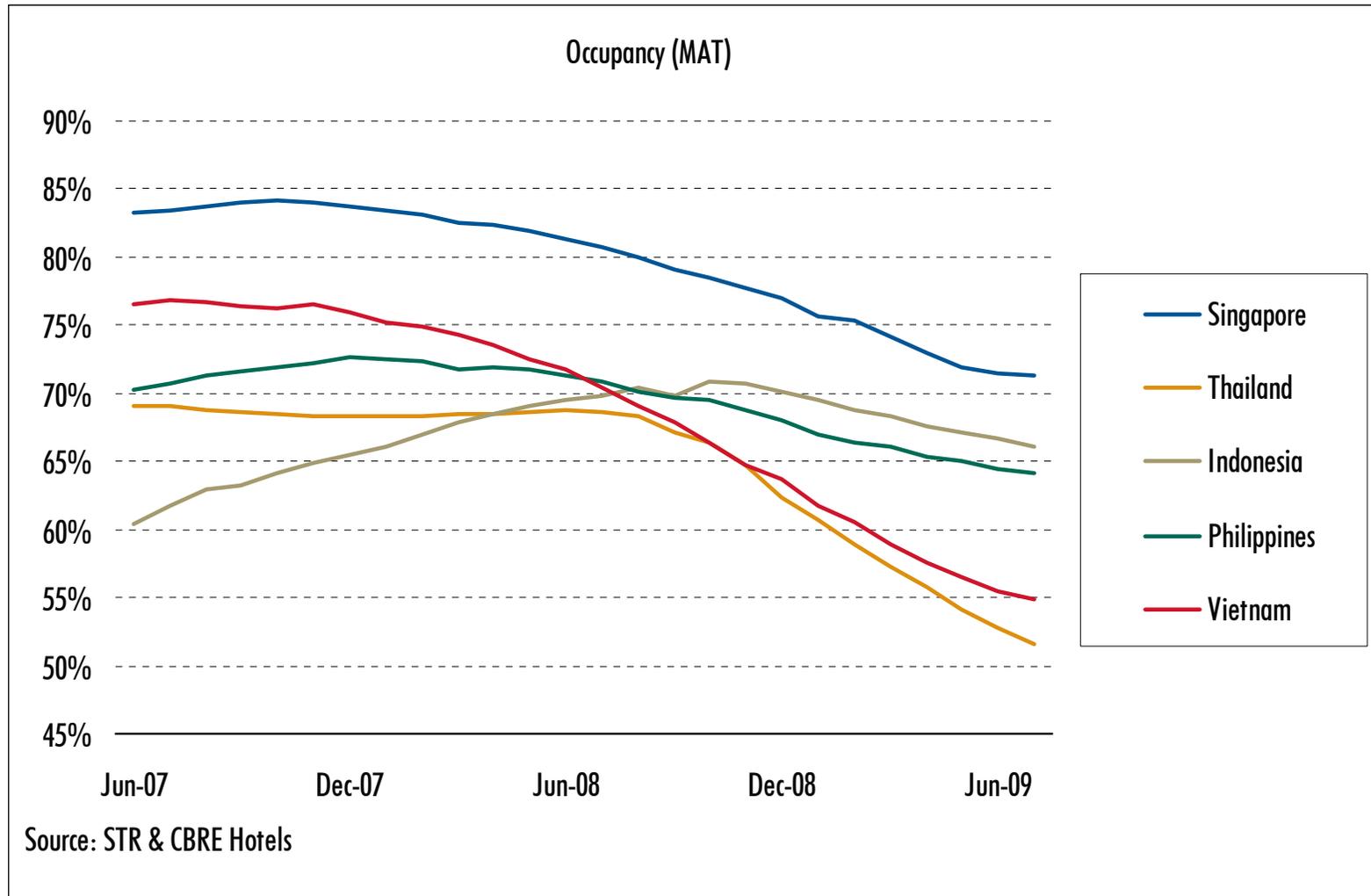
Hotel Performance

- Major cities and resort destinations across Vietnam are expecting an increase in hotel supply over the next few years



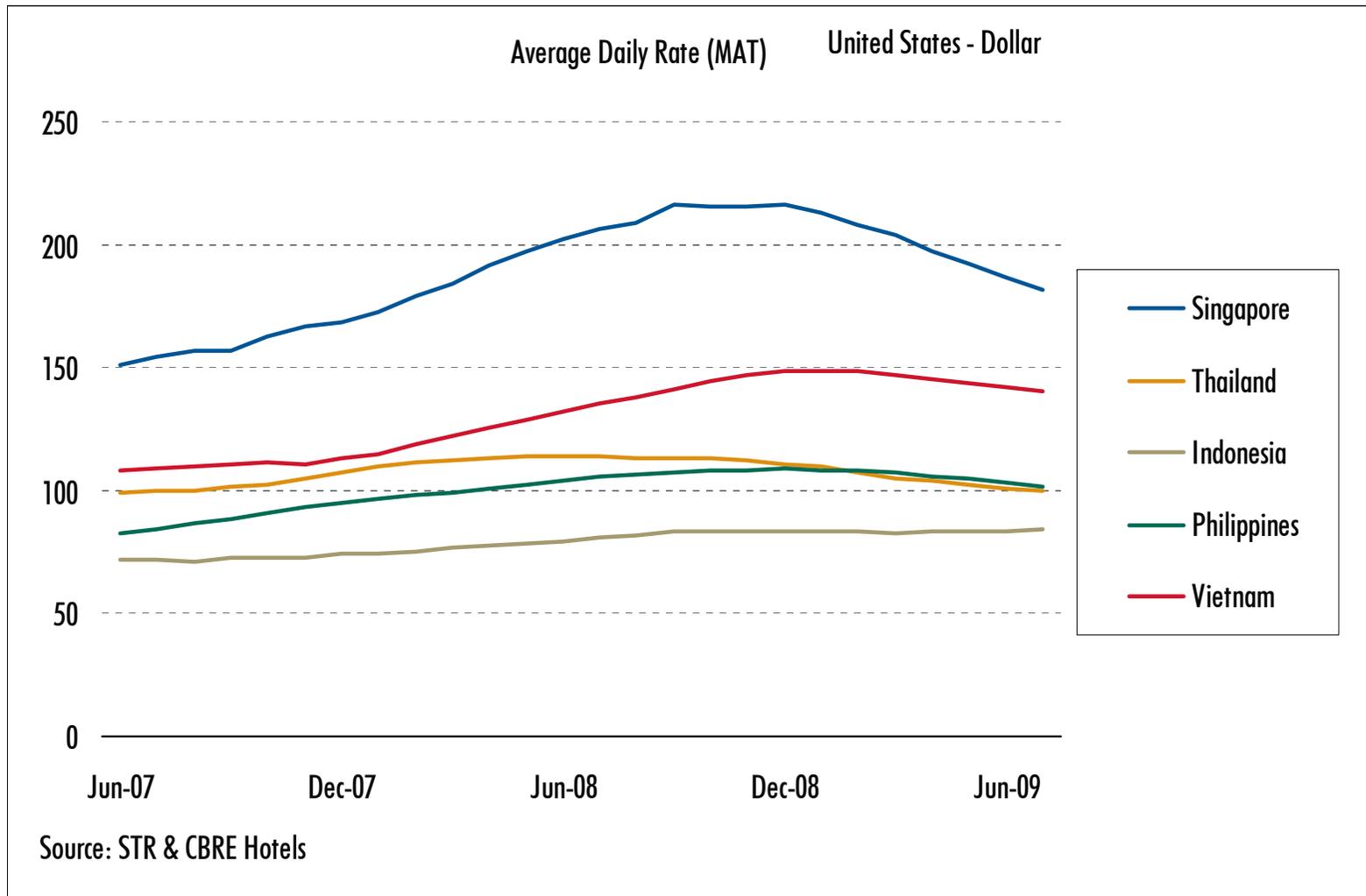
4 and 5 star Hotel Performance – Regional

- Occupancy levels have declined rapidly since June 2007



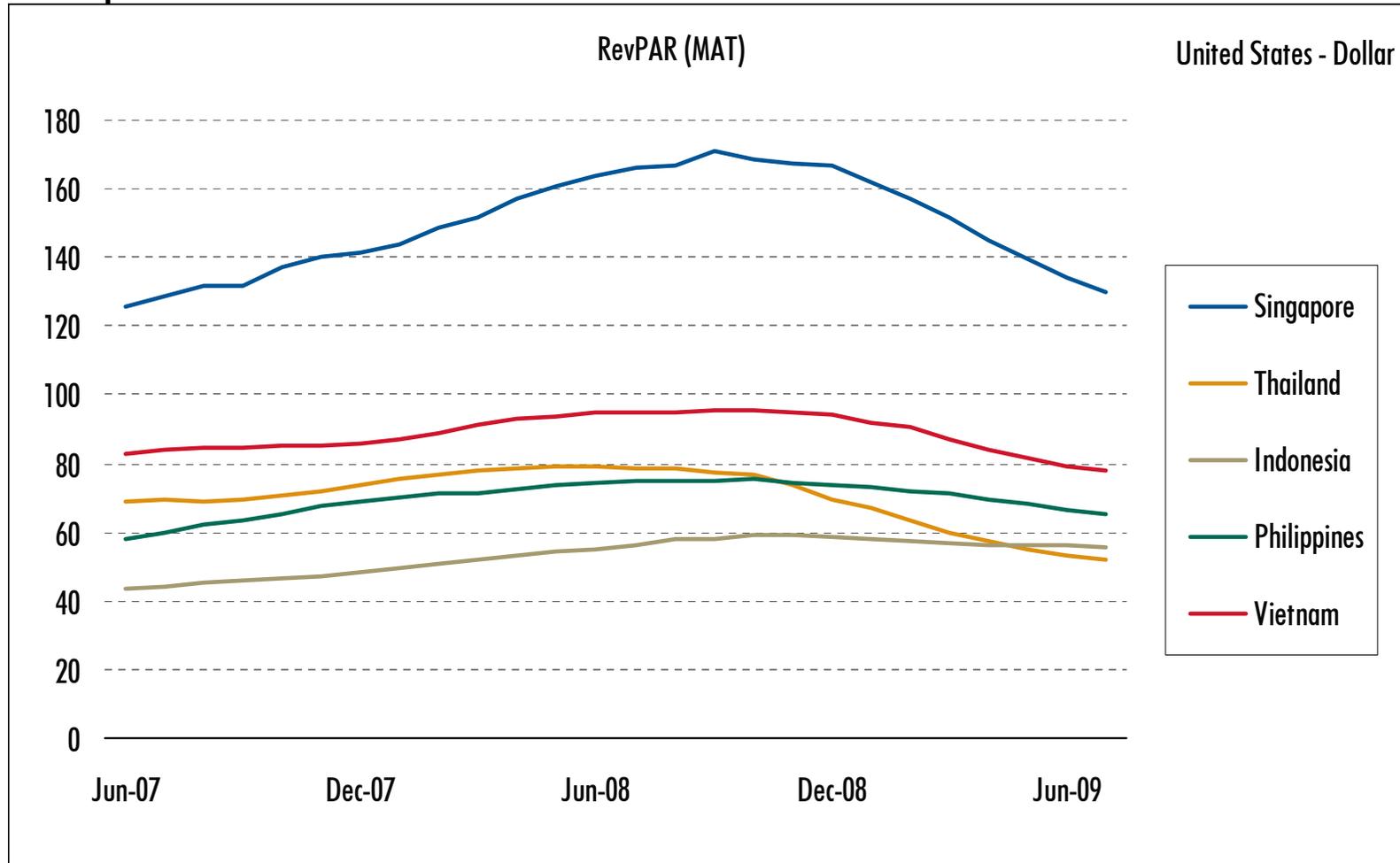
4 and 5 star Hotel Performance – Regional

- ...but ADRs have demonstrated strong growth



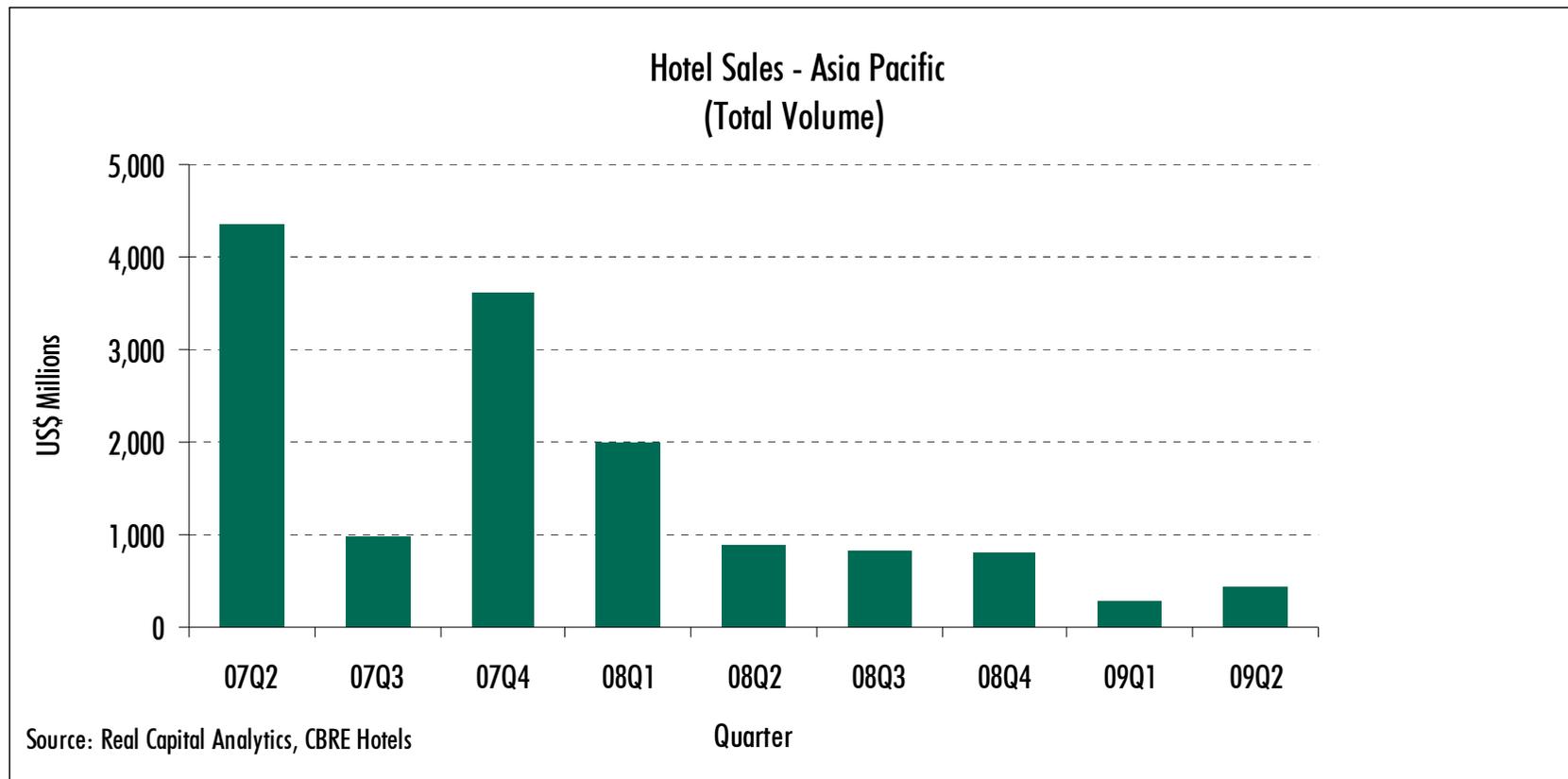
4 and 5 star Hotel Performance – Regional

- ...ensuring RevPAR levels remain above that of many regional competitors



Hotel Performance - Regional

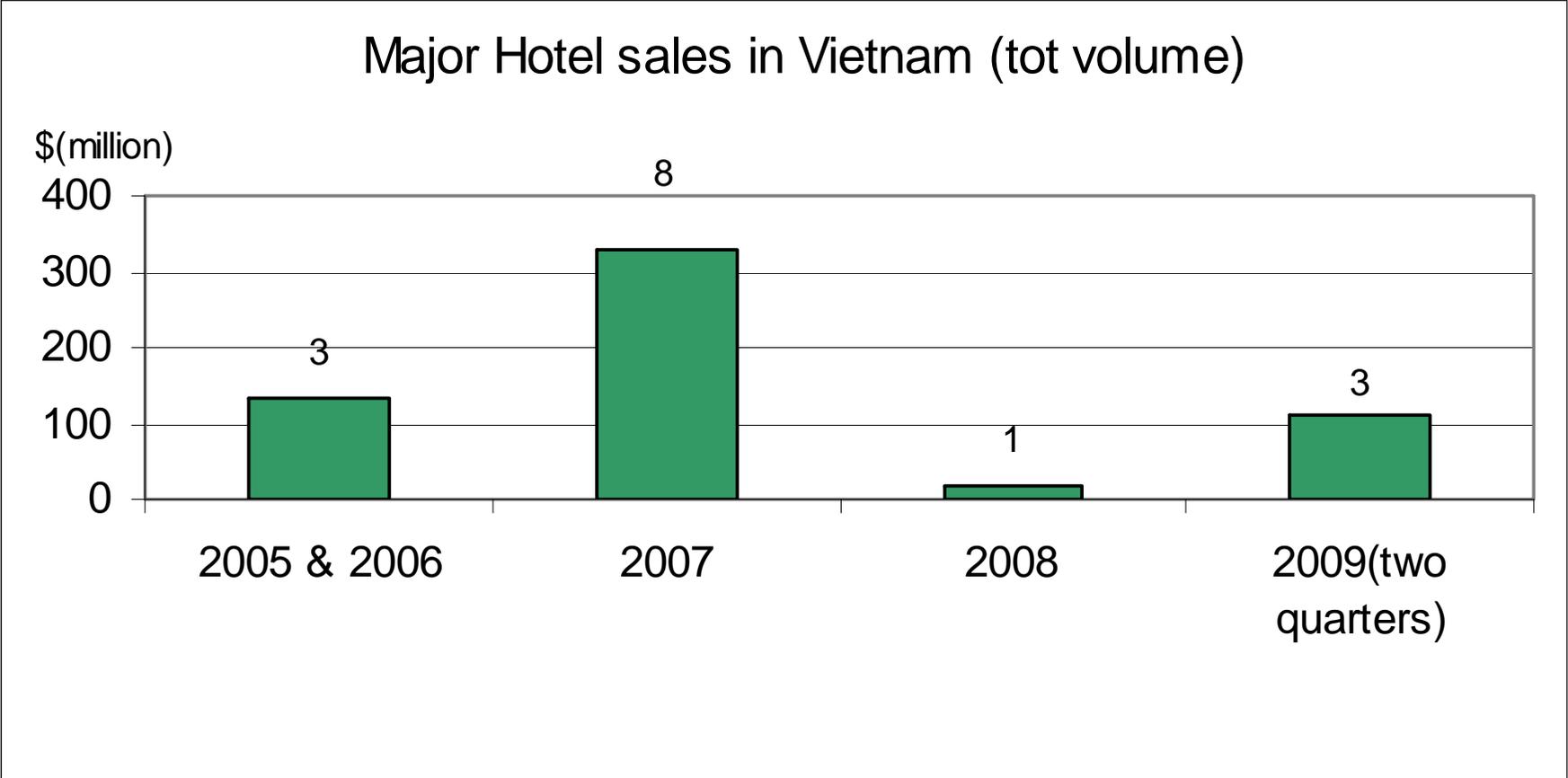
- Asia Pacific hotel sales (volume) declined 69 percent in the past year, to reach a total of US\$ 2.6 billion in 2008 (Q32008 to Q2 2009), down from US\$7.5 billion in the preceding period.



With falling incomes and demand values have dropped. Initial yields have often not have fallen much.

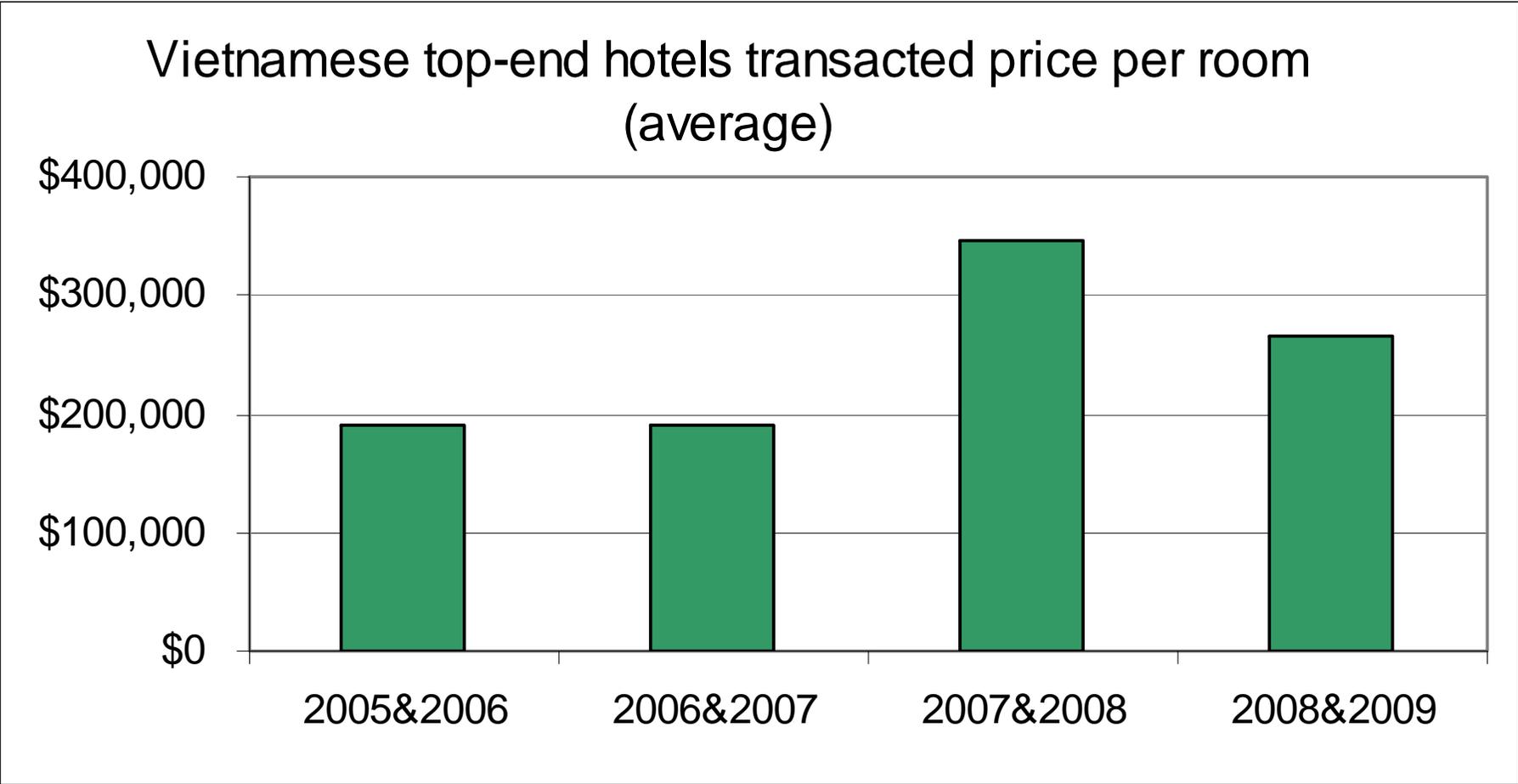
Hotel Performance – Vietnam

The number of hotel sales in Vietnam has dropped in 2008 as a consequence of lack of liquidity and concern about future performance. In 2009, lower prices, additional liquidity and more stable economic conditions have helped increase the sales volume.



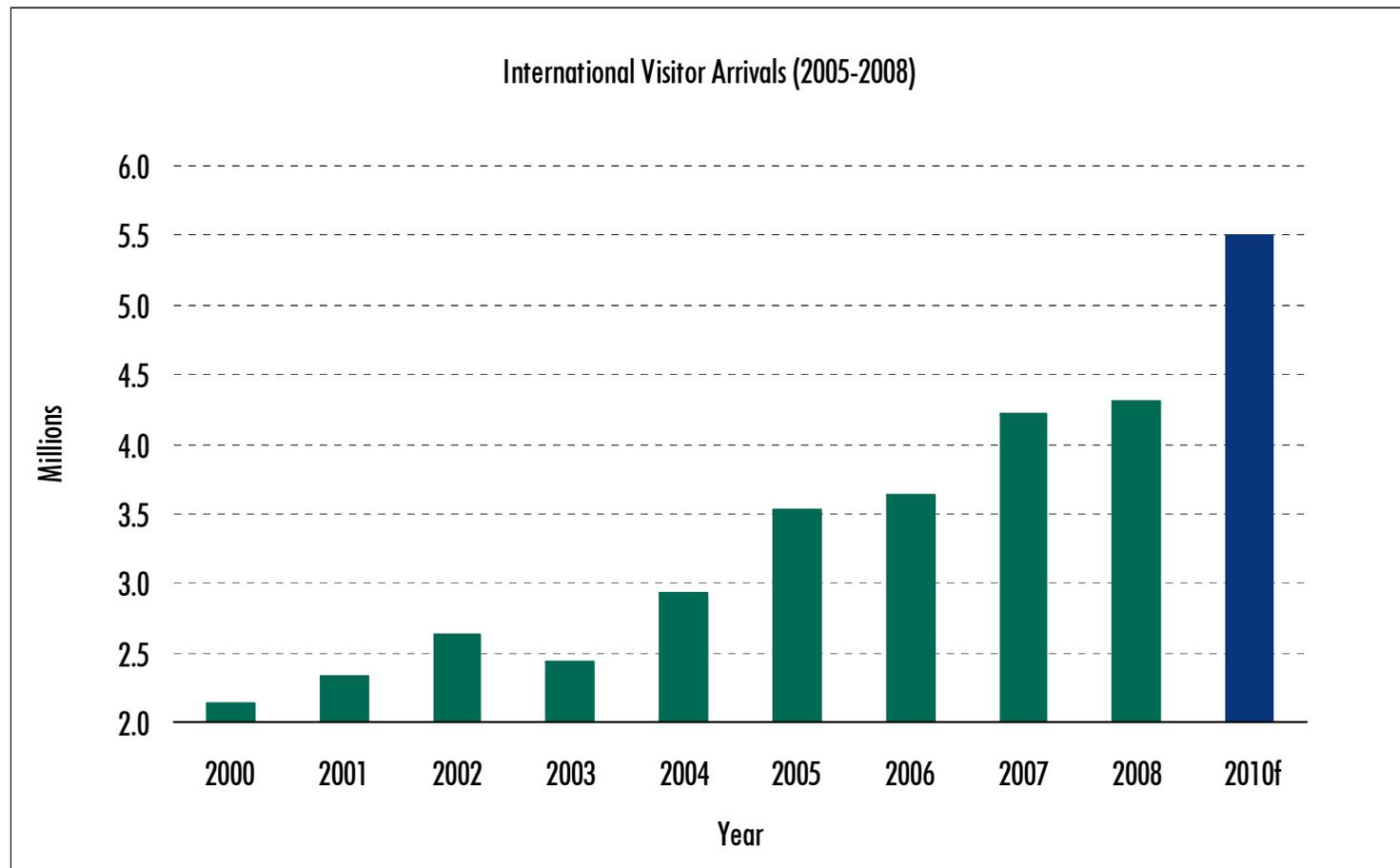
Hotel Performance – Vietnam

The market experienced the highest transacted price per room at the end of 2007.



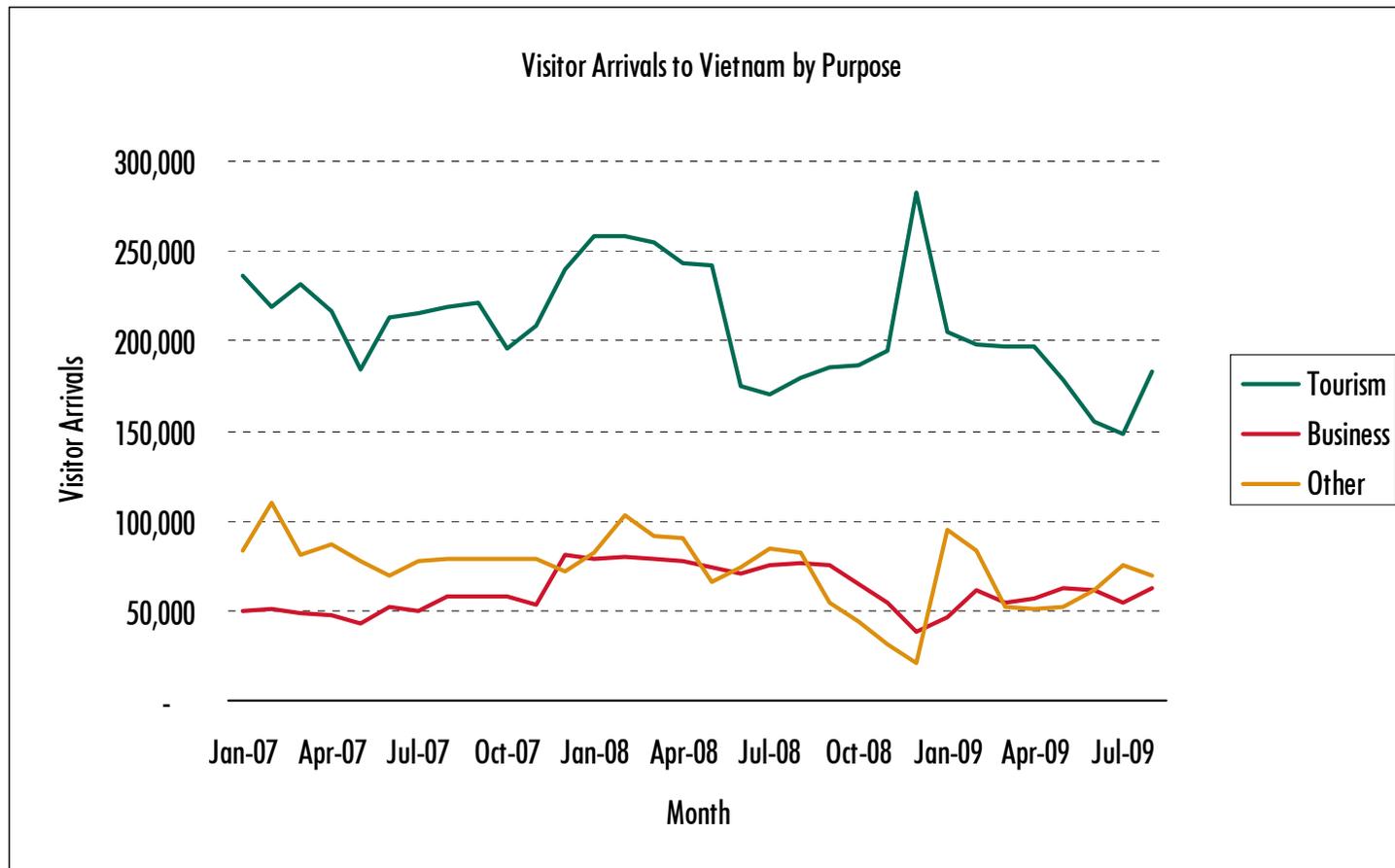
Hotel Performance - Vietnam

- International visitor arrivals to Vietnam have grown rapidly over the past few years, but will have problems reaching the VNAT target



Hotel Performance - Vietnam

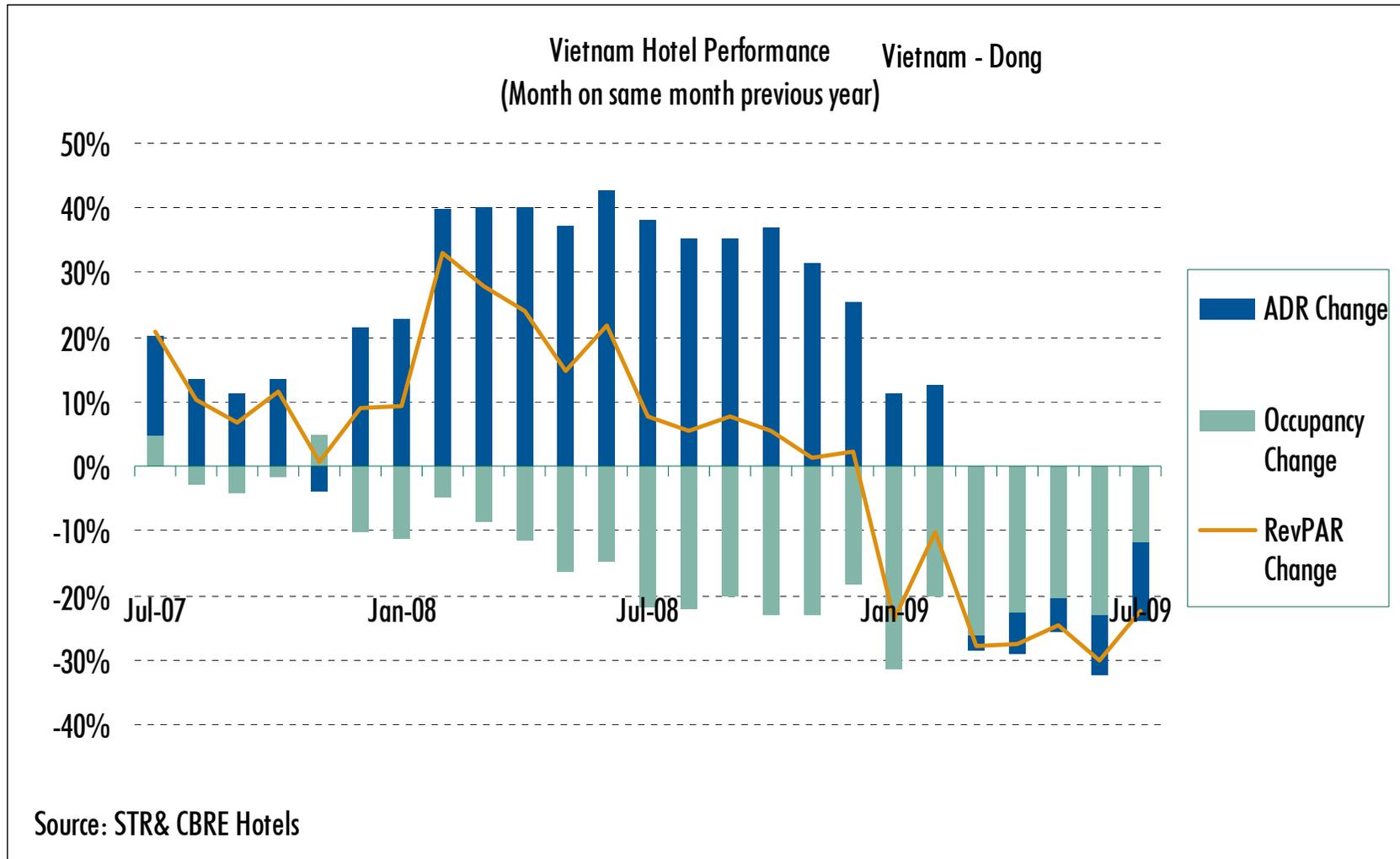
- Visitor numbers have declined since the onset of the global financial crisis...



...with visitor numbers in the first 8 months of 2009 declining by 19.7 percent compared to the same period in 2008

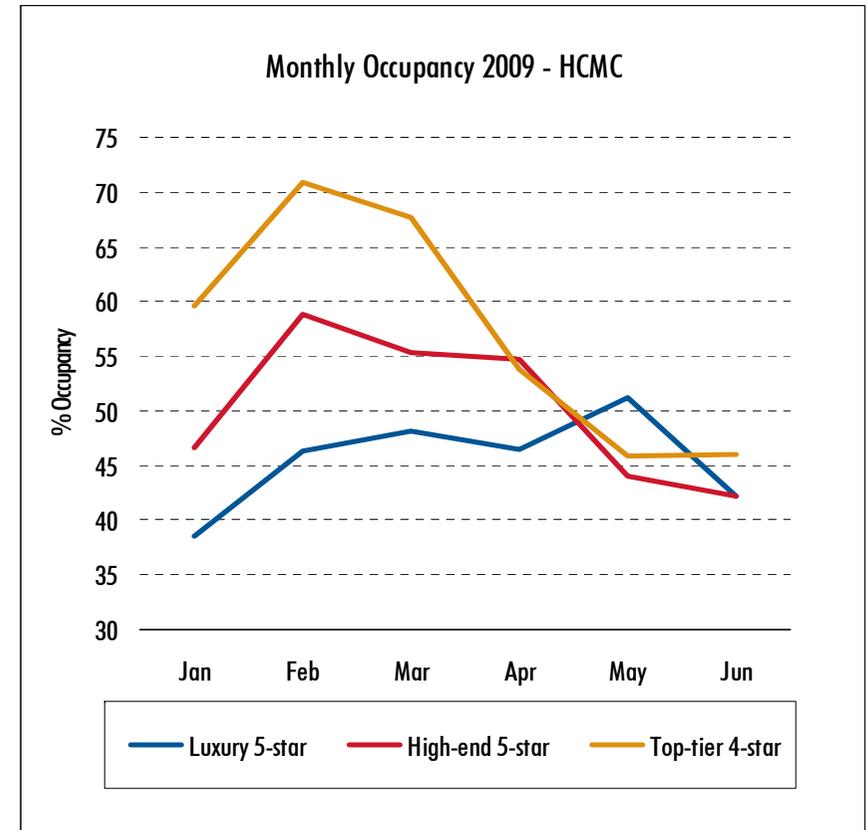
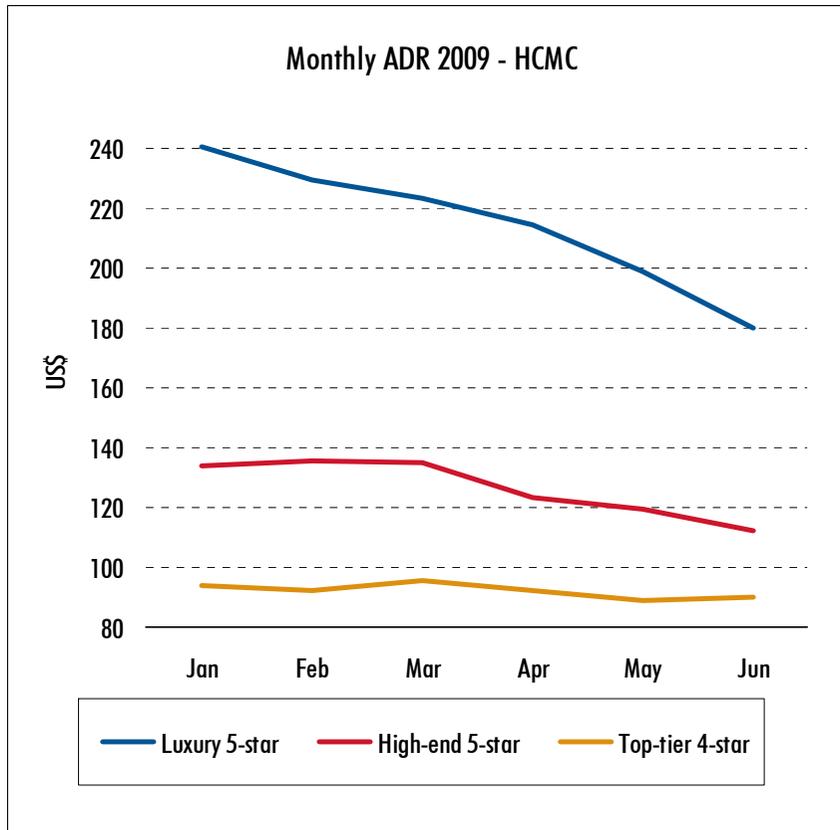
Hotel Performance - Vietnam

- Resulting in strong improvements in overall hotel performance until the onset of the global financial crisis



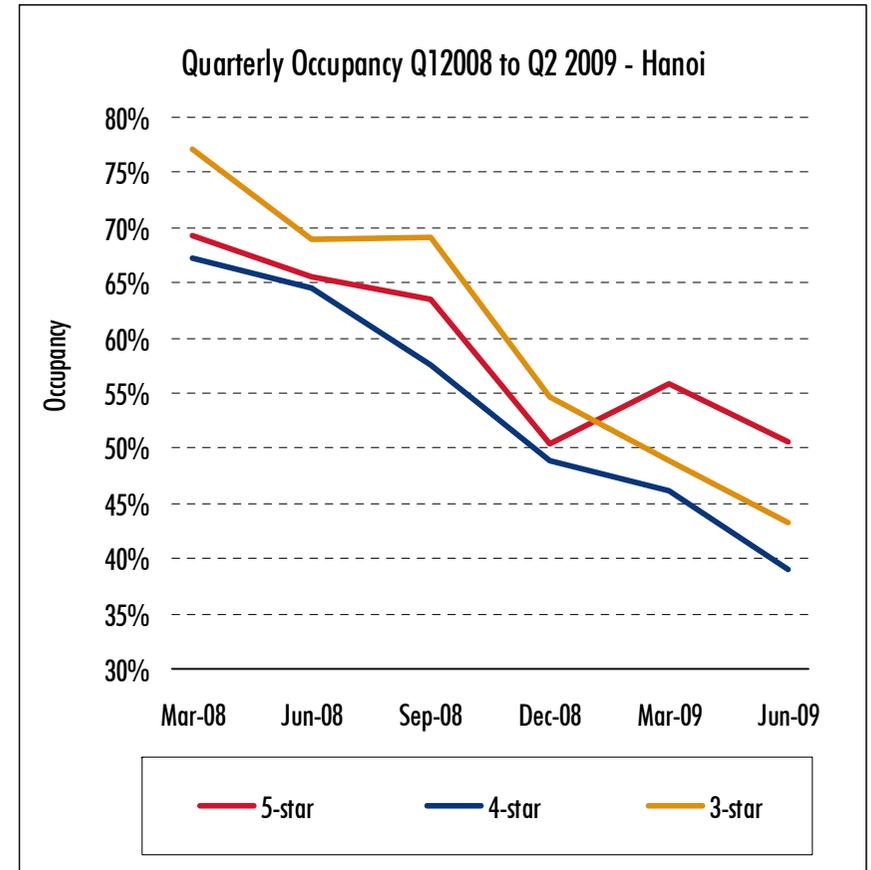
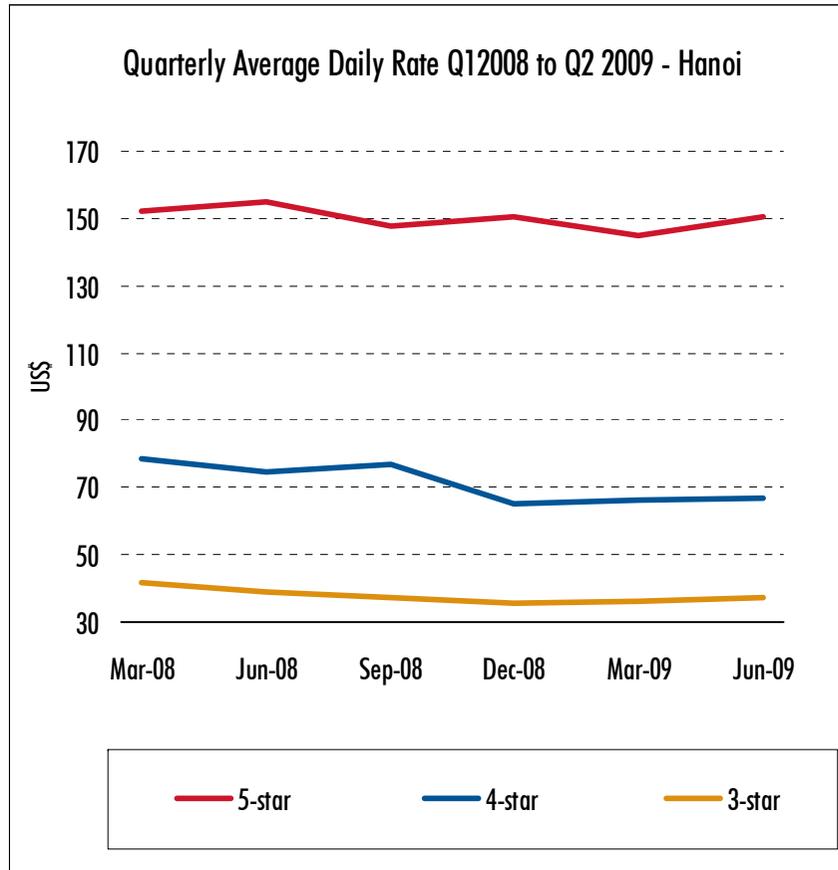
Markets in Detail – HCMC

- All hotel tiers have suffered declining performance



Markets in Detail – Hanoi

- Occupancy has declined more rapidly than ADRs



How to maximise returns?

- Clear vision of what you want to achieve

- Operations
 - Management
 - Marketing
 - Revenue sources
 - Positioning

- Facilities
 - Do your facilities match demand?
 - What alternatives exist?
 - How do they compare with the competition?

Management Options

■ What do you want out of a manager?

- Generate business
- Marketing
- Room rates
- Business management efficiently
- HR
- Training
- Financial capacity- reliability

■ How do you maximise outcomes?

Management Options

- **There are four main options:**
 - Self-manage
 - Management Contract
 - Franchise
 - Lease

Question:

Do you really have the skills to manage a hotel business?

Is it best left to experts – like a pilot flying a plane – do you want to risk crashing and burning?

Management Options – *Self Manage*

- **Key Issues**
 - Full management control
 - No fee payment to external management company/brand (all profits are retained by owner)
 - Less exposure to global distribution systems
 - Less recognisable brand
 - Risk of poor cost control.
 - Risk of inefficient marketing strategies.

Management Options – *Management Contract*

- **Key Issues**
 - Image/branding
 - Market recognition
 - Expert management – costing control
 - Expert management – higher room rates/ occupancy
 - Global Network
 - Additional costs :
 - Technical assistance and pre-opening fees
 - Base Management fee from 2% to 4% of Total Revenue
 - Incentive fee from 5% to 12% of Gross Operating Profit
 - Contribution to central and chain marketing expenses
 - Operator system fees

Management Options – Management Contract

Vital to have the appropriate manager/brand for the hotel

Case study

Example of a manager of too high a quality

- Disappointed guests
- Lack of occupancy
- Costs far too high
- Capital expenditure increased

Change to a new manager

- Higher guest satisfaction and greater occupancy
- Able to access more appropriate markets and guests
- Lower costs per guest
- Improved profitability

Management Options – Management Contract

- **Key Issues to consider when negotiating a management contract**
 - Budget, accounts, working capital
 - Owner's approval of budgets, appointment of GM and Financial Controller
 - Restrictions on competitive use of the brand name
 - Performance criteria
 - Asset Management
 - Length of term
 - Fees
 - Restrictions on development, exclusivity
 - Replacement reserves
 - Termination

Management Options - Franchise

- **Key Issues**
 - Use of brand/trade name
 - Marketing and global distribution systems
 - Established business systems
 - Established operational systems
 - Access to market intelligence
 - Assistance with site location, building design, training
 - Additional costs
 - Initial fee (Commonly \$10,000 to \$50,000)
 - Royalty Fee (Commonly from 5% to 12% of the room revenue)
 - Reservation Fee
 - Advertising or marketing fee
 - Frequent traveller fee (Loyalty programme)

Management Options – Lease

- **Key Issues**
 - Certain income
 - No management involvement
 - Much of the profit is kept by the lessee
 - Limited upside
 - No available tenants as the risk is too great
- **Typical lease agreement**
 - Typical lease term 10 to 25 years
 - Lease payment (fix or fix + % of GOP)

- **Vietnam is supported by strong market fundamentals:**
 - Strong cultural offering
 - Diversity of destinations
 - Relatively safe and secure
 - Geographical location within the region
 - Increasing international and domestic tourism demand
 - Strong investment potential

- **Opportunities exist:**
 - Diversity in hotel brands and styles
 - Diversity of locations and target markets
 - Destination marketing and coordination
 - Business and regulatory environment
 - Visa system
 - Infrastructure

Future Opportunities – Hotel Differentiation

- **Opportunities for Hotel Investments**
 - Targeted development catering to different market segments
 - Budget hotels
 - Resorts
 - Boutique Hotels
 - Hotels in industrial parks
 - Building conversions
 - Greenfield no longer hot, but may have long term potential

Future Opportunities – Hotel Differentiation

Market characteristics:

- Price, product, service
- Shift from luxury to budget
- Low cost airlines
- Rise in domestic tourism
- Local, regional and international demand
- Tourism and business

Future Opportunities – Hotel Differentiation

Physical Characteristics:

- Number of rooms
- Average room size
- Staff to room ratio
- Restaurants
- Bar
- Banquet/Meeting
- Breakfast
- Location
- Gymnasium
- Pool
- Cable TV
- Business centre
- Wireless internet
- 24-hour reception
- Retail outlets

Future Opportunities – Hotel Differentiation

Internationally Branded Hotel Characteristics				
Characteristic	Budget	5*City	5*Resort	Boutique
No. Rooms	100-500	200-500	250-400	<100
Room Size m²	12 - 16	30-45	30-50	Vary
F&B	0-2	4-10	4-10	1-4
Gym	Maybe	Yes	Yes	Maybe
Spa	Maybe	Yes	Yes	Maybe
Swimming	Unlikely	Yes	Yes	Maybe
Staff/Room Ratio	0.5	1	2	2
Location	Airport, outer CBD, industrial	Airport, CBD	Beach/mountains urban resort	Inner city, cultural & resort location
Guest Profile	Mix	Mix	Leisure/MICE	Leisure/Corp

Resort Hotels

- **Prime focus:** leisure, recreation and relaxation.
- **Location:** Island, beachfront, mountains, cultural areas.
- **Target clientele:**
 - Larger resorts = group leisure, MICE, FIT.
 - Small resorts = FIT seeking luxury and privacy
- **Typical Facilities:**
 - Rooms
 - Villas
 - Recreation
 - Function
 - F&B – Typically extensive, with no requirement to leave resort
 - Health club/spa
- **Trends:** Branded condo resorts, spa resorts, urban resorts.
- **Costs**
- **Performance**
- **Vietnam market**
 - Shortage of international branded resorts
 - Airports' expansion (Nha Trang, Phu Quoc ...)
 - Road systems improvement (Mui Ne, Vung Tao, Hai Long Bay)
 - Increasing local demand for high quality resorts
 - New Island developments (Con Dao Island)

Hotels in Industrial Parks

- **Prime focus:** corporate
- **Location:** in proximity to industrial hubs
- **Target clientele:** junior to middle management business executives
- **Typical Facilities:**
 - Rooms - small
 - Recreation - limited
 - Function – meeting rooms
 - F&B – basic, but may extend if location generates a captive audience
- **Costs**
- **Performance**
- **Vietnam Market:**
 - Severe shortage of hotels in industrial parks
 - 118 Industrial parks in the South Vietnam* and no four star hotels
 - 40 Industrial parks in North Vietnam* and 1 four star hotel
 - Growing industrial production in Vietnam and Industrial parks
 - Growing number of IPs located far from the cities' hub.

* Major industrial areas.

Boutique Hotels

- **Prime focus:** High degree of individual character and design,
- **Location:** CBD, cultural and trendy locations
- **Target clientele:** FIT and Corporate seeking a different experience than that offered by many large scale hotel chains.
- **Typical Facilities:**
 - Site: often located in converted historic buildings
 - Rooms - vary
 - Recreation – often limited
 - Function – limited if at all
 - F&B – a small number of specialty restaurants and bars
- Costs
- Performance
- Vietnam Market
 - Limited number of real boutique hotels in Vietnam

- Hotel Performance – Regional and Vietnam
- How to maximise returns
- Management Options
- Property selection and positioning
- Future Opportunities

A final thought:

It needs vision, a clear view of the market and real expertise to develop, own, operate and finance hotels. Decide where your skills lie and seek advice from experts (hoteliers, lawyers, architects, bankers or even real estate consultants) for the other matters.

CBRE Hotels' services

- *Valuation and Advisory Service*
- *Sales*
- *Feasibility Studies and Market Study*
- *Investment Advisory*
- *Operator Selection*
- *Asset management*
- *Project management*

**TWO THIRDS OF THE WORLD
IS COVERED BY WATER
THE OTHER THIRD BY US.**



CBRE | Hotels
CB RICHARD ELLIS

KEY CONTACTS

ROBERT MCINTOSH, Executive Director
CBRE Hotels
Singapore
PH: +65 6326 1200
Mobile: +65 8123 0208
Robert.McIntosh@cbre.com

MAURO GASPAROTTI, Manager Hotel,
Valuation and Advisory Services
CBRE Vietnam
PH: +848 242 6125
Mobile: +84 903 028 722
Mauro.Gasparotti@cbre.cc