



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Chiang Mai: *Top-Tier Hotels*

JULY 2019



Source: Four Seasons Chiang Mai

Introduction

After a buoyant period of booming tourism demand, Chiang Mai has started to feel the impact of new supply on top-tier hotel performance. Heightened hotel investments, along with infrastructure bottlenecks, will likely dampen growth in the near to medium term. Passive investors could continue to take a long-term view of this unique charming town's potential. Major transport improvement plans, the UNESCO World Heritage Initiative Project and the vested interest of a property tycoon in developing his riverside land bank into another tourism landmark give rise to optimism for the destination. Nevertheless, opportunistic and institutional players will likely remain cautious until Chiang Mai's next upswing returns in earnest.

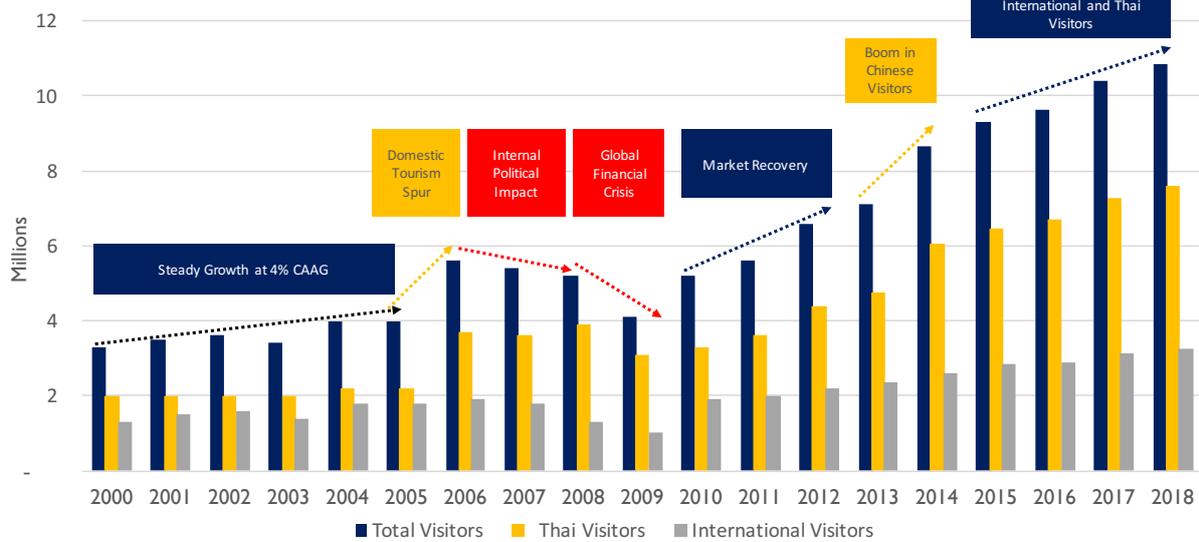
Chiang Mai, Thailand's "Rose of the North", has passed its blooming season, supported by mounting interest among Chinese travellers and rapid expansion of low-cost carriers (LCCs) in Thailand. While property and hotel development activities remain robust, the market is hitting some roadblocks. Chiang Mai is in need of airport capacity expansion and inner city trains (Light Rail Transit) to alleviate air and road traffic congestion. Equally important are the prevention of seasonal haze condition and its negative publicity every March and April and the preservation of northern/ancient Lanna traditions and culture, a unique selling point differentiating Chiang Mai from other tourist destinations.

It could take up to a decade to carry out large-scale mass transit infrastructure projects, given the history of public improvement works in Thailand. Interestingly, the country has made aggressive attempts to push through many mega projects across the country concurrently. One would question the capability and financials to execute as planned.

Once a winter wonderland for the Thais, Chiang Mai has become internationally known for its nature, outdoor activities, and thriving arts and cultural scenes. Over time, it has been urbanized with modern lifestyle amenities such as locally grown coffee, interesting F&B concepts, spas and retail offerings. The myriad attractions make Chiang Mai a northern tourism and commercial hub appealing to a broad range of clientele, especially Asians. Its tourism profile will be enhanced with the upcoming riverside Asiatique complex. More importantly, the local community is aiming for UNESCO World Heritage status to protect its core tourism value. Chiang Mai will become the sixth World Heritage site in Thailand. In comparison, all other top 10 global tourist destinations have over 15 UNESCO sites.

During the restrained demand period over the next five years, new openings in Chiang Mai will further soften top-tier hotel performance. When the challenges mentioned have been properly addressed, pent-up demand will revive market outlook.

Historical Visitor Arrivals to Chiang Mai (2008-2018)



Source: Thailand Ministry of Tourism and Sports

Visitor Arrivals

Over the past decade (post the 2009 global financial crisis), Chiang Mai has built its international tourism profile with better direct international air access. The international aircraft movement ratio at Chiang Mai Airport increased from 14% in 2008 to 27% in 2018. The Chinese movie “Lost In Thailand” filmed in Chiang Mai was timely launched to capitalize on China’s outbound travel boom. Direct flights from China have been offered from five key feeder airports i.e. Hong Kong, Shanghai, Guangzhou, Kunming and Macau. Other countries connected on direct routes include South Korea, Vietnam, Malaysia, Myanmar, Singapore, Lao and Qatar. Furthermore, stimulating factors for visitor growth are rapid expansion of low-cost carriers, the visa on arrival facility and visa relaxation. Similar to Bangkok and Phuket, a tourism boom has created Chiang Mai an airport overcapacity issue. The airport handled 10.8 million passengers in 2018, 35% above its capacity.

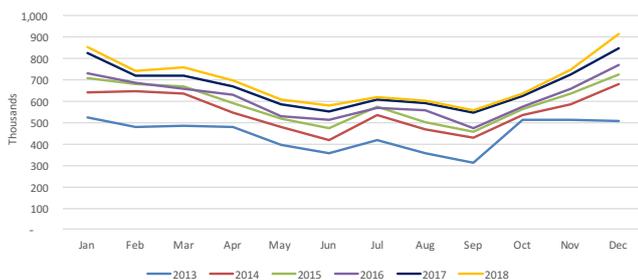
Seasonality

High season typically runs from November to February. March and April are considered shoulder months. Low season covers May through September, and coincides with the rainy season. While booming Chinese tourists continue to arrive during the rainy months, they surge during the Chinese New Year and October Golden Week. Summer school holidays also uplift demand in July and August. Special annual events such as the Lantern festival (“Yi Peng”/“Loy Kratong”) augments traveller awareness.

Average Length of Stay (ALOS)

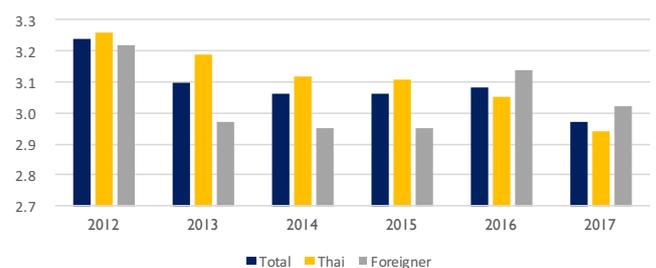
Chiang Mai has witnessed a downward trend of ALOS due to a significant shift from long-haul guests with ALOS of 5-7 days to Thai and Asian visitors such as Chinese and South Koreans who typically stay for a few nights only. The Tourism Authority of Thailand (TAT) has encouraged tour operators to add new excursion programs to neighbouring and secondary provinces such as Chiang Rai and Lamphun, hoping new attractions and activities will extend the ALOS of repeat travellers.

Monthly Guest Arrivals at Chiang Mai (2013-2017)



Source: Ministry of Tourism and Sports

Length of Stay (2012-2017) Latest Available Data



Source: Ministry of Tourism and Sports



Source: Rati Lanna Chiang Mai



Source: Shangri-La Chiang Mai

Hotel Occupancy and ADR

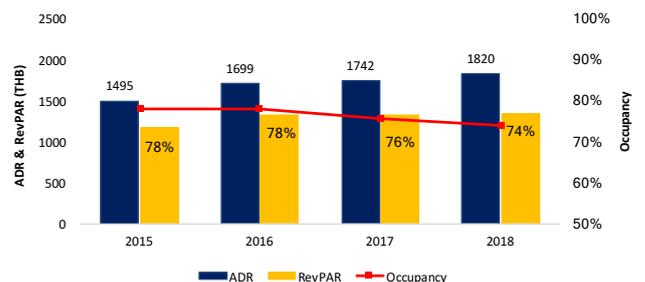
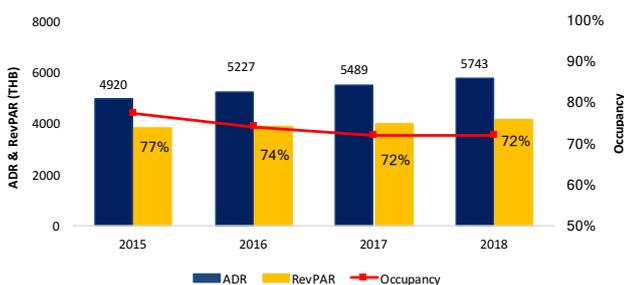
The top-tier hotels included in our current study are mostly located around the Ping River with a few in Nimmanhemin and the outskirts of Chiang Mai. They are separated into two groups by overall positioning and average daily rate (ADR) so that we can better observe their performance trends and demand characteristics. From 2015 to 2018, average annual supply growth of the top-tier hotel market was moderate at 4%. All new supply was in the lower rate category, and gradually absorbed over the ramp-up period. Market occupancy hit a historical high at 78% in 2015 due to an increase in direct international flights to Chiang Mai, particularly from China. Since then, occupancy saw a downward trend across the board. Market ADR grew at a 4% CAAG. Rate growth has slowed, affected by new supply in the lower rate category. The resulting RevPAR recorded a modest 1% growth.

Top-Tier: Above THB3,500

The higher rate category consists of five-star upper upscale and luxury properties with at least 30 keys and ADR above THB3,500 in 2018. The occupancy decrease is not attributed to competitive pressure, but rather an emphasis on achieving rate growth amid positive market sentiment and a lack of new inventory. The result of rate strategy was successfully shown in strong ADR increase and healthy RevPAR growth.

Top-Tier: THB1,300 to THB3,500

Hotels in this category have upscale positioning and an ADR in between THB1,300-3,500 in 2018. The opening of U Nimman and Mövenpick's new wing in late 2016-2017 reduced occupancy as demand growth could not keep up with supply additions. Existing hotels became competitive on pricing. ADR and RevPAR growth were driven by a rate jump in 2016 on the back of favourable market conditions; the high rate position of the U Nimman; and rate improvement of the Mövenpick post rebranding.



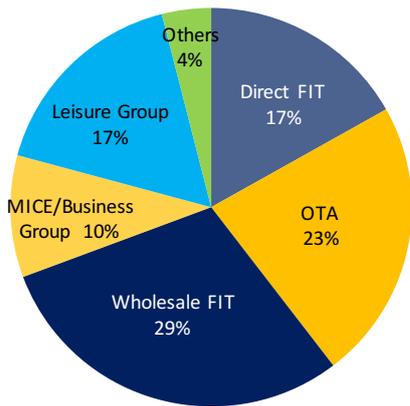


Source: 137 Pillars House Chiang Mai



Source: Anantara Chiang Mai Resort

Demand Segmentation



The top-tier hotel market is largely driven by Wholesale FIT, followed by OTA and Direct FIT. Wholesale FIT is traditionally sourced from long-haul markets, but has been increasingly shifting towards China.

Direct FIT is captured by extensive global distribution systems and loyalty programs of hotel chains, and from repeat guests of well-established hotels. Despite high brand penetration in the top-tier hotel market, the Direct FIT mix is not as high as in Bangkok and Hua Hin.

OTA is the fastest-growing segment across Thailand and a similar trend is becoming notable in Chiang Mai. However, a few hotels have low OTA production, because of strong brand awareness and direct bookings, or their aging product not being competitive on the OTA platforms.

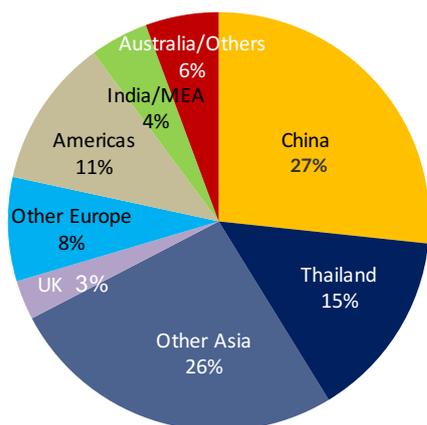
OTA and Direct FIT are expected to gain market share as more international brands enter the market and hotels

adapt to e-commerce and digital marketing instead of traditional sales channels. Also, repeat visitors from Asia are more familiar with the destination and tend to bypass travel intermediaries.

Compared to other destinations in Thailand, MICE / business group segment is relatively large and Chiang Mai's MICE market share is only behind Hua Hin and Bangkok. One of the reasons is a need to drive business outside a busy winter travel season. The Thailand Convention and Exhibition Bureau (TCEB) has identified Chiang Mai as one of the five MICE cities, alongside Phuket, Khon Kaen, Pattaya and Bangkok. The northern destination is equipped with diverse choices of hotel meeting facilities and standalone MICE venues such as Chiang Mai Hall, Rajaphruek Garden Convention Hall and the new Chiang Mai International Exhibition and Convention Center (CMECC). Chiang Mai also offers a range of outdoor and lifestyle activities, rich culture and relatively affordable hotel accommodation.

Leisure Group is another significant demand portion. Chiang Mai and Pattaya hinge on tour groups, mainly from China, to provide an occupancy base.

Additionally, the THB1,300-3,500 rate category is more dependent on leisure volume business than the above THB 3,500 rate category. This lower rate competitive set has a larger mix of wholesale FIT and leisure groups, but a smaller contribution from Direct FIT and MICE due to less customer loyalty and limited MICE facilities.



Source: Horwath HTL

Nationality Mix

China is the largest single demand source and the fastest growing market, contributing 27%. Thailand is in the second place with 15% market share. Chiang Mai is a popular getaway destination among locals for its pleasant weather, nature, family activities and cultural attractions. In addition to China, key growth markets are UK, Japan, South Korea, Spain and the Middle East.

By region, East and Southeast Asia form a significant source of demand with 53% share. Besides China, Hong Kong, Singapore, Japan, South Korea, Taiwan and Malaysia are important markets. Europe and Americas are the next two large feeder regions with 11% share each. Key markets are UK and USA.

The THB1,300 – 3,500 rate category captures a 75% demand proportion from Asia (including India and the Middle East), higher than the 66% for the above THB 3,500 rate category. The lower rate bracket is less dependent on Chinese business, but more on Thais, other Asians and Australian visitors. On the other hand, five-star and luxury hotels are able to attract substantially more American guests due to international brand awareness.

New Hotel Supply

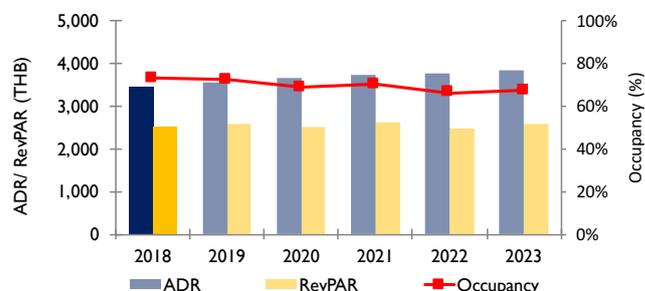
Supply growth is expected to be strong at 10% per year during 2019-2023 before moderating to 3% on average in the following five years. Generic supply is added to account for potential projects at a preliminary stage or not publicly announced. This supply list includes two rebranding projects, two expansion projects and a few new developments.

| Supply Description | Rooms |
|-------------------------------------|-------|
| Existing Supply (2018) | 2,188 |
| Confirmed New Supply (2019-2023) | 673 |
| - <i>Raya Heritage</i> | 33 |
| - <i>Empress Premier</i> | 138 |
| - <i>Rati Lanna Extension</i> | 40 |
| - <i>Novotel Nimman Journeyhub</i> | 202 |
| - <i>Melia (presently Pornping)</i> | 260 |
| Generic Supply | 1,159 |

Performance Outlook

Top-tier hotel market occupancy is expected to soften from 73% in 2018 to 65-70% over the next five years as supply will continue to outgrow demand. The future of Chiang Mai’s tourism is contingent on airport capacity. The Phase 1 airport expansion will only be ready by 2022/2023. A full completion of both phases by 2025 will double passenger handling capacity and uplift market occupancy in the long run. There is also a major plan to construct a second airport in the outskirts of Chiang Mai, which could potentially mirror post-expansion capacity of the existing airport and become a game changer. However, a hefty development budget and land expropriation difficulties may pose challenges to this ambitious plan.

ADR growth is expected to weaken to below inflation in the next five years due to a supply-demand imbalance. Hotels will likely strive to sustain occupancy at the expense of rate. In the top rate category, new upper upscale hotels will restrain overall rate growth. By contrast, the lower rate category will see an above-inflation ADR increase per year, despite slowing down from a historical level, due to additions of international branded hotels at a higher rate position than existing inventory.



| | RNA | RND | ADR | RevPAR |
|------------------|-------|------|------|--------|
| CAAG (2015-2018) | 4.0% | 1.9% | 3.5% | 1.4% |
| CAAG (2018-2023) | 10.4% | 8.6% | 2.2% | 0.5% |

Source: Horwath HTL

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Linibel Phuttitarn is a Consultant at Horwath HTL. She is responsible for conducting feasibility studies involving primary market research, competitor analysis, facilities recommendations, site inspection and financial projections for potential hotel and resort developments in Asian countries.



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Nikhom Jensiratanakorn (aka Nick) is a Director of Horwath HTL. Nikhom has advised both local and international investors in the Thailand hospitality sector. He has brought with him comprehensive skills in feasibility analysis, investment underwriting, and asset management, as well as years of experience with hotel management companies, investment funds and consulting firms, namely Pan Pacific Hotels Group, Jumeirah Group, Host Hotels and Resorts, and PricewaterhouseCoopers Thailand respectively.

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