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MARKET UPDATE: **MALDIVES**

SUSTAINING FOR THE FUTURE – TOURISM, ENVIRONMENT AND INVESTMENT

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The Republic of Maldives has approximately 1,192 inhabited and uninhabited islands, with the nation spread in two rows of 26 natural atolls across an area of 90,000 square kilometers in the Indian Ocean.

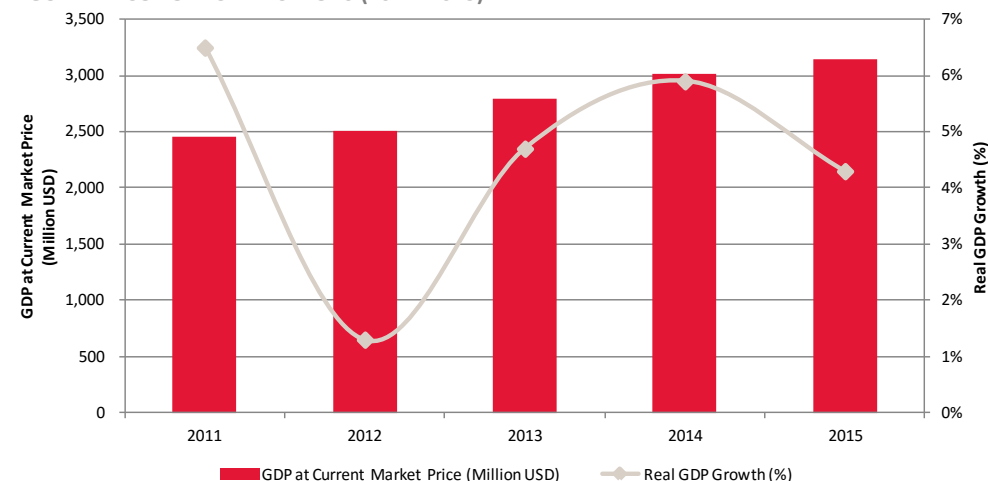
Famous for its natural beauty with white sand beaches and crystal clear waters, the Maldives is ranked as one of the best diving destinations in the world. High-end tourism has propelled the economy's strong expansion over recent decades and enabled the Maldives gain middle-income status. According to World Travel & Tourism Council, the direct and total contribution of Travel and Tourism to the Maldives Gross Domestic Product (GDP) was 52.4% and 96.5% of the total GDP in 2015, respectively; thus, making tourism the key industry for the economy. Hence, it is crucial for the island nation to maintain its image and attractiveness as a tropical island getaway for special events and occasions.

The Ministry of Tourism plays an important role in shaping the tourism landscape in the Maldives. To boost tourism arrival, the government has planned to expand the country's main gateway airport in Malé.



Economic Outlook

FIGURE 1: ECONOMIC INDICATORS (2011 -2015)



	Actual					Forecast				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth (%)	7.10	6.50	1.30	4.70	5.90	4.50	3.10	4.20	4.50	4.70
Consumer price inflation (average %)	6.61	12.83	12.13	2.31	2.12	1.60	2.50	3.20	3.80	4.00
Current-account balance (% of GDP)	(8.40)	(16.10)	(7.40)	(4.30)	(6.20)	(7.30)	(8.10)	(5.80)	(5.50)	(4.70)

Source: Knoema, October 2015, International Monetary Fund, World Bank, National Bureau of Statistics Maldives, ADB Outlook, February 2016

In 2015, growth in Maldives' GDP came mainly from substantial public investment, which doubled growth in the construction sector to 40%. According to the Asian Development Bank, the Maldivian government plans for a growth of 140% to 9.1 billion rufiyaa (almost 60 million USD) in 2016 in its public sector investment program (fueling construction and real estate development). The government also plans to scale up investment in public infrastructure particularly related to trading and industrial ports and the country's international airport. This would have transformational implications for Maldives with the ability to change it from a niche luxury market to a larger, more diverse market. However, more fiscal risks can be expected as more external debt is taken to finance these infrastructure investments.

Additionally, according to the International Monetary Fund, tourism in Maldives will face strong challenges due to the economic slowdown in China and US Dollar appreciation against the Euro which could facilitate higher competitiveness with key European destinations. As China and Europe are key source markets for Maldives, this will have an impact on tourist visitation to the country.



Tourism Industry

Accessibility

Ibrahim Nassir International Airport, the international airport of Maldives in Malé, is well connected to key international markets in the world. British Airways, China Eastern Airlines, Emirates and Korean Air amongst others fly daily to and from this airport. Recently, Maldives has been directly connected with Sri Lanka by SriLankan Airlines.

At its current capacity, the airport is able to handle approximately 2.3 million passengers annually. Chinese state owned enterprises have seen higher contribution to investments across the country. In December 2015, Maldives and China signed an agreement for a US\$373 million loan for the development of a new runway at Ibrahim Nasir International Airport. Upon completion of the US\$800 million airport, the capacity will increase to 8.5 million passengers a year.

Connectivity to resort destinations is generally by chartered seaplanes, speed boats or airport ferries. Hotel operators are also investing in their own seaplanes to fly their guests around the Maldives.

International Visitor Arrivals

The Maldives benefits from steady Leisure demand for hotel and resort accommodation throughout the year. Total international passengers arriving in Ibrahim Nassir International Airport has steadily grown from 2010 to 2015 with a CAGR of 9.3%. According to statistics by the Ministry of Tourism, total international arrivals to the Maldives were approximately 1.2 million in 2015. However, the rate of growth in 2015 was slower as compared to the previous years due to the uncertainty caused by the weak global and regional market performances.

Despite the slower growth, given the government’s efforts to maintain the island’s attractiveness as a destination, it is expected that the performance will potentially recover in the mid to long term.

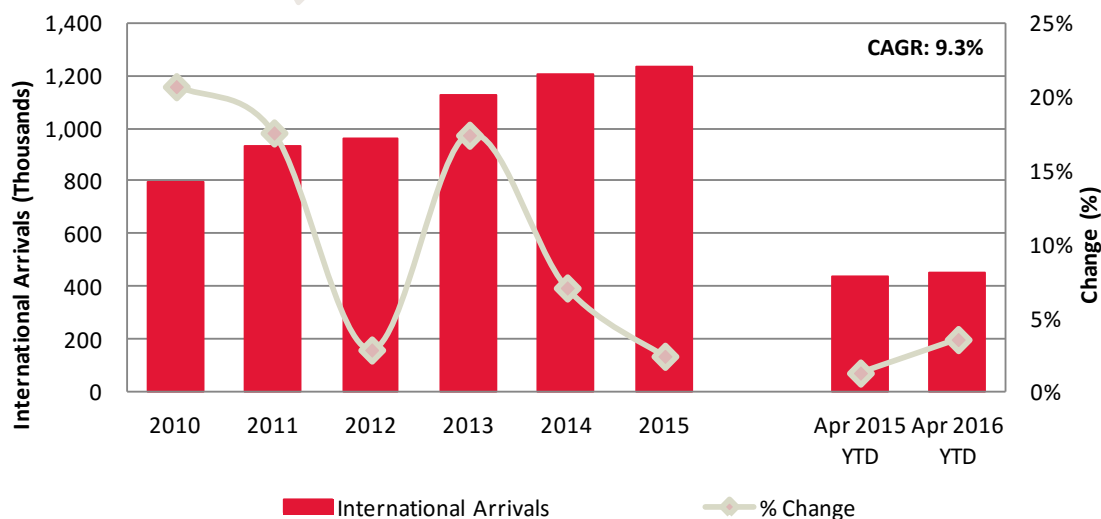
Tourism Target 2016:

Visit the Maldives Year 2016 campaign is expected to achieve **1.5 million** tourist arrivals.

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As of **April 2016**, Maldives managed to attain approximately **30%** of the target

FIGURE 2: INTERNATIONAL TOURIST ARRIVALS (2010 -2015)



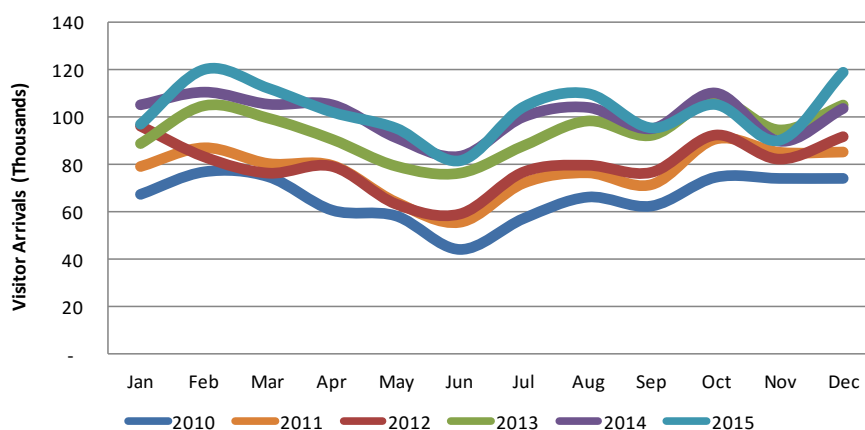
Source: Ministry of Tourism Maldives, HVS

Seasonality and Average Length of Stay

The seasonality in Maldives is rather volatile due to the monsoon season, which typically falls between May to July. August to January usually receives a high volume of travelers as the weather is pleasant. As shown below, low season runs from April to July where arrivals consistently show gradual decline.

The average length of stay in hotels and resorts has declined by 20% from 7.4 days in 2010 to 5.9 days in 2014. The popularity of Sri Lanka as a travelling destination has impacted the length of time that visitors spend in the Maldives; the trend currently is to spend shorter time, about five days in Maldives, followed by two to three days in Sri Lanka. This trend is expected to continue in the near future.

FIGURE 3: SEASONALITY OF TRAVELLERS



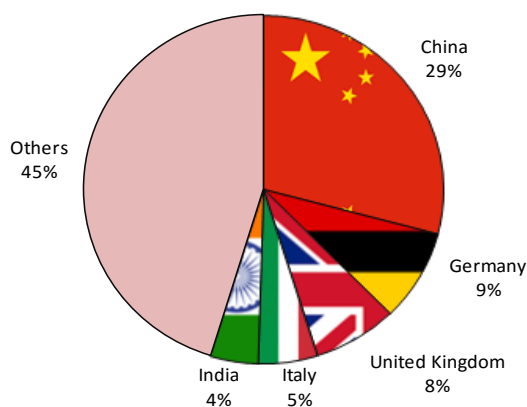
Source: Ministry of Tourism Maldives

Source Markets

The demand for tourism in the Maldives is mainly dependent on international travels. The Chinese are a notable demand segment, who made up 29% of all international arrivals in 2015 and have maintained their top position as a source market over the last five years. However, despite being the top source market for the Maldives, there has been a decline in numbers from approximately 364,000 Chinese travelers in 2014 to 360,000 in 2015 with an increase in the European source markets.

The top three international source markets in 2015 remained consistent with 2014 rankings; China, Germany and United Kingdom contributed 29%, 9% and 8%, respectively to the total international arrivals to the Maldives. Post the weakening of the Rouble, the Russian market, which contributed to 5% of total arrivals in 2014, declined significantly, and was surpassed by travelers from Italy and India.

FIGURE 4: BREAKDOWN OF SOURCE MARKETS



Source: Ministry of Tourism Maldives

New Travel Trends:

- Increase in Multi-Generational Travellers
- Increased interest in private island experience
- Growing Thai and Middle Eastern Markets



Resort Market & Performance

According to the Ministry of Tourism (MOT), the number of luxury and upscale resorts in the Maldives has remained relatively stable over the past few years. A total of 11 upscale and luxury resorts, comprising 3,330 rooms are planned for construction by 2018. This new pipeline will increase rooms supply to 21,668.

FIGURE 5: OVERALL RESORT SUPPLY (2013 – 2018F)

Resort Supply & Pipeline	2013	2014	2015	2016F	2017F	2018F
Total Number of Resorts	118	120	119	121	127	130
New Resorts Pipeline				2	6	3
Total Number of Beds	18,795	19,476	18,340	18,640	21,206	21,668
New Beds Pipeline				300	2,566	462
% Change in Supply (Beds)	9%	4%	-6%	2%	14%	2%

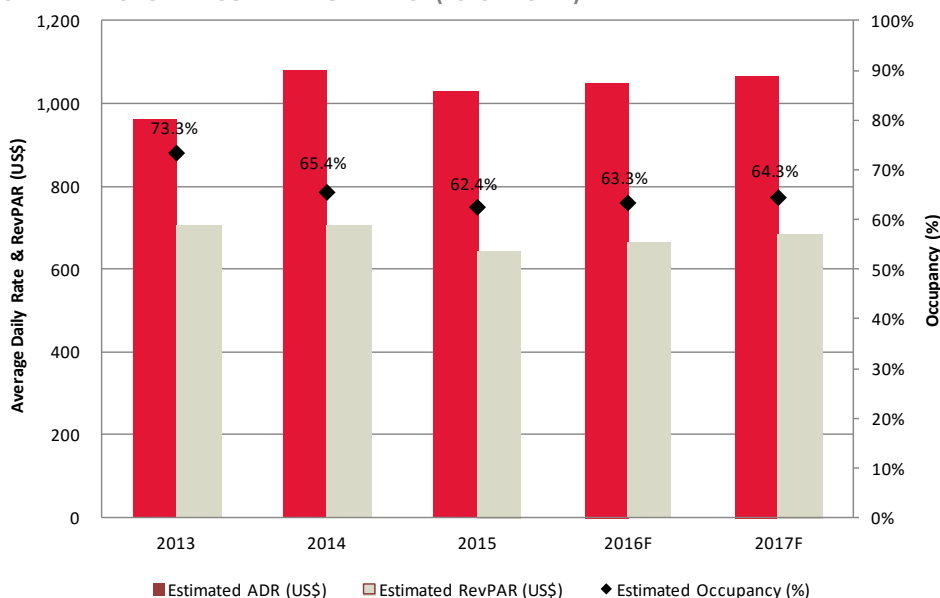
Source: Ministry of Tourism

Tourism in the Maldives has predominantly been driven by the International Leisure segment. However, many resorts suffered from the weakening of the global economy, especially in 2015 as the island nation had previously relied heavily on feeder markets from Russia and China. Due to the weakening of the Russian Rouble and the Chinese Yuan, the marketwide average daily rate (ADR) and occupancy (OCC) were lower as compared to other regional cities. With both major markets facing an uncertain economic situation, resorts have yet to see an improvement in performance this year.

ADR for upscale and luxury hotels grew significantly by 15% from 2013 to 2014 while occupancy declined by 8% due to the inclusion of an additional 681 beds from two new resorts in the market. However, the ADR dropped from US\$1,080 in 2014 to US\$1,030 in 2015 while occupancy declined further from 65% to 62%. This resulted in a decrease in RevPAR by 9% from US\$706 in 2014 to US\$643 in 2015.

Considering the performance of the world economy in the first half of 2016, overall ADR and OCC of resorts in the Maldives will continue to correct itself and average out at US\$1,050 and 62%, respectively. ADR will only see notable improvement towards the second or third quarter of 2017 when new supply in ultra-luxury segment enters. However, it is anticipated that the new competition will continue to limit occupancy growths. In 2017, RevPAR is expected to grow as the tourism industry recovers.

FIGURE 6: UPSCALE AND LUXURY RESORT PERFORMANCE (2013 – 2017F)



Source: HVS Research



Hospitality Transactions

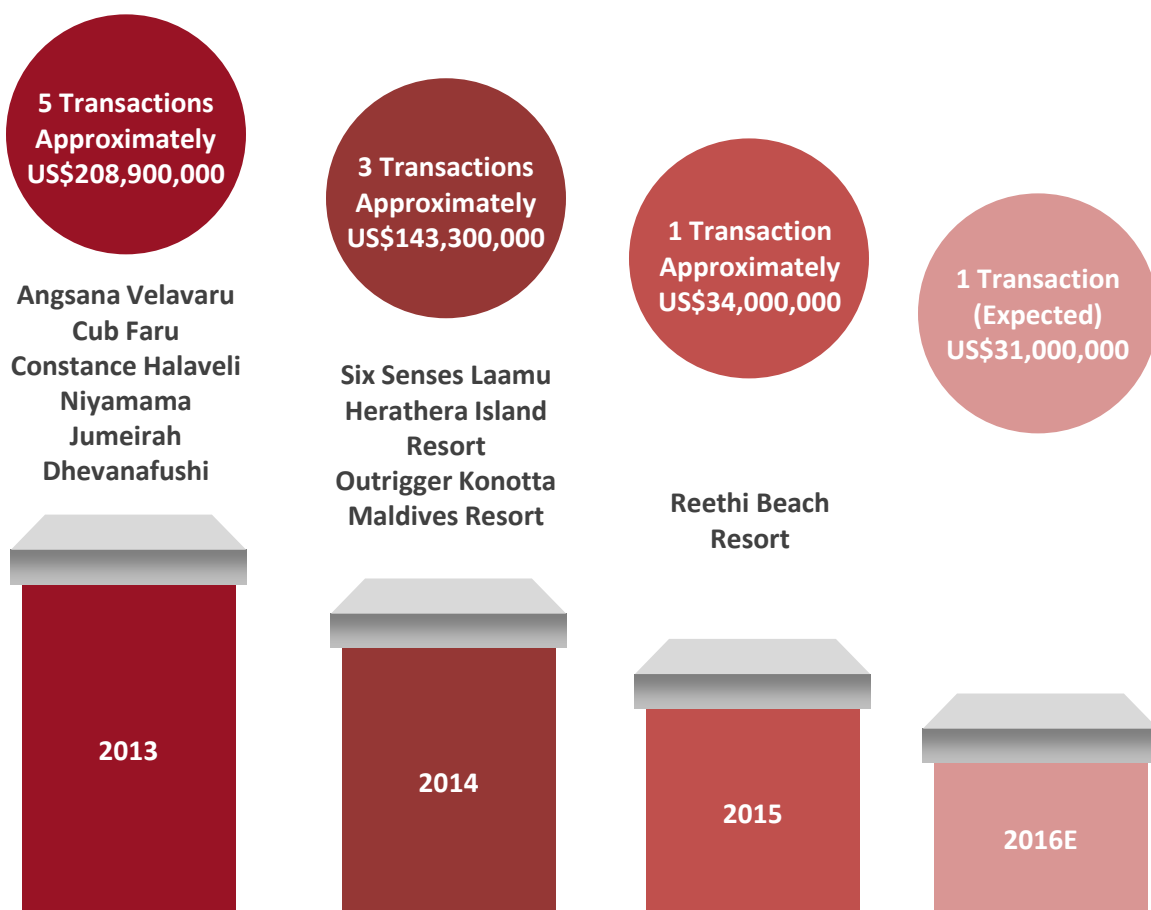
Since 2013, funds from Singapore have accounted for 73% of all transaction volume in this market. The next largest sources of funds are from Thailand and the United States.

In 2014, the overall hotel transaction volume in the Maldives declined by 31% to US\$143 million. Transaction volume continued to decline further in 2015 marked with the sale of Reethi Beach Resort. According to RCA Analytics, the sale of Zitahli Resort and Spa Kudafunafaru had not been completed. This decline was due to the political situation in 2015.

The largest transaction in the past five years was the sale of Angsana Velavaru in 2013 for approximately US\$71 million. Other notable investment transactions include the Jumeirah Dhevanafushi and Six Senses Laamu.

Growing interest in hospitality assets in the Maldives from global institutional investors has been able to keep the investment market in the nation strong. Sales volumes are unlikely to reach significant levels this year due to saturation in the market and the uncertainty in the hospitality asset performance in the island state. Going forward in the medium term, transactions of resorts are likely to pick-up slowly to steady levels prior to the national elections in 2018.

FIGURE 7: TRANSACTION HISTORY



Source: RCA Analytics, HVS Research



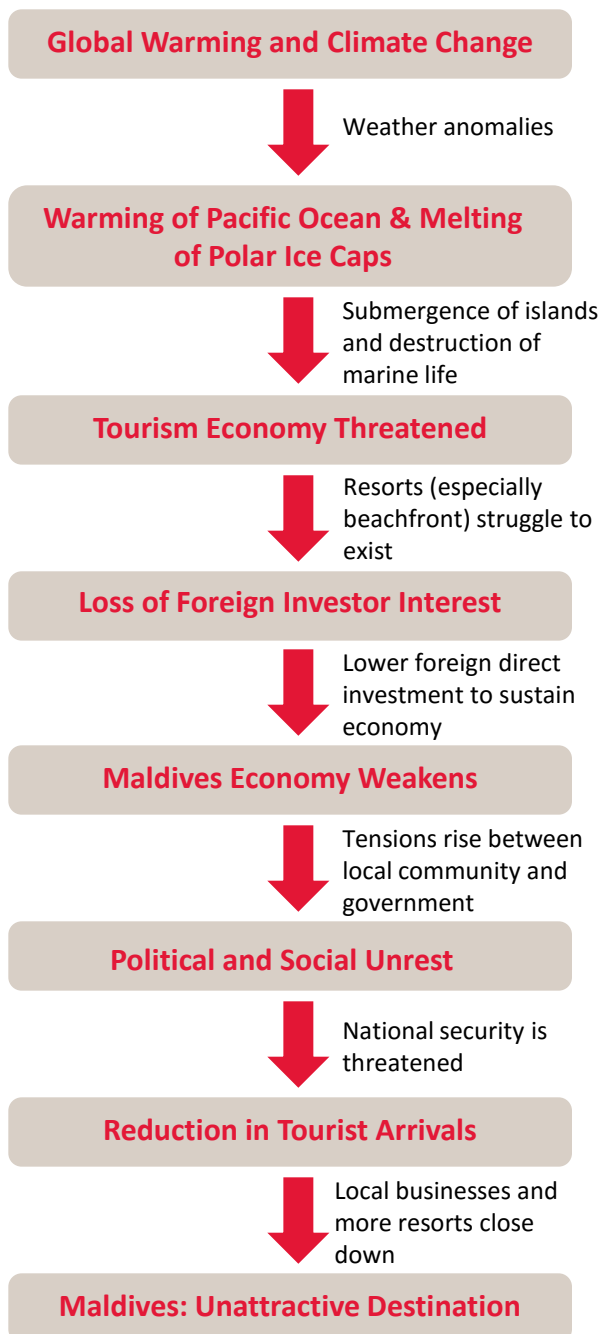
Tourism Sustainability

The Maldives tourism industry flourishes in a delicate environmental balance and its further evolution is vulnerable to external challenges. Efforts and policies have been made and need to be augmented to ensure long-term tourism sustainability in economic, environmental, legislative, and social aspects.

The government is also scaling up infrastructure investment such as the expansion of the country's international airport and other smaller domestic airports located in the southern region of Maldives. This is expected to boost tourism capacity in the Maldives and allow opportunities for emergence of different tourism products such as new types of attractions, resorts, etc. As a result, tourism growth is expected to be sustained as Maldives diversifies its tourism offerings and attracts new markets into the country.

Threats from global warming and unsustainable tourist activities make it imperative for the nation to ensure that its marine life, clear blue waters and white sandy beaches remain well protected for a sustainable future of tourism and the country itself. Maldives is committed to achieving Carbon neutrality by 2020 through the replacement of fossil fuels with renewable energy and having the island's vehicles and boats powered by electricity. Considering that various efforts have been carried out to facilitate ecotourism, hotels and resorts play their part in maintaining environmental sustainability by focusing on protection of the natural environment through measures such as effective electricity generation, water desalination, sewage treatment, and garbage disposal system. The country's crystal-clear waters harbour abundant sea life and over 3,000 vulnerable coral reefs with scuba diving one of the most popular activities among visitors. With a need to protect marine biodiversity, the government has formulated diving regulations that are being implemented by resort operators. Sites designated as protected marine areas have been set up by the government to preserve the natural environment of the country. These have become popular for diving.

Why is it crucial to practice sustainability in the Maldives?





Tourism Sustainability

The government plays an important role in ensuring tourism sustainability. They encourage players in the tourism industry to share best practices and create awareness on tourism impacts as well as take focused actions. In order to minimize the environmental impacts, the government strictly regulates all developments in the Maldives. Currently, foreign ownership is limited to a 25-year lease and only uninhabited islands are released by the government for tourism development. Resort buildings are not allowed to cover more than 30% of the island and should not be higher than the surrounding natural vegetation.

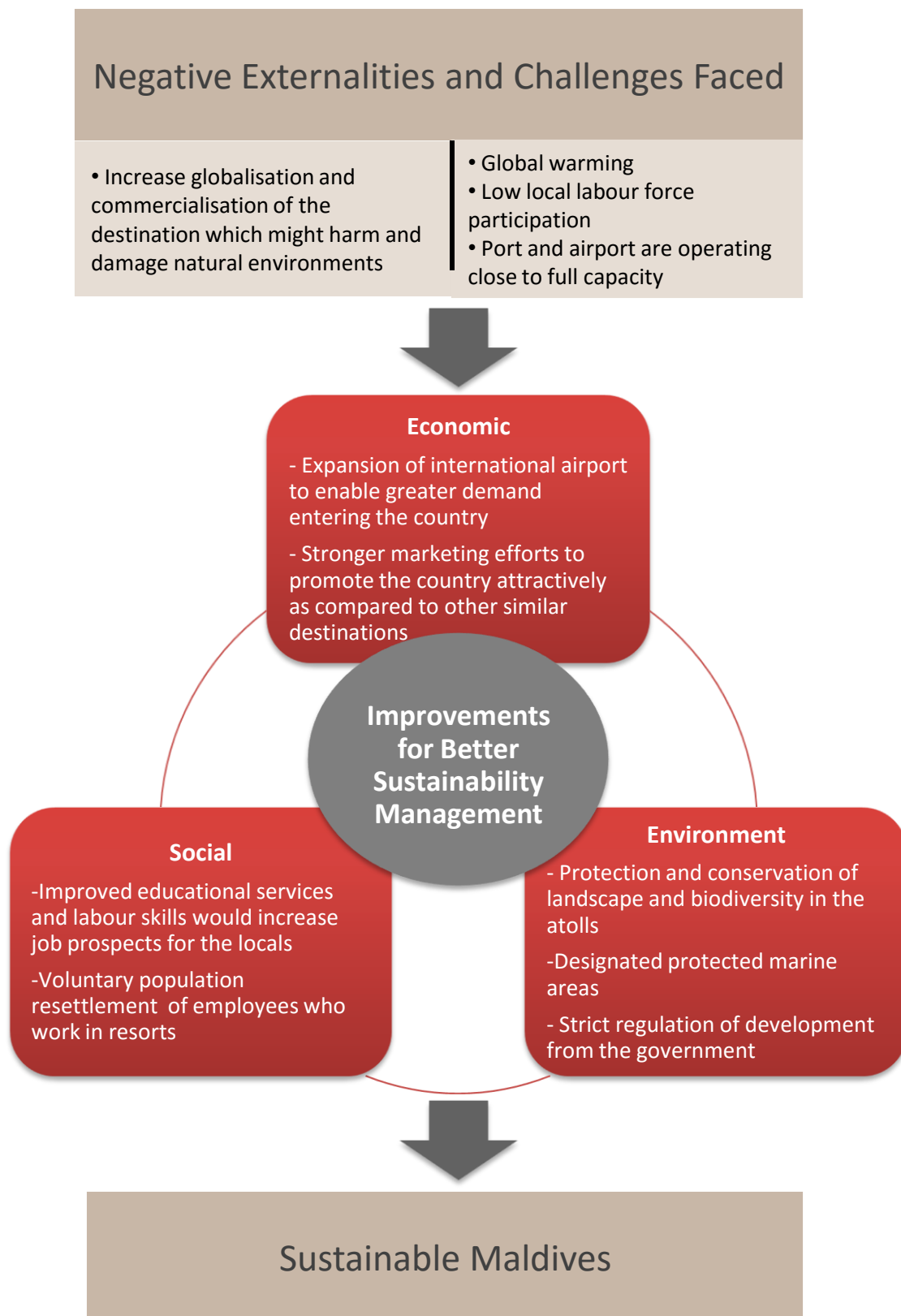
“ Having more educated and skilled locals will strengthen the domestic labor market and reduce reliance on expensive foreign labor, and facilitate sustainable tourism. It would also encourage voluntary resettlement of the locals to reduce the population density in Malé itself. ”

“ Foreign ownership of 25-year leases are granted for uninhabited islands for tourism development. Buildings are also not allowed to cover more than 30% of the island. ”

The tourism sector faces human resources challenges due to unskilled labor. Though the economy has been growing, the supply of domestic labor does not meet the demand on account of low access to quality education, insufficient secondary schools, and limited skills training programs; the gap is being filled by expatriates mainly. However, this deprives the Maldives' citizens of the opportunity to benefit from economic growth. In order to overcome these challenges, global organizations such as The World Bank and Asian Development Bank have contributed by way of The Enhancing Education Development Project and Employment Skills Training Project, respectively. While the former aims to enhance and strengthen access and quality of education in the Maldives, the latter aims to provide youth with employment oriented skills training and information. Introduction of more of such projects would not only improve education services and labor skills but also increase facilitation of employment opportunities between various organizations and local institutions. Increasing the amount of educated and highly skilled locals will boost the domestic labor market and reduce reliance on expensive foreign labor. This will reduce high labor costs significantly in the Maldives, allowing tourism to be more cost effective, which will in turn lead to sustainable business operating practices in the tourism industry.

In conclusion, over the past few years, the Maldives has seen significant growth in its economy and improvement in both its natural and social environments from several initiatives. However, as more development occurs in the Maldives, greater effort is crucial for working towards tourism sustainability.

FIGURE 8: TOURISM SUSTAINABILITY SUMMARY





Sustaining Investment Interest in Maldives

Investment interest is expected to grow as Maldives becomes a more sustainable destination. Since 2014, Maldives has seen a handful of foreign direct investments in the tourism sector. In July 2014, the Maldivian government and Dutch Docklands Maldives undertook the Five Lagoons Development together. The project involves the construction of five man-made floating lagoons on 8 million square meters of water with US\$10 million worth of villas, a floating 18-hole golf course, a conference complex and four individual ring-shaped floating islands that will each house water villas, a marina, restaurants, bars and retail shops. In June 2015, China-based Guangdong Beta Ocean Limited was the first to develop a five-star resort with 71 rooms on V. Kunaavashi Island in a joint venture with a Maldivian Company.

Maldives is also much sought after by many hotel companies for establishing international brand presence; additionally, it offers attractive returns on investment.

This year (2016), both Melia Hotels International and The Oberoi Group have announced plans to open their first resort in the Maldives within the next few years.

In order to sustain the interest of foreign investors, government policies have been improved to guarantee the security of these investments by ensuring the following (according to the Ministry of Economic Development and Tourism):

- No foreign exchange restrictions
- No restrictions on the repatriation of earnings and or profits
- No ownership restrictions and freedom to operate as wholly-owned foreign investment if desired
- 100% duty free for construction imports
- Extension of long-term land leases (up to an additional 25 or 50 years) depending on the scale of the investment
- Provision for overseas arbitration of disputes
- Legally backed investment guarantee



What Next?

Widening Horizons with Emerging Source Markets: Middle East, South Asia, Thailand, and Europe

For 2016, MOT strives to promote the Maldives in the Middle East, South Asia, Thailand and Europe as these markets tend to stay longer and/or have a higher spending capacity. These markets have seen significant growth over last year at 37.8%, 31.5%, 32.7% and 22.8%, respectively. This has led MOT to direct greater marketing efforts for tourism in these regions.

Setting Sail with Cruises and Private Yachts

Land reclamation in the western side of Hulhumalé Island for the Hulhumalé Yacht Marina and Cruise Liner area (with a fully-equipped modern cruise terminal) is part of Phase II of the Hulhumalé Development (which also comprises a tourism district, residential developments, heritage islands, commercial/ retail , technology and industrial parks). The Hulhumalé Yacht Marina is expected to service approximately 300 yachts and safari vessels. The project is expected to be completed and fully operational by late 2017.

Going Green with Biosphere 2020

The entire country is expected to become a UNESCO Biosphere Reserve by 2020. In 2012, Baa Atoll was inaugurated as a UNESCO Biosphere Reserve and it serves as a model for other atolls to integrate biodiversity conservation, and support sustainable livelihood development strategies to relieve pressure on biodiversity in both marine life and the local community. Sustaining the biodiversity in the Maldives will enable the destination to remain known for its quality marine experience, which has drawn several international tourists across the globe.



About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary last year. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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HVS SINGAPORE team has worked on a broad array of projects that include economic studies, hotel valuations, operator search and management contract negotiation, development strategies for new brands, asset management, research reports and investment advisory for hotels, resorts, serviced residences and branded residential development projects.

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