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French Polynesia, investors' paradise ?

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French Polynesia has developed into the ultimate South Pacific destination, perceived as a 'once-in-a-lifetime' journey only affordable by a privileged few. Over recent years, inbound arrivals have stabilised around 210,000 visitors. Despite a lack of growth in visitation, the opening of seven resorts between 1999 and 2005 are proof that French Polynesia remains an attractive destination for developers. This enthusiasm is being stimulated by the French Polynesian Government, which is offering incentives to encourage further development. Tax concessions, in particular, are being utilised to finance several properties currently under construction on the island of Bora Bora.

Introduction

Situated on the far-east side of the South Pacific, French Polynesia comprises 118 islands divided into five archipelagos: the Society Archipelago, Tuamotu Archipelago, Marquesas Islands, Austral Islands and Gambier Islands. French Polynesia is generally better known by the name of its main island, Tahiti. Papeete, which is situated on the island of Tahiti, is French Polynesia's administrative capital and home to its only international airport. French Polynesia epitomises the Pacific dream of reef-fringed islands, palm trees and blue lagoons amid strong cultural displays of dancing and tattooing.

French Polynesia lies between the Equator and the Tropic of Capricorn and enjoys a tropical climate, without undue changes of temperature, making it popular as a year-round tourism destination. The population of French Polynesia is approximately 250,000, most of whom live on the Society Islands. The population comprises a combination of four major ethnic groups: Polynesians (65%), Europeans (12%), Chinese (5%) and demis - characterised by people of Polynesian-European or Polynesian-Chinese descent (16%).

Together with New Caledonia, French Polynesia is France's other 'overseas country' in the South Pacific. Since February 2004, French Polynesia has benefited from the status of French overseas country, whereby France transferred the majority of economic and financial powers of governance to French Polynesia but retained control over several important functions such as the territory's defence and justice system, law and order, immigration, secondary and higher education and currency.

Considered a maturing tourism destination as a result of years of market development, French Polynesia is now at a crossroad to enter a new era of growth, with several challenges needing to be addressed in order to further develop the destination.



Access

Given its remote location, French Polynesia's tourism industry is almost totally dependent on airlines to provide adequate access for visitors. Papeete Faa'a, located on the main island of Tahiti, is French Polynesia's only international airport. Overall, international arrivals on all airlines have grown by 8.3% between 2002 and 2004, which has been followed by a further marginal increase in 2005 of 2.4%.

The national air carrier, Air Tahiti Nui, provides 24 weekly direct flights to French Polynesia from Auckland, Los Angeles, New York, Osaka, Paris, Sydney and Tokyo. In July 2005, Air Tahiti Nui introduced two weekly direct flights between Papeete and Sydney and three weekly direct flights between Papeete and New York using the Airbus 340-300. More recently, Air Tahiti Nui commenced a service between New York and Paris coupled with its non-stop service from New York to Tahiti. Flight time from LA to Papeete is eight hours, Sydney to Papeete nine hours and Paris to Papeete takes 20 hours. The launch of the direct flights between New York and Papeete is significant as it may open up the east coast of the USA as a new inbound market, considering that, at present, the majority of US travellers come from the west coast.

Domestic air travel is critical to developing inter-island tourism in French Polynesia considering the distances between islands (Table 1). The local domestic carrier, Air Tahiti, comprises nine aircraft, which can fly up to 100 flights per week during peak season.

Table 1 Travelling Time between Islands from Papeete (Tahiti)

Departure	Destination	Archipelago	Average Length of Flight (non stop)
Papeete	Moorea	Society Islands	10 mns
	Bora Bora	Society Islands	50 mns
	Tikehau	Tuamotu Islands	55 mns
	Rangiroa	Tuamotu Islands	60 mns
	Rurutu	Austral Islands	1.5 hrs
	Nuku Hiva	Marquesas Islands	3.5 hrs

Source: HVS International



Economic Snapshot

Historically, French Polynesia's economy relied predominantly on the military and tourism sectors. Following the halt of French nuclear testing in 1996, the military contribution to the economy fell sharply and tourism became the main growth driver, accounting for about 25% of the country's gross domestic product (GDP). French Polynesia's other income is principally derived from the pearl industry as well as from agriculture and food products including vanilla, copra and fruits. The economic prospects for French Polynesia remain positive as one of the richest countries among its South Pacific island neighbours, despite its reliance on France's input and a significant trade deficit.

Table 2 French Polynesia Economic Snapshot

Year	Imports (billion XPF)	Exports (billion XPF)	Average Exchange Rate (USD)	Inflation (% change)
2002	160.1	18.7	127.07	2.0
2003	165.4	13.4	105.95	0.7
2004	142.0	17.7	96.05	0.8
2005	163.6	20.2	96.10	2.3

Source: Institut Statistique de Polynesie Francaise (ISPF)

Economically, the linkage of the Euro to the Pacific Franc (XPF), French Polynesia's official currency, with a fixed rate of 1,000 XPF to 8.38 Euros since January 1999, has resulted in the destination being more expensive for some source markets. As a result French Polynesia has become less price competitive than the majority of other South Pacific Islands.

Visitation to French Polynesia

French Polynesia's primary source market for visitor arrivals remains, by far, the USA (33%). Subsequently, France and Other Europe account for 39% of all arrivals followed to a lesser extent by Japan with 11%. Noteworthy, overall visitation as presented by the country's Institute of Statistics also encompasses cruise ship passengers, which represent nearly 20% of all visitors to French Polynesia.

Visitation to French Polynesia experienced an average annual growth of 11.4% between 1996 and 2000 to reach 252,000 arrivals. However, annual visitation declined in the two years thereafter before stabilising around 210,000 visitors. This decline may be attributable to the post "9/11" global context and a weakening of French Polynesia's major markets' economies. As such, French Polynesia experienced a 34% reduction in travellers from the USA between 2001 and 2002, before rebounding to 74,000 by 2004.



Visitor statistics for 2005 indicated a 2% decline in inbound arrivals to French Polynesia. This decline was largely caused by an 8% and 7% decrease in visitors out of the USA and Japan respectively, and further exacerbated by the withdrawal of the cruise ship Windstar in 2005, which attracted 5,500 tourists in 2004.

On a positive note, the recent growth in Australian visitation is proof that the launch of direct flights between Sydney and Papeete combined with increased promotional campaigns has been effective.

Table 3 International Visitor Arrivals to French Polynesia

Country	2002	2003	2004	2005
USA	64,202	77,768	73,585	68,047
France	46,602	48,177	45,069	45,264
Japan	23,632	22,882	23,630	21,986
Australia	5,346	7,506	7,687	9,609
Other Europe (excl. France)	29,263	31,687	34,435	35,741
Other Countries	19,985	24,747	27,487	27,420
TOTAL	189,030	212,767	211,893	208,067

Source: Institut Statistique de Polynesie Francaise (ISPF)

Visitors to French Polynesia remain concentrated around a relatively limited number of islands, primarily located in close proximity to Papeete and its international airport. Following Tahiti, Moorea is the second most visited island, primarily due to its close association with Tahiti and the excellent transportation system (either by boat or plane) that exists between the two islands. Bora Bora appeals to receive over half of all visitors, while Rangiroa in the Tuamotu attracts the most visitations of the outer islands (10%). Tahiti Tourisme is trying to encourage diversification in visitation pattern away from the traditional “triangle” of islands - Tahiti, Moorea and Bora Bora - in an attempt to both lengthen visitors’ average length of stay and encourage economic development in lesser-known islands. The success encountered by Le Taha’a Private Island and Resort, which opened in 2002 on the lesser-known island of Taha’a, is proof that tourism can be developed on the other islands.

Despite the French Polynesian Government’s desire to see the number of annual tourists increase to 300,000 in the medium term and to 450,000 in the longer term, inbound visitation is currently stabilising around 210,000 visitors. One of the main reasons for the lack of growth may be the concentration of past and present hotel developments at the premium-end of the market, combined with the perception of French Polynesia as a destination affordable only to affluent travellers.



However, the following actions may enable the government to achieve their tourism growth objectives:

- recent increases in air capacity to new markets;
- implementation of marketing strategies to broaden the appeal of the destination including promoting French Polynesia to the Japanese senior market;
- increase in the Ministry of Tourism's budget; and
- willingness to open the destination to the Chinese market with discussion currently underway for the grant of an Approved Destination Status (ADS) by the Republic of China.

Purpose of Visit

French Polynesia is first and foremost a leisure destination with some 80% of all visitors citing holiday as their main purpose of visit. Noteworthy, 28% of visitors come to French Polynesia for their honeymoon, primarily from the USA and Japan.

The reliance on the couples market, combined with the perception of the destination as an "once-in-a-lifetime" journey, has contributed to a low rate of repeat visitation. As a result, the French Polynesian Government in conjunction with Tahiti Tourisme is trying to broaden the appeal by diversifying visitor experiences. As such, construction of an 18-hole championship golf course is underway proximate to Moorea airport while another golf course is proposed on the island of Taha'a. Similarly, cruise tourism has generated a substantial number of tourists to French Polynesia with over 45,000 travellers opting to cruise on French Polynesian waters. The development of both golf and cruise tourism reinforces the country's appeal as a high-end destination and provide travellers with additional attractions, which may entice them to come back.

Regional Competitive Environment

In the wider geographic context and considering its appeal as a high-end destination, French Polynesia currently competes for tourists with a number of other regional tourist destinations in the South Pacific and Indian Ocean, including Fiji, New Caledonia, Mauritius, the Seychelles and the Maldives. Additionally, considering that over 30% of all travellers come from the USA, French Polynesia competes with other US-centric destinations including Hawaii. The success encountered by the Aloha State, which welcomes over six millions tourists annually, may provide an example of tourism development on which to base future tourism and hospitality-related decisions for French Polynesia, considering the similarities between the two countries in terms of natural attributes and high-end accommodation products.



Investment Incentives

French Polynesia, in parallel with the French government, values tourism investment and offers taxation incentives to local investors to stimulate in the creation or expansion of tourist hotels. The Loi Flosse, enacted by the French Polynesian government, in association with the Loi Girardin, enacted by the French government, encourages investment in tourist accommodation facilities by providing tax credit on the investment up to a total of approximately 60%. For more information on investment incentives please refer to www.tahiti-invest.com/attente/index-en.htm.

These incentives have been responsible for a significant increase in hotel construction, primarily in the luxury sector, since the latter part of the 1990s.

Accommodation Facilities

French Polynesia is home to a diverse range of tourist accommodation facilities represented by some 47 hotels with a total of approximately 3,150 guest rooms. This figure does not take into consideration family pensions, which cater predominantly for the domestic market. As at June 2006, one property was still closed for renovation - the Sofitel Moorea, with the InterContinental Moana Beach in Bora Bora recently re-opening following a seven-month refurbishment program.

Hotels in Tahiti constitute the largest number of rooms available in the country (40%), followed by the resorts situated in Bora Bora (30%) and Moorea (17%). While accommodation supply in Tahiti and Moorea has remained relatively stable in recent years, there has been a considerable increase in room stock on Bora Bora since 1998, including Le Meridien, Sofitel Motu, Bora Bora Pearl Resort and Bora Bora Nui Resort.

Table 4 Number of Available Rooms in French Polynesia by Location

Area of Location	Number of Properties	Ratio	Number of Rooms	Ratio	Average Number of Rooms
Tahiti	11	23%	1,251	40%	114
Moorea	8	17%	531	17%	66
Bora Bora	14	30%	942	30%	67
Other Society Islands	6	13%	176	5%	29
Tuamotu Islands	6	13%	215	7%	36
Marquesas Islands	2	4%	34	1%	17
TOTAL	47	100%	3,149	100%	67

Source: Service du Tourisme – October 2005



The following table illustrates the type of lodging preferred by each nationality. Not surprisingly, Japanese travellers predominantly stay in luxury accommodation (72%) where they are familiar with the hotel brand and service standards. Conversely, nearly half of French visitors elect to stay in family pensions as a cost saver and as a result of their tendency to explore lesser-known islands that do not have five-star properties.

Table 5 Hotel Utilisation by Nationality

Type of Properties	North America	South America	Australia/ NZ	Other Europe	Other Countries	France	Japan
Deluxe (Five-Star)	50%	60%	41%	32%	34%	21%	72%
Mid-Market (Four-Star)	27%	23%	23%	27%	12%	16%	17%
Budget (Two/Three-Star)	9%	10%	14%	12%	21%	17%	9%
Family Pensions/B&B	14%	8%	22%	29%	33%	46%	3%

Source: Service du Tourisme

Luxury Market

French Polynesia is renowned for its over-water bungalow product, which provides guests with an experience of exclusivity in a natural pristine environment surrounded by a beautiful lagoon. This concept, which first appeared in the early 1960s with the development of the Hotel Bora Bora, subsequently proliferated with the construction of several additional exclusive resorts, predominantly in Bora Bora, offering a similar experience.

Those small deluxe properties managed by an international operator are considered “destination resort” hotels. At present, most of the deluxe establishments are situated in Bora Bora and offer, on average, less than 80 bungalows per resort, most of which are placed on over-water sites. These resorts promote an exclusive and tranquil guest experience targeted primarily at the high yielding honeymoon and couples markets and generally sold as a ‘once-in-a-lifetime’ experience. Over the last few years, this market category has experienced significant growth, driven by the construction of several properties on Bora Bora including the Méridien Bora Bora and Bora Bora Nui Resort.

Upper Mid-Market

The Upper Mid-Market segment predominantly comprises large-scale properties situated in Tahiti, which offer 200 rooms on average. These hotels are managed by international operators, which generally also have other properties on other Society Islands. As a result, they are considered “transit” hotels, as they would accommodate international passengers on their way to the major resort islands of Moorea and Bora Bora.



Mid-Market

The Mid-Market segment is limited to a few properties, predominantly located on the main islands of Tahiti, Moorea and Bora Bora. These properties generally comprise less than 50 guestrooms and are independently managed. The Mid-Market accommodation sector offers an alternative to travellers with a limited budget, but who still require some of the services associated with a hotel.

Budget Market

French Polynesia's budget market is divided among two main segments, the small hotels and small guesthouses.

The small family-owned hotels correspond approximately to a one-star hotel. This segment of the hospitality industry is likely to receive a boost in marketing following the recent decision that Tahiti Tourisme would be in charge of all promotional activities for this sector.

The majority of the budget accommodation market comprises small family-owned guesthouses. There are approximately 260 pensions in French Polynesia, each with an average of five guestrooms. Those hotels provide travellers with an authentic experience of life on the islands. Considering that most islands in French Polynesia are both small and remote, pensions are generally the only accommodation available on the lesser-known archipelagos of the Marquesas and Austral Islands.

Backpackers

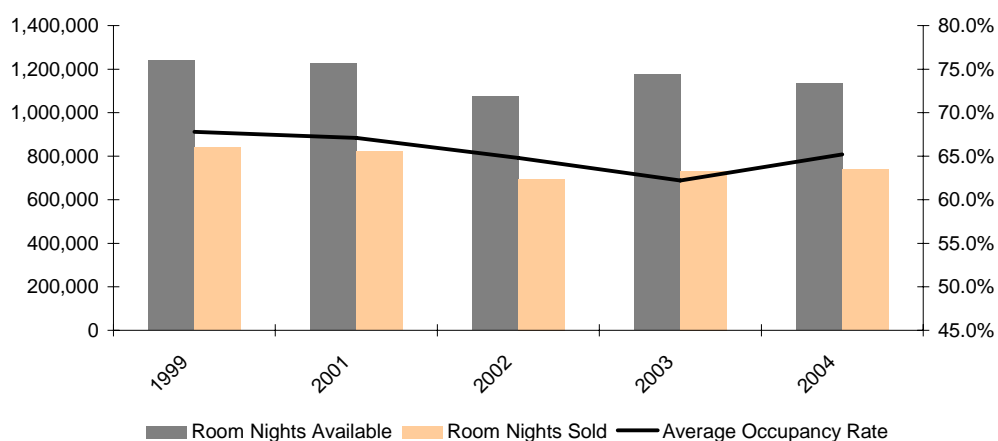
Contrary to other South Pacific destinations, French Polynesia does not have a well-established network of backpackers' accommodation. The country's limited arrival numbers and reputation as an expensive destination have likely contributed to the absence of the infrastructure for that specific market.

Hotel Performance Review

Demand for tourist accommodation in French Polynesia has fluctuated significantly in recent years. In line with the decrease in international visitation at the turn of the millennium, hotel guest nights bottomed in 2002 before experiencing a slight recovery in 2003, which did not continue into 2004 and further declined in 2005.

Interestingly, the number of visitors in hotels declined at a lesser pace than overall tourists in 2005, which may be linked to the increase in average length of stay for visitors in hotels over the same period in French Polynesia.

Table 6 Demand for Hotel Accommodation – French Polynesia



Note: The total number of room nights sold was calculated based on the total inventory and average occupancy as reported by ISPF

Source: Institut Statistique de Polynesie Francaise (ISPF)

Official data on average daily rate (ADR) is not maintained by the statistical authorities. Discussions with industry stakeholders indicate that ADR in Tahiti and Moorea has shown minimal growth during recent years, while ADR in Bora Bora has increased, primarily as a result of the latest additions to supply, which have positioned themselves at the top end of the market in terms of their pricing policy.

New Development

In addition to the new resorts that opened over the last five years, there are a number of hotel and resort projects currently under construction or being proposed for development. While Bora Bora remains the primary focus for new development, with two major hotel projects presently under construction and one recently opened, several projects are also rumoured on various other islands of the Society Group. Additionally, several hotels have recently reopened in Tahiti and Bora Bora, namely the Sheraton Tahiti and Sofitel Marara, following extensive renovations programs.



Table 7 Hotel Development Projects

Property Name	Location	No. Rooms	Opening Date	Operator	Development Status
InterContinental Resort & Thalasso Spa Bora Bora	Bora Bora	80	May 2006	InterContinental Hotels Group	Recently opened
St. Regis Bora Bora	Bora Bora	92	June 2006	Starwood	Under Construction
Four Seasons Bora Bora	Bora Bora	100	2007	Four Seasons	Under Construction
Raffles Resort Taimana	Taha'a Island	65	2008	Raffles Hotels & Resorts	Proposed
The Brando	Tetiaroa	30	2008/09	InterContinental Hotels Group	Proposed
Huahine Resort (2 hotels)	Huahine	250	2009	N/A	Proposed
Legends Resort Moorea	Moorea	50	N/A	N/A	Rumoured
Golf Hotel	Moorea	N/A	N/A	N/A	Rumoured
Hotel Tau Mua	Tahiti	150	N/A	N/A	Rumoured

Source: HVS International

Although this significant enhancement of accommodation supply is expected to result in pressure on market performance, the introduction of additional luxury hotel operators with strong brands, the marketing efforts of Tahiti Tourisme and the additional airlift capacity implemented by Air Tahiti Nui may also result in a substantial increase in inbound demand that can support these facilities.

Additionally, in light of the growing relations between French Polynesia and China, the China Travel Service, China's biggest tour operator, recently announced its intention to invest in two hotel projects worth approximately \$100 million. One of those developments is to be located on the island of Taha'a.

Market Outlook

French Polynesia's appealing natural and cultural attributes combined with a unique and luxurious style of accommodation product are significant points of differentiation, which have contributed to French Polynesia developing as an exclusive destination. However, despite these indisputable qualities, the number of visitors to French Polynesia has remained limited compared to other South Pacific destination such as Fiji, and has been declining in recent years.

In addition to the numerous additions to supply that have become operational over the last five years, other supply increases are expected in French Polynesia between 2006 and 2009. The establishment of major internationally branded hotels in markets such as French Polynesia are capable of stimulating demand growth varying in source, quantum and value in accordance with the market positioning and management strategies implemented at each new property. These changes will need to be conducted concurrently with increases in airlift capacity and promotional activities, without which any significant increases to supply are unlikely to be sustainable.



The future of French Polynesia as a growing tourism destination is linked to the establishment of a clear strategy on which to base future tourism and hospitality-related decisions. While it is essential that French Polynesia maintain its reputation as a unique and exclusive destination, the tourism authorities may need to focus some of their marketing efforts on additional niche markets if the country is to reach its objectives in terms of growth of visitor arrivals.