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IN FOCUS: **MALDIVES**

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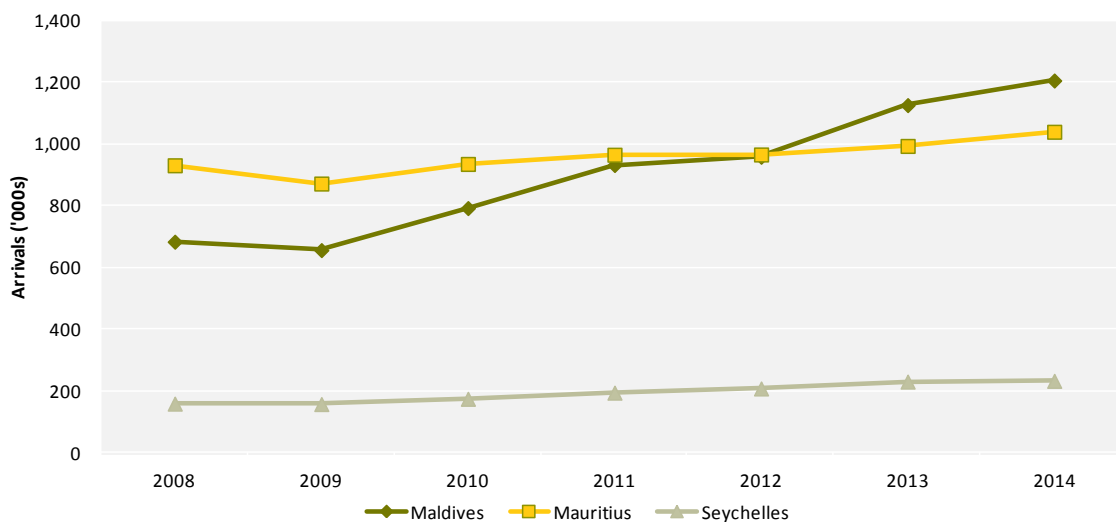


The island nation of the Maldives is a collection of 1,190 pristine coral islands in the Indian Ocean spanning an area of 298 square kilometers, with a local population of 345,000. Tourism constitutes up to 48% of direct and 94% of indirect contribution to GDP (2013), making it imperative for the island nation to maintain its attractiveness to visitors and potential investors. The Maldives continues to maintain an image of a tropical island getaway for special events and occasions. Many tourists arrive expecting a memorable once in a lifetime experience, consequently the location, product offerings and brand legacy of a resort are impetus to its success.

Visitor Arrivals

The Maldives reached a record 1.2 million visitor arrivals in 2014. From 2008 to 2014, visitor arrivals to the Maldives grew by a CAGR of 9.9%, exceeding the growth rate and numbers of other remote island destinations such as the Seychelles and Mauritius (which recorded 1.9% and 6.6% respectively over the same period). In 2012, the Maldives for the first time received more visitor arrivals than Mauritius and has grown since then. The increasing flight connectivity to key source markets as well as the growing popularity of the destination amongst the Chinese market are key. Interestingly despite the Global Financial Crisis in 2008-09 all three resort destinations experienced only minor decreases in tourism arrivals and quickly recovered despite the high costs related to travelling to these locations.

FIGURE 1: COMPARISON OF VISITOR ARRIVALS COMPARISON BETWEEN ISLAND GETAWAYS 2008-14

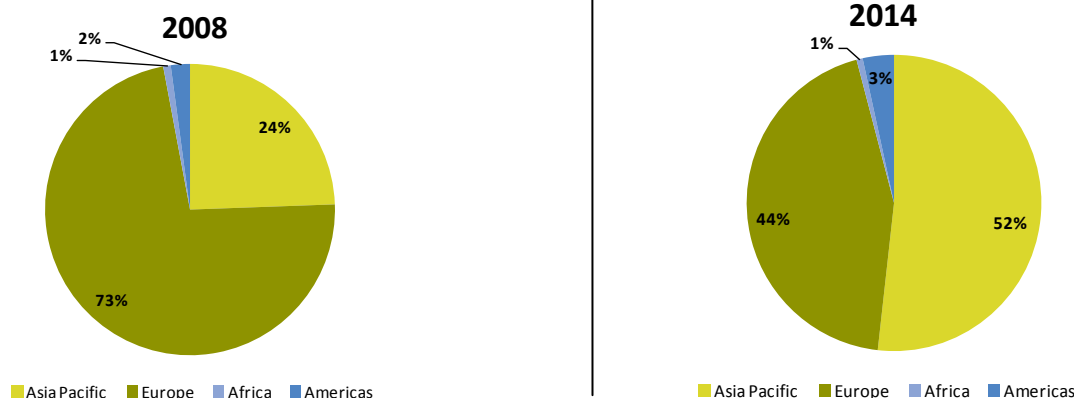


Source: Ministry of Tourism, Maldives, Seychelles and Mauritius

Maldives has witnessed increasing demand from Asia Pacific countries since 2008, with a 25% CAGR in visitor arrivals from this region from 2008 to 2014. This growth may be attributable to rising middle class, strong economic growth in key source markets and improved connectivity from the region. Additionally the Maldivian government has invested in marketing the destination actively in Asia Pacific and in China. On the other hand Europe which has historically been Maldives largest feeder market, only grew by 1% CAGR from 2008 to 2014.

Figure 2 displays a comparison of the market share by source regions between 2008 and 2014.

FIGURE 2: SOURCE REGIONS TO THE MALDIVES 2008-14



Source: Ministry of Tourism, Maldives

In 2013, Asia Pacific became the largest regional feeder market for the Maldives, and as of 2014 constitutes 52% of total arrivals. Europe on the other hand holds a market share of 44% and the remaining 4% are visitors from Africa and the Americas. The sudden boom of the Asian Pacific market since 2010 was mainly driven by China which made up 30% (363,626) of total arrivals to the Maldives in 2014, at a robust 44% CAGR since 2008. The other top five feeder markets, Germany (98,328; market share 8%), United Kingdom (88,740; market share 7%), Russia (66,308; market share 6%) and Italy (57,862; market share 5%), continue to pale in numbers in comparison to China. In 2015, a currency weakening of the Russian Rouble led to roundly 38% decrease in visitors from Russia. In January 2015, arrivals from China declined by 33% when compared with the same period in 2014, which may be attributable to the slow down in the Chinese economy as well as the Chinese New Year Holidays falling in February this year. However, Maldives is expected to rebound with the continued interest from Asia Pacific, Middle East and expected revival of Europe and Russian markets in the medium to long term.

Airports

Maldives is accessible through two international airports, its main airport being Ibrahim Nasir International Airport located on the island of Malé and Gan International Airport located in southern Maldives. The current capacity of Ibrahim Nasir International airport is 2.6 million passengers. Gan International Airport located far south of the Maldives, it is not as well connected as Ibrahim Nasir in part due to the limited tourism offerings available at the Southern Atolls. There are six domestic airports located at Maamigili, Kadhdhoo, Kooddoo, Dharavandhoo, Kaadedhdhoo and Fuvahmulah, that form a network connecting passengers to remote atolls.

In 2013, airlines based in Asia Pacific accounted for 48% of all aircraft movement, reflecting a CAGR of 17.1% since 2009. Airlines based in the Middle East took second place with a 27% share and having the highest CAGR of 25.5%. Europe, one of Maldives' largest source market, only accounted for 14% of the market share with a CAGR of 8.1%.

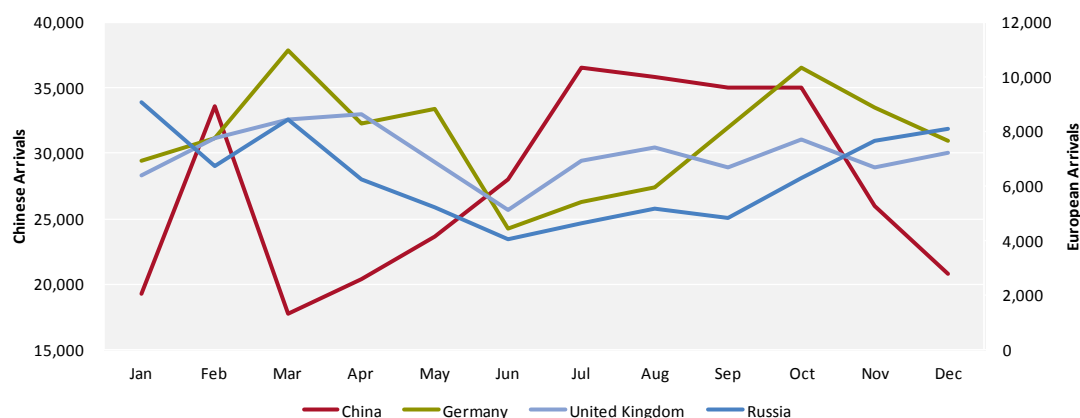
New Air Routes

Since 2013 the Maldives has continued to increase new airline routes and Turkish Airlines, Fly Dubai, Korea Air and Spicejet entered the market in 2013. Domestic carrier Mega Maldives announced two new weekly non-stop routes to XiAn (XIA) and Changsha (CSX) in China, and the airline expects to bring an additional 10,000 passengers to the Maldives in 2015. Maldivian, Maldives' national carrier, is also expected to increase flights to cities in China. In December 2014, Dubai based carrier, Emirates added seven new flights between Dubai and Malé, the airline now provides three daily flights to the Maldives. Lastly, Lufthansa will operate flights between Frankfurt and Malé twice a week between December 2015 to April 2016; this will be during the shoulder through the peak travelling months of European travellers wanting to escape winter's cold.

Seasonality

The Maldives experiences distinct seasonality, reflecting the character of the destination which is entirely leisure driven. Weather is a strong driver of demand in the Maldives and low season runs from April to August with its lowest in June due to monsoon. Arrivals pick up from August and peak in December when Maldives enjoys the best weather.

FIGURE 3: SEASONALITY OF TOP FOUR MARKETS TO THE MALDIVES



Source: Ministry of Tourism, Maldives

Upon closer inspection the top four markets to the Maldives showed distinctive seasonality. As shown in Figure 3, Germany, United Kingdom and Russia reflect overall similar patterns in seasonality, spurred mainly by the winter, Christmas & New Year Holidays. Demand from China's is driven by holidays during Chinese New Year, usually in late January or February and school holidays in July and August. With arrivals from China comprising a significant share of the market, we may see a mellowing of the shoulder season from July to October.

Overall Resort Market Wide Performance

Marketwide Supply

The Tourism Year Book 2014 published by the Ministry of Tourism Maldives, recorded 27,610 registered beds in 286 properties spread across resorts, hotels and guest houses in the country.

As per HVS research, luxury to upscale resort rooms account for 62% of the total supply and have been the focus of many international brands. Historically this has been driven by the cost of operation in remote destinations necessitating a high room rate for the resorts to be profitable. The Economy and Midscale constitute the balance 38% of resort rooms supply in the Maldives. However the midscale and economy establishments though smaller in terms of the rooms supply, make up 69% of the resort count, due to the fact that they often much smaller in size. This segment in recent times has gained increased attention from brands and investors alike.

Proposed Pipeline

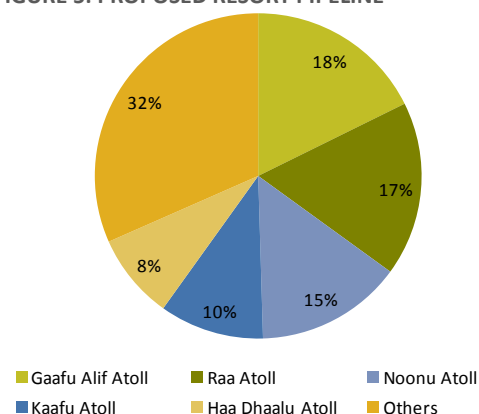
As of 2014, the Ministry of Tourism Maldives reported 106 proposed resorts for which island space has been leased. The leased islands are spread across 19 atolls with the expected developments comprising of total capacity of approximately 16,000 beds. The government began leasing these islands for resort development in 2000 though many of these remain undeveloped. As time goes by the likelihood that these projects will materialize diminishes since most leases were for a period of 25 years (and more recently 50 years). Of these 106 proposed

FIGURE 4: RESORT SUPPLY 2015

	Market Share - Properties	Market Share - Rooms
Luxury	14%	25%
Upscale	17%	37%
Midscale	16%	23%
Economy	53%	15%

Source: HVS Research

FIGURE 5: PROPOSED RESORT PIPELINE



Source: Ministry of Tourism, Maldives

projects, notable branded resorts include the Ritz-Carlton Maldives, the Patina Maldives and Centara Hudhufushi Resort & Spa.

As the Maldives has matured in its tourism offerings, we note that many islands have already been leased, especially in strategic locations in and around Male's International Airport. A majority of new resort developments and available islands are further away from Male, presenting accessibility issues. This further justifies the need for more direct international flight connectivity to other atolls. The new developments are also likely to be impacted by the Asian markets due to their typical shorter length of stay, as longer travel duration to the resorts may be a deterrent. We also note that due to very high development costs and complex construction, the barrier to entry in Maldives for new developments remains high.

Midscale Market Resort Trading Performance

The aggregate performance of a representative sample of about 1,850 rooms is shown in Figure 8. The midscale market has performed well in terms of both occupancy and average rate, due to limited supply growth in the midscale segment in recent years. The market saw a 36% RevPAR increase from 2012 to 2013, attributed by the strong upside in occupancy.

In 2014, ADR in the market saw an increase of four percent over 2013, while occupancy grew by eight percentage points for the same period. Consequently, the sample set marketwide RevPAR recorded a 13% increase year-on-year from 2013, which stood at approximately US\$155 for 2014.

Upscale Market Resort Trading Performance

The aggregate performance of a representative sample of 2,050 rooms is shown in Figure 9. The upscale market performed well in terms of occupancy and rate from 2012 to 2013, achieving a 39% RevPAR increase, driven by occupancy.

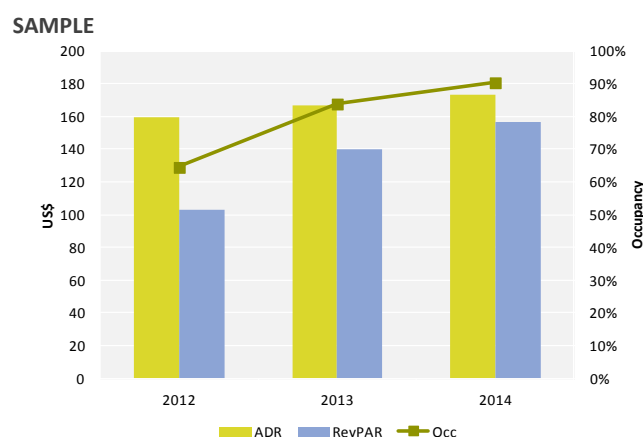
The market saw relatively stable occupancy from 2013 to 2014 at roundly 72%, as upscale resorts were seen increasing room rates on the back of the increasing international demand into the destination and the market recovery from 2012. This resulted in a 6% year-on-year average rate increase in 2014 since 2012. Overall RevPAR for 2014 registered an 8% increase from 2013 to US\$442 in 2014.

Luxury Market Resort Trading Performance

The aggregate performance of a representative sample of roundly 772 rooms is shown in Figure 10. The luxury market experienced a 21% RevPAR increase in 2013 from 2012, backed by the rebound in occupancy and average rate.

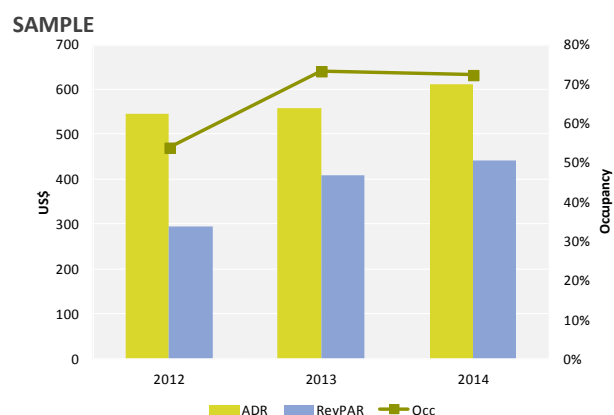
The Maldives market comprises of some of the highest performing resorts in many international hotel operators' portfolio with highest ADRs. In 2014, on the back of the double digit growth in tourist arrivals, the luxury resort market recorded an 8% increase in

FIGURE 6: MIDSCALE RESORT PERFORMANCE REPRESENTATIVE



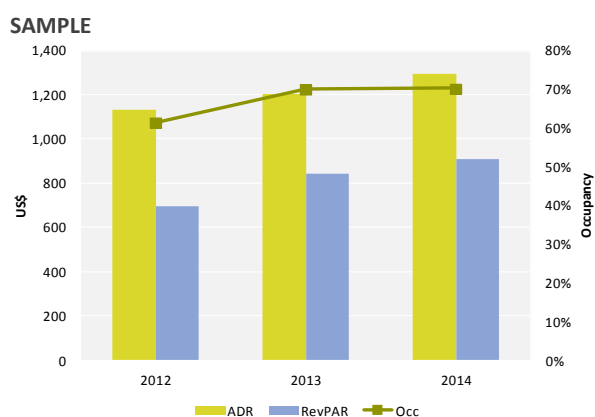
Source: HVS Research

FIGURE 7: UPSCALE RESORT PERFORMANCE REPRESENTATIVE



Source: HVS Research

FIGURE 8: LUXURY RESORT PERFORMANCE REPRESENTATIVE



Source: HVS Research

RevPAR in 2014, contributed by the 7% increase in ADR while occupancy remained consistent from the previous year.

Outlook for the future

Whilst the Maldives continues to grow as a destination and individual hotels perform well, there are challenges ahead if this destination is to maintain the fragile balance between economic development and preserving its natural resources.

- **Political instability** remains, as the controversial dismissal of various prominent government officials and the jailing of former president Nasheed have sparked sentiments of injustice with locals questioning the legislative and judicial system.
- **Economic Dependency** on imports caused by the lack of arable land and natural resources. As a result, the economy has incurred a significant current account deficit, which has grown at CAGR 16.5% (2003 – 2014). Though this has been offset to some extent by tourism exports, the economy is vulnerable to systematic risks pertaining to the tourism industry.
- **Rising Costs** (and room rates) are a concern for the future as Maldives commands some of the highest ADRs globally, and it continues to witness increasing room rates and taxes. In November 2014 the Tourism Goods & Service Tax (T-GST) increased from 8% to 12%. Observers are weary of the rising costs within the resort market and are questioning the impact it may have on visitor arrivals if prices continue to escalate.
- **Airport Development** is key to support the development of the destination. Male's International Airport is expected to undergo a facelift with the help of Changi Airports International to improve commercial offerings and activities. Maldives Airports Company intends to increase the capacity of the airport to 5 million passengers by 2018 and 9.6 million by 2030.
- **Hulhumale Youth Enclave** is the second phase of the Maldivian government's plan to reclaim land near Hulhumale Island. Upon completion, the island is expected to house up to 200,000 people and planned to include residential, light industrial, tourism and commercial developments.

Conclusion

Globally Maldives continues to possess a destination image as a special island getaway. This is attributable to its unique geographical layout characterized by more than a thousand small islands, pristine waters and unique resort offerings. Tourists choose the Maldives for an "once-in-a-lifetime" experience to commemorate moments in the serenity of an island paradise. For this reason, both the government and resort operators must be mindful of potential environmental threats, to preserve the natural beauty of Maldives.

As demand for Maldives continues to grow and an expected demand rebound from the European and Russian markets in the long term, we believe that the Maldives offers opportunities for further resort development. Over time the Maldives has proven itself to be a resilient market and rebounded quickly from downturns. Given the aspirational nature of the destination, resorts are able to achieve high room rates and better profit margins when compared to other resort destinations, making Maldives one of the most expensive leisure destinations worldwide, and the market achieves the highest average rate in Asia Pacific exceeding Hong Kong and Singapore. The Maldives has benefited from its strong destination branding and is anticipated to continue to retain its appeal in the coming years. It is a market much desired by many hotel operators and consumers alike, and will remain a "*one of its kind*" holiday destination.



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About the Authors



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Casper Wong is a Senior Analyst at HVS Singapore, working primarily on hotel consulting assignments, including market studies, feasibility studies and valuations in diverse markets such as Japan, the Maldives, Cambodia and Indonesia amongst others. Graduating with an Honours Bachelor of Arts Degree in Hospitality Management from Glion Institute of Higher Education in Switzerland and with previous work experience in hotel operational experiences in Switzerland and Middle East, Casper contributes extensive knowledge of the hospitality industry to HVS.



Joel Tay is a Research Analyst at HVS, involved in the many research studies and publications of HVS Singapore. He has graduated with honours with a Bachelor of Science degree in International Hospitality Management, from École hôtelière de Lausanne. When in Switzerland he has also gained international exposure, working on projects on behalf of international hospitality companies and National Tourism Organisation. He has operational experience in hotels, MICE and human resources.