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MARKET SNAPSHOT

SAIPAN

BLISS REBORN

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Saipan Tourism is Experiencing a Revival

Historically being one of the most attractive island getaways for Japanese tourists, Saipan is now experiencing stable tourism growth by gaining popularity among Chinese visitors.

MAÑAGAHA ISLAND, SAIPAN

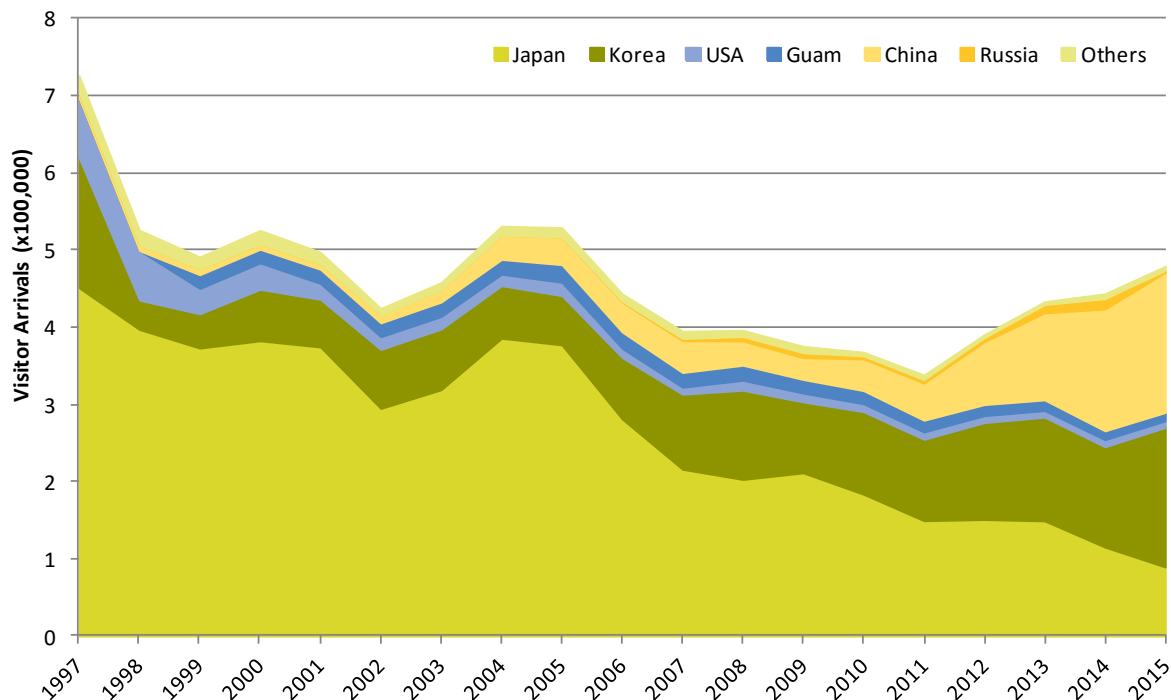


Located east of the Philippines in the Pacific Ocean, the Commonwealth of Northern Mariana Islands consists of 15 islands. Of the 15, the three main islands Saipan, Tinian, and Rota are inhabited. Saipan is the largest and most visited island. Similar to other tropical islands, Saipan offers tourists a range of opportunities to interact with Mother Nature. Visitors can enjoy various sports in the clear waters in the lagoon or relax on the white sands at Micro Beach and around Mañagaha Island. They can also choose to visit or Banzai Cliff for breathtaking views of the Island.

Visitor Arrivals

In the past, Japanese visitors dominated Saipan as the major feeder markets for inbound visitors. In fiscal year 1997, Saipan recorded 450,000 Japanese visitors. The Korean market decreased from 170,000 visitors in the aftermath of the Asian financial crisis from 1997 and only started to enjoy modest growth from 2007 onwards. Japanese visitation levels experienced a continuous decline since 2004 as airlift decreased and Japanese tourists started visiting newer destinations. In fiscal year 2015 (from September 2014 through August 2015), the Marianas Visitors Authority recorded a negative 23% year-on-year change for Japanese arrivals at 88,582 and a positive 39% for Korean arrivals at 181,952.

FIGURE 1: VISITOR ARRIVALS – FISCAL YEAR 1997-2015

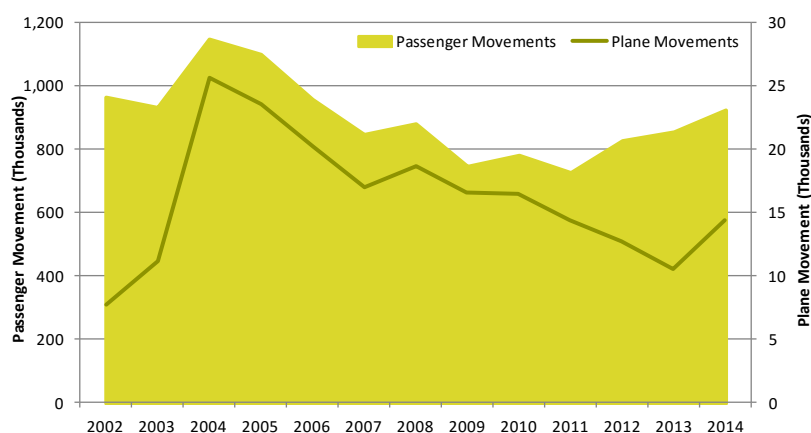


*Fiscal Year: October to September

Source: Marianas Visitors Authority, 2015

Saipan is accessible by only a limited number of scheduled direct flights. Scheduled connection flights are typically made through Incheon, South Korea, Narita, Japan, Taoyuan, Taiwan, or Guam. In order to accommodate the growing number of visitors, airlift to Saipan increased, predominantly by charter flights. Although visitor arrivals were growing at a rapid speed beginning in 2012, the flight additions did not match the pace until last year.

FIGURE 2: AIR MOVEMENT, SAIPAN INTERNATIONAL AIRPORT 2002-2014



Source: Bureau of Transportation Statistics (BTS), US Department of Transportation

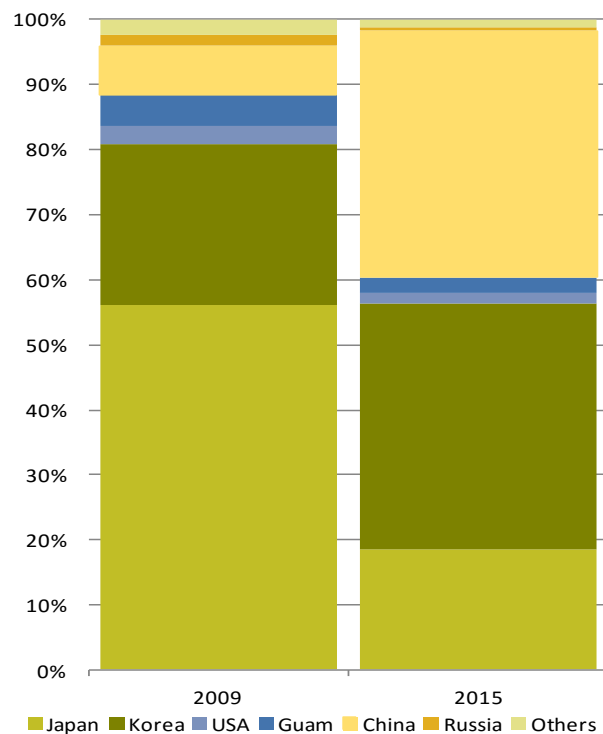
Airlines have stated their interest to further increase flight services and open new service routes, as well as fly larger planes to Saipan if passenger number were to experience overall growth. This is turn is tied to the availability of hotel supply. Airlines will most of the time be reactive to hotel supply growth. In addition to

the regular scheduled flights, multiple chartered flights have also increased their service to Saipan, especially for the popular summer months. Seasonality is always a concern for tropical destinations. While summer and holiday seasons boost arrivals and airlifts,

the rainy season and non-holiday months weaken tourist arrivals. During the quieter periods of March to June and October to mid-December, airlines are reluctant to maintain additional capacity from the high season. In fact, airlines rather reduce their service to Saipan in order to maintain profitability. Nonetheless, China is becoming a key player in Saipan tourism. Converting charter flights from China to scheduled service will significantly enhance the attractiveness of the destination for tourism development.

In 2009, the U.S government introduced the Guam-CNMI Visa Waiver Program, which allows passport holders of certain countries to enter the two territories visa free. However, Chinese passport holders are only allowed to visit CNMI with this program, requiring a regular US visa for Guam. The initiative was driven by the decline in the textile industry in CNMI, while some security concerns over Guam prevailed. CNMI and Guam are the most proximate US territory from PR China. As a result, China surpassed Korea and Japan to become number one feeder market for Saipan with 35.5% of the total share of visitor arrivals. This unprecedented breakthrough validated the strong upturn of Chinese visitation to Saipan.

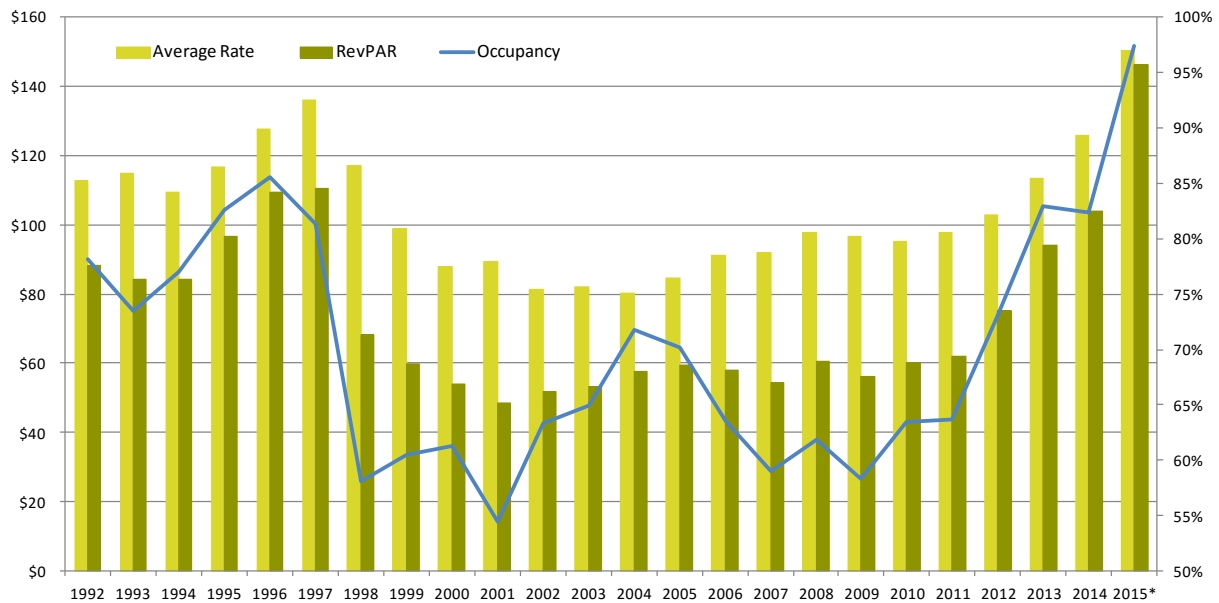
FIGURE 3: VISITOR ARRIVALS MARKET SHARE – 2009 VS 2015



Hotel Performance

Through the increase of visitor arrivals beginning in 2011, the Saipan hotel market recovered after a rather difficult decade. At the onset of the Asian financial crisis in 1997, Saipan's hotel performance peaked at RevPAR of \$110.68. The region-wide crisis had a major impact on the hotel market. Although Saipan hotels enjoyed improving occupancy levels in the mid-2000s as the Japanese market recovered, another difficult period ensued from 2006 to 2011. Occupancy levels remained below 65% over the six-year period.

FIGURE 4: HOTEL PERFORMANCE – 1992-2015



*2015 January to September

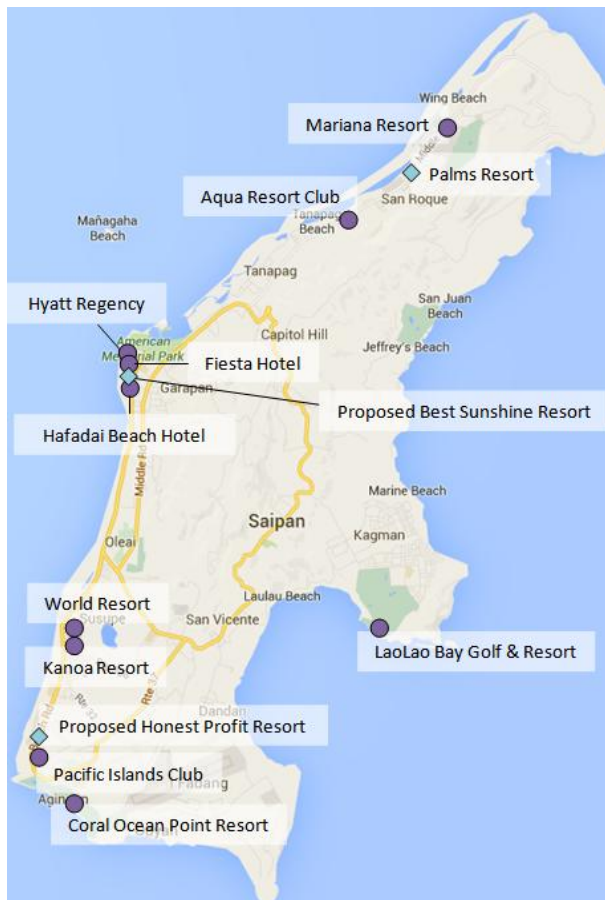
Source: HANMI, 2015

The tourism industry started to gain momentum in 2012 when the number of Chinese visitors began to skyrocket. In 2012, Saipan achieved occupancy of 73.1% and RevPAR registered growth of 20.7%, reaching double-digit levels for the first time since 1996. The growth in Chinese visitor arrivals kept its prominent impact on the hotel market in 2015. Saipan posted achieved occupancy of 97.4% and average rate of \$150.10, a respective 14.2 percentage points and 18.7% year-on-year growth compared to same period in fiscal year 2014. Due to the late arrival of flights, Saipan hotels are also able to manage back-to-back selling of the rooms, which further increases the occupancy. This trend bodes well for the local tourism industry.

Market Supply

While visitor arrivals are increasing at an accelerating pace since 2012, hotel room supply remained generally flat. As of 2013, there were total 2,327 hotel rooms in Saipan. Most of the supply is located along the west coast of the island. Scattered along the coastline, there are the Japanese culture inspired Mariana Resort and Aqua Resort in the northern part, Hyatt Regency and Fiesta Hotel in the center, and water park resorts Pacific Islands Club and World Resort in the south. There have been some minor fluctuations in the hotel supply recently. Notably, the Palms Resort was acquired by Korean company E-Land, in hopes to maintain Korean market presence and tourism for the island. The resort closed in 2008 and began its renovation to reopen in April 2015.

MAP: MAJOR HOTELS IN SAIPAN



In addition, a Hong Kong listed company Best Sunshine International has secured gaming license for Saipan and has planned for the construction for a 2,000-room integrated casino resort complex with a shopping mall. This is set to further enhance the current Saipan tourism growth. Tourists will be able to enjoy a new tropical gambling destination in Asia. Alongside the new gaming opportunity, the addition of rooms will be able to attract and provide for more tourists. This significant investment in the local tourism industry has attracted numerous other investors looking to accommodate increasing numbers of Chinese visitors. Further development of tourism resources and attractions are set to greatly benefit the destination experience.

Conclusion

Saipan's fading tourism industry was brought back to life by the Guam-CNMI Visa Waiver Program in 2009. Chinese tourists began to venture out to Saipan, visiting a US territory for the first time at relative convenience. Chinese and to some extent Korean visitors provide strong demand and new business opportunities for Saipan and the CNMI. As chartered flights from China are converted to scheduled service, the tourism industry will be able to expand further. The integrated resort is spearheading supply growth and further helps to diversify the destination's attractions, while potentially being a catalyst for more scheduled flights. As the destination develops more tourism resources, inventory reaches critical mass and airlines grow more confident, the prospects for the Saipan and wider CNMI tourism industry are turning positive.



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About the Authors



A hospitality enthusiast **Larissa Lam** joined HVS Hong Kong in 2015 as an analyst. Graduated with a Bachelor of Science degree Cum Laude from Boston University School of Hospitality Administration, Larissa seeks to facilitate HVS researches and market studies with her prior experience in Finance, Sales Revenue, and Operations with several properties and regional offices in Boston and Hong Kong.



Daniel J Voellm, Managing Partner HVS Asia-Pacific, is based in Hong Kong and has provided advice in all major markets across 18 countries in the region. Daniel works closely with key institutional and private owners of hotel properties, financiers, developers and investors, and has gained a strong understanding of their investment requirements and approaches to assessing the market value of investment properties. Daniel further advises on property and concept development and strategy.