Can Myanmar's Hotel Industry Keep Pace with the Growing Tourist Demand?

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For approximately three years, since beginning to open its doors to the world following democratic reforms and the easing of international sanctions, Myanmar has experienced an unprecedented economic boom. With the "Golden Land" currently holding the chairmanship of the Association of South East Asian Nations (ASEAN), the country is moving full steam ahead with its plans to reach, by 2015, the target goals outlined in the ASEAN Economic Community (AEC) blueprint. Complete compliance by the target date is highly unlikely; nonetheless steps in the direction of full economic and social reform are being taken.

With the recent economic boom a vast increase in the number of tourists has also occurred. Myanmar offers unique and exciting prospects for hoteliers the world over. The number of tourists entering the country has risen dramatically in recent years. In 2010, an estimated 790,000 tourists visited Myanmar. Two short years later in 2013, that number had grown to 2.1 million. Highlighting this tourist boom, Myanmar immigration authorities recently announced that during the months of April and May 2014 more than 300,000 foreign visitors entered the country.

However the country still faces a number of obstacles to its burgeoning tourist industry. First and foremost, there is a severe shortage of international standard hotel rooms to accommodate this great influx of tourists. As a result, the price of hotel rooms with 'western' amenities has skyrocketed, doubling and sometimes even tripling in the past two to three years. In addition, Yangon International Airport, the gateway to Myanmar for the majority of international visitors, must operate over capacity to handle the numbers of people entering the country.

The influx of tourists, as well as the lack of suitable accommodations, has clearly caught the attention of many international hotel chains who see great promise in the Myanmar tourist industry. Those with their sights set on Myanmar include major industry players such as Hilton, Accor, Shangri-La and Best Western, all of which have entered or have plans to enter the market in the very near future. By all accounts, 2014 will mark another record year of growth in the Myanmar hotel industry. However while the potential is obvious, there will be hurdles to be overcome for foreign hotel investors.

CURRENT STATE OF THE HOTEL INDUSTRY

Current Legal Framework for Foreign Investors

With the enactment of the Foreign Investment Law (FIL) in 2012, Myanmar has clearly signaled that the country is seeking to increase foreign direct investment (FDI). Restrictions on foreign investment were by no means eliminated with the enactment of the FIL; however, FDI was made much easier. Under the FIL, 100% foreign ownership is permitted for hotels that are graded three stars and above. Foreign investors wishing to construct and operate a hotel graded two stars and below must still partner with a local joint venture partner. A detailed system of grading hotels in Myanmar has recently been instituted by the Ministry of Hotels and Tourism. Under this grading system, hotels are awarded a certain number of points for the specific amenities they offer, as well as construction done on the premises (for example, a hotel with a fountain is awarded one additional star).

In addition to restrictions on foreign ownership contained in the FIL, all hotel constructions must comply with the local City Development Plan. Often these plans mandate that hotels be constructed only within specifically designated 'hotel zones.' Ownership of land in Myanmar is still highly restricted, with the Government owning and then leasing out the vast majority of all land in the country. Foreign individuals or entities are not permitted to be transferred title to land in Myanmar or to lease land for a period in excess of one year. Such restrictions are contained within the Transfer of Immovable Property Restriction Act (TIPRA) of 1987. However, a

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foreign entity may obtain an investment permit from the Myanmar Investment Commission that allows such an entity to lease land for an initial period of fifty years with the possibility of extending the lease for two additional ten-year periods.

Inflated Rental Rates

Due to the scarcity of land, especially in the Yangon region, prices have soared in recent years. Recently, land rental prices in Yangon have surpassed the average rental price in Singapore, previously the most expensive city in the region in this regard. The government has taken steps to stabilize the rental market, but as of yet this has largely been unsuccessful. One of the major hurdles to overcoming inflated rental prices are local speculators who lease a number of plots of land and hold them vacant hoping a foreign investor will pay the inflated asking price. Faced with no other option, foreign investors often succumb to these demands and thus drive the market upward. To combat this practice, the government has proposed a vacant land tax which would penalize persons who knowingly engage in these inflationary practices. This has yet to be instituted but is being discussed at the highest levels of government and may soon take effect.

Yangon Market

The epicenter of the hotel industry in Myanmar is and will remain Yangon, the country's commercial hub. Yangon contains several of Myanmar's main tourist draws, including the famous Shwedagon Pagoda, and serves as the gateway to Myanmar for tourists and business travelers alike. Due to the influx in international travelers, hotel rooms which cost in the U.S.$ 60 to 80 range three years ago are rarely found today for under U.S.$ 200. The Ministry of Hotels and Tourism has projected the number of tourists entering Yangon will steadily increase from the current level of approximately two million annually to seven million by 2020.

The hotel industry will play a large role in determining whether those numbers can be achieved. At present, there are approximately 9,000 available hotel rooms in Yangon, of which only one third meet international standards for quality. International hotel chains such as Hilton, Novotel, Pan Pacific, Best Western and others have been rushing to fill this gap. Collectively, such groups have invested almost U.S.$ 2 billion on new constructions and renovations of aging hotels already in existence over the past couple of years.

THE FUTURE OF THE HOTEL INDUSTRY

Despite the numerous restrictions and challenges the tourism sector as a whole faces in Myanmar, there is great opportunity as well. This is especially true of the hotel industry. Current estimates suggest that over the next five years more than 4,000 international standard rooms will be added in Yangon alone. The hotel market for foreign investors is bright.

Aware of the shortage of suitable hotels in Yangon, the Myanmar Government is also attempting to attract tourists in both the short and long term by promoting less known regions of the country and encouraging the construction of hotels there as well. The Government has specifically been said to be promoting Pha-An, known for its hot springs, and Min Tak, where jungle treks are the popular draw. This effort is aimed at mitigating the tourist burden on Yangon and ensuring the sustainability of the tourism industry as a whole.

As Myanmar begins its integration into the AEC and restrictions on the free movement of people from the ASEAN member states into and out of Myanmar are eased, tourists eager to see the formerly closed "Golden Land "will only increase. Thailand, already accounting for the greatest number of tourists to Myanmar, is currently engaged in discussions with the Myanmar Government on possible visa free travel between the two countries. This will only increase the number of visitors from Myanmar's neighbor to the south. Coupled with travelers from all over the world eager to see this gem of South East Asia, the current estimates may in fact be realized. Tourists will continue to come. The question facing the hotel industry is will they have a place to stay? ■

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