

# CBRE HOTELS INSIGHTS

## IMPLICATIONS OF COVID-19 ON THE VIETNAM HOSPITALITY MARKET

### AUGUST 2020

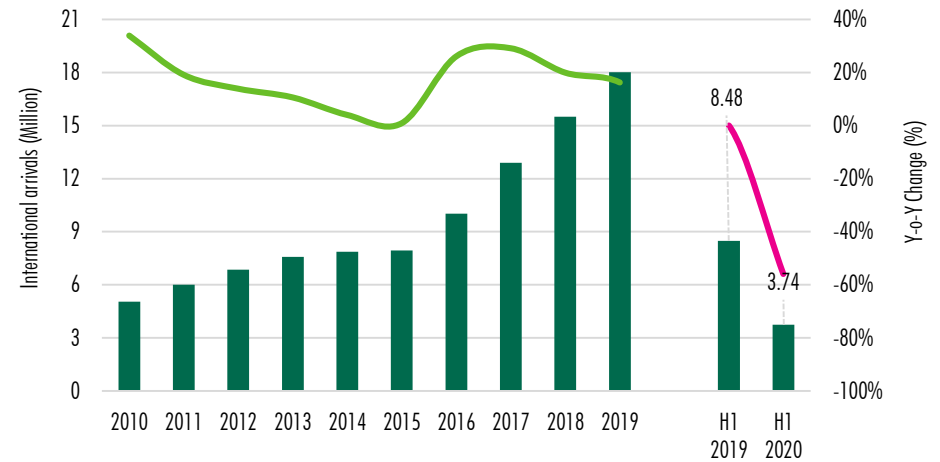
The COVID-19 pandemic has taken heavy toll on Vietnam tourism industry, bringing down international arrivals to only 3.7 million and domestic-traveler trips to 23 million in H1 2020, a y-o-y drop of 57% and 50%, respectively. In order to curb the COVID-19 spread, Vietnam has completely shut down its borders to all foreign nationals since March and limited the entrance solely to diplomats or experts working on important projects; hence, international arrivals volume decreased by 99% y-o-y in the second quarter alone.

In the wake of the collapse in cross-border travel, Vietnam eyed to stimulate domestic tourism with the launch of a campaign called “Vietnamese people travel in Vietnam” and numerous stimulus programs right after easing nationwide lockdown in late April. The market saw some signs of revival by June, marked by a 2.3-fold rise in the number of domestic traveler trips against May.

The Vietnamese aviation industry has resumed normal operation of domestic flights since June. Local air carriers did not only increase frequency of existing routes but also opened new ones to reboot the local travel industry.

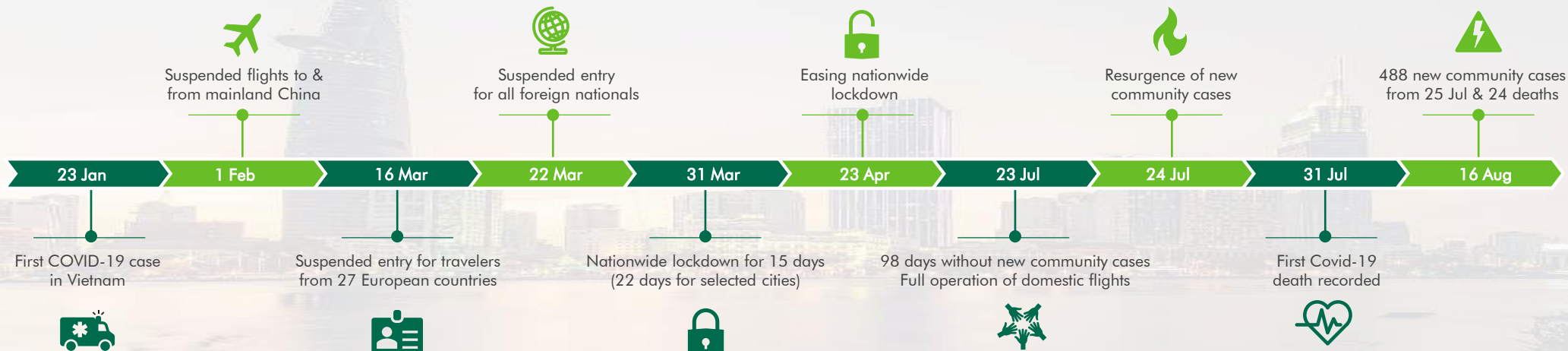
However, after 3 months free of community cases, Vietnam has been back on high alert since the end of July due to a fresh local spread and first ever fatalities confirmed. The resurgence of COVID-19 delivers a more devastating blow to the country such that it could hold back tourism recovery and economic rebound in the rest of 2020.

International Arrivals to Vietnam



Source: Vietnam National Administration of Tourism, CBRE Vietnam

### Timeline of Key COVID-19 Events in Vietnam 2020



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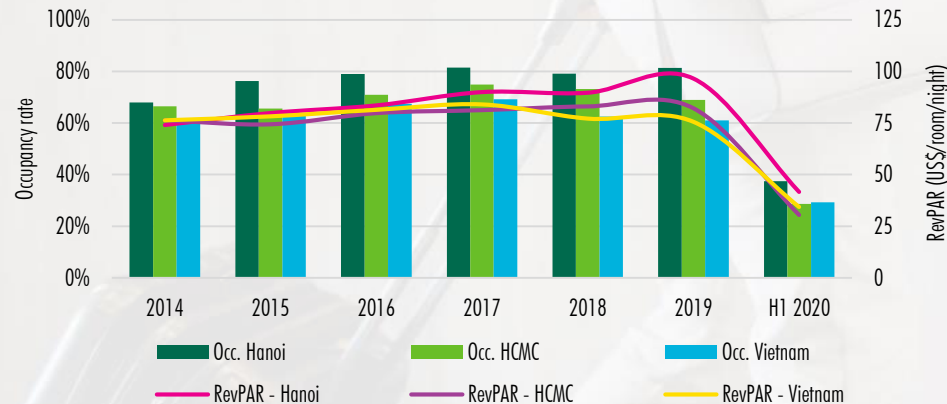
### Performance in HCMC and Hanoi

Revenue per available room (RevPAR) of 4- and 5-star hotel segment across Vietnam's two major cities of HCMC and Hanoi had been on an upward trend since 2014. The impact of COVID-19 in the first half of 2020, however, reversed this uptrend and the market hit the lowest point ever seen. Average RevPAR in H1 2020 went down significantly by 56% and 64% y-o-y for Hanoi and HCMC, respectively. RevPAR in Vietnam in general dropped by a similar magnitude of 55% y-o-y during this period.

From late March when all international flights were suspended, occupancy rate went down markedly across Vietnam, especially in HCMC and Hanoi's 4- and 5-star hotel markets, as these have a great reliance on international tourists who accounted for more than 80% of total nights stayed. Occupancy rates hit a historic low in April and then slowly recovered in May and June as the social isolation policy was lifted off nationwide on April 23<sup>rd</sup>. However, the recovery path in HCMC and Hanoi was anything but impressive, with occupancy rates having improved by only 1-1.5 pts each month.

Domestic tourists have been prioritized in the context of a lack of international tourists. Many tourism stimulus packages have helped the market in the short-term, yet more specifically in the favor for coastal tourism cities or places of driving distance from HCMC and Hanoi. With international flights resumption plan held off without further notice, the market is not expected to show notable improvement in H2 2020.

### Key Performance Metrics for Hanoi, HCMC and Vietnam



Source: STR, CBRE Vietnam

### Changing tourists' behaviours

#### Hygiene and safety as top priority

Hygiene and safety, both perception and reality, will matter in the "new normal", and will actually be the number one factor impacting tourists' travel decision in the next 12 months. It is important for hoteliers to recognize this new priority and adjust their services accordingly to ensure a "clean and safe" experience for their customers. Short-term approaches can include implementation of stricter standards of sanitation, disinfection, upgrade of amenities kit to include face mask and hand sanitizer, and less human-to-human interaction between customers and hotel staff if not necessary.

In the long run, hotels can infuse more technology into their operations, such as the adoption of self check-in counters, mobile apps/digital keys that can replace physical room keys, or even the use of robotics for cleaning/serving purposes.

#### Preference for short-haul holidays and staycation

In Vietnam, after months of social distancing during the first wave of the pandemic, there was a pent-up demand to travel from domestic tourists in June and July. However, travelers would prefer driving to nearby locations instead of flying or using public transportation which may increase risks from contagious diseases.

In fact, travel interest to drive-to locations such as Sapa, Ha Long in the North of Vietnam or Vung Tau, Phan Thiet, Da Lat in the South has catapulted recently, and will continue to increase once the second wave of the disease is put under control.

Staycation in big cities such as HCMC and Hanoi, however, is still not very common but shows much potential in the future.

#### More focus on wellness and experiences

As domestic tourists are becoming increasingly health-conscious, wellness and health-related offerings can be utilized by hotels to further promote domestic travel. Hotels can offer comprehensive packages that entail spa treatments, yoga/meditation classes or other wellness activities to induce travel demand.

Additionally, tourists are placing more focus on experiences gained during their travels. Translated to accommodation choices, those that can offer something "different" are more likely to pique their interests, from a unique Airbnb rental to a luxury hideaway resort such as a Six Senses.

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### Relief Measures

Areas	Details
Employment Support	<p><b>Financial assistance to employees:</b></p> <ul style="list-style-type: none"> <li>US\$77/month for those whose labor contract is temporarily suspended, or who have to take unpaid leave for a month or above (applicable for a maximum period up to three months)</li> <li>US\$43/month for those who lose jobs but are not eligible for unemployment allowance, or who work without contract and have lost their jobs</li> </ul> <p><b>Incentives for employers:</b></p> <ul style="list-style-type: none"> <li>Employers, having paid at least 50% of salary for work suspension from April to June 2020, are granted zero-percent interest and collateral-free loans from Vietnam Bank for Social Policies (maximum term of 12 months). The maximum loan value is 50% of the regional minimum salary per worker for a month and for a maximum of three months.</li> <li>Employers, who have at least 50% cut of staff subject to social insurance contribution, can apply for a suspension of contribution to the retirement funds for a maximum of 12 months.</li> </ul>
Credit Support	<ul style="list-style-type: none"> <li>Preferential credit packages worth VND285 trillion (US\$12.3 billion) with interest rate 0.5 – 1 percentage point lower than market rates were jointly offered by more than 10 commercial banks.</li> <li>Those enterprises which are strongly affected by the pandemic can get access on the condition that they can prove their solvency.</li> </ul>
Rate cut by State Bank	<ul style="list-style-type: none"> <li>The State Bank of Vietnam (SBV) has decided to cut its policy rates by 50 – 100 basis points since March and a second cut by additional 50 basis points took effect on 12 May.</li> </ul>
Deferred tax & Land rental payments	<ul style="list-style-type: none"> <li>Applicable for a wide range of industries, including real estate, travel agency, accommodation services, small and micro-enterprises, etc.</li> <li>Deadline for tax payments is extended for five months (VAT and CIT).</li> <li>Deadline for payment of the first installment of land rental in 2020 is extended to October 2020. The extension is only applicable for land users who leased their land directly from the state.</li> </ul>
Electricity bill reduction	<ul style="list-style-type: none"> <li>Support package for electricity worth US\$470 million with 16.5% contributed to tourist accommodation establishments.</li> <li>Hotel/Tourist accommodations used as quarantine areas enjoy 20% price cut</li> <li>Tourist accommodation would be entitled to the same electricity prices for households and producers, which means downgraded tariff level.</li> </ul>

### Outlook



- After domestic leisure travel helped to revive the hotel sector, corporate travel has followed suit when business activities warmed up after Vietnam lifted social distancing measures, and domestic flights have fully resumed. International corporate travel from selected countries is also expected to slowly return once the second wave of COVID-19 is put under control.
- Even though MICE segment slightly bounced back in Q2 2020, demand is still a long way from recovery, as it is constrained by cuts in corporate budget for the near future and risk of COVID-19 resurgence. Also, virtual events will pose certain challenges for the event industry in the long run.
- International leisure travel will be the last segment to recover, and will be gradually facilitated by travel bubble between Vietnam and some other countries in the region.

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#### Outlook (cont'd)

In the near future, the market will experience unprecedented challenges and uncertainties in the aftermath of the COVID-19 outbreak.

- The hotel industry in 2020-2021 is expected to be in defensive mode as it is highly dependent on the regional containment of COVID-19 as well as highly subject to the risk of any new COVID-19 resurgence. Q3 2020 performance will not see much improvement from Q2, as Vietnam is facing a second wave of COVID-19 which if escalated, will lead to another social isolation period for some cities at least.
- Strategic openings for hotel chains: the best performing properties will be opened while the rest closed to avoid operating costs amid diminished demand.
- Delay in opening of new hotels: pipeline projects such as Wink in HCMC or Grand Mercure in Hanoi will most likely postpone their opening date.
- More use of hotels as quarantine facilities: this was suggested to the government and is under consideration. If this happens, some selected hotels may be able to push up their occupancy rate albeit at the cost of lower ADR.
- The period May-June has proved how short-memory local tourists were. Once the second wave is controlled, local residents will start their travels again. As a result, the hotel market in 2020-2021 will be dominated by local travelers, which will require upscale hotels to rethink their marketing & PR activities.
- Previous plan for resumption of international flights to selected countries will most likely be put on hold. Demand from international tourists will take longer to return, from both the continuing of flight restrictions as well as reluctance to travel overseas until a vaccine or widely available treatment for COVID-19 can be developed.
- Regarding the investment landscape, there are some opportunistic investors looking for distressed assets at a big discount. However, the market still hasn't seen many distressed assets in the 4- and 5-star segment. There will be more opportunities in the lower segments though, as well as from hotel chain owners seeking to divest some assets that are considered less strategic.

The hotel industry in 2020-2021 is expected to be in defensive mode with intermittent fluctuations in performance until a vaccine or widely available treatment for COVID-19 can be developed.

Q3 2020 performance will not see much improvement from Q2, as Vietnam has faced a second wave of COVID-19 since the end of July.



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While the pandemic will have profound implications on Vietnam's hotel landscape of tomorrow, the long-term outlook remains positive, thanks to expected improvement in infrastructure, favorable visa policies and the political will to turn tourism into a key industry.

#### Outlook (cont'd)

While COVID-19 will have far-reaching and dramatic implications on the hotel landscape of tomorrow, the long-term outlook for Vietnam's hotel market remains positive, thanks to the following factors:

- Vietnam has been praised by the international community for its decisive and effective efforts in the containment of COVID-19. This accomplishment would help Vietnam to enhance its image on the global tourism scene as one of the safest travel destinations once the pandemic is over.
- Connectivity between Vietnam and other countries in the region, as well as among various destinations within Vietnam, are expected to continue to improve in the long run, thanks to better infrastructure and more streamlined visa procedures.
- More well-known international brands (Mandarin Oriental, Ritz Carlton, etc.) are expected to enter the market in the coming years, which will lead to an increase in the overall quality of hotels in Vietnam.
- Vietnam, which is now home to many of the region's top resorts, is transitioning from a budget destination to a better known holiday destination, thus average length of stay as well as consumer spending will witness more improvement. With the extensive network of luxury resorts, world-class golf courses, entertainment complexes and casinos, Vietnam is well-positioned to catch up with the huge demand for luxury travel in the long run.
- Hospitality developers in Vietnam will continue to go through geographic diversification, paying attention to potential non-traditional areas such as Nam Hoi An, Binh Dinh, Binh Thuan, Ho Tram. The market may witness the rise of many new local developers who have secured large land banks in these areas.
- Tourism is prioritized by the government to become a spearhead industry by 2030, whose contribution to GDP is targeted to increase to 15-17% by 2030, from 2019 level of 8.8%.

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