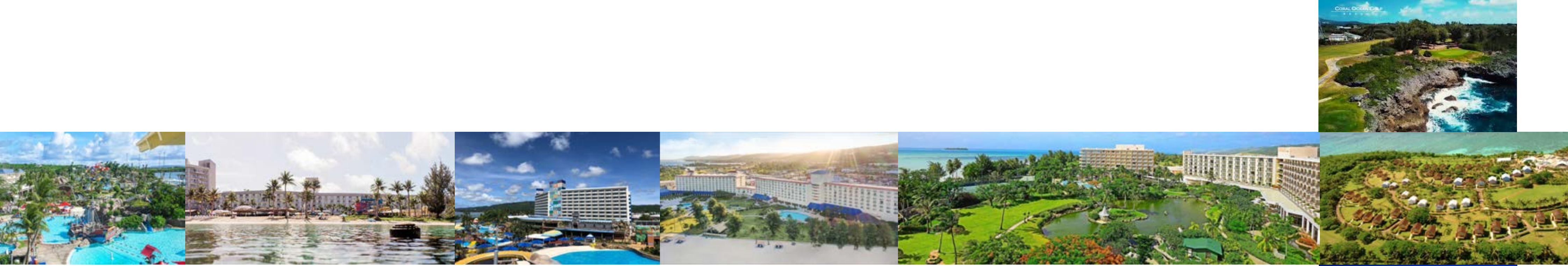


STUDY ON THE **NECESSITY** OF **BRANDING** FOR **HOTELS ON PUBLIC LAND**

MARCH 2021

FORWARD

Over the years, limited proactive diversification and anticipatory improvements has essentially put the CNMI's tourism market at the mercy of airlines and tour operators.

In the post COVID-19 environment, with the ever improving products worldwide and growing traveller sophistication, it is imperative that the CNMI upgrades to compete.

One of the most effective and obtainable ways to do this is through the introduction of globally established hotel brands to the market.

Given that its key shoreline hotels are located on public land subject to lease approvals, this can be achieved through mandatary branding requirements in awarding tenders.

In mutually beneficial manners, the introduction of more globally established hotel brands will bring about upside to both investors and the CNMI as a destination in the following ways:

- Improve the overall accommodation offering.
- Achieve higher revenue.
- Attract higher-yielding visitors.
- Reach a global customer base.
- Access to worldwide reservation systems and loyalty programs.
- Diversify the nationality mix and reduce market-specific risks.
- Attract higher caliber developers and avoid less credible ones.
- Manage risks associated with competing destinations.
- Ensure optimal utilization of prime, shoreline real estate.
- Increase the long term value of hotel assets.

On the contrary, the risks of less managed development are high with a destination such as the CNMI given its limited natural, physical and human resources.

Although the CNMI has enjoyed robust tourism growth in the past, backed by its natural beauty, sustaining such growth is likely to be unrealistic without significant improvements to the destination, particularly the quality of its accommodation, the variety of tourism offerings, and support infrastructure.

Introducing a mandatory branding requirement to the awarding of leases and renewals is an effective and attainable way to address the accommodation component of the equation.

Darlena Zhai
March 29, 2021

TABLE OF CONTENTS








1. ANALYSIS OF CNMI'S SHORELINE ACCOMMODATION

- ✓ Current Conditions of Shoreline Hotels on Public Land
- ✓ Historical Performance
- ✓ Broader Issues & Implications for the Destination

INVENTORY

As shown in the table to the right, a total of eight shoreline resort properties are located on publicly held land in Saipan, six of which were in operation prior to COVID-19.

Additionally, two more leases on shoreline public land in Saipan have been issued for the development of resorts; however, these sites remain either undeveloped or the development is severely behind schedule and unfinished. Similarly, there is one existing lease each for Tinian and Rota, but neither site has been developed yet.

PERFORMANCE

The CNMI's most recent tourism boom took place over a period of around three years leading up to 2019 / 2020. Despite issues with challenging air access and generally older facilities than that found at competing resort destinations in the region, the CNMI achieved significant growth in visitor arrivals during this period, essentially supported by two markets exclusively, Korea and China.

The North Asian guests found Saipan's pristine beaches and stunning nature to be the most attractive features. This is echoed in the guest reviews on the Island's beach resorts. Despite most of the properties being more than 30 years old, they achieved highly noteworthy average ratings of eight or just under eight, out of ten. The beach, the ocean, beautiful views, and good service were amongst the top aspects of their stays.

High Occupancy

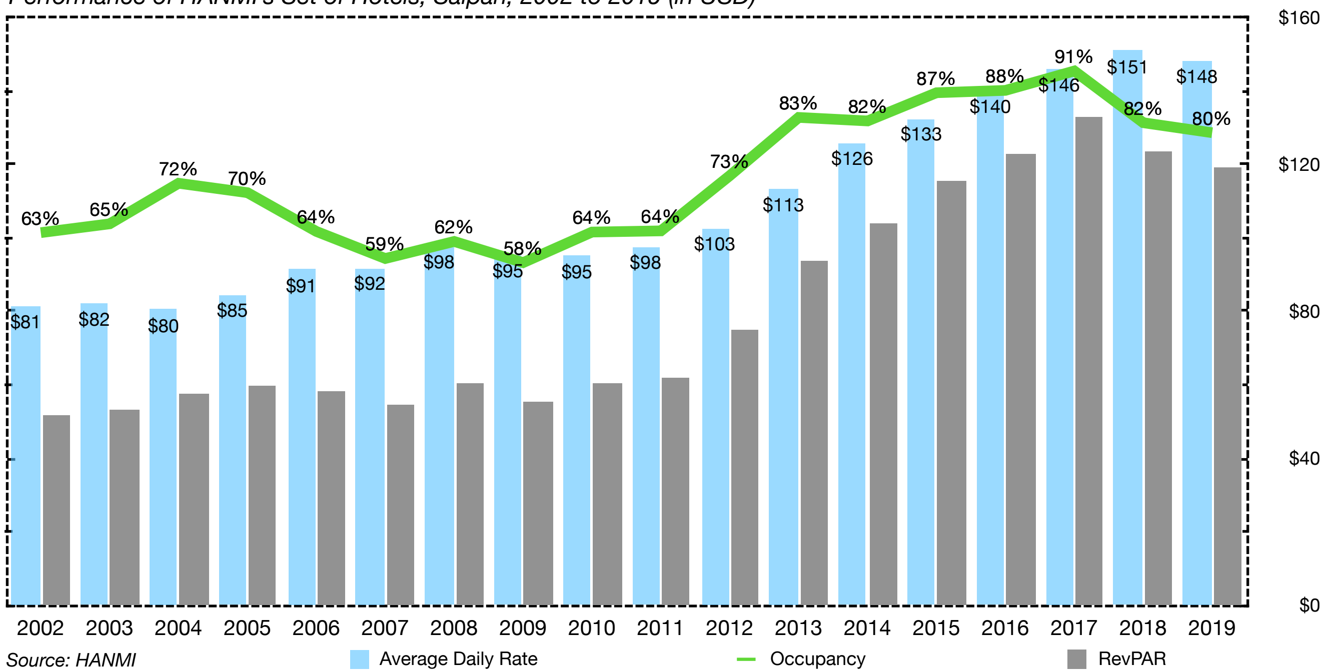
Evident from the graph below, the performance of Saipan's key hotels improved considerably and quickly, especially between 2013 to 2019, owing to the destination's growing visitor volumes.

With occupancy averaging in the mid 80s for an extended period of seven years, the hotels were able to increase Average Daily Rate (ADR) at a compound average annual rate of 4.6 percent, to reach an apparent ceiling of around USD 150.

Shoreline Resorts on Public Land (Ranked by Room Count)

	Room Count	Status / Plans
Fiesta Saipan	416	To be refurbished and rebranded as a Crowne Plaza Resort in 2022
Hyatt Regency Saipan	321	Undetermined (end of 2021 lease expiry)
Pacific Islands Club Saipan	308	Extensive renovations completed end of 2019
Saipan World Resort	259	No change announced
Kanoa Saipan	224	In the process of securing a global brand
Lau Lau Bay Resort	54	No change announced
Coral Ocean Point	-	Closed for renovation after Typhoon Yutu
Marianas Resort	-	Closed - RFP for new lease holder issued

Performance of HANMI's Set of Hotels, Saipan, 2002 to 2019 (in USD)



Source: HANMI

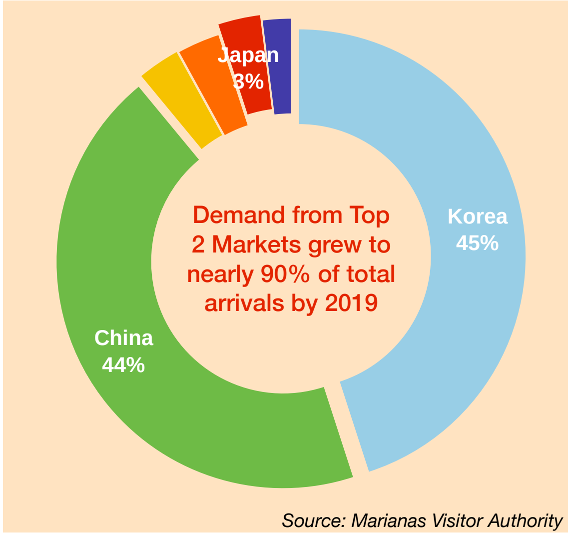
Constrained Rate Growth

Although by no means insignificant, the market's ADR growth during its peak boom years is not particularly remarkable especially considering the lower base of just over USD 100 in 2012 and the sustained near-capacity occupancy levels.

More specifically, the market's occupancy-reliant performance highlights resistance in rate from the demand side, likely as a result of a combination of the following factors:

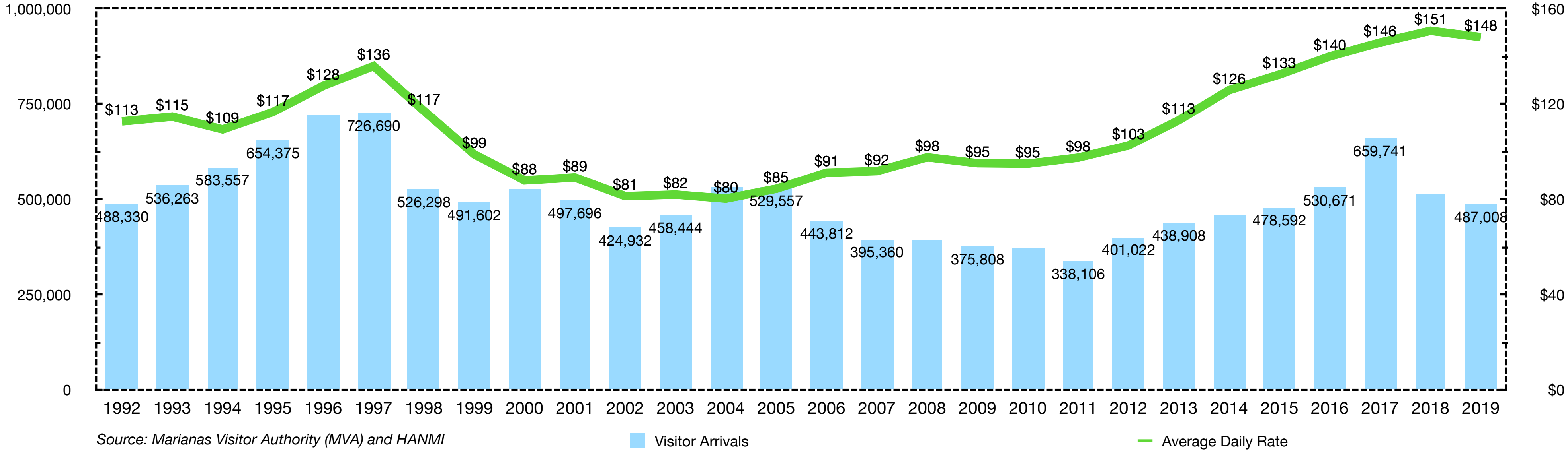
- The Korean segment, the CNMI's largest source market, consists predominantly of demand under the all-inclusive resort model. Guests traveling under this model are typically rate sensitive and incur very limited spending outside of the hotels they are staying at, or even any additional spending within their hotels.
- Although their trips to the CNMI generally do not involve the all-inclusive resort model, the majority of Chinese guests visit Saipan under the traditional tour group arrangement. Globally, guests in this segment are usually more value-oriented than FITs (Free Independent Travelers), who tend to be more demanding when it comes to schedule flexibility, choice of accommodation, activities etc. and are willing to pay premiums for their preferences; the Chinese market is no exception.
- While the CNMI's beaches and natural resources are spectacular, the destination's difficulty in attracting higher yielding guests is more a result of the outdated tourism infrastructure.
- **In addition to its older facilities, the market also lacks branded properties, and the global booking channels, management expertise, and loyalty programs with hundreds of millions of upmarket guests globally that come with them.**

Nationality Mix, CNMI Visitor Arrivals, 2019



Source: Marianas Visitor Authority

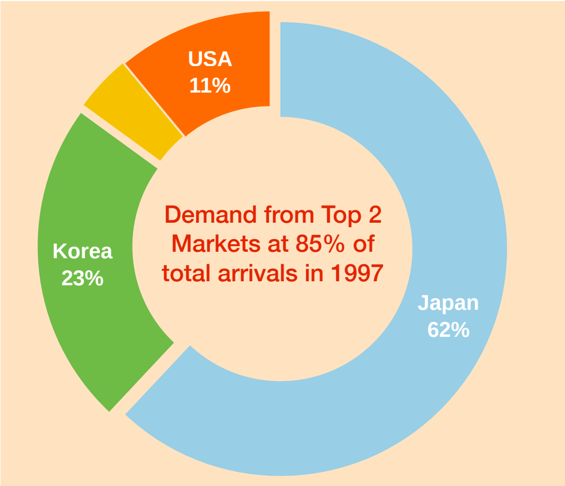
Visitor Arrivals and Average Daily Rate of Saipan's Key Set of Hotels part of HANMI, 1992 to 2019 (in USD)



Source: Marianas Visitor Authority (MVA) and HANMI

BROADER IMPLICATIONS FOR THE DESTINATION

Nationality Mix, CNMI Visitor Arrivals, 1997



Source: Marianas Visitor Authority

Reactive rather than Proactive

From a broader perspective, the lack of global hotel brand representation and upgraded tourism offerings has not helped the destination grow and move away from the reactive tourism model.

During its previous boom in the late 1990s, the CNMI's nationality mix was drastically different, yet at the same time, not much at all in that it was also reliant on essentially one source market. The decline of the Japanese market resulted in a softer period that lasted for a decade.

Over the years, with limited proactive diversification and anticipatory improvements, the CNMI's tourism market has essentially been at the mercy of airlines and tour operators. Although it is often argued as a "chicken and egg" situation, demand potential and route profitability, influenced by the availability and quality of tourism products that could attract higher yielding guests, are undoubtedly key considerations for airlines.

These considerations are likely to become of even greater importance to airlines post COVID-19. Millions in losses incurred during COVID, when travel demand returns, possibly at lower load factors, airlines will likely place an even greater focus on higher yielding destinations and be more demanding on route profitability.

Under such conditions, destinations driven by group demand, which typically generate lower fares, face significant future disadvantages.

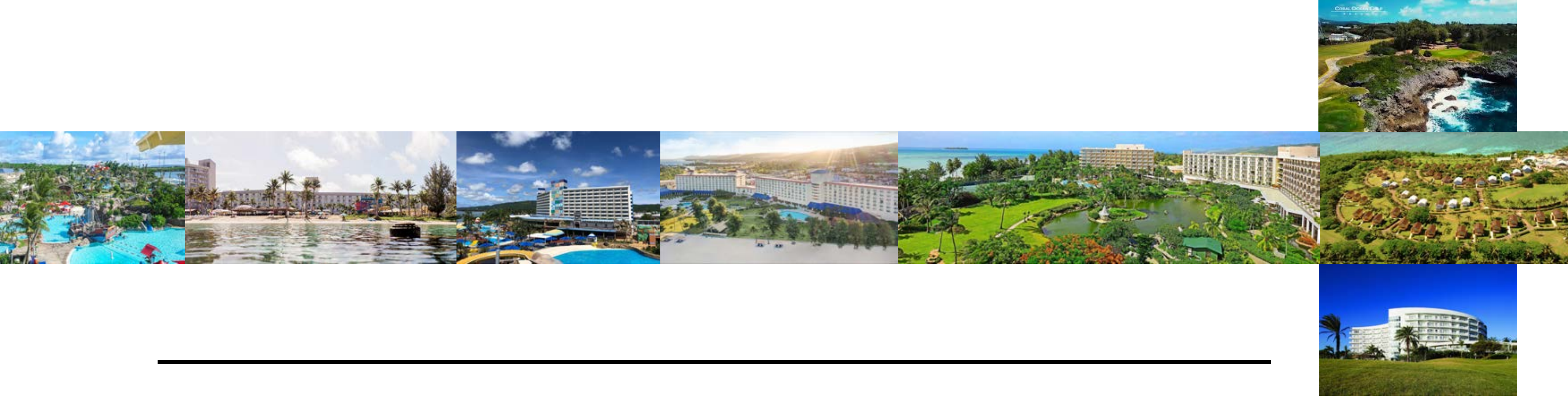
Sustainable Growth

Given the size of the CNMI, its limited natural, physical and human resources, sustainable tourism growth in the long run should ideally be from spending per visitor rather than the volume of visitors.

In this regard, increases in price supported entirely by demand surges, for instance, in the case of the market's ADR growth over the last several years, are typically not sustainable in the long run.

In other words, during inevitable downturns in cyclical market conditions, less ideally equipped properties may no longer be able to demand rate premiums by just providing capacity.

Although across all markets, hotels generally experience some decline in rate during softer periods, **markets with higher quality properties, stronger brands and reservation networks generally hold up much better during periods of downturn**.



2. COMPARISON TO OTHER ISLAND DESTINATIONS

- ✓ Availability of Quality, Branded Hotels
- ✓ General Condition of Key Shoreline Inventory
- ✓ Indicative Performance
- ✓ Takeaways on Branding and Destination Development

KAUAI, HAWAII

Known as “the Garden Island” of Hawaii, Kauai, the oldest and northernmost island in the Hawaiian chain is known for its emerald valleys and stunning cliffs.

Historically, sugar cane has been the largest industry; but as tourism developed, the Island’s last sugar cane company closed in 2000, leaving tourism as the primary industry driving Kauai’s economy with more than 1.3 million visitors annually.

All air visitors to Kauai arrive via Interisland flights (transiting in Honolulu, Kahului or Kona for international flights) or direct flights from the U.S. mainland.

While arrivals experienced considerable declines during the global financial crisis and took nearly a decade to return to the historical peak of 1.3 million visitors per year, it is just as critical to recognize the significant growth in total tourism spending during this period, and particularly from 2012 onwards.

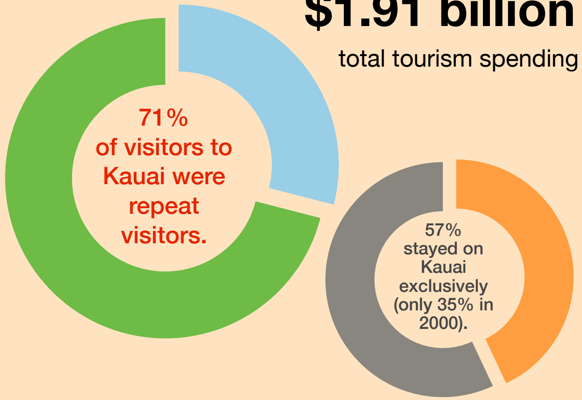
Between 2009 and 2019, tourism spending grew at a compound average annual rate of 6.5 percent, outpacing that of arrivals, at just under 4 percent.

Even taking into account inflation, this could still suggest that Kauai was able to attract higher yielding guests by not aggressively pursuing growth in visitor volume alone.

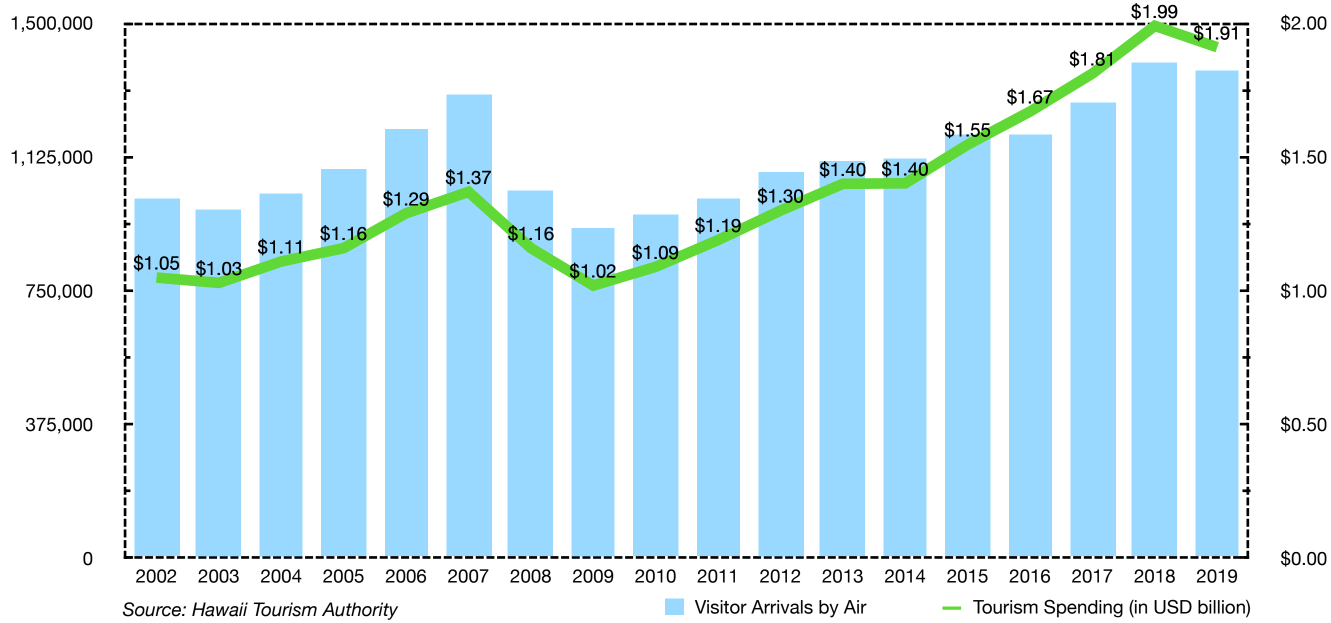
KEY FIGURES - KAUAI 2019

1.37 million visitor arrivals

$1.91 billion total tourism spending



Visitor Arrivals and Tourism Spending, Kauai, 2002 to 2019 (in USD billions)



Source: Hawaii Tourism Authority

KAUAI, HAWAII

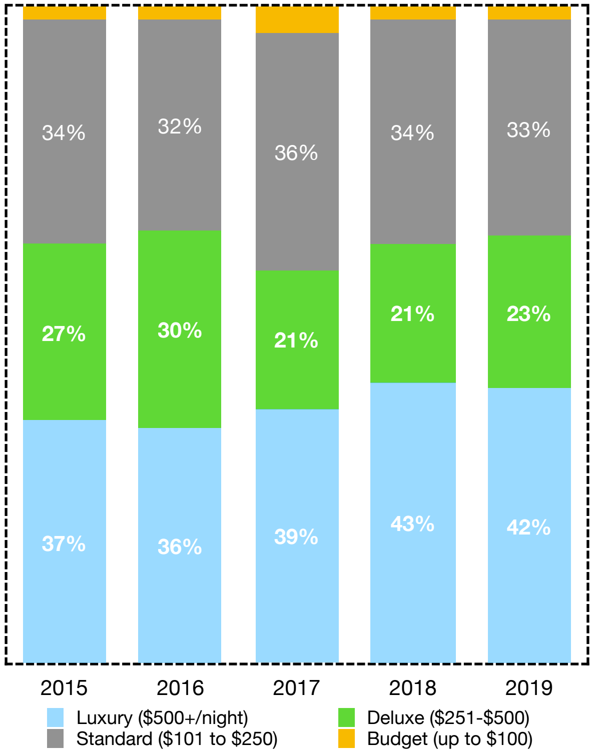
Balanced Upmarket Supply

Of the 9,036 units classified as accommodation inventory by the Hawaii Tourism Authority (HTA), over 65 percent fall in the deluxe and luxury categories, meaning that their rates per night are above USD 250.

More specifically, the proportion of properties in the luxury category has experienced steady growth over the years, as shown in the graph. In addition, while there is a reasonable share of inventory in the standard price class, budget properties are very limited.

Amongst the 15 properties that are classified as hotels, offering 2,856 rooms, there is a strong representation of globally established resort brands with positioning levels ranging from upper-tier to top-tier (shown in the table to the right).

Inventory by Price Class, HTA, Kauai, 2015 to 2019



Select Branded Shoreline Inventory, Kauai

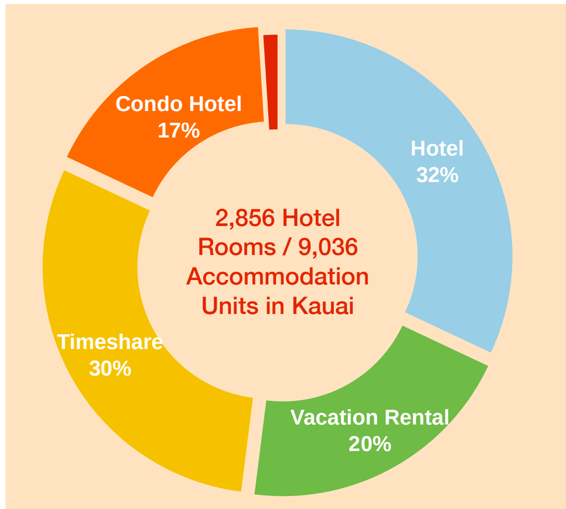
	Room Count	Location
Grand Hyatt Kauai Resort	604	Poipu
Kauai Marriott Resort *	356 / 232	Lihue
Sheraton Kauai Resort	389	Poipu
The Westin Princeville Ocean Resort	346	Princeville
Kiahuna Plantation Resort Kauai by Outrigger	333	Poipu
Koloa Landing Resort at Poipu, A Marriott Autograph Collection	306	Poipu
St Regis Princeville Resort (future 1 Hotel Hanalei Bay)	252	Princeville
Hilton Garden Inn Kauai Wailua Bay	216	Lydgate

** Room count consists of 356 hotel rooms and 232 beach club villas.*

Kiahuna Plantation Resort Kauai by Outrigger

Grand Hyatt Kauai Resort

Inventory by Unit Type, Kauai, 2019



Source: Hawaii Tourism Authority

KAUAI, HAWAII

Upgrading Properties to Maximize Investment Value

Being a mature island destination, most of Kauai's resort properties have been developed during the tourism boom of the late 1970s and 1980s.

Globally, and particularly in Asia Pacific, the quality of products has improved significantly over the last several decades, leaving Hawaii somewhat behind, initially. As a result, in order to attract higher spending visitors, properties have had to upgrade.

Under these conditions, a key factor supporting Kauai's continued growth is that many of its properties, especially those with prime shoreline locations, have undergone numerous upgrades to better capitalize on the growing tourism market and maximize the value of limited, prime, beachfront real estate.

Sheraton Kauai Resort

One example of this is the Sheraton Kauai Coconut Beach Resort. Built in 1978, the property has gone through numerous renovations and operated under various global brands, from Holiday Inn, to Courtyard, but always in the upper-mid-market segment.

In 2017, when KSL Capital acquired the property, then branded as a Courtyard, it saw the opportunity to fulfill growing demand for a higher end, full-service resort missing in that area at the time, by fully upgrading the property to offer a solid four- to 4.5-star product.

As part of the rebranding to a Sheraton, KSL launched a USD 30 million redevelopment that completely transformed the property for guests (by doubling the size of the pools for instance) and addressed critical operational issues (by installing an improved drainage system that minimizes disruption from tropical rains).

St. Regis Princeville Resort

Another recent example is the redevelopment of the iconic Princeville Resort. First opened as a Sheraton in 1986, the property was rebranded under the luxury St. Regis flag in 2009, after a USD 60 million renovation.

In 2018, Starwood Capital acquired the property for USD 225 million, with ambitious plans to invest an additional USD 100 million to redevelop the property into a luxury lifestyle resort, reopening in November 2021 as 1 Hotel Hanalei Bay, the flagship property of its own wellness brand, 1 Hotels.

Barry Sternlicht, founder of Starwood Hotels (now part of Marriott), and CEO of Starwood Capital, saw immense potential in the site, situated on a hillside overlooking the stunning Hanalei Bay and the cliffs of the Na Pali coast, and opportunities to redesign the property for a completely different product centered around wellness.

Sheraton Kauai Resort

St. Regis Princeville Resort

KAUAI, HAWAII

Strong ADR & Occupancy

Supported by quality properties and a general strategy not overly focused on driving occupancy, the market's ADR performance took only two years to recover from the financial crisis, as shown in the graph below.

Between 2012 and 2019, the market's ADR grew at a strong compound average annual rate of 4.1 percent while occupancy gradually recovered to very healthy levels, in the mid to high 70s.

Compared to other markets classified by the HTA as Competitive Sun and Sea Destinations, Kauai's hotel market performance (ranked fifth out of 14 destinations by RevPAR) suggests a balanced approach, achieving healthy rate premiums while maintaining strong but not close-to-capacity occupancy levels (compared to Oahu for instance).

On the other end of the spectrum is French Polynesia and the Maldives, both having achieved ADR levels of around USD 550 at moderately lower occupancies, which, in the case of the Maldives, is also impacted by the high increase in new hotel supply.

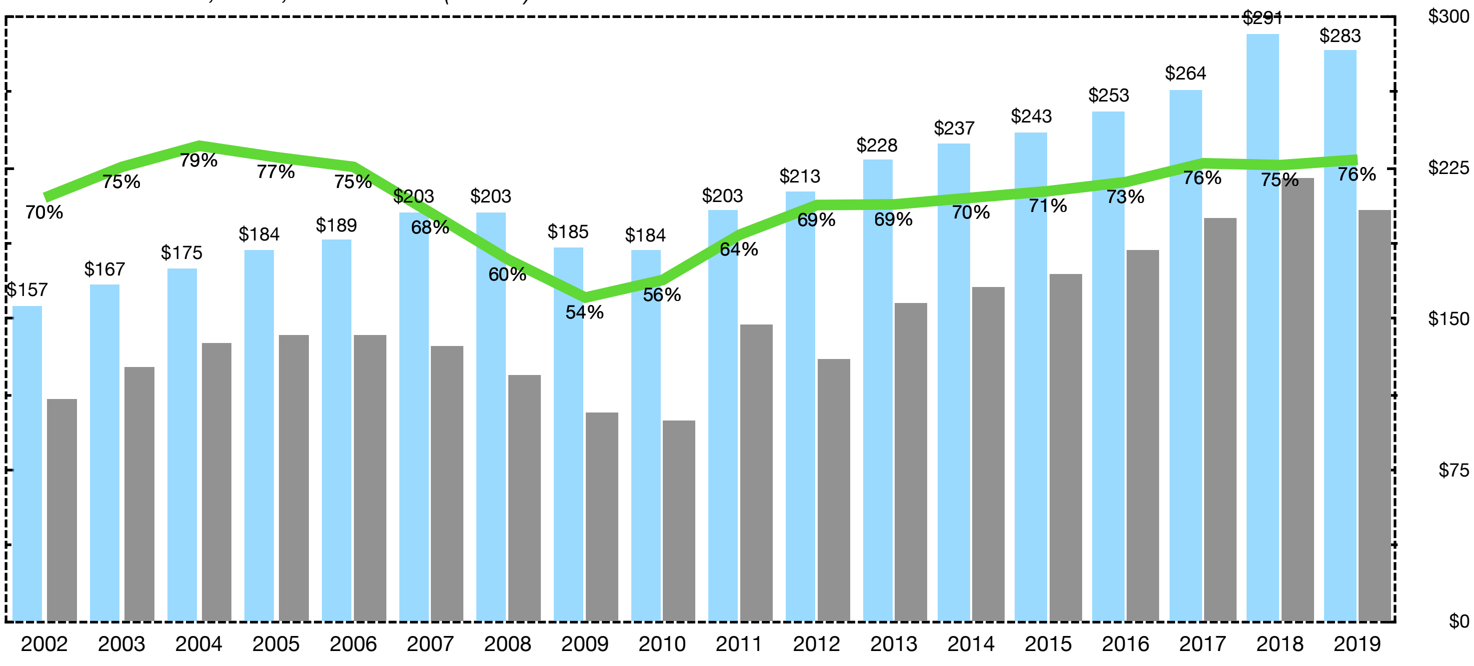
Two markets ranked low on this list, Phuket and Bali, both suffer from oversupply issues resulting from less managed development over the years.

Comparison to Competitive Sun and Sea Destinations, Ranked by RevPAR, 2019 (in USD)

	Destination	ADR	Occupancy	RevPAR		Destination	ADR	Occupancy	RevPAR
1	French Polynesia	$566	69%	$393	8	Cabo San Lucas	$354	51%	$181
2	Maldives	$542	66%	$356	9	Puerto Rico	$212	66%	$140
3	Maui	$399	78%	$310	10	Cancun	$182	68%	$124
4	Aruba	$340	75%	$255	11	Costa Rica	$176	67%	$117
5	***Kauai***	***$283***	***76%***	***$216***	12	Fiji	$157	72%	$114
6	Hawaii Island	$267	77%	$205	13	Phuket	$123	71%	$87
7	Oahu	$241	84%	$203	14	Bali	$109	70%	$76

Source: Hawaii Tourism Authority

Hotel Performance, Kauai, 2002 to 2019 (in USD)



Source: Hawaii Tourism Authority

KAUAI, HAWAII

KEY TAKEAWAYS FOR THE CNMI

Optimal Utilization of Prime Shoreline Real Estate

Over various development cycles of a destination, the upgrading and redevelopment of the market's substantial properties help ensure that prime sites are utilized to their full potential.

Each time a redevelopment takes place, due to the generally higher cost of prime sites, in order to achieve reasonable returns, developers usually choose to improve the overall quality of the product, by undertaking renovations and often times introducing globally established brands.

On a separate note, this is also one of the reasons the majority of properties in destinations such as the Maldives are luxury, branded resorts.

The cost of land dictates that properties of top-tier quality be developed in order to command rate premiums necessary to generate acceptable return levels for the investment. Globally established brands are almost always attached to these developments to help generate upmarket demand and thereby achieve rate premiums.

Quality over Quantity

Looking at a broader perspective, as a relatively small island destination (albeit significantly bigger than islands of the CNMI), Kauai has established clear goals to focus on quality and yield rather than simply volume when it comes to its tourism industry.

As an island destination with nature as its single most important competitive advantage over the other islands of Hawaii, Kauai recognizes that there are clear capacity constraints, and that the quality of life for its residents is a critical issue to address.

As visitor arrivals neared 1.28 million in 2017, it was determined that the Island has surpassed the capacity at which visitor and resident experiences were still reasonable. Measures were set forth to combat "overtourism", in order to prioritize the quality of experiences for both visitors and residents instead of focusing on growing visitor arrivals.

As defined by the Kauai Visitors Bureau, their values for tourism on Kauai are to:

- Honor the island's people and heritage.
- Support and enhance the quality of life for residents.
- Value and perpetuate the island's natural and cultural resources.
- Engender mutual respect and partnership among all stakeholders.
- Support a vital and sustainable economy.
- Provide a unique, memorable and enriching visitor experience.

KOH SAMUI, THAILAND

Looking at a much younger destination, Koh Samui, Thailand's second largest island (after Phuket), with an area of just over 200 square kilometers and a population of around 65,000, has been developed to successfully ride Thailand's phenomenal tourism boom over the past two decades.

The opening of the Samui International Airport under the ownership and management of Bangkok Airways in 1989 has been credited as a catalyst in the development of Koh Samui.

However, Koh Samui did not receive much attention from upmarket guests until a number of properties with prestigious, world famous brands opened, namely the Six Senses and the Belmond Napasai in 2004, followed by the Four Seasons in 2007, and the Banyan Tree, the W, and the Conrad in 2010 to 2012.

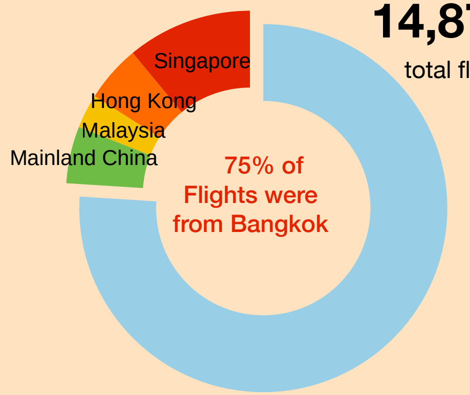
This is reflected in Koh Samui's visitor arrival growth over the years. Despite the airport having opened in 1989, demand only picked up substantially in 2004, surpassing 500,000 arrivals for the first time. Subsequently, growth has been gradual but steady, taking around a decade to reach the one million mark.

The strongest growth in recent years has come from the China market. However, with that surge flattening since late 2018, growth has been stagnant.

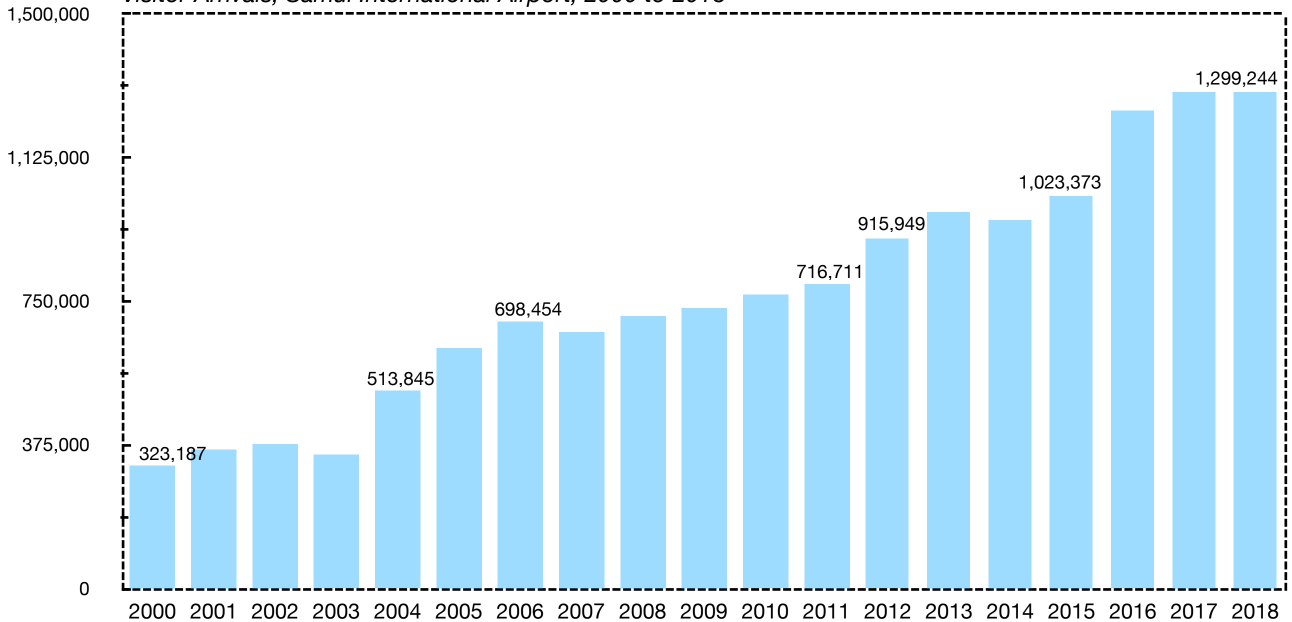
KEY FIGURES - SAMUI 2018

1.29 million passenger arrivals

14,872 total flights



Visitor Arrivals, Samui International Airport, 2000 to 2018



KOH SAMUI, THAILAND

Upmarket Positioning Aligned with Branded Resort Supply

Although with an airport owned and operated by one airline, Koh Samui set out with a upmarket positioning, the establishment of branded properties was what truly put Samui on the global travel map.

The presence of world famous brands (shown in the table on the right) successfully induced demand for the destination and benefited the Koh Samui hotel market overall. The top-tier market, consisting of hotels of five-star positioning and above, the majority of which are managed under globally established brands, achieved an ADR of over USD 330 in 2017, at a robust occupancy of 74 percent.

Looking at the overall Samui hotel market from a broader perspective, while both branded and non-branded properties have achieved healthy occupancy levels during the growth years up until 2018, branded properties have consistently outperformed their non-branded counterparts in average rate, achieving a premium of around USD 100.

Changing Nationality Mix

In 2017, 44 percent of the top-tier market's demand came from within Asia while 33 percent was from Europe. Back in 2013, Asia and Europe had equal share of the top-tier market, at 37 percent each.

The shift in market share towards Asia was mainly driven by growth from China, which, in 2017, became the market's largest segment by country.

With that said, it is important to note that despite growth from China, Samui's top-tier market has managed to remain diversified, as shown in the graph below.

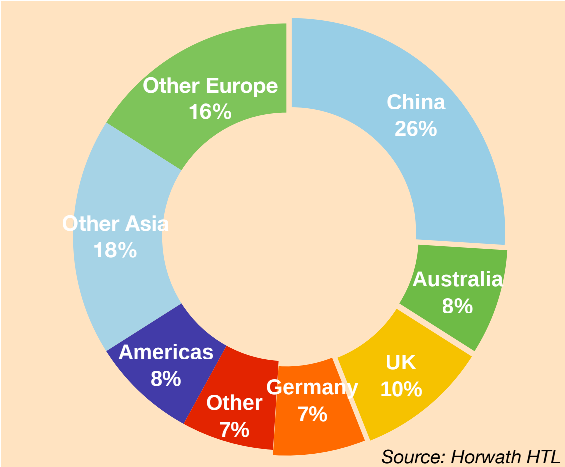
Select Branded Shoreline Inventory, Koh Samui

	Room Count
InterContinental Samui Resort	79
Six Senses Resort Koh Samui	66
Four Seasons Samui	69
Banyan Tree Koh Samui	88
W Retreat Samui	74
Conrad Koh Samui	78
Ritz Carlton Koh Samui	175
Renaissance Samui Resort	78
Sheraton Koh Samui	141
Anantara Lawana Koh Samui	122
Sala Samui Chaweng Beach	134
Amari Samui	193


W Resort Koh Samui


Renaissance Koh Samui Resort

Nationality Mix, Top-Tier Market, Koh Samui, 2017



Source: Horwath HTL

KOH SAMUI, THAILAND

KEY TAKEAWAYS FOR THE CNMI

Power of Branded Resorts

The development of Koh Samui over the years showcases the symbiotic relationship between airlines and hotels. While air access, provided by Bangkok Airways, allows demand to reach Samui, the island's intrinsic beauty and the availability of high quality, branded accommodation options are what actually attract high-yielding visitors, making the route between Bangkok and Samui Bangkok Airway's "cashcow", accounting for nearly half of the top line revenue for the entire airline.

Although with the Samui International Airport, the overall strategy is to position the destination at a premium level, filtering out mass market tourists by eliminating low cost carriers, without branded resorts that attract sophisticated travelers willing to pay premiums of two to three times the cost compared to flying to Phuket, the model would not work.

Branded properties also allow for competition with regional markets for higher end demand from expats in Asia, a market that is relatively untapped for the CNMI.

Importance of Diversification

Supported by Bangkok Airways' route expansion, the presence of top-tier branded resorts with strong presence in China that Chinese upmarket travelers are loyal towards generated strong demand growth from this lucrative segment. On the other hand, hotels with less prominent brand awareness amongst top-tier Chinese consumers continued to rely more on the traditional source markets of Europe and Australia.

By 2017, China has grown to become the largest source market by country for the top-tier market in Samui, accounting for a quarter of the market share. However, growth from this segment began to flatline in late 2018, impacting many markets in the region.

Even with a fairly diversified nationality mix, Samui is facing challenges brought on by the slowdown of Chinese demand. The redeeming factor is that the destination has managed to avoid losing other markets due to over-dominance by one single market, a situation that has happened to many destinations historically.

Balance between Development & Infrastructure

Looking at the development pipeline for Samui over the next several years, greater growth in arrivals is much needed as supply is set to increase, leaving hotels at a vulnerable situation relative access lagging behind that of supply growth, a result of continued new development outpacing that of infrastructural improvements.

This is a key issue for the CNMI to consider and avoid, making sure that supply increases do not exceed infrastructural limits.

Given the general condition of the CNMI's existing properties, its limited resources, and the presence of several leased but under utilized shoreline plots, it is important to focus on existing leases for Saipan, ensuring that prime real estate are utilized to their fullest potential.

In addition, tourism opportunities for Tinian, Rota, and the Northern Islands should also be actively explored, utilizing the CNMI's advantage to become a true multi-island destination, offering a variety of tourism products and experiences that complement each other.



3. WHY REQUIREMENT FOR BRANDING IS NECESSARY

- ✓ Benefits of Branding for the Destination
- ✓ Benefits of Branding for the Developer
- ✓ Risks of Unmanaged Development

WHY BRANDING?

Out of the six operating properties in Saipan located on shoreline public land, only one currently offers a globally established brand, the Hyatt Regency, and only up until the end of 2021 when the lease, and along with it, the management agreement, is due to expire. While the facilities of this property lag behind that of many Hyatt Regency resorts globally, it has consistently been the rate leader in the market, showing one of the upside of having a brand.

Over the next ten years, nearly all of the operating shoreline resort properties on public land will be facing lease renewals. Of these properties, only the Fiesta Saipan has progressively pursued and secured a management agreement with a globally established hotel management company, the InterContinental Hotel Group, as of date. The Fiesta Saipan is expected to undergo extensive renovation and be branded as a Crowne Plaza Resort.

Given the age of the properties concerned, the general state of their facilities, most of which are in dire need for revamping, and the expected rebound in travel demand post COVID-19, the upcoming lease renewals present ideal opportunities for these properties to undertake strategic action to improve to the overall value of their assets.

The following section will examine the issue of branding, as one way to increase asset value, and the potential benefits it could bring to both the destination and hotel owners. On the other hand, the risks of unmanaged development will also be reviewed in looking at why branding is appropriate as a mandatory requirement for new leases and renewals to ensure the optimal use of prime shoreline land.

WHAT CONSTITUTES A GLOBALLY ESTABLISHED BRAND?

Prior to looking at the benefits of branding, it is important to recognize which hotel groups are the leading players in the industry and what they offer.

The table below lists the most established hotel groups globally that offer the following:

- Leading scale in terms of number of properties.
- Representation worldwide.
- A sizable portfolio of established brands.
- Loyalty programs with millions of members.
- Strong brand value and expertise developed over decades.
- Strong presence in the upmarket segments.

The groups listed below are amongst the most significant players in the industry on a global, upmarket (but not niche) level.

	Marriott International	Hilton	IHG (InterContinental Hotel Group)	Accor	Radisson Hotel Group	Hyatt
Number of Properties	7,600+	6,400+	5,964	5,100+	1,100+	975+
Number of Rooms	1.3 Milllion+	1 Million+	885,036	753,000+	220,000+	235,000+
Presence in Number of Countries	133	119	100+	110	100+	69
Number of Brands in Portfolio	30	18	16	40	7	20
Loyalty Program Estimated Number of Members	147 Million	82 Million	100 Million	68 Million	24 Million	16 Million+
Founding Year of First Key Property in Group	1957	1943	1949	1967	1960	1957

BENEFITS OF BRANDING FOR THE DESTINATION

From the perspective of the CNMI as a destination, public land, especially sites with prime, shoreline locations, are limited, non-renewable and precious assets. As such, the value generated for the CNMI from these assets, be it directly, in the form of rent and tax, or via indirect ways also affecting the destination, should be maximized.

A key issue in achieving this is to ensure that properties of high quality are developed on these sites. One way to do so is via a requirement that all properties applying for new leases and renewals be managed by globally established hotel brands.

More specifically, the introduction of more globally established hotel brands is expected to benefit the CNMI in the following seven key ways:

1. Improve the Overall Accommodation Offerings

- Globally established hotel management groups generally require that, in order for a property to take on their brand, an exhaustive list of standards be met with regards to the property's physical offering.
- These standards pertain to key criteria that dictate the positioning level of the property, such as room size, the quality of furnishings and fixtures, the type and number of food and beverage offerings, meeting spaces and recreational amenities.
- In addition, hotel brand standards also extend to all areas related to fire and life safety, which, in most cases, far exceed local code and requirements.
- The technical services teams of established hotel management companies also offer expertise in the latest design and innovative concepts, from global perspectives.
- All of the above will serve to ensure that higher quality properties are developed, ultimately strengthening the CNMI's destination profile and competitiveness.
- For existing properties in particular, requiring a brand for lease renewals will be critical in helping to ensure that the assets undergo strategic upgrades, improving the long term prospects for owners and the destination as a whole.
- Given the general condition of most properties concerned, established brands will demand Property Improvement Plans that would be quite extensive in order to meet brand requirements for the renovated product.

CASE IN POINT

An example of this is the Shanhaitian Resort Hainan. One of the oldest upmarket properties in Hainan, China's beach resort island, its facilities have naturally become outdated despite the resort being a landmark.

In 2017, after having undergone extensive renovations, the property reopened as the first Autograph Collection Hotel in China, marking the debut of one of the Marriott Hotel Group's highly anticipated newer brands.

Example of Renovation & Rebranding: Shanhaitian Resort Sanya Autograph Collection

2. Higher Rent & Tax Revenue

- Across city and resort markets globally, branded properties are typically able to command higher room rates, relative to their non branded counterparts. This translates into higher rooms revenue, which generally accounts for the largest source of revenue for hotels.

- In addition, the operational expertise and much greater pool of senior management personnel offered by established hotel groups are also helpful with optimizing food and beverage and other revenue.

- From the destination's perspective, higher revenue for the hotels translates into increased levels of:
    - additional rents, which is based on a percentage of a property's business gross receipt;
    - hotel occupancy tax; and
    - business tax.

- These could contribute to the much needed funding for maintenance and improvement projects in the CNMI, helping to improve the destination for both the local community and tourists.

Sheraton Yalong Bay Hainan China

3. Increase Overall On-Island Spending

- The presence of hotels with globally established brands and improved facilities could attract more higher yielding visitors.

- The presence of more upmarket visitors, who generally like to explore and experience more of a destination compared to travelers on tour groups, could help increase the length of stay and overall spending on island, benefiting other business in the CNMI in addition to hotel properties.

4. Global Customer Base

- Strong global marketing efforts and robust loyalty programs offered by established hotel groups could help the CNMI reach a much broader customer base, beyond that offered by tour operators.

- Today, many consumers, when considering a destination new to them, tend to rely on brands that they identify with to attain some level of comfort in respect to the unfamiliar destination. In other words, more travelers are likely to try out an unfamiliar destination that offers accommodation brands they are already familiar with.

CASE IN POINT

Examples of where hotels with global brands were essential in putting a lesser known destination, or one that consumers had less confidence in, on the global travel map include Sanya in China and Cebu in the Philippines.

Prior to the opening of the Sheraton Yalong Bay Hainan, China had no reputation for offering beach vacation experiences. Similarly, the Shangrila Cebu Mactan spearheaded the transformation of Cebu, previously known as a second tier industrial center of the Philippines, into a regional resort destination.

Shangri-La Resort Cebu Mactan

5. More Diversified Market Mix

- The ability to reach a global customer base beyond that offered by tour operators, and the presence of quality, branded properties to effectively attract sophisticated travelers, could ultimately lead to greater diversity in the nationality mix of visitors for the CNMI.

- This is a key factor in reducing risks associated with over dependance on any single source market. As mentioned, the CNMI's somewhat homogenous market mix that essentially depends on demand from two regions, China and Korea, makes its tourism market highly susceptible to market specific drops in demand, as was the case with the Japanese market.

- While air access remains an issue, potential demand, profitability and what is on offer in a destination, particularly in terms of quality accommodation, are critical criteria airlines consider in route planning.

6. Attracting Higher Caliber Investors

- The success of branded properties will help further put the destination on the map for seasoned investors, leading to a positive cycle that attracts higher caliber future developments.

CASE IN POINT

An example of this from a destination perspective is Danang, Vietnam. The Silver Shores International Resort was rebranded as a Crowne Plaza in 2011, introducing the first of many global brands to a previously lower-yielding market dominated by older, unbranded hotels.

Subsequently, Danang welcomed its first iconic property of luxury positioning, the InterContinental Resort, followed by the Hyatt Regency, the Sheraton, the Hilton amongst others, and a second Crowne Plaza property opening in 2023.

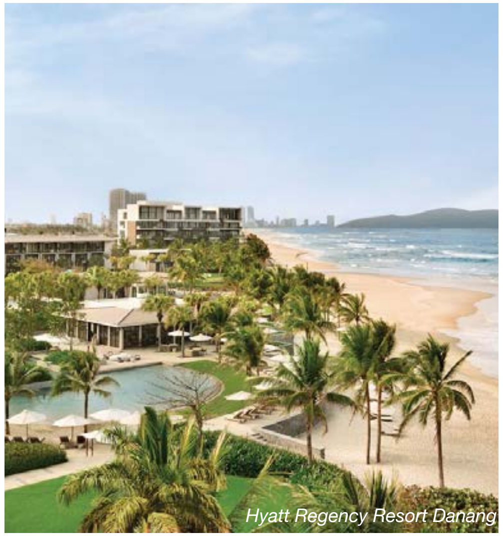
7. Avoiding Illegitimate Developers / Investors

- On the other hand, and possibly more importantly, making management under a globally established brand a mandatory requirement for any new leases and renewals could help weed out less credible and / or inexperienced developers and investors.

- While branding could lead to many financial upsides for developers given the right site, the upfront financial commitment is higher, which may deter some developers, particularly those looking for quick returns on investment.

- This type of investors should ideally be avoided to protect the long term interests of a destination. As such, introducing a mandatary requirement for branding could help prevent developments that may be detrimental to the CNMI in the long run.

Crowne Plaza Resort Danang



Hyatt Regency Resort Danang

InterContinental Resort Danang

BENEFITS OF BRANDING FOR DEVELOPERS

From the developer's perspective, the overall aim is generally straightforward - to achieve higher returns on investment and higher asset value.

For hotel assets, the more widely-accepted way of valuing a property is based on its profit potential, or, in other words, its annual earnings.

Whether it is a standalone hotel or a key asset within a portfolio that may be publicly listed, maximizing the value of the property is often a developer's top priority.

Given the nature of the hotel business involving high fixed costs, the most effective way to improve earnings is through increasing revenue. Beyond a certain Gross Operating Profit level, top line revenue essentially flow through straight to the bottom line.

As such, compared to the multitude of concerns and issues to be addressed from a destination's perspective, the ultimate goal for a developer with a hotel asset in long run is simple - achieving higher revenue.

All else being equal (location, site attributes, quality of development, financing, market conditions etc.), having a property that is under the operation of a globally established brand generally leads to higher long term asset value.

The following are five main ways management under a globally established brand could benefit the developer:

1. Higher ADR & Revenue

- Many established brands, developed over decades, represent quality and promises of great experiences in the minds of sophisticated travelers who are willing to pay for said quality and experience.
- Demand from upmarket guests translate into higher room rates and increased other spending at the hotel, resulting in higher total revenue. As mentioned, higher revenue equates to higher valuation and ultimately higher return on investment.
- Moreover, established hotel brands also offer sophisticated revenue management models and operating procedures developed from managing tens of thousands of properties globally. Better revenue management could help take fuller advantage of market opportunities, achieving higher room rates.
- Given that the rooms department offers the best operating margins, in the upwards of 80 percent, higher room rate translates directly into higher Gross Operating Profit and higher returns.

2. Managing Risk

- As mentioned, consumers, when looking at new destinations, tend to rely on brands that they are familiar with for a level of comfort.
- In this regard, having a brand could lower the risk for developers, particularly in resort markets where travel demand is discretionary and therefore comparatively more volatile than is the case with city markets.

3. Ensuring Best Use of Site

- Given that leisure travel is discretionary, as traveling becomes more difficult in the post COVID-19 era, the need to stay competitive with the oversupply of newer, purpose-built resort properties available in the Asia Pacific region has never been greater.


Phuket


Bali

- As such, it is critical for existing properties to take proactive measures to remain competitive in light of the ever changing landscape.

CASE IN POINT

The InterContinental Samui, previously the iconic Baan Taling Ngam Resort, was Samui's very first luxury resort, opened in 1991 on 22 acres of beautiful clifftop land with 300 meters of pristine beach.

In the mid 2000s, international brands entered Samui and other competing markets in the region, including renowned players like the Six Senses, Belmond, and Four Seasons. To stay competitive and optimize the value of its site, which in itself remained prime regardless of newly developed properties, the resort had undergone a USD 15 million renovation and was rebranded as the InterContinental Samui in 2011.

InterContinental Samui Resort

4. Power of Loyalty Programs

- Many established hotel groups have very strong loyalty programs backed up extensive networks of hotels worldwide and hundreds of millions of members.
- For resort markets in particular, this could be especially beneficial as more and more consumers tend to use their loyalty points acquired through corporate travel for personal holidays.
- For properties in the CNMI, which have had to rely heavily on market-specific tour operators, such loyalty programs could help generate demand from higher yielding guests and more diversified source markets worldwide.

5. Maximizing Physical Asset Value

With regards to a hotel's physical asset, its facilities, plant and equipment, having a brand could benefit the developer in the following ways:

- Globally established hotel brands will require that properties meet their standards, regardless of whether it is a renovation or new build scenario.
- These standards pertain to all aspects of a hotel's physical asset, ranging from fire life safety, to furnishings and fixtures, to equipment and design. Having to satisfy these standards in order to qualify for a brand generally result in higher quality assets for the developer.
- In addition to the construction / renovation stage, the expertise of established hotel groups are also beneficial with respect to the ongoing maintenance of a hotel property.
- Proper scheduled maintenance of equipments, facilities and systems are particularly important for resorts in tropical locations, where the impacts of deterioration from environmental factors are greater.
- A brand's experience from managing thousands of properties subject to similar conditions globally could help ensure that measures taken during day to day operations, in addition to routine maintenance, could prolong the life of the hotel's plant and equipment, yield savings for the developer in the long run by maximizing the property's useful life.

RISKS OF UNMANAGED DEVELOPMENT

Having reviewed the benefits that globally established hotel brands could bring to the CNMI as a destination and to its current and future investors, it is of equal importance to address the potential risks of unmanaged development.

Without clear requirements in place to ensure that existing and future hotels on public land achieve a certain quality level that will bring about benefits to the destination, the following are three key risks that the CNMI could be facing:

1. Squandering of Prime Shoreline Real Estate

While destinations benefit from offering a mix of accommodation products at various positioning levels, prime beachfront properties are generally the best resort products of any island destination. They generally have higher quality positioning and are branded while inland hotels with lower land costs may be independently operated properties of lower positioning.

Once again, it is in the developer's long term interest to engage a globally established brand given the need to achieve average rate levels commensurate with development costs typically associated with quality resort properties on prime shoreline sites.

At the time same, it is in the interest of the destination to use branding as a mandatory requirement to ensure that its prime land are optimally utilized, rather than be taken up by less credible developments.

In this regard, globally established hotel groups have stringent requirements and exhaustive checklists of items that they vet developers with before even considering negotiation for a management agreement.

Acting as operators to hundreds of thousands of hotels globally, they have the experience of going through the due diligence process to determine whether a developer is one, financially capable of completing the development and supporting it throughout the life of the agreement, which is typically more than 25 years; and two, legitimate.

Since these two basic criteria could also be of key concern to the CNMI when evaluating any investor, making branding a mandatory requirement for all new leases and renewals could help prevent the misuse of prime land resources.

2. Risks with Source Markets

As a destination that has relied heavily on tour operators in the past, there is a critical need for the CNMI to take proactive measures to ready the destination for competition on a broader scale, reducing its reliance on any single market.

This need is made greater in the post COVID-19 era. With airlines having incurred millions in losses, when travel demand returns, they are likely to be more demanding than preciously on route profitability. A destination driven by tour operators and group fares is likely to be at a significant disadvantage under such a climate.

In addition, geopolitical risks are also issues to consider, particularly with markets that are more prone to collective behavior.

For instance, while many markets worldwide have benefited considerably from the outbound China tourism trend in recent years, destinations that have not neglected other markets have fared noticeably better than those that have let one booming segment dominate, only to find that displaced demand from other segments are difficult to recapture as the surge from the booming market inevitably flattens.

3. Risks from Competing Destinations

In the post COVID-19 travel era, as air tickets are likely to become more expensive and the procedures of travel more time consuming, customers are like to be more selective in their vacation destinations and potentially reduce the number of trips overall.

Under this changing climate, although the CNMI has enjoyed strong surges in demand in the past, back by the natural beauty of the destination, such growth is likely to be difficult to sustain in the long term without significant improvements to the CNMI, particularly the quality of its accommodation, the variety of tourism offerings and support infrastructure.

The upcoming lease renewals for shoreline properties located on public land are ideal opportunities to address the accommodation component of the equation.

ABOUT THE AUTHOR

Darlena Zhai

Since graduating from the Cornell Hotel School in 2007, Ms. Darlena Zhai has been involved in over 300 tourism and hospitality projects, in over 75 key markets across Asia, the Pacific Islands, the Caribbean, and Africa. A Director at the Hong Kong office of Horwath HTL until 2018, Ms. Zhai has extensive experience in destination tourism planning, sustainable development, feasibility and market studies for hotel and tourism developments, hotel management contract negotiations, and asset management. Ms. Zhai was the main author for the Sustainable Tourism Development Study prepared for the Marianas Visitor Authority in 2017. Ms. Zhai's experience in the Pacific Islands also cover more than 15 other studies in markets in the CNMI, Guam, Palau and Fiji.