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IN FOCUS: **BANGLADESH** THE DARK HORSE

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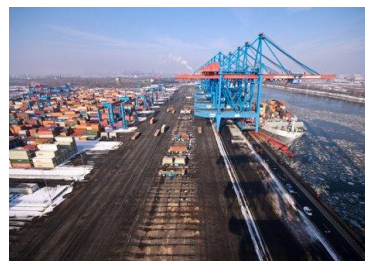
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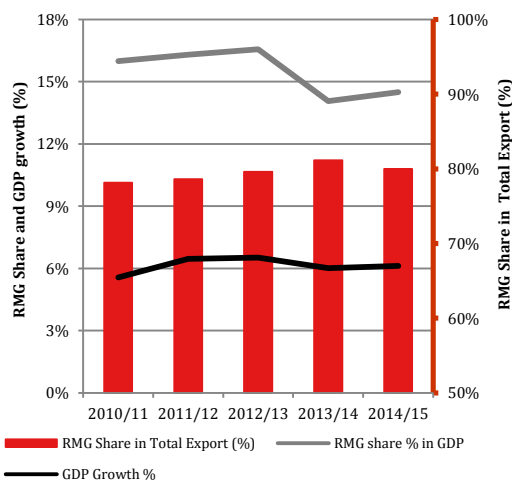
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Bangladesh, regarded as one of the prominent emerging economies of South Asia, has displayed sustainable growth over the past two decades. The country has experienced increased domestic travel and notable growth in foreign tourist arrivals, fueling demand for hotels in key destinations. With limited room supply entering the market, Bangladesh hotel performance in the organised market has been amongst the better performing ones in South Asia. Furthermore, the rising contribution of Food & Beverage revenues and high profitability resulting from low cost of operations has made Bangladesh a lucrative market for hotel investments.

In light of the above, this article evaluates the performance and potential of some key hotel markets in Bangladesh and highlights the opportunities and challenges of making investments in the country.

FIGURE 1: RMG INDUSTRY AND GDP GROWTH



Source: HVS Research

Background

Bangladesh, bordering the Bay of Bengal, in Southern Asia was amongst the top five emerging markets in 2014. The Bangladesh economy has grown at nearly 6% concomitant growth in human development. The economy has benefitted from inflows of remittances, a strong performance in textile exports and government structural reforms. The GDP has stood resilient to global shocks, natural disasters and political turmoil over the years, being primarily driven by the manufacturing and services sectors. The GDP, for the next five years, is also projected to grow by six plus percent with an aim to make Bangladesh a middle-income country by 2021.

The industrial sector has witnessed the fastest growth in the past five years at an average year-on-year growth of 8.5% led by the Ready Made Garment (RMG) industry.

- Growing at a CAGR of **21%** over the last five years.
- RMG industry contributes **14%** to the GDP.
- RMG accounted for **82%** of total exports

Some of the top RMG brands and retailers importing from Bangladesh are H&M, J.C. Penny, GAP, Zara, Benetton, Levis, Marks & Spencer, Walmart, Tesco, Carrefour.

The advantages of sourcing from Bangladesh include low manpower and utility costs, favorable international trade agreements and the capacity to produce in bulk.

Bangladesh ranks **3rd** globally amongst EU importers and **4th** amongst US importers in the RMG industry.

Ready Made Garment Industry (RMG) - Made in Bangladesh

The buoyant RMG industry has been one of the driving engines for the country over the last decade recording the highest growth among major industries. This has led to an increase in the overall travel visitation, creating demand for quality hotels in the commercial destinations such as Dhaka and Chittagong.

Hotel Market Overview

This article views the hospitality market of Bangladesh from 2 aspects – leisure travel and commerce. HVS research reveals that there is immense potential and opportunity for developing quality branded hospitality product offerings in this bustling and thriving country.

For a country of 168 million people (according to the Central Intelligence Agency, as of July 2015) and an economy with a GDP of US\$ 173.8 billion (at current price in 2014), it only has 3,500 hotel rooms in the organised sector. A majority of these are in the upper upscale and upscale segments leaving the mid-market, budget and economy segments open for investment. Bangladesh enjoys diverse natural landscapes varying from the rolling hills and tea estates to the beautiful rivers in deltaic plains, Sundarbans – the largest mangrove forest in the world, and Cox’s Bazar – the longest beach on earth. However, inspite of such destinations that hold much scope for tourism, the country doesn’t offer many avenues for quality leisure accommodation, thereby failing to attract both the international and domestic travellers.

For the purpose of evaluating the market, four primary destinations have been highlighted in this article.

Commercial Destinations

DHAKA
The commercial hub of Bangladesh and key demand generating destination.

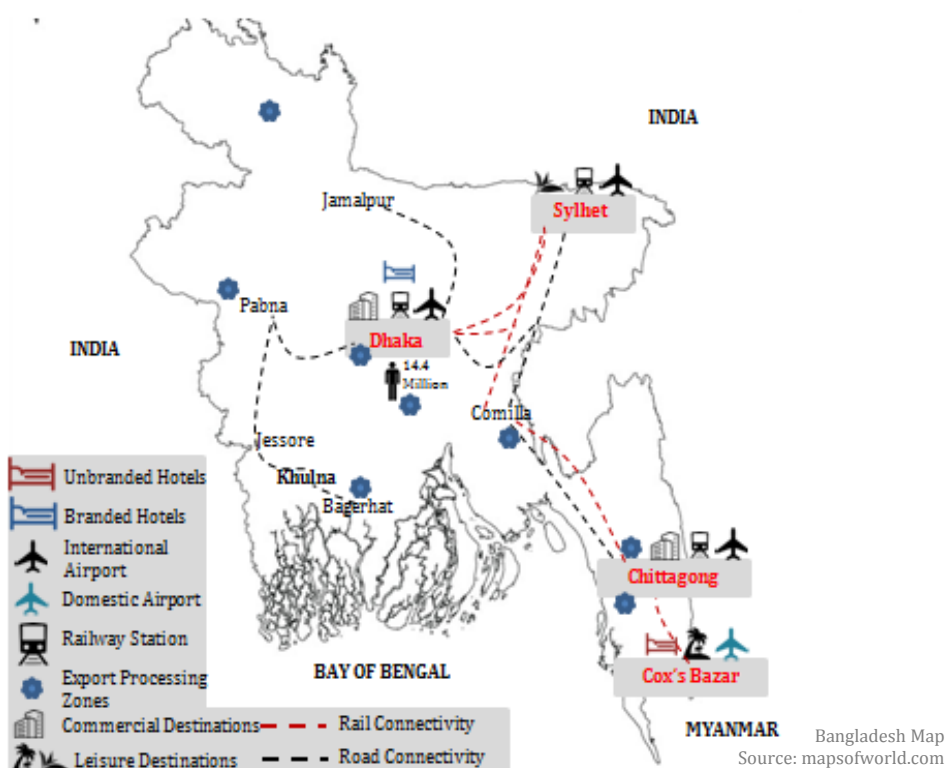
CHITTAGONG
Bangladesh’s busiest sea port, handling close to 92% of exports and imports in the country.

Leisure Destinations

COX’S BAZAR
A popular tourist destination with the world’s longest unbroken natural sea beach.

SYLHET
Surrounded by tea estates, rain forest and river valleys, Sylhet is one of the upcoming tourist destinations.

FIGURE 2: MAJOR DESTINATIONS, INFRASTRUCTURE, EPZs AND CONNECTIVITY

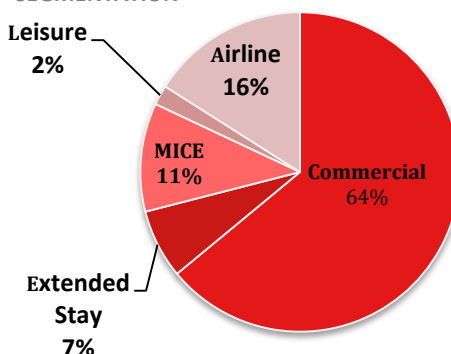


Dhaka – Bursting at the Seams

Dhaka is the capital city and the centre of political, cultural and economic life in Bangladesh. The city’s traditional commercial hub is in the south of the city comprising areas such as Lalbagh, Ramna, Hazaribagh and Motijheel; however, the CBD is expanding northwards with Gulshan (the upmarket area) and is expected to grow further northwards, towards and beyond the airport. The rapid economic growth in the country, especially Dhaka, coupled with a relatively small increase in hotel supply has led to a steep and sustained increase in both average rates and marketwide occupancies of the existing hotels. This acute shortfall of quality accommodation has also led to a large quantum of unaccommodated demand. Visitors travelling to Dhaka during peak periods are forced to either cancel/postpone their travel or stay in unbranded hotels/unorganised sector, which are able to charge a premium due to the supply and demand imbalance.

Hotel demand in Dhaka is primarily driven by the Commercial segment, consisting of individuals travelling for the RMG and textile industry, along with foreign business travellers primarily booking the branded hotels through their Global Distribution System (GDS). The Airline segment is the next largest contributor to the demand in Dhaka. With 34 carriers operating out of the Hazrat Shahjalal International Airport and passenger traffic of 6.08 million in 2014, the airline crew generates 16% of the total accommodated demand in the city.

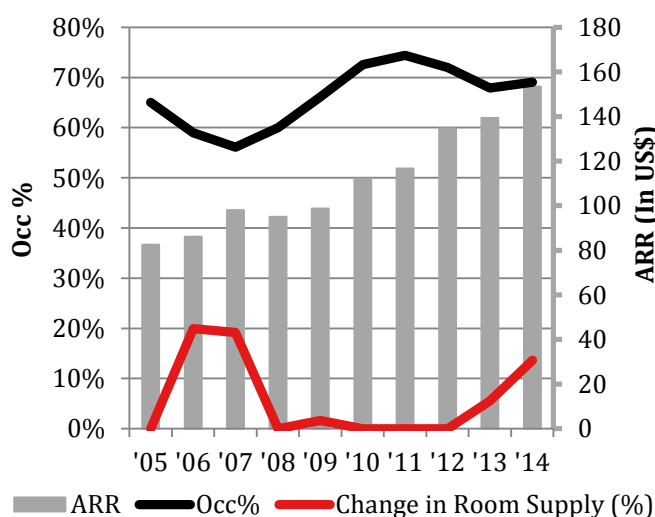
FIGURE 3: DHAKA HOTEL MARKET SEGMENTATION



Source: HVS Research

Furthermore, since 2008, the Meetings, Incentives, Conventions and Events (MICE) segment has emerged as a major contributor to the overall demand in the city owing to the growing demand for conventions and business to business (B2B) trade exhibitions. This segment grew from 5% of overall demand in 2008 to 11% in 2014.

FIGURE 4: DHAKA HOTEL MARKET PERFORMANCE



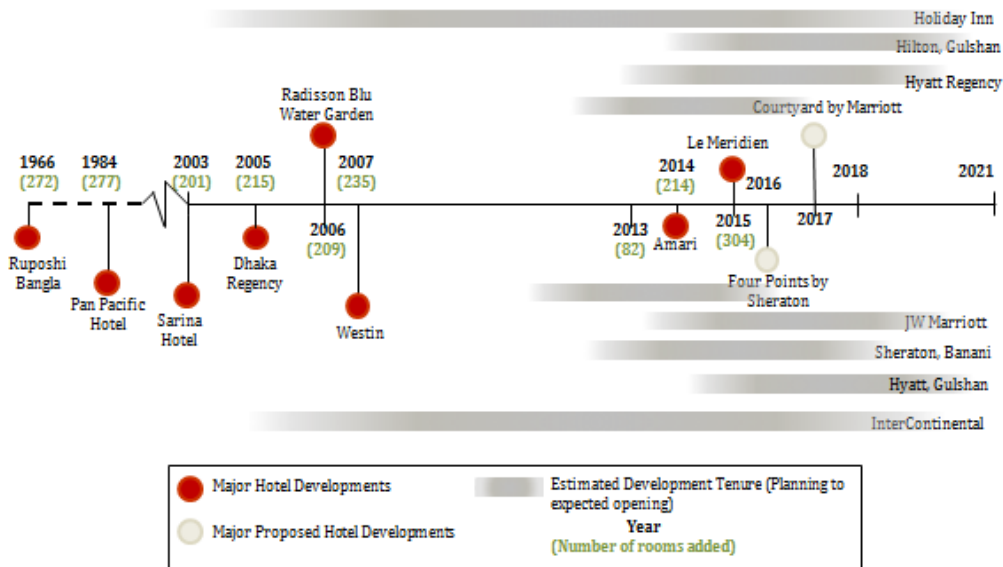
Source: HVS Research

Dhaka – Hotel Performance

Dhaka hotel market has seen consistent growth of 7.13% in ARR over the last decade. During this period, the Compounded Annual Growth Rate (CAGR) of accommodated demand was 7.0% whereas supply grew by 6.3%. With demand outpacing supply, the unbranded hotel market in Dhaka operates on comparable average rates as branded mid-market hotels in the city. In terms of occupancy, the organised hotel market was at its peak during 2010–2012 as no new supply was added to the city’s inventory from 2008 to 2012. The current supply of rooms in Dhaka is primarily in the upscale or upper mid-market segments, which includes hotels such as Radisson Blu,

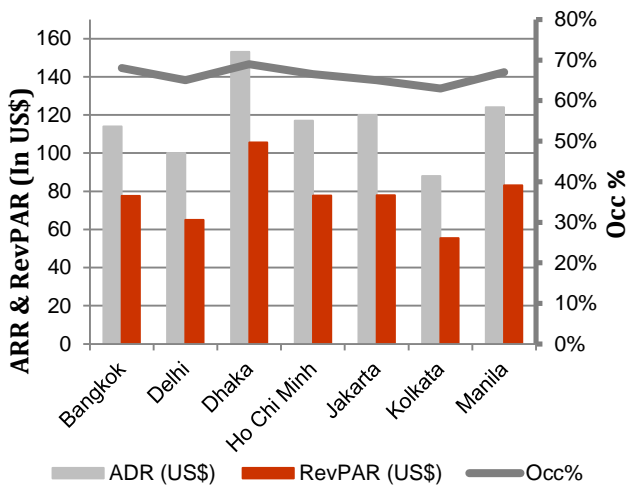
Westin, Pan Pacific, Four Points by Sheraton, and the recently opened Le Meridien. Moving forward, a supply of 2,600 rooms has been planned over the next five years. However, the progress of most of these proposed developments is either slow or stagnant as these projects face complexities in land acquisition (exorbitant prices and disputed ownership), regulatory clearance and high cost of borrowing.

FIGURE 5: TIMELINE OF EXISTING HOTELS AND PROPOSED HOTELS



Source: HVS Research

FIGURE 6: DHAKA HOTEL PERFORMANCE AGAINST SOUTH ASIA



Source: HVS Research

Dhaka's versus South Asia – Hotel Performance

By virtue of limited inventory and very high demand, the Dhaka hospitality market outperforms many of its competitive peer cities in the South Asian region with an average marketwide occupancy of 69% and an ARR of US\$ 153.

Additionally, the Gross Operating Profit (GOP) margins in the city are comparatively higher (as weighted against the emerging commercial destinations). The upscale hotels in Dhaka have a GOP of 50-55% as compared to a GOP of 30-35% for similar hotels in other commercial cities. Low cost of manpower has a significant role to play in this outcome.

Dhaka – Future Outlook

As mentioned earlier, Dhaka has seen very limited supply, which has not kept pace with demand. On the other hand, there are a number of projects announced or under construction. However, our experience in the market has shown that hotel projects take approximately two to three times the average construction duration as compared to other peer cities in South Asia or else they do not get constructed. Therefore, while a lot of supply has been announced, we expect only a limited portion to enter the market and, hence, its impact shall be only short term.

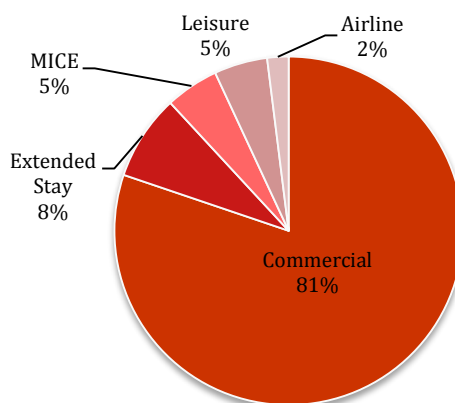
The proposed supply is primarily in the upper upscale and upscale segments and we see a void in the midscale, budget and economy segments. Moving forward, there is a need to develop hotels in these segments, which will benefit both domestic and foreign travellers who currently utilise the unbranded sector due to lack of choices.

Chittagong – The Next Big Thing

Chittagong is a major commercial hub of Bangladesh. It is the key manufacturing centre, and home to some of the country's largest companies and Export Processing Zones (EPZs). The Chittagong Port is the largest port in the country handling close to 92% of exports and imports. The city attracts many investors from the South Asia and Europe; however, due to limited availability of quality branded accommodation, travellers prefer staying in Dhaka overnight. This trend has impacted the overall attractiveness of the destination.

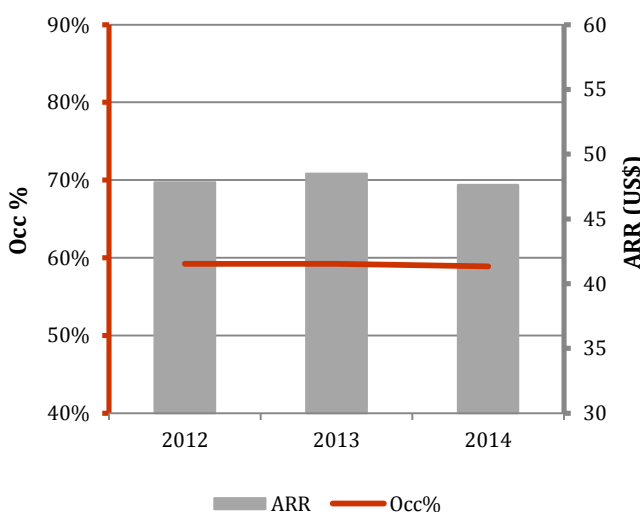
Similar to Dhaka, most of the hotel demand generated in the city is through the Commercial segment, which accounts for 81% of the accommodated room nights. A majority of the corporate travellers having business interests in manufacturing units in EPZs visit the country on an average of three to four times a year, with each visit ranging from two days to a week. Apart from the manufacturing and banking sectors, Chittagong generates a large quantum of demand from gas explorations as well.

FIGURE 7: CHITTAGONG HOTEL MARKET SEGMENTATION



Source: HVS Research

FIGURE 8: CHITTAGONG HOTEL MARKET PERFORMANCE



Source: HVS Research

The Radisson Blu shall help cement Chittagong's position in Bangladesh as a prominent commercial centre. Other future projects such as Courtyard by Marriott and Novotel shall further help in bridging the demand supply gap.

Chittagong – Hotel Performance

The Chittagong hotel market is primarily driven by demand generated from the EPZs, financial institutions in Agrabad and its port. The city has a high demand potential for room nights that currently remains untapped due to a paucity of quality branded hotels. This lack of quality branded hotels dissuades the high-end consumers to visit the city; and, depresses the marketwide average rates.

The city recently saw the opening of its first branded hotel, the 241-room Radisson Blu, which started construction in mid-2009 and is owned by the Army's Sena Hotel Developments Limited.

Chittagong – Future Outlook

As the city witnesses the entry of quality branded hotels, it is also expected to impact the overall fabric of the city itself. Quality accommodation shall help position it correctly as the second-most important city of Bangladesh and this will catapult it into the major league.

Leisure Destinations

Bangladesh is one of the most densely populated countries. Its emerging middle class combined with growing income levels has led to a rise in domestic consumption. With rise in income level, people are increasingly looking for getaways/vacation spots within the country. However, due to the lack of tourist destinations within the country, individuals/families are restricted to travel outside the country. Hence, there is an urgent need to focus on development of leisure destinations within the country.

A number of locations within the country have the potential to be nurtured into leisure destinations, however, due to poor infrastructure planning these destinations have not been developed to their true potential. While a large proportion of the domestic tourists travel to Cox's Bazar and Sylhet, there remains an absolute scarcity of quality branded hotel accommodation and services in these markets. Bangladesh's terrain and lush rainforests allow for great quality developments and it should emulate the best practices (safety, security, entertainment, nature preservation, connectivity and such like) from successful neighbouring countries such as Cambodia, Thailand, and Sri Lanka in order to tap into its leisure potential.

Cox's Bazar – A Paradise Lost

Cox's Bazar is recognised as the beach resort district of the country with the longest sea-beach in the world. It is the most-visited domestic tourist spot in Bangladesh. Despite the promising potential that the destination holds, this city has not yet been able to enhance its desirability to attract tourists. This is primarily due to problems such as squatter settlement, rampant unplanned development of shops, hotels, motels, time-share condominiums and residences along with other overlapping administrative anomalies. Cox's Bazar is today a veritable concrete jungle with looming empty hotels that have been sold off as time share options to uninformed investors.

Cox's Bazar is a highly seasonal market, which performs at an average year round occupancy of approximately 50% at an average rate of US\$ 40. We have been

seeing increasing stress on the market as both occupancy and average rates have been declining, while large unbranded supply continues to enter

Considering the large growing middle class and the domestic traveller segment, other/beach destinations such as Inani Beach, Moheshkhali (north of Cox's Bazar, known for the Buddhist temple and Adinath Temple), and Sonadia Islands, can be developed in a far more organised and environmentally sound manner. These destinations have immense potential to generate revenue for the country and should therefore be adequately harnessed.

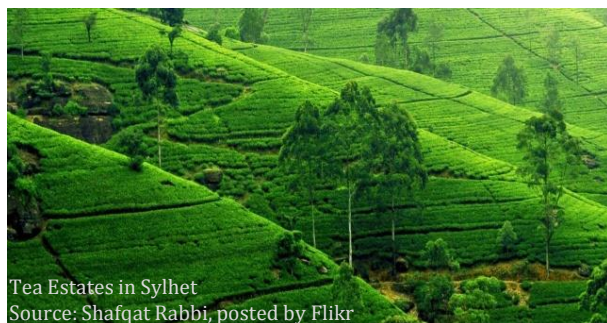


Cox's Bazar Beach

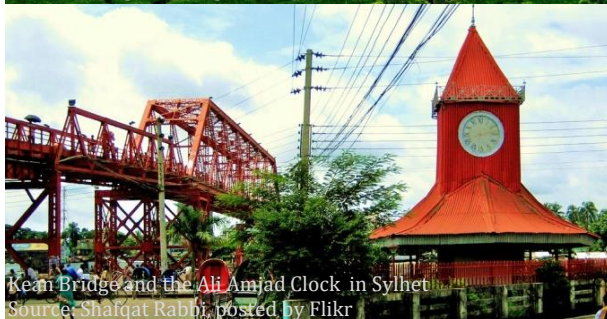


Rampant Construction in Cox's Bazar

Sylhet – The Hidden Gem



Tea Estates in Sylhet
Source: Shafqat Rabbi, posted by Flickr



Kean Bridge and the Ali Amjad Clock in Sylhet
Source: Shafqat Rabbi, posted by Flickr

Sylhet lies on the banks of Surma river in Northeast Bangladesh. The city is surrounded by tea estates, rolling hills, lush vegetation and a beautiful landscape.

Currently, Sylhet is one of the wealthiest cities of Bangladesh, owing primarily to a large inflow of remittances from the Bangladeshi diaspora in the United Kingdom (UK). Sylhet recorded a market wide occupancy of 53% at an Average Rate of US\$ 98 in 2014.

Endowed as it is with such natural beauty, Sylhet has the potential to be developed into a destination on similar lines as tea/coffee estates in other South Asian countries such as Darjeeling, Coonoor, Ooty in India, and Nuwara Eliya in Sri Lanka.

To enable such growth and retain its charm, Sylhet would have to develop sustainably; and future hotel and commercial developments would need to consider the heritage and scenic aesthetics of the region and not construct indiscriminately.

Leisure Destinations – Future Outlook

Bangladesh has an underutilised tourism market, which fails to tap into either the international visitors or the domestic consumers. Out of a total of 463,000 international tourists visiting Bangladesh, we estimate in excess of 90% to be for commercial purposes. We also see a rising middle class where in nearly one million Bangladeshis travelled abroad (2014). However, they have no quality destinations for vacationing in their own country.

As the country progresses and its rising domestic market seeks quality vacationing options, we forecast a robust demand in the leisure segment.

Some new destinations that can be developed offering different experiences are as follows:

Sylhet – Tea Estates

St. Martins Island – Beach Destination

Kuakata – Beach Destination

Sundarbans – Mangroves

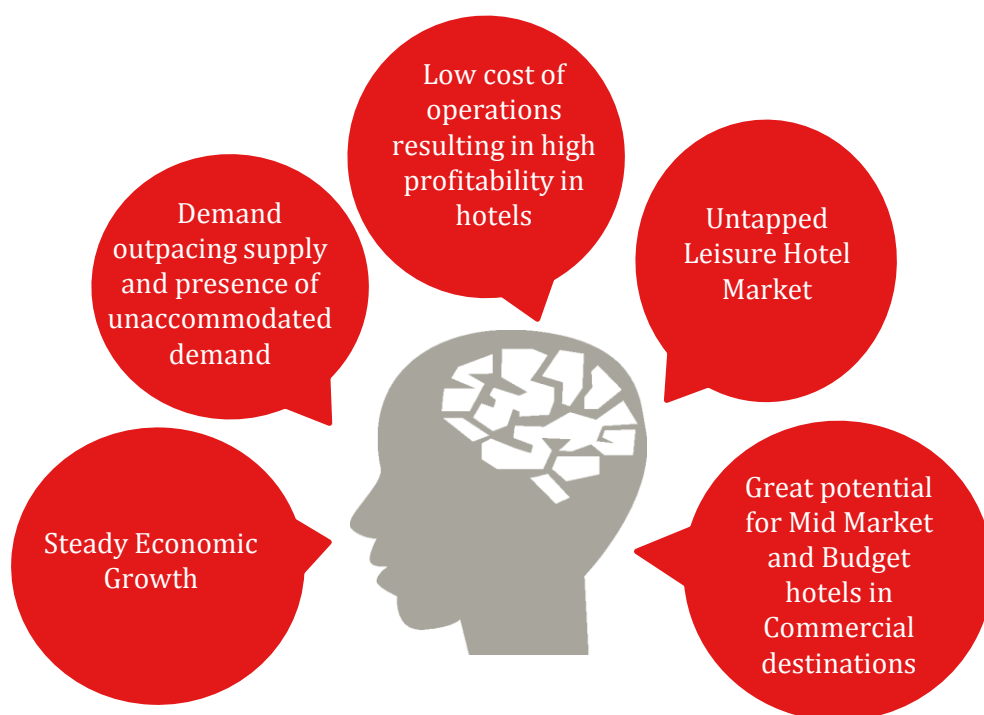


St. Martins Island
Source: Rafiq Aumi



Sundarbans
Source: mediabangladesh.net

Why Invest in Bangladesh?



Conclusion

Destination	Rooms in the organised sector	Proposed Supply* (active development)	Immediate Need	Outlook
Dhaka	1775	823	Mid Market, Budget and Economy Hotels	Positive
Chittagong	868	200	Mid Market and Budget Hotels	Positive
Cox's Bazar	786**	554	Plan, structure and develop environmentally sound destinations along the coastline	Neutral
Sylhet	251	Nil	Tea Resort in Upscale and Upper Midscale segment	Positive

*Active development (Number of rooms expected to open before 2020)

**Includes 139 rooms of the recently open Golden Tulip, remaining 354 rooms to open in phased manner over the next year

FIGURE10: CURRENT SUPPLY VS PROPOSED SUPPLY AND IMMEDIATE NEED

Bangladesh has made tremendous economic progress over the last decade with GDP expected to continue growing at approximately six percent over the next five years. The hotel industry, in presence of growing demand and unstructured supply, presents numerous opportunities for profitable investments. Commercial destinations such as Dhaka and Chittagong, which have seen the opening/announcement of new hotels in recent years, still lack the structure befitting established commercial destinations. This presents a large gap and an investment opportunity for hotels to enter different positioning/segments, which are necessary to provide the markets with a healthy competitive environment. While Commercial destinations present opportunities currently, the leisure destinations in the country still need to be developed and present immense potential especially in the light of the increasing traffic inflow, burgeoning middle class and rising domestic consumption.



About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrates its 35th anniversary this year. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. HVS.com

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