

Tourism Development in the US Commonwealth of the Northern Mariana Islands

A FEASIBILITY & SUSTAINABILITY STUDY

Commissioned by the
Mariana Visitors Authority

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FORWARD

The US Commonwealth of the Northern Mariana Islands (CNMI) experienced its boom in tourism in the 1990's, with arrivals during the peak years surpassing 700,000, and hotel occupancies in the mid 80's at healthy average rates of nearly USD 140.

However, impacted by the Asian Financial Crisis, and subsequently drastic reductions in air service, the market entered a difficult period in the mid 2000's during which arrivals essentially halved. As a result, hotel performances were down, overall tourism revenue dropped significantly, and the overall economy, which had become highly reliant on tourism after the closure of the garment industry, entered a gloomy period.

The turning point came in 2014, with strong surges in demand from the Chinese and Korean markets in particular. Regular chartered flights brought in the Chinese tourists; the previously small market grew to over 200,000 arrivals in essentially less than five years, accounting for 40 percent of the CNMI's overall arrivals by year end 2016.

Accompanying the boom in demand, hotel performances as well as general tourism spending improved significantly, translating to more a prosperous economical environment. At the same time, the CNMI welcomed a large number of Chinese investors, particularly after the issuance of the casino license to Imperial Pacific International Holdings Limited from China.

By December 2016, the number of scheduled flights at the Saipan International Airport increased to around 85 per week; a completely different scene than just two years prior.

However, this drastic growth has brought a host of issues to the CNMI and its community, the main ones of which include:

- * Negative impacts on some aspects of the overall experience for visitors as a result of infrastructure not catching up with visitor arrival growth.

- * Hotel products operating at close to or over capacity, leading to considerably deteriorated products that are in much need of refurbishment.
- * An increase in organized crime and drugs.
- * Inflated employment terms which may or may not be an accurate representation of the likely long term outlook.
- * Unrealistic pipeline of new hotel rooms given the CNMI's resource constraints.
- * Infrastructural issues including strains on public utilities.
- * Insufficient work force; for the first time, the CW visa quota for the CNMI was reached at the beginning of a fiscal year in 2017.

Overall, although the market is booming, the current situation where relatively quick returns are generated without considerations to longer term impacts is not sustainable.

This Study will review tourism development in the CNMI, identify and analyze key issues, look at best practices in other resort destinations, and lastly, present recommendations. The recommendations are groups in two categories: one, an immediate action plan addressing issues that require urgent attention; and a longer term plan outlining reasonable growth targets / strategies / aspects for sustainable tourism development in the CNMI.

In preparing this Study, we have reviewed many well drafted and comprehensive planning studies commissioned by the CNMI government. To avoid repetition, this Study focuses on providing concise recommendations that address key issues and are realistic to implement in the near future.

EXECUTIVE SUMMARY OF RECOMMENDATIONS

I. Immediate Action Plan

1. Readjusting Target Growth Levels

Based on information provided by the MVA, as of October 2016, the number of **hotel rooms in the development pipeline for the CNMI over the next few years is 5,212.**

This is inclusive of registered resort and condominium developments, but **exclusive of Best Sunshine's additional planned inventory of at least around 1,600 rooms.** Of this, pure hotel inventory (excluding low-income housing units and condominium complexes) is effectively around 4,500 rooms. According to this list, the **labor needs for these developments is estimated to be around 8,000 to 9,000 workers.**

To sustain the pipeline of 4,500 additional resort rooms alone, the CNMI would need the following:

- * **At least 700,000 additional visitor arrivals over the next three years** if the market is to achieve a 70 percent occupancy assuming that the **room night demand to arrivals ratio stabilizes at 1.4 as the scale of the representative market grows.**
- * This would bring **total arrivals to over 1.2 million by 2020.** It would also **require a compound average growth of over 25 percent per year,** a rate likely to be achievable only by destinations in their development infancy period.
- * To bring in 700,000 additional visitors, an **additional 75 flights per week would be needed** assuming each flight brings in 180 passengers.
- * At 1.2 million, the visitors arrival volume would be nearly twice that achieved during the CNMI's peak years. To accommodate for this drastic increase, the CNMI's infrastructural system including the airport, power, water, waste management etc. would need to be **significantly expanded.** Such expansion **takes time and is unlikely to be completed over the next three years.**
- * Added to this **Best Sunshine's additional inventory under the casino license of at least around 1,600, the CNMI's visitor arrival would need to reach at least 1.5 million** in the next few years, which **means a minimum of 110 additional flights per week.**

Overall, relative to the CNMI's resources and population, this target growth level is unrealistic, particularly in the short to medium term. As such, one of the key issues to be addressed immediately is the readjusting of target growth levels and the realigning of expectations amongst all key tourism stakeholders as well as the government and the community to a common and more realistic goal.

In addition, prior to looking at any future growth, we feel that two major issues need to be addressed, just to sustain current visitation levels, before any additional tourism development / growth could materialize in a sustainable manner.

EXECUTIVE SUMMARY OF RECOMMENDATIONS

I. Immediate Action Plan

2. Shortening the Airport Arrival Waiting Time

Currently, given that the majority of flights to Saipan International Airport arrive between midnight and 4 a.m., and arrivals have increased consistently to surpass the 500,000 mark, **the amount of time that visitors need to spend at the airport waiting (particularly on arrival) has become a pressing issue.**

HAVING TO WAIT FOR AN HOUR OR TWO OR EVEN LONGER AFTER GETTING OFF 4- TO 5-HOUR FLIGHTS AT EARLY HOURS IN THE MORNING IS NOT A WELCOMING START TO ANY TRAVEL EXPERIENCE.

On many online review forums, the arrival experience has often been cited as the least favorable part of the trip with waiting times averaging one to two hours, and as high as over several hours.

	Saipan	Guam	Koh Samui	Maldives	Phuket	Bali
Visitor Arrivals	530,525	1,409,050	1,023,373	1,234,248	3,421,149 (Int'l)	4,001,835 (Int'l)
Estimated Terminal Footprint from Google Maps	20,000m ²	35,000m ²	5,000m ²	20,000m ²	20,000m ²	75,000m ²
No. / Length of Runways	2 / 2,652m ² / 2,134m ²	2 / 3,662m ² / 3,052m ²	1 / 2,060m ²	1 / 3,200m ²	1 / 3,000m ²	1 / 3,000m ²

As shown in the comparison above, Saipan International Airport’s runway and terminal facilities are within a comparable range for its current arrival level. **Instead, the main issue is that the number of immigration clearance personnel needs to be increased in order to reduce the processing time and improve the overall arrival experience.**

EXECUTIVE SUMMARY OF RECOMMENDATIONS

I. Immediate Action Plan

3. Renovation of Existing Properties

Accommodation is often a crucial, if not the most important, component to any resort destination. Compared to city travellers, resort guests spend a significant amount of their time within their accommodation facilities.

The majority of the CNMI's existing inventory have been in operation for more than fifteen to twenty years. **Essentially all of the market's existing key properties are now in dire need of renovation.** This situation is exasperated by the market's demand boom in the past few years. Having to operate at over 85 to 90 percent occupancy over the past four years has intensified the wear and tear on facilities that were already in need of renovation.

Nowadays, many guests are well travelled and competition from regional resort markets with higher quality supply is intense. In light of the regional resort

products available, the CNMI's existing properties are outdated and in critical need of refurbishment.

In recent years, the beauty of Saipan's tourism resources and the sheer volume of the booming Chinese and Korean outbound travel markets have supported the accelerated growth in arrivals. However, **after the initial boom subsides, we feel that the CNMI's competitiveness as a destination is likely to be negatively impacted by the low quality of its accommodation facilities.**

While the right type of new developments could help elevate a destination's positioning, they generally require a longer construction period. Moreover, with the CNMI's limited land resources, existing inventory will still account for a significant portion of its future supply and their quality levels need to be addressed.

Overall, the refurbishment of existing properties is the most immediate and efficient remedy to the CNMI's accommodation challenges. For this to happen, we recommend that the following take place:

1. **The number one priority is to begin discussions / negotiations with existing owners regarding the renewal of leases.** Given that **time is of the essence relative to the CNMI staying competitive as a destination, it is critical that the discussions are not held off** until the expiry of the leases.
2. Reasonable lease terms could be offered as an incentive for existing properties to renovate without delay. Understandably, after years of depressed market conditions, it can be enticing to put off renovation plans, which often negatively impacts the amount of business captured during the process.

As immediate renovation could only take place with existing operators, the CNMI as a destination **should not delay the process.**

Last but not least, we consider the renovation of existing properties as a key issue to be addressed immediately because outdated accommodation facilities not only affect the overall guest experience, they also hinder the CNMI from attracting higher end demand.

Attracting higher end demand would be the beginning of a positive cycle that could lead to increased overall tourism spending, improved air route profitability which in turn attracts more flight routes and flag carriers, which all ultimately improve the destination's attractiveness for quality investment.

EXECUTIVE SUMMARY OF RECOMMENDATIONS

II. Longer Term Plan

**OVERALL POSITIONING:
QUALITY OVER QUANTITY**

1. Target Levels for Sustainable Growth

Resultant Visitor Arrival Projections, by Calendar Year, 2017 - 2026

	Method 1: Overall Growth	Method 2: Growth by Nationality	Method 3: Occupancy by Hotel	Average	Total RND *
2016 (Base Year)	530,525	530,525	530,525	530,525	742,330
2017	569,762	591,434	602,556	587,917	823,084
2018	611,902	638,942	651,851	634,232	887,924
2019	657,157	677,072	668,524	667,584	934,618
2020	705,760	737,941	748,028	730,576	1,022,807
2021	757,958	769,086	772,538	766,527	1,073,138
2022	785,987	793,372	792,118	790,492	1,106,689
2023	815,052	817,030	846,372	826,152	1,156,612
2024	845,193	834,150	872,480	850,608	1,190,851
2025	876,448	850,600	919,013	882,020	1,234,828
2026	908,859	865,942	955,972	910,257	1,274,360

* Assuming the same room night demand to visitor arrival ratio of 1.4 throughout the period of analysis.

GENERAL REASONING:

SHORT TO MEDIUM TERM (5 YEARS) VERSUS LONGER TERM (10 YEARS)

- * In the **next five years**, we feel that visitor arrivals to the CNMI have the potential to grow at a moderately fast and steady pace, **within the destination's existing infrastructural constraints**. This is likely to be supported by new development as well as steady planned increases in air seat capacity.
- * Since any expansion in infrastructure typically take time to develop and is usually determined on the basis of sustained long term growth rather than short term surges in demand, we have based **projections for the upcoming five years within the framework of the CNMI's existing infrastructure, assuming regular upkeep and maintenance**.
- * From years 2022 to 2026, we expect growth to become more moderate, given a considerably larger base. During this period, growth is expected to be supported by a reasonable amount of new development, the openings of which should be staggered to allow new supply to be absorbed by the market effectively.
- * Also, it should be highlighted that during **the longer term, the basic premise for further growth is significant infrastructural improvements that are sufficient to serve the additional visitor volume. In other words, growth past the 750,000 mark could only be made possible with considerable expansion of the existing infrastructure by scales and timelines that correspond to arrival growth.**

EXECUTIVE SUMMARY OF RECOMMENDATIONS

II. Longer Term Plan



2. High Quality New Developments

3. Making the CNMI A True Multi-Island Destination

4. Making the Destination More FIT-Friendly

5. Improve the Variety of Tourism Offerings

7. Yield Management

6. Destination Marketing

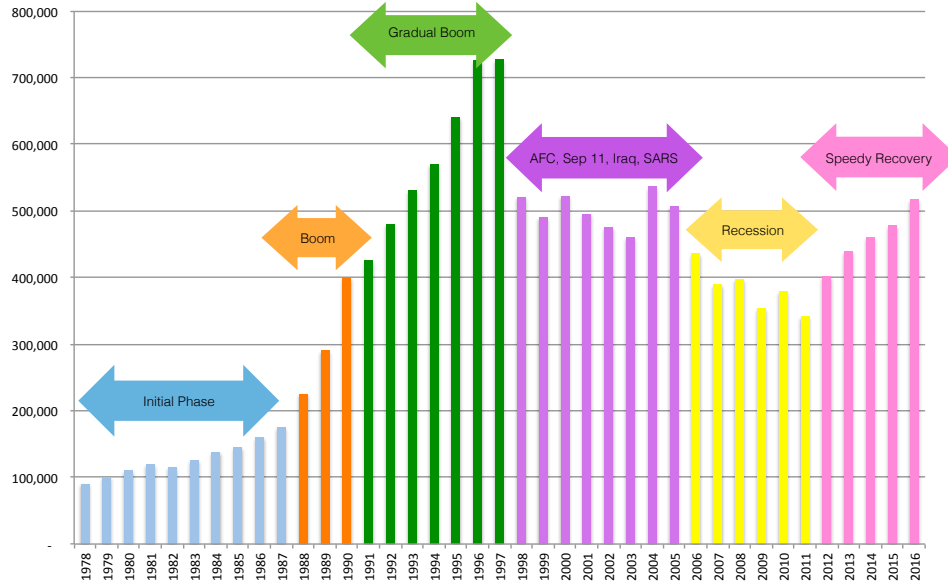


SUSTAINABLE DEVELOPMENT

TOURISM ARRIVALS

Tourist arrivals to the CNMI reached its peak in 1997 with a recorded 726,690 visitors.

Figure 1: CNMI's Historical Visitor Arrivals 1978 - 2016



- * From 1986 to 1991, tourism arrivals grew at an average annual growth (CAAG) rate of 22 percent.
- * For the next five-year period, the CAAG rate for slowed down to approximately 11 percent, still a strong growth figure and one recorded on a much larger base of arrivals.
- * However, during 1998 and 1999, when the Asian financial crisis had its full impact on the economies in the region, the CNMI recorded a dramatic decrease in the number of visitor arrivals, by 33 percent compared to 1997. This represented a decline of approximately 200,000 visitors.
- * After a slight rebound in 2000, arrivals declined continuously until 2004. This was a result of the turbulent global environment, impacted by 911 in 2001, the Iraq War in 2002 and SARS in 2003.
- * 2006 to 2011 was a grim period for CNMI tourism. This continuous decline in arrivals was mainly attributed to the big loss in Japanese tourists. JAL's pull out in 2005 and Delta Airline's route cuts resulted in a significant reduction for air seats serving Japan. In addition to reduced air services, outbound travel from Japan also kept on a decreasing trend due to the global economic crisis in 2009, followed by the earthquake and tsunami disaster in 2011. In around 5 years, Japanese arrivals decreased by more than 60 percent.
- * In 2012, the first signs of recovery were recorded after years of decline, with visitor arrivals increasing by 17 percent. This was attributed to a 55-percent increase in Chinese arrivals as well as steady growth from Korea.
- * As of the end of 2014, China took over as the largest source market for the CNMI, accounting for 37 percent of total arrivals, replacing the historically dominant player, Japan. The overall growth of 5 percent came mainly from the China market, while demand from Japan, the US and Russia continued to decline.
- * At the same time, the CNMI in general, and especially Saipan, received considerable attention from new investors, triggered by the grant of new casino licenses in both Saipan and Tinian.
- * In 2015, while demand from Japan continued to decrease and demand from Russia drastically dropped to a minimal level, both due to volatile economic and / or political situations in these countries, growth from China and Korea was significant enough to lead to a 4 percent growth in arrivals for 2015.
- * Growth intensified in 2016, recording an estimate of 11 percent. In the past two years, the CNMI also saw the addition of some much-needed air seat capacity, mainly by low-cost carriers.
- * **2016 ended with a volume of over 530,500 visitors, similar to the level before JAL's pullout in 2005 but around 200,000 less than the market's peak years.**

NATIONALITY MIX

Figure 2: CNMI Nationality Mix 2004

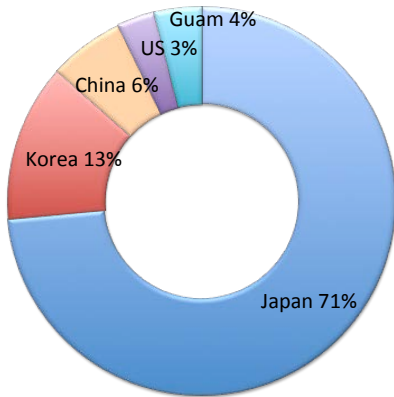


Figure 3: Historical CNMI Nationality Mix 2016

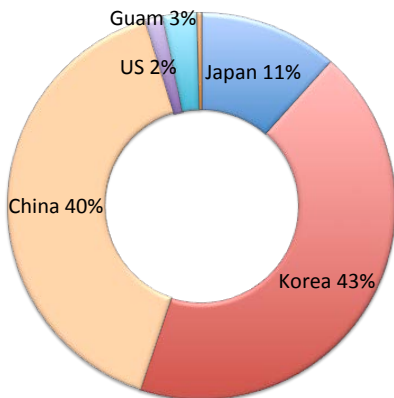
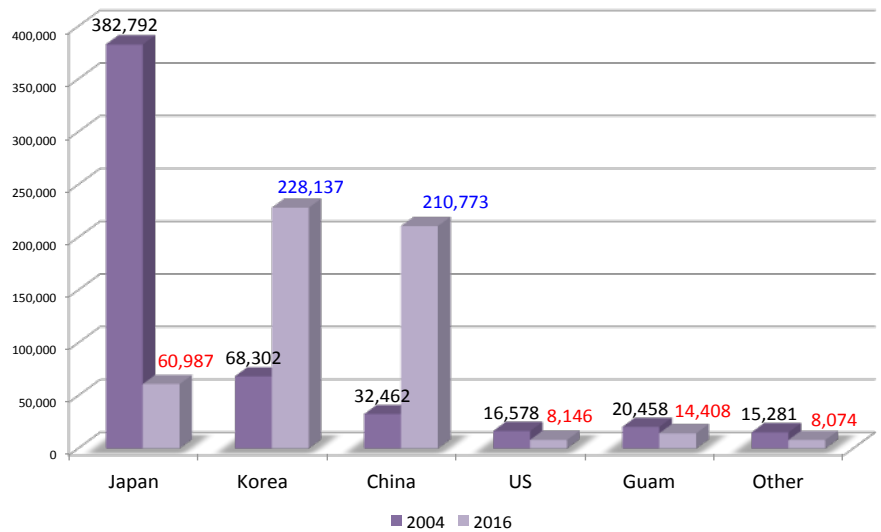


Figure 4: Comparison of Visitor Volume by Nationality



JAPAN

During its peak years, the Japanese market accounted for over 70 percent of the CNMI's visitor arrivals, with over 380,000 tourists annually. **Today, this number has dropped to just over 60,000.** Key reasons for this drop include air service reduction, the pullout of Japanese investment, the general decline in Japanese outbound travel, and the less Japanese-centric nature of today's CNMI market, potentially making it less ideal for Japan's mass tourism market which tends to favour destinations dominated by them.

KOREA

Making up for lost demand from Japan, Korea, along with Mainland China, has grown to become the two leading source markets for the CNMI. Aside from the strong presence of Korean investment in the CNMI, it is also the **market with the most stable and frequent air services.**

CHINA

In the span of a few years, arrivals from the Chinese market have grown from 30,000 to more than 200,000. Similar to many markets all over the world, the CNMI's tourism volume has benefited from the immense growth of Chinese outbound travel in recent years. The CNMI's natural beauty, its relative short distance from China, and **most importantly, its visa-waiver program has attracted many Chinese tourists, particularly those in the mass market segment.**

US & GUAM

Arrivals from the US market dropped to around 8,000 in 2011 and have remained at that level since then.

OTHER

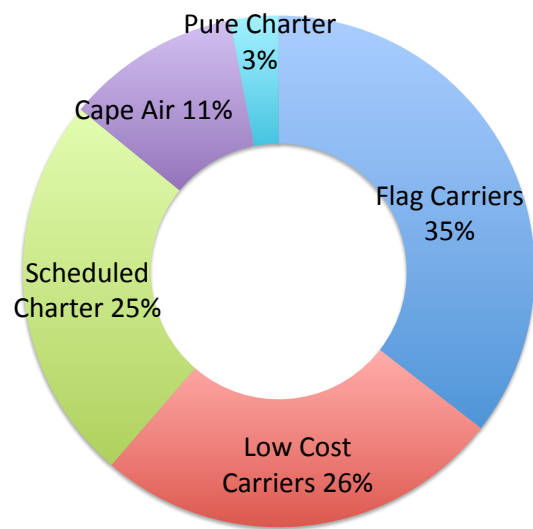
The most prominent other source market has been Russia. During its peak in 2013 and 2014, arrivals from Russia amounted to around 12,000. However, **this surge in demand was short-lived and this segment of the market dropped drastically** to less than 2,000 arrivals in 2016.

AIR ACCESS

More than half of the CNMI's current air seats come from low cost carriers and regular charter flights.

- * Being an island destination, tourism in the CNMI is closely linked to air access. This could be seen in the constant decline of the Japanese market and strong growth from Korea and China.
- * In 2015, the Saipan International Airport had an average of around 54 flight arrivals per week, assuming 180 passengers per aircraft with the total number of deplaned people slightly exceeding visitor arrivals.
- * For 2016, applying the same passenger per arrival flight assumption, the Saipan International Airport would have welcomed around 56 to 57 flights per week, excluding Cape Air.
- * As shown on the right, more than half of the market's air seats come from low cost carriers and scheduled charter flights. Currently, the bulk of seats on these flights are occupied by groups.
- * In addition, as part of the wholesale / group model, hotel rooms are typically allocated in advance to groups, leaving less available inventory for individual travelers, hindering the development of the typically most lucrative of tourism segments.

Figure 5: Arrival Mix by Flight Type 2016



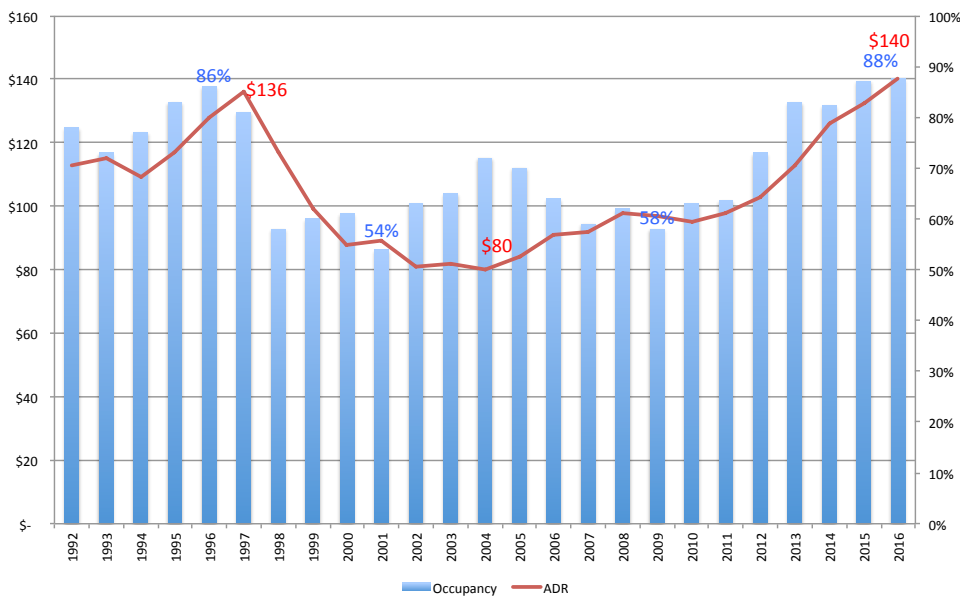
- * On the topic of the types of carriers and their impacts on a destination's clientele, we feel that **Low Cost Carriers do not necessary deter upmarket demand so long as they are established carriers and offer convenient flight routes / times.**
- * Similarly, many established resort destinations are serviced by a mixture of traditional and budget carriers, which help with capacity and in keeping fares competitive.
- * Issues of greater importance are the reliability / reputation of the carrier (shown through safety record and on time performance) and attractive flight itineraries (i.e. day time versus night time flights).

- * In terms of influencing the visitor profile, we feel that the **allocation of hotel rooms and air seats may have a greater impact** compared to the types of carriers servicing the destination.
- * When greater capacity is available for individual travellers, allowing the segment to develop, airlines are likely to adjust sales strategies accordingly, allocating more capacity to individual travelers rather than pre-selling the majority to groups as is the case currently.
- * In mature resort markets that have a more balanced mix of group and individual travelers, **budget and traditional carriers alike place significant focus on the more lucrative segment of individual travel.**

HOTEL MARKET

Overall, the CNMI's accommodation situation has become a constraint to future tourism growth. Without proper further development, it is difficult for tourism arrivals to continue to grow. As such, this Study aims to address the timing, scale, and quality of new development that could be most beneficial to the future sustainable growth of the CNMI as a resort destination.

Figure 6: Historical Hotel Market Performance, HANMI, 1992 - 2016



- * In 2016, the total number of registered accommodation in the CNMI was 3,248 rooms. This excludes the 313-room Kensington Resort, which fully opened towards the end of 2016. For the purpose of this Study, Kensington Resort's supply will be accounted for in 2017.
- * Of the 3,248 rooms, 11 properties, or 2,355 rooms, are part of the Hotel Association of the Northern Marianas Islands (HANMI). This translates to just under 75 percent of the total registered inventory. For the Study, we have identified this set of properties as the base "Representative Hotel Market".
- * **For 2016, this set of hotels recorded an occupancy of 88 percent at an ADR of US\$ 140, based on an effective inventory of 2,322 rooms.**
- * Hotel occupancy levels in the Representative Hotel Market peaked in 1996 at 86 percent, the same year as the peak in tourist arrivals. Average room rates peaked the following year in 1997, at US\$ 136.
- * In 1998, when tourist arrivals to the CNMI dropped by almost 30 percent, RND also recorded a large decline with occupancy levels falling sharply to 58 percent. During the same year, ADR declined by 14 percent to US\$ 117.
- * Modest gains in occupancy performance were achieved in the early 2000's, but the hotel industry tried to stimulate additional room night demand through discounting room rates, which resulted in further drops in ADR, ultimately down to US\$ 80 in 2004.
- * With JAL's pull-out in 2005, and consequently, the sharp decline in Japanese arrivals, market occupancy once again dropped to the 60 percent mark, and remained at that level until 2012. During this period, although the overall market performance remained relatively stable, it was largely attributed to several hotel closures, which resulted in a decrease in supply.
- * The Representative Hotel Market welcomed its first boom after a long period of decline in 2013. Since then, occupancy has increased steadily to nearly 90 percent whilst maintaining ADR increases of around US\$ 10 per year.
- * Growth from the China and Korea markets, balanced against essentially no increase in supply, supported this strong recovery.
- * In 2016, the Representative Hotel Market **surpassed its historical high in both occupancy and ADR for the first time**. With that said, the **market is now operating at close to full capacity**. This has put significant additional strain on the already-tired physical condition of the properties.
- * In addition, **due to the opening of numerous unregistered accommodation (apartments etc.) and proliferation of smaller properties, the ratio of Room Night Demand in the representative market to visitor arrivals has shown a decreasing trend** over recent years. This ratio has **decreased from 1.67 in 2011 to 1.4 in 2016**.

SWOT ANALYSIS

- * Pristine natural scenery.
- * Relatively short travel time from key regional markets including Japan, Korea and China.
- * Air access has improved significantly in the last few years. Although the majority of new routes are by low cost carries and regular charter flights, they have contributed immensely to the growth in visitor volume.
- * China has great potential for outbound travel in terms of volume of tourists. With the right product, including new or newly renovated facilities up to par with quality levels expected by the sophisticated Chinese consumers, good air access, and the visa waiver, continued growth from the Chinese market is expected.
- * In a short span of just one to two years, the destination's overall vibe has changed to a much more positive and bustling one.
- * Compared to developing resort destinations, the CNMI has a good range of activities readily available. The tours, water activities, and dinner shows etc. attract decent patronage and add greatly to the overall experience.
- * Active and ongoing promotion has ensured that the CNMI, or Saipan in particular, is very well known in the regional wholesale and group travel market.

Strengths

- * Still many untapped markets. Currently, more than 85 percent of the market's demand is generated by the various wholesalers.
- * This leads to opportunities for the market to diversify, to attract higher-yielding FIT (Free Independent Traveller) guests. However, the CNMI needs to offer regionally competitive tourism and accommodation products in order to do so.
- * As demand has picked up significantly, there are more opportunities to look at new developments and the renovation of existing hotels. When new products enter the market, it is likely to considerably improve the CNMI as a destination, and attract more higher-paying guests.
- * The potential to establish a positive cycle. Reasonable air access, coupled with quality new developments and continued improvements to the Island's overall tourism offerings could help establish a positive cycle whereby demand growth leads to more interest and hence more commitment from all tourism stakeholders.
- * With the market's recent boom, public funds are now more readily available to perform much-needed infrastructure upgrades.
- * New job opportunities could encourage retention of the younger generation.

Opportunities

- * Dated accommodation products; tourism facilities, in particular hotels, are in crucial need of revamping and rejuvenation.
- * While the natural resources of the CNMI are pristine, many past commercial developments particularly in Saipan require major overhauls.
- * Without much change, it is likely to be very challenging for the CNMI to compete in the long term as a resort destination, particularly with regards to moving away from the value-for-money, wholesaler dominated market.
- * The lack of aggregate planning for future development.
- * Lack of a strong destination identity. The cultural heritage aspect of the CNMI as well as its community have not been integrated with the overall tourism offerings. This lack of a well-defined destination profile makes it difficult to diversify from the wholesale market.
- * Lack of lifestyle amenities and entertainment facilities.
- * Limited local work force. Years of a soft economy has led to many young people leaving the CNMI to look for opportunities; and to a certain extent, the welfare system affects some of the population's motivation to work.
- * Language skill is another limitation for the local work force given that the majority of visitors to the CNMI do not speak English.
- * Booming demand has led to social issues, particularly an increase in organized crime and drugs. Needless to say, this has led to negative impacts on the community.

Weaknesses

- * Insufficient infrastructure and resources to support the large amount of planned new developments.
- * In particular, immigration processing times at the Saipan International Airport have already surpassed an hour during peak periods.
- * Uncertainties in access.
- * New developments limited to hotels - lack of supporting tourism facility developments as well as lifestyle and entertainment options that could serve both tourists and the local community.
- * Current labour shortage and CW visa issues.
- * Potential degradation of the Islands' charms.
- * If new projects are not properly developed, from the perspective of a master plan relative to the entire Island's positioning and product mix, undesirable establishments could degrade Saipan's charm.
- * Risk of losing parole for the visa waiver. Any negative amendments to the visa waiver program for Chinese travellers would have significant impacts on arrivals from China.
- * Uncertainties in upcoming lease renewals for many of the existing hotels. If the existing key properties are not renovated in a timely manner, it could lead to overall negative impacts on the destination as they are the bulk of supply.

Threats

In looking at case study destinations, it is important to first recognize the CNMI's uniqueness given its location as well as political / immigration system under the United States. As such, the following destination case studies may not be directly comparable. With that said, land size, population, and the availability / quality of tourism resources were amongst the key considerations in choosing the reference destinations. Having considered a number of established and emerging resort destinations regionally and globally, we have chosen Koh Samui in Thailand and the Maldives as case studies for the CNMI.

KOH SAMUI, THAILAND

Destination Basics

- * Land area: 247 square kilometers
- * Population: 63,000
- * Key attractions:
 - ✓ World-class beaches.
 - ✓ A variety of sea sports such as snorkelling, kayaking, sailing yachting and diving.
 - ✓ Lush landscape with much of the island still covered by coconut plantations, jungle, and mountainous terrain.
 - ✓ Often viewed also as a base to explore well-known diving spots within the Koh Samui archipelago including Sail Rock, Shark Island and Chumpon Pinnacle.

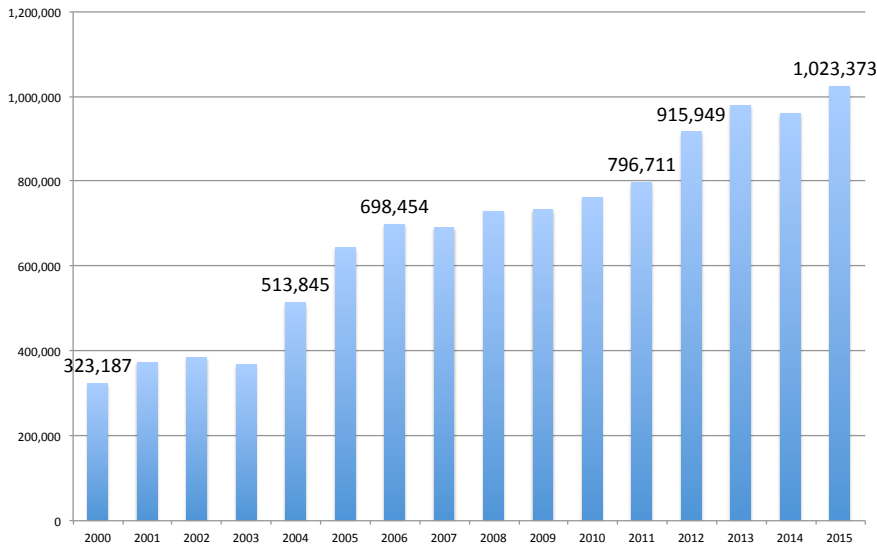
Access

- * Koh Samui International Airport.
- * Opened in 1989 under the ownership and management of Bangkok Airways.
- * Has been credited as a catalyst in the development of tourism on Koh Samui.
- * Handling facilities expanded to accommodate 16,000 passengers daily in 2007.
- * Flight per day cap increased to 50 in 2014 and further expansions are continuously pursued given its strategic position as the second largest base for Bangkok Airways.
- * As of 2016, over 30 flights per day including direct daily international flights to Hong Kong, Singapore, Kuala Lumpur, Penang, Subang, and Kunming, as well as domestic flights to other popular destinations in Thailand.
- * In addition, at the beginning of 2016, Bangkok Airways signed codeshare agreements with 19 international airlines; this should continue to boost the destination's international flight access.



VISITOR ARRIVALS (KOH SAMUI AIRPORT ARRIVALS)

Figure 7: Koh Samui International Airport Arrivals 2000 - 2015



- * Although it is also possible to access Koh Samui via Surat Thani Airport, the journey requires an additional drive and ferry that takes three to four hours. As such, we have used arrivals to Koh Samui Airport to effectively account for Koh Samui's visitor arrivals for this purpose of this analysis.
- * Arrivals to Koh Samui Airport grew at a Compound Average Annual Growth (CAAG) of 8 percent in the 15-year period between 2000 and 2015.
- * In 2010, with just over 760,000 arrivals, the airport had over 25 daily flights. This number has increased to over 30 flights as arrivals surpassed the one million mark in 2015.

GENERAL HOTEL MARKET PERFORMANCE

- * Although there is a total of 18,000 rooms under Koh Samui's registered accommodation inventory, only a limited portion of this are resorts of scale.
- * Looking at the overall hotel market in the past five years, as arrivals continued to grow at a healthy pace, branded properties performed considerably better than non-branded properties.
- * In 2015, while both branded and non-branded hotels achieved an occupancy of around 70 percent, the difference in average rate was more than USD100 with branded properties achieving an ADR of around USD225.
- * Between 2010 to 2015, the CAAG rate on Revenue per Available Room (RevPAR) for branded properties was 7 percent while that for the independent properties was a negative 3 percent.
- * Since the mid 2000's, Koh Samui welcomed the opening of several luxury branded resorts. Over the last 10 years, the successful performance of these iconic resorts has significantly elevated the destination's profile and is spurring the future development pipeline to be more quality driven.



LUXURY HOTEL MARKET PERFORMANCE

In 2015, the Koh Samui's luxury hotel market consisted of just under 700 rooms in 9 properties.

Figure 8: Luxury Supply for Koh Samui 2015

	Opening Year	Room Count
InterContinental	1991	79
Santiburi	1992	71
Six Senses	2004	66
Belmond Napasai	2004	69
Four Seasons	2006	69
Banyan Tree	2010	88
W Retreat	2011	74
Conrad	2012	78
Vana Belle	2013	80
Total		674

Figure 10: Koh Samui Luxury Market Nationality Mix 2015

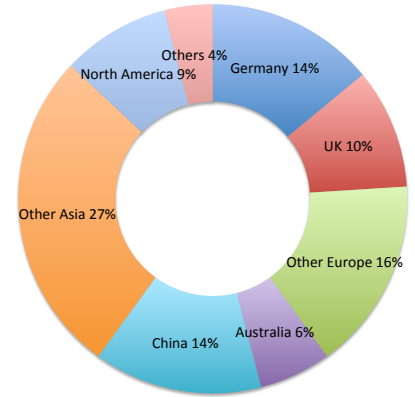


Figure 9: Koh Samui Luxury Hotel Market Performance

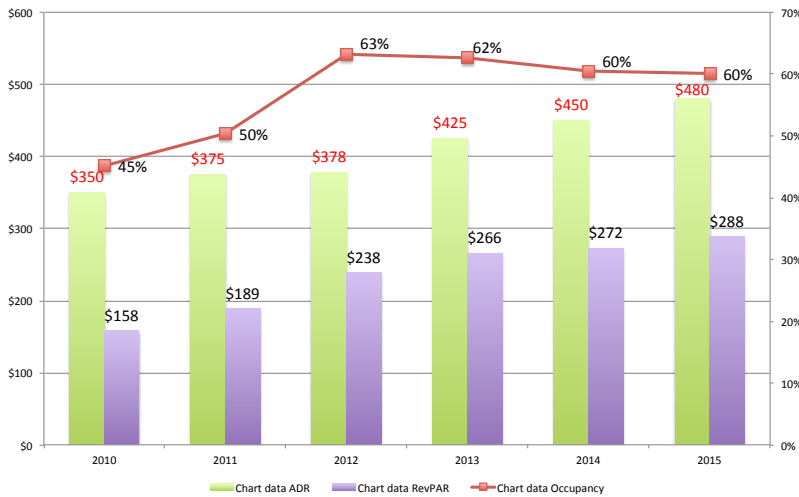
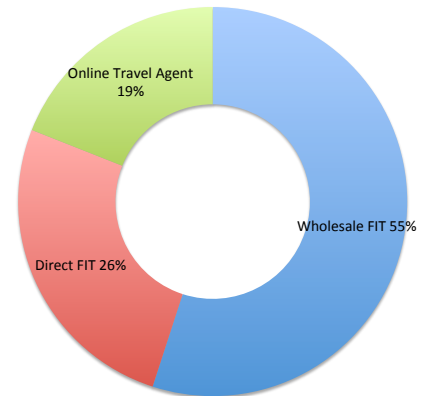


Figure 11: Koh Samui Luxury Market Booking Channel Mix 2015

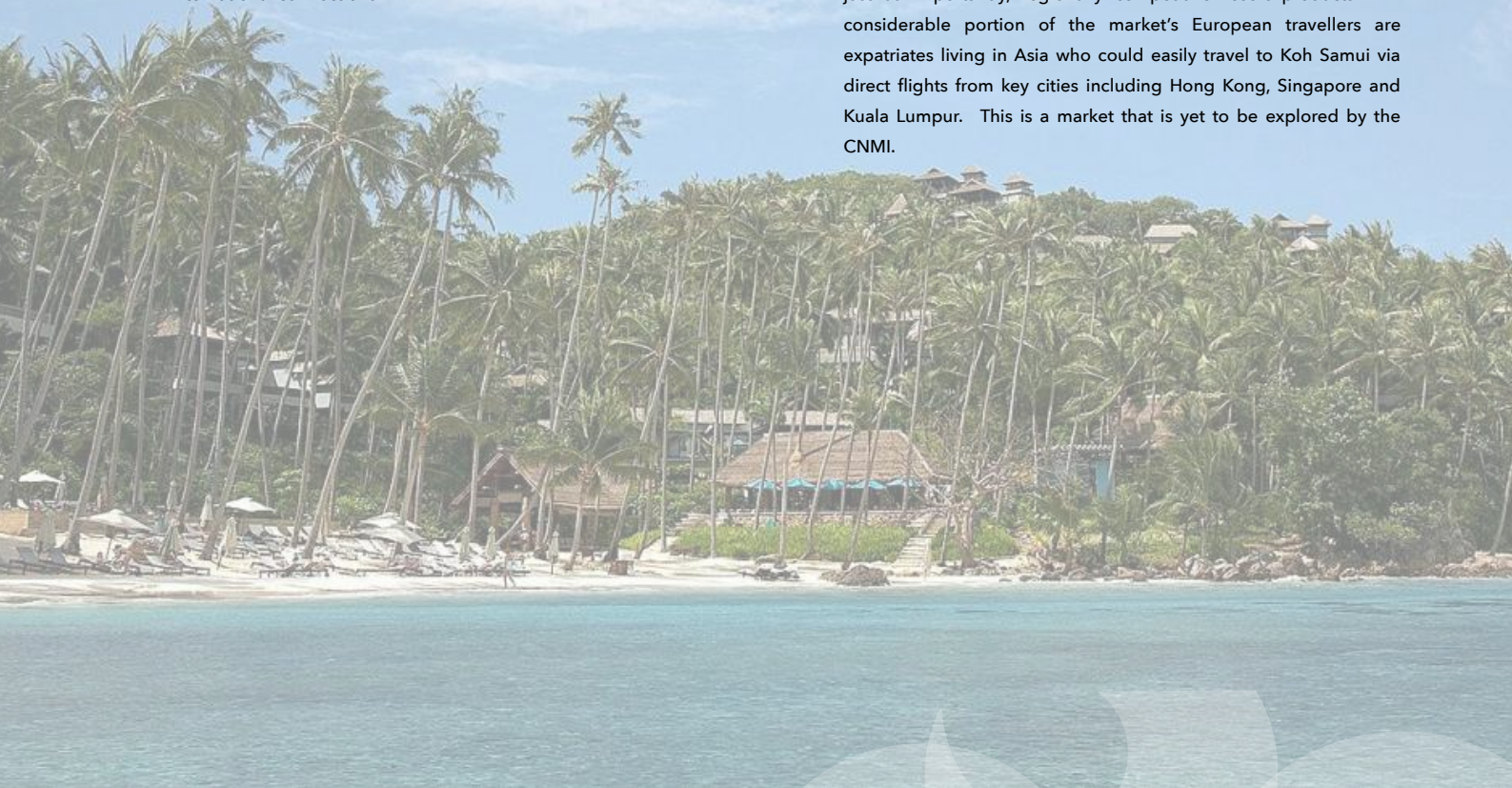


- * Over recent years, Koh Samui has become known as the home to some of Asia's highest yielding resorts, with leading properties achieving rates of over US\$ 500.
- * As shown in the graph below, RevPAR amongst the luxury set of properties recorded strong growth by achieving significant increases in ADR (a growth of US\$ 130 in five years) while maintaining moderate occupancy levels.
- * The same growth trend holds true for other tiers in the Koh Samui hotel market as well, particularly for the branded properties. Compared to Phuket, the general market of which achieved a RevPAR of around US\$ 110 in 2015 by realizing an ADR of US\$ 150 at an occupancy of 73 percent, the general Koh Samui hotel market reached a similar RevPAR level by managing an ADR of US\$ 160 at 68 percent occupancy.

- * Europeans continue to make up the largest portion of demand for the luxury hotels, accounting for a combined 40 percent of overall demand.
- * In recent years, China has grown into a significant source of demand for the luxury market. Chinese guests are booking both with wholesalers and OTA's.
- * Other Asia consists mostly of Korean guests. These travellers are concentrated in the branded properties. Koreans, as well as other regional travellers, tend to book through OTA's.
- * Americans and Australians make up a moderate portion of demand and generally stay in internationally branded properties, especially those with stronger presence in the respective source countries.

KEY TAKEAWAYS

- * The importance of having well-established resort brands to elevate the profile of a destination as well as improve hotel market performance by inducing demand that may not materialize if not for the presence of the brands.
- * “Less is more” growth strategy in comparison to other Thailand destinations such as Phuket, which is much bigger and has significantly higher arrival volumes. Whereas growth in the Phuket market has been driven mainly by occupancy (with average rate being stagnant), the Koh Samui market has achieved higher rate growth at lower volumes.
- * The importance of having an airport that actively seeks to continuously expand, increase the frequency of flights and international connections.
- * The potential to establish a luxury market supported by pristine, world class resources. The sites of many of the iconic properties referenced above are spectacular. With that said, sites of comparable features and quality could also to be found in the CNMI.
- * The potential to achieve a diversified market mix by offering strong products. In particular, branded properties help drive direct bookings via their websites, frequent guest programs and global booking systems. They also help with online bookings via OTA's as consumers know what they are likely to receive with branded properties.
- * Diversified nationality mix enabled by convenient air access, and just as importantly, regionally competitive resort products. A considerable portion of the market's European travellers are expatriates living in Asia who could easily travel to Koh Samui via direct flights from key cities including Hong Kong, Singapore and Kuala Lumpur. This is a market that is yet to be explored by the CNMI.



REPUBLIC OF MALDIVES

Destination Basics

- * Land area: 300 square kilometers
- * Population: 400,000
- * Primary reasons supporting Maldives as a resort destination:
 - ✓ The introduction of a new generation of luxury resort products (including over water villas and spas, under water restaurants, etc.) attracting the attention of the global trend setters and upscale travelers.
 - ✓ The highly unique “one island, one resort” concept which appeals to those seeking pristine, secluded, and exclusive resort environments.
 - ✓ The overall quality of the beaches, water and water activities (particular diving) relative to most existing competitive resort destinations.
 - ✓ Ideal packaged product for travel wholesalers with high room rates leading to high wholesale margins.

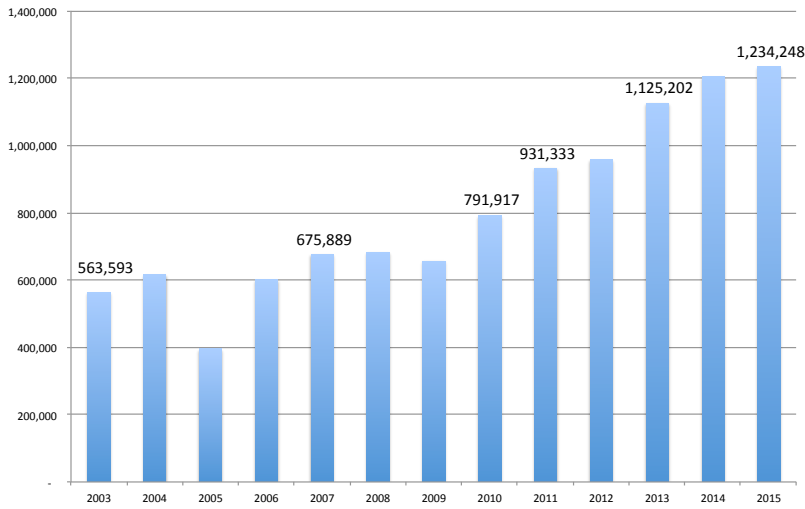
Access

- * Flights from over 40 international destinations to the Male International Airport.
- * In addition to 10 domestic airports, one of which also has international flights.
- * The national carrier Maldivian Airlines operates the majority of inter-island flights.
- * Furthermore, over 30 flagship and low cost carriers fly out of the Male Airport’s International Terminal, making up a strong and balanced network with frequent direct and connecting flights.
- * In 2016, the Maldives Airports Company announced that a US\$ 800million expansion of the Male International Airport will take place. The expansion will include an additional international passenger terminal, a new runway, a cargo terminal and a fuel hydrant system.
- * It is expected to increase the capacity to seven million international passengers and 1.5 million domestic passengers. Currently, the airport handles around 2.3 million passenger a year.



VISITOR ARRIVALS

Figure 12: Maldives Historical Arrivals



- * From the opening of the first resort in 1972, the Maldives experienced strong growth throughout the 1970's and 1980's. The number of visitor arrivals increased from about 158,000 in 1989 to 429,666 in 1999.
- * Between 2003 and 2015, arrivals increased from just over 550,000 to 1.2 million, at a CAAG rate of around 6.8 percent.
- * As shown below, the market mix has changed significantly over the past several years.
- * As demand from Europe dropped, China has become the powerhouse of demand for the Maldives today, accounting for more than 30 percent of arrivals.

Figure 13: Maldives Nationality Mix 2008

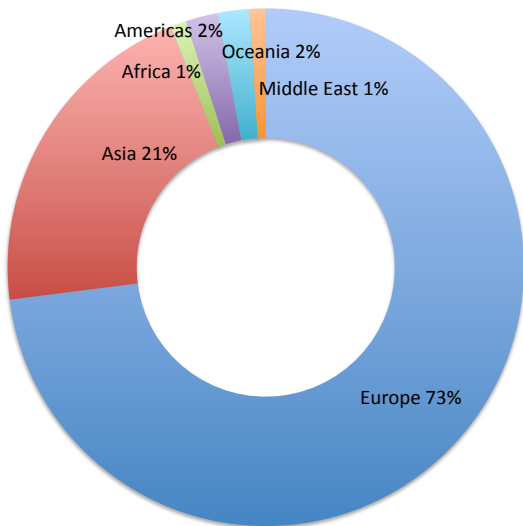
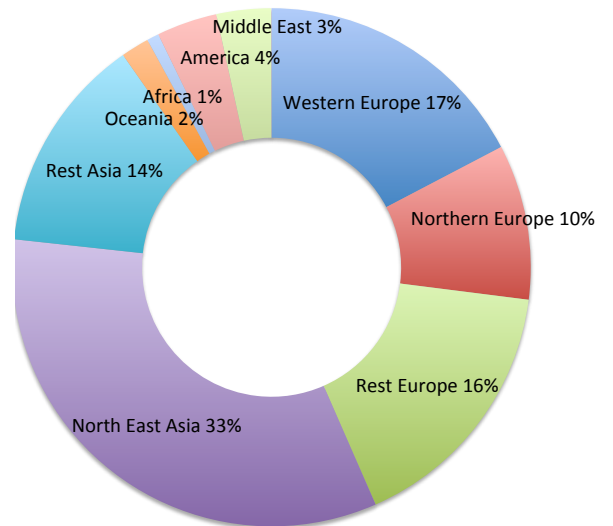


Figure 14: Maldives Nationality Mix 2015



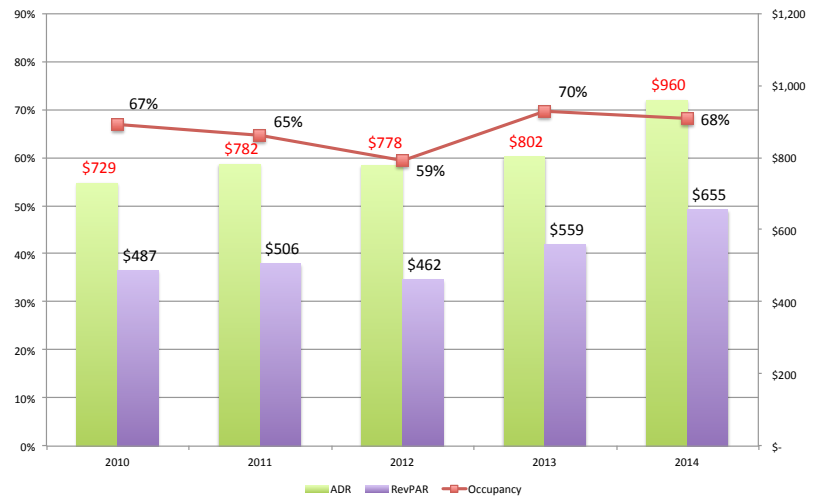
TOP-TIER HOTEL MARKET PERFORMANCE

We have selected 27 properties, with a total of 2,058 rooms, to represent the top-tier hotel market in the Maldives.

Figure 15: Top-tier Supply for the Maldives 2015

	Opening Year	Room Count
Baros	1978	75
Banyan Tree Vabbinfaru	1995	48
Soneva Fushi	1996	65
Conrad Rangali	1997	150
Four Seasons Kuda Huraa	1998	96
Gili Lankanfushi	2002	45
Taj Exotica	2002	64
Cocoa Island	2003	33
Huvafen Fushi	2004	79
One & Only Reethi Rah	2005	128
Four Seasons Landaa Giraavaru	2006	103
W Retreat & Spa	2006	78
Constance Halaveli	2009	86
Park Hyatt Hadahaa	2009	50
Shangri-La Vilingili	2009	132
Anantara Kihavah	2011	79
Jumeirah Dhevanafushi	2011	38
Six Senses Laamu	2011	97
Jumeirah Vittaveli	2012	61
Viceroy	2012	61
Dusit Thani	2012	94
Niyama	2012	134
Maalifushi by COMO	2015	65
Amilla Fushi	2015	59
Outrigger Konotta	2015	53
Total		1,973

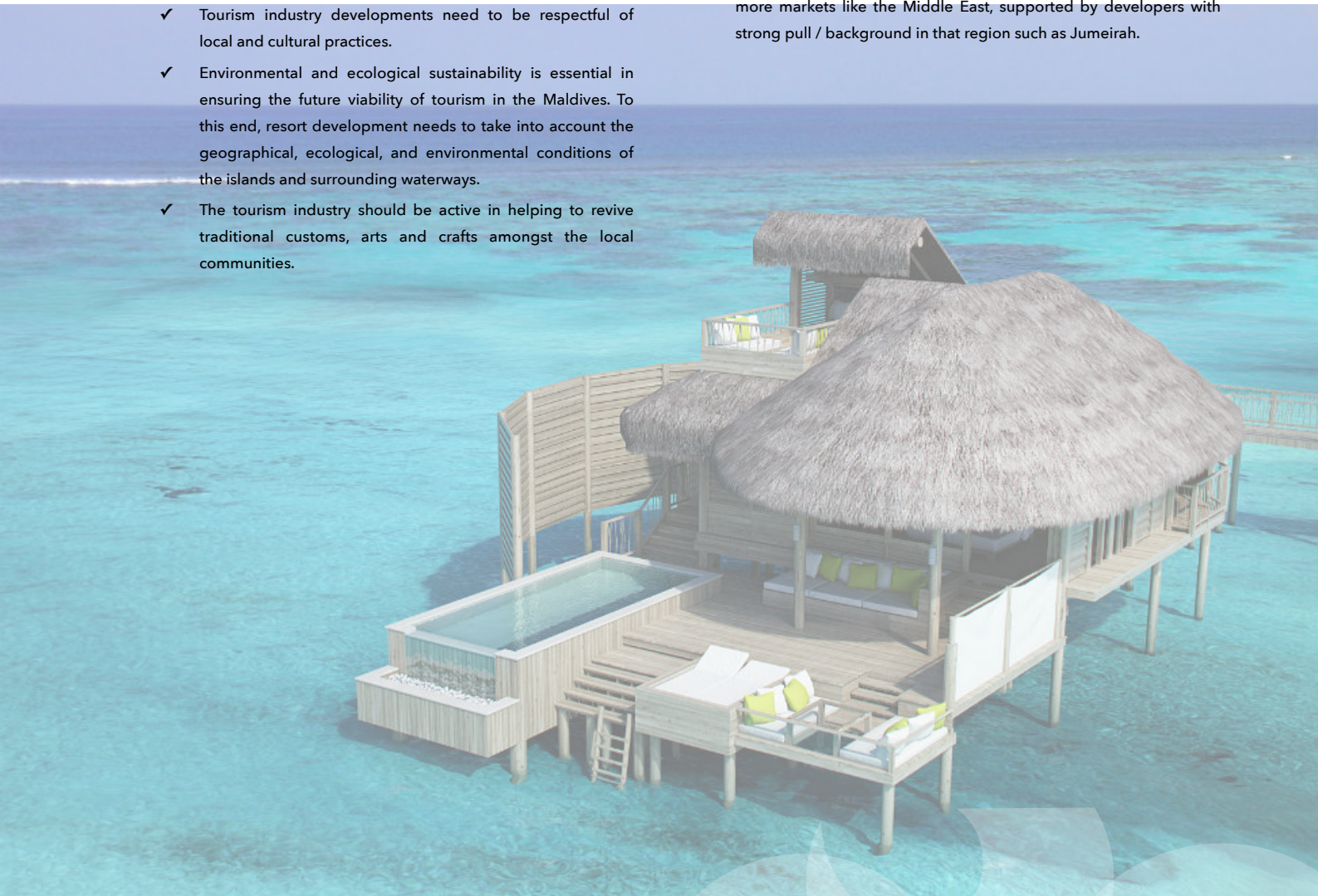
Figure 16: Maldives Top-tier Hotel Market Performance



- * After a drop caused by new supply in 2012, the market's occupancy recovered to around 70 percent.
- * In the mean time, ADR continued to increase from just over US\$ 700 to nearly US\$ 1,000 in 2014.
- * In terms of market mix, the leisure wholesale market accounted for the majority of demand, at about 73 percent, while leisure FIT contributed about 27 percent of the total demand.
- * While the mix of wholesale demand is lower at internationally branded properties, they still account for over half of the total demand.
- * Some key reasons for the market's dominance by wholesalers are logistical challenges involved in getting to and from the islands and seat allotment on inbound flights.
- * Key inbound markets for the top-tier resorts remain United Kingdom, Germany, Italy, France, Russia, Japan and China.
- * In recent years, there is a consistent drop in demand from the rational key markets, but growth from markets like China and the Middle East.

KEY TAKEAWAYS

- * The government's clearly identified aim that the tourism industry will protect the environment (through sustainable development) and ensure that the local community gets maximum benefits from the industry (through employment, active ownership and other spin off benefits).
- * The policy and strategic objectives that have been identified by the Maldivian government include:
 - ✓ All Maldivians should benefit from tourism regardless of their location and participation should be at all levels of the industry.
 - ✓ Long-term financial and economic benefits will be sought over short-term gains.
 - ✓ Tourism industry developments need to be respectful of local and cultural practices.
 - ✓ Environmental and ecological sustainability is essential in ensuring the future viability of tourism in the Maldives. To this end, resort development needs to take into account the geographical, ecological, and environmental conditions of the islands and surrounding waterways.
 - ✓ The tourism industry should be active in helping to revive traditional customs, arts and crafts amongst the local communities.
- * Wholesale could also be very high end, ultimately driven more by the product offerings rather than sales channels.
- * Overdevelopment, or "too much too soon" will lead to overall drops in utilization performance. Key when government has total control over land and the type of development.
- * China market dominance but higher end demand given the products available.
- * Similar experience of difficulty in developing FIT market when flight seat availability is controlled by wholesalers.
- * Luxury development supported by unique / pristine resources.
- * Also concerns of one market becoming dominant as European markets becomes softer. Growth from China but also exploring more markets like the Middle East, supported by developers with strong pull / background in that region such as Jumeirah.



This section summarizes our recommendations that aim to address issues in the CNMI's tourism market that require immediate attention, **before any additional growth could be achieved in a sustainable manner.**

1. READJUSTING TARGET GROWTH LEVELS

Based on information provided by the MVA, as of October 2016, the number of **hotel rooms in the development pipeline for the CNMI over the next few years is 5,212.**

This is inclusive of registered resort and condominium developments, but **exclusive of Best Sunshine's additional planned inventory of at least around 1,600 rooms.** Of this, pure hotel inventory (excluding low-income housing units and condominium complexes) is effectively around 4,500 rooms. According to this list, the **labor needs for these developments is estimated to be around 8,000 to 9,000 workers.**

To sustain the pipeline of 4,500 additional resort rooms alone, the CNMI would need the following:

- * **At least 700,000 additional visitor arrivals over the next three years** if the market is to achieve a 70 percent occupancy assuming that the **room night demand to arrivals ratio stabilizes at 1.4 as the scale of the representative market grows.**
- * This would bring **total arrivals to over 1.2 million by 2020.** It would also **require a compound average growth of over 25 percent per year,** a rate likely to be achievable only by destinations in their development infancy period.
- * To bring in 700,000 additional visitors, an **additional 75 flights per week would be needed** assuming each flight brings in 180 passengers.
- * At 1.2 million, the visitors arrival volume would be nearly twice that achieved during the CNMI's peak years. To accommodate for this drastic increase, the CNMI's infrastructural system including the airport, power, water, waste management etc. would need to be **significantly expanded.** Such expansion **takes time and is unlikely to be completed over the next three years.**
- * Added to this **Best Sunshine's additional inventory under the casino license of at least around 1,600, the CNMI's visitor arrival would need to reach at least 1.5 million** in the next few years, which **means a minimum of 110 additional flights per week.**

Overall, relative to the CNMI's resources and population, this target growth level is unrealistic, particularly in the short to medium term. As such, one of the key issues to be addressed immediately is the readjusting of target growth levels and the realigning of expectations amongst all key tourism stakeholders as well as the government and the community to a common and more realistic goal.

In the next section, we will provide projections that detail our estimates of more realistic and sustainable growth targets, as part of the Longer Term Plan.

In addition, prior to looking at any future growth, we feel that two major issues need to be addressed, just to sustain current visitation levels, before any additional tourism development / growth could materialize in a sustainable manner.



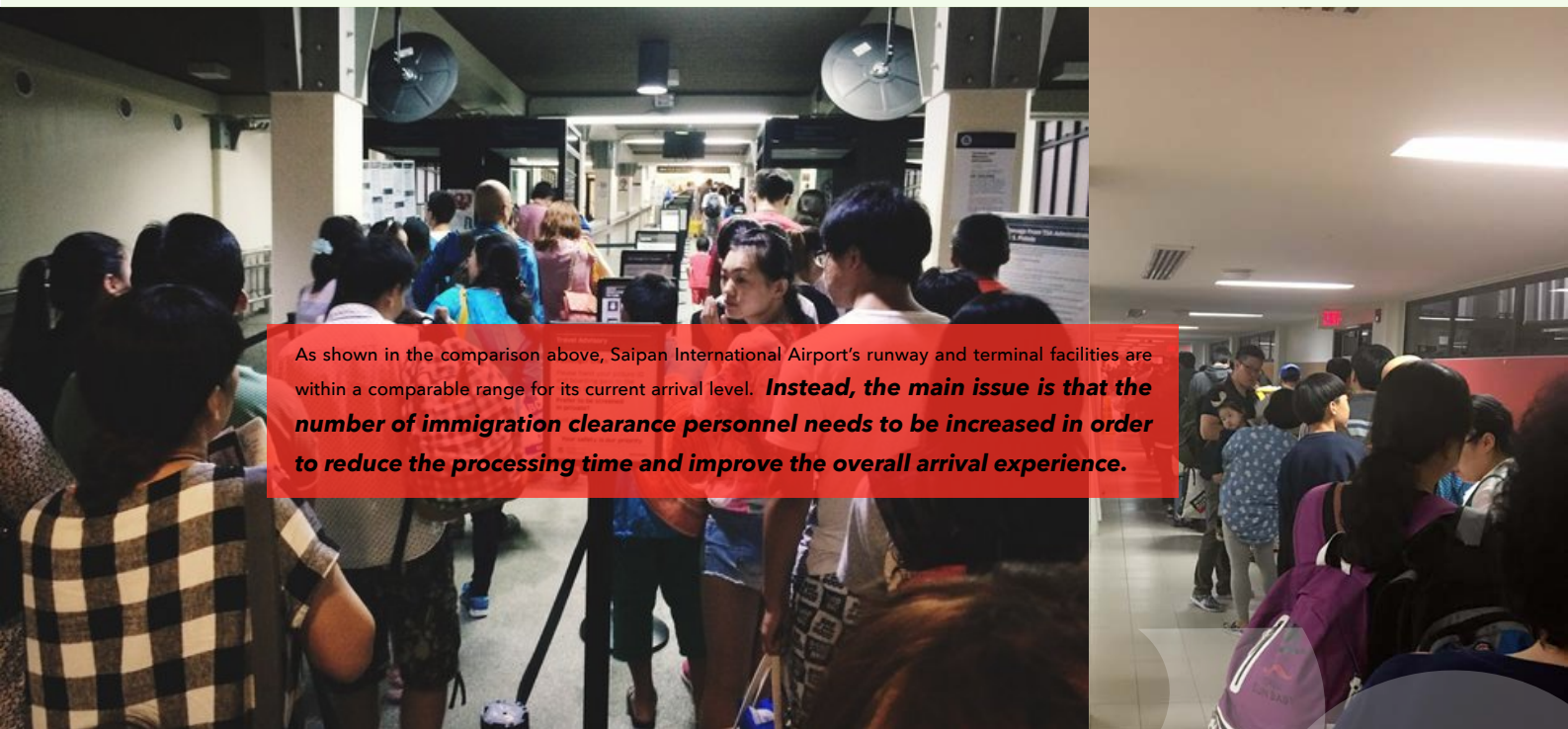
A. SHORTENING THE AIRPORT ARRIVAL WAITING TIME

Currently, given that the majority of flights to Saipan International Airport arrive between midnight and 4 a.m., and arrivals have increased consistently to surpass the 500,000 mark, **the amount of time that visitors need to spend at the airport waiting (particularly on arrival) has become a pressing issue.**

HAVING TO WAIT FOR AN HOUR OR TWO OR EVEN LONGER AFTER GETTING OFF 4- TO 5-HOUR FLIGHTS AT EARLY HOURS IN THE MORNING IS NOT A WELCOMING START TO ANY TRAVEL EXPERIENCE.

On many online review forums, the arrival experience has often been cited as the least favorable part of the trip with waiting times averaging one to two hours, and as high as over several hours.

	Saipan	Guam	Koh Samui	Maldives	Phuket	Bali
Visitor Arrivals (2015)	530,525	1,409,050	1,023,373	1,234,248	3,421,149 (Int'l)	4,001,835 (Int'l)
Estimated Terminal Footprint from Google Maps	20,000m ²	35,000m ²	5,000m ²	20,000m ²	20,000m ²	75,000m ²
No. / Length of Runways	2 / 2,652m ² / 2,134m ²	2 / 3,662m ² / 3,052m ²	1 / 2,060m ²	1 / 3,200m ²	1 / 3,000m ²	1 / 3,000m ²



As shown in the comparison above, Saipan International Airport's runway and terminal facilities are within a comparable range for its current arrival level. **Instead, the main issue is that the number of immigration clearance personnel needs to be increased in order to reduce the processing time and improve the overall arrival experience.**

B. RENOVATION OF EXISTING PROPERTIES

Accommodation is often a crucial, if not the most important, component to any resort destination. Compared to city travellers, resort guests spend a significant amount of their time within their accommodation facilities.

The majority of the CNMI's existing inventory have been in operation for more than fifteen to twenty years. Essentially all of the market's existing key properties are now in dire need of renovation. This situation is exasperated by the market's demand boom in the past few years. Having to operate at over 85 to 90 percent occupancy over the past four years has intensified the wear and tear on facilities that were already in need of renovation.

Nowadays, many guests are well travelled and competition from regional resort markets with higher quality supply is intense. In light of the regional resort

products available, the CNMI's existing properties are outdated and in critical need of refurbishment.

In recent years, the beauty of Saipan's tourism resources and the sheer volume of the booming Chinese and Korean outbound travel markets have supported the accelerated growth in arrivals. However, after the initial boom subsides, we feel that the CNMI's competitiveness as a destination is likely to be negatively impacted by the low quality of its accommodation facilities.

While the right type of new developments could help elevate a destination's positioning, they generally require a longer construction period. Moreover, with the CNMI's limited land resources, existing inventory will still account for a significant portion of its future supply and their quality levels need to be addressed.

The following are the main reasons that have led to today's situation:

- * With the market's soft conditions for the decade prior to the current boom, most existing operators struggled to remain in operation and have not had the funds to renovate even though that period would have been the ideal time to do so given the low demand levels.
- * Just as importantly, uncertainties in lease renewals understandably make it difficult to financially justify additional investment for the existing operators.

This situation needs to be rectified in a socially responsible manner with the goals being:

- * To bring **benefits to the overall destination** with renewed accommodation offerings.
- * To help existing properties reap the most benefits from the market's booming conditions by increasing their ability to command higher rates with better products. This is **especially important and equitable in light of the challenges these properties went through during the market's downturn.**
- * To help existing properties **stay competitive as new developments come up.** This is essential to achieving a healthy balance in the CNMI's hotel market.

Overall, the refurbishment of existing properties is the most immediate and efficient remedy to the CNMI's accommodation challenges. For this to happen, we recommend that the following take place:

1. The number one priority is to begin discussions / negotiations with existing owners regarding the renewal of leases. Given that time is of the essence relative to the CNMI staying competitive as a destination, it is critical that the discussions are not held off until the expiry of the leases.
2. Reasonable lease terms could be offered as an incentive for existing properties to renovate without delay. Understandably, after years of depressed market conditions, it can be enticing to put off renovation plans, which often negatively impacts the amount of business captured during the process.

As immediate renovation could only take place with existing operators, the CNMI as a destination **should not delay the process.**

Last but not least, we consider the renovation of existing properties as a key issue to be addressed immediately because outdated accommodation facilities not only affect the overall guest experience, they also hinder the CNMI from attracting higher end demand.

Attracting higher end demand would be the beginning of a positive cycle that could lead to increased overall tourism spending, improved air route profitability which in turn attracts more flight routes and flag carriers, which all ultimately improve the destination's attractiveness for quality investment.

1. TARGET LEVELS FOR SUSTAINABLE GROWTH

In estimating sustainable growth for the CNMI's tourism market, we have divided the projections into two periods, one for the **medium term, the next five years**, and another for the **longer term, the next ten years**.

**OVERALL POSITIONING:
QUALITY OVER QUANTITY**

METHODOLOGY

- * Overall, we feel that extraordinary changes in arrivals from individual nationality segments are not realistic to forecast; just like the drastic decline in demand from Russia and the extraordinary drop in demand from Japan in the last two years.
- * As such, as the first step, we have estimated demand growth at the overall visitation level based on historical growth of the CNMI market as well as that of regional resort destinations as reference checks.
- * Second, we have estimated demand growth by nationality to reflect likely increases based on historical trends as well as keeping in mind the aim for a more diversified mix. This also serves as a check on reasonableness for the projections made on the overall arrivals.
- * As a third check on reasonableness, we have projected the likely occupancy levels for the existing representative hotel market as a whole and for each of the identified properties in the pipeline by year up until 2021. The result of this is the representative market's projected Room Night Demand by year, which is translated into visitor arrivals.

GENERAL REASONING:

SHORT TO MEDIUM TERM (5 YEARS) VERSUS LONGER TERM (10 YEARS)

- * In the **next five years**, we feel that visitor arrivals to the CNMI have the potential to grow at a moderately fast and steady pace, **within the destination's existing infrastructural constraints**. This is likely to be supported by new development as well as steady planned increases in air seat capacity.
- * Since any expansion in infrastructure typically take time to develop and is usually determined on the basis of sustained long term growth rather than short term surges in demand, we have based **projections for the upcoming five years within the framework of the CNMI's existing infrastructure, assuming regular upkeep and maintenance**.
- * From years 2022 to 2026, we expect growth to become more moderate, given a considerably larger base. During this period, growth is expected to be supported by a reasonable amount of new development, the openings of which should be staggered to allow new supply to be absorbed by the market effectively.
- * Also, it should be highlighted that during **the longer term, the basic premise for further growth is significant infrastructural improvements that are sufficient to serve the additional visitor volume. In other words, growth past the 750,000 mark could only be made possible with considerable expansion of the existing infrastructure by scales and timelines that correspond to arrival growth.**

STEP / METHOD 1: PROJECTIONS BY OVERALL GROWTH

Figure 17: Key Metrics Considered in the Overall Growth Projections

Period	Compound Average Annual Growth Rate
10 years leading up to peak year in arrivals of 1997	15.3%
5 years leading up to 1997	8.6%
Past 10 years (2007 to 2016)	2.0%
Past 5 years (2012 to 2016)	9.2%
Past 2 years (2015 and 2016)	7.4%



Figure 18: Estimated Growth Rates for the Overall Projections

Period	Discount off of CAAG rate of 2012 to 2016	Resultant CAAG rate
2017 to 2021	20%	7.4%
2002 to 2026	60%	3.7%



Figure 19: Resultant Visitor Arrival Projections – Based on Method 1: Overall Growth

	Projected Visitor Arrivals to the CNMI by Calendar Year	Projected Visitor Arrivals to the CNMI by Fiscal Year
2016 (Base Year)	530,525	501,489
2017	569,762	538,579
2018	611,902	578,412
2019	657,157	621,191
2020	705,760	667,134
2021	757,958	716,474
2022	785,987	742,969
2023	815,052	770,444
2024	845,193	798,935
2025	876,448	828,479
2026	908,859	859,116
CAAG 2017 to 2021	7.4%	7.4%
CAAG 2012 to 2026	3.7%	3.7%
CAAG 2017 to 2026	5.5%	5.5%

STEP / METHOD 2: PROJECTIONS BY NATIONALITY

Figure 20: Key Metrics Considered in the Growth Projections by Nationality

	Japan	Korea	China	US	Guam	Russia	Other	Total
2006	269,780	82,891	39,253	11,131	21,161	1,675	9,603	435,494
2007	200,168	108,321	40,331	8,979	18,894	3,672	8,980	389,345
2008	213,299	111,116	26,878	11,793	19,273	6,814	8,101	397,274
2009	191,111	89,132	29,814	11,143	18,116	6,222	8,418	353,956
2010	185,032	115,811	41,992	10,042	17,084	4,391	4,739	379,091
2011	142,946	107,503	56,191	8,530	15,450	5,276	5,061	340,957
2012	153,259	129,394	86,513	7,675	14,319	6,282	3,580	401,022
2013	141,747	139,958	117,713	7,524	13,711	12,493	5,762	438,908
2014	110,234	142,081	171,219	8,910	11,495	11,200	4,542	459,681
2015	80,832	182,622	186,509	8,540	11,428	2,827	5,834	478,592
2016	60,987	228,137	210,773	8,146	14,408	1,912	6,162	530,525
CAAG 2007 to 2016	(14%)	11%	18%	(3%)	(4%)	1%	(4%)	1.7%
Difference 2016 vs. 2006	(208,793)	145,246	171,520	(2,985)	(6,753)	237	(3,441)	95,031
2016 as % of 2006 level	23%	275%	537%	73%	68%	114%	64%	122%
CAAG 2012 to 2016	(16%)	16%	30%	(1%)	(1%)	(18%)	4%	9.2%
CAAG 2014 to 2016	(26%)	27%	11%	(4%)	12%	(59%)	16%	7.4%
2016 Growth	(25%)	25%	13%	(5%)	26%	(32%)	6%	10.9%



Figure 21: Estimated Growth Rates by Nationality

	Japan	Korea	China	US	Guam	Other
2016 (Base Year)	(25%)	25%	13%	(5%)	26%	(7%)
2017	5%	15%	10%	(5%)	15%	10%
2018	5%	7%	10%	(3%)	10%	15%
2019	5%	5%	7%	(1%)	5%	20%
2020	10%	5%	13%	2%	2%	25%
2021	7%	2%	5%	1%	1%	25%
2022	5%	2%	3%	1%	1%	20%
2023	4%	2%	3%	1%	1%	15%
2024	3%	1%	2%	1%	1%	15%
2025	3%	1%	2%	1%	1%	10%
2026	3%	1%	2%	1%	1%	5%



* Please note that given the volatility of the Russian segment and its limited volume in the past 2 years, for the purpose our making future projections, we have grouped it in the segment of "Other".

* Also, it is important to highlight that the projections for 2017 take into consideration information on air access that has been provided by the MVA.

Figure 22: Resultant Visitor Arrival Projections – Based on Method 2: By Nationality

	Japan	Korea	China	US	Guam	Other	Total
2016 (Base Year)	60,987	228,137	210,773	8,146	14,408	8,704	530,525
2017	64,036	262,358	231,850	7,739	16,569	8,881	591,434
2018	67,238	280,723	255,035	7,507	18,226	10,214	638,942
2019	70,600	294,759	272,888	7,431	19,137	12,256	677,072
2020	77,660	309,497	308,363	7,580	19,520	15,320	737,941
2021	83,096	315,687	323,781	7,656	19,715	19,151	769,086
2022	87,251	322,000	333,495	7,732	19,913	22,981	793,372
2023	90,741	328,440	343,500	7,810	20,112	26,428	817,030
2024	93,463	331,725	350,370	7,888	20,313	30,392	834,150
2025	96,267	335,042	357,377	7,967	20,516	33,431	850,600
2026	99,155	338,392	364,525	8,046	20,721	35,103	865,942
CAAG 2017 to 2021	5%	4%	6%	(0.1%)	4%	16%	5.0%

Figure 23: Historical CNMI Nationality Mix 2006

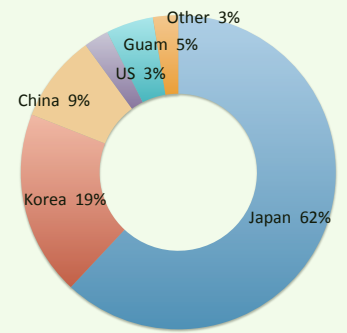


Figure 24: Historical CNMI Nationality Mix 2016

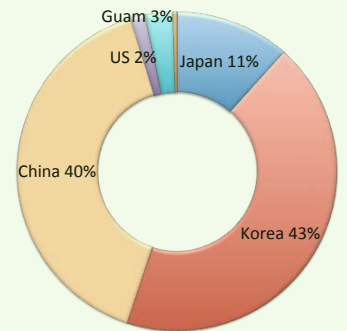
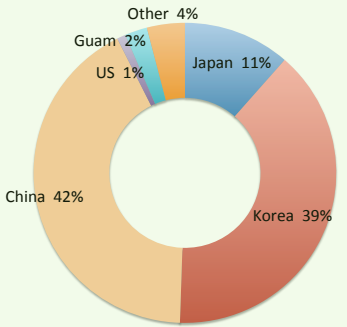


Figure 25: Projected CNMI Nationality Mix 2026



In looking at the estimated future market mix, it is important to note that growth in the segment of Other is expected to consist mainly of expatriates living in Asia.

STEP / METHOD 3: PROJECTIONS BY HOTEL OCCUPANCY

As detailed in the Recommended Immediate Action Plan, we feel that the **current pipeline of around 4,500 hotel rooms, or over 6,000 rooms with Best Sunshine's remaining rooms under the casino license added, is not appropriate for the sustainable development of the CNMI's tourism market.**

Based on the list of planned properties provided by the MVA, we have identified projects that are more likely to materialize in the medium term, based on the following factors:

- * Status of construction / stage in the development process.
- * Location suitability for resort development.
- * Perceived level of realism based on development plans.

2017-2021

For the next five years, we feel that the developments listed to the right are most likely to materialize,

It should be highlighted that for some of the projects, we have adjusted the estimated opening year, and in certain cases, the room count based on what we view may be a more accurate reflection of the development timeline and suitable scale considering the site locations.

Figure 26: Identified New Supply 2017 - 2021

Location		Room Count	Estimated Opening
Kensington Resort	Former Nikko Resort	313	First full year of operation: 2017
Grand Mariana Casino Resort	Garapan	373	Mid 2017
Surfrider Resort	Chalan Kanoa	60	2018
Ocean Vista Resort	Capitol Hill	144	2019
Honest Profit Resort	San Antonio	317	2020
Alter City Plumeria Resort	Tinian	300	2020

2022 - 2026

For the longer term, we feel that the destination could still absorb additional new developments. This, however, should be controlled development with a reasonable amount of new rooms based on / linked to anticipated growth in visitor arrivals. In addition the opening of the additional properties should be staggered to allow new supply to be absorbed by the market effectively.

For the purpose of quantifying additional future supply, we recommend that on average, a 300-room resort could open every other year during this period.

General Reasoning behind the Occupancy Estimates

For Existing Properties

- * For the existing supply, occupancy will become more moderate compared to current levels.
- * This reflects the opportunity for existing properties to adopt more yield driven strategies, supported by strong demand.
- * The lower occupancy levels also take into consideration renovation amongst the existing properties. It should be highlighted that our projections for the existing properties are based on the critical assumption that renovation will take place in a timely manner to ensure that they remain competitive.

For New Properties

- * Location.
- * Planned positioning level / product.
- * Site attributes.

* Please note that projections by hotel occupancy have only been prepared by calendar year, which is also the basis for existing property data as well as future occupancy estimates.

Figure 27: Occupancy Estimates

	Existing Properties				Kensington				Grand Mariana Casino Resort							
	Keys	RNA	Occ.	RND	Keys	RNA	Occ.	RND	Keys	RNA	Occ.	RND	Keys	RNA	Occ.	RND
2016	2,355	859,575	86%	742,330												
2017	2,355	859,575	85%	730,639	313	114,245	60%	68,547	187	68,255	65%	44,393				
2018	2,355	859,575	82%	704,852	313	114,245	75%	85,684	373	136,145	80%	108,916				
2019	2,355	859,575	80%	687,660	313	114,245	80%	91,396	373	136,145	80%	108,916				
2020	2,355	859,575	77%	661,873	313	114,245	80%	91,396	373	136,145	80%	108,916				
2021	2,355	859,575	77%	661,873	313	114,245	80%	91,396	373	136,145	82%	111,639				
	Surfrider Resort				Ocean Vista Resort				Honest Profit Resort				Alter City Resort			
	Keys	RNA	Occ.	RND	Keys	RNA	Occ.	RND	Keys	RNA	Occ.	RND	Keys	RNA	Occ.	RND
2018	60	21,900	60%	13,140												
2019	60	21,900	75%	16,425	144	52,560	60%	31,536								
2020	60	21,900	85%	18,615	144	52,560	70%	36,792	317	115,705	60%	69,423	300	109,500	55%	60,225
2021	60	21,900	85%	18,615	144	52,560	70%	36,792	317	115,705	75%	86,779	300	109,500	68%	74,460

On the flip side, with an estimated visitor arrival level of around 950,000 by 2026, new developments excessively exceeding the levels recommended above would mean lower occupancy levels for overall market, impacting both existing properties as well as the newly developed ones. In addition, in a market with soft occupancy performance, which is generally a result of oversupply, it is difficult to maintain room rates, let alone achieve growths. Such a situation would not only hurt the profitability of hotels in the CNMI, but also tax revenue as well as the general market sentiment for long term development.



Figure 28: Resultant Visitor Arrival Projections – Based on Method 3: By Hotel Occupancy

	Room Count	Total RNA	Total Projected RND	Occupancy	RND to Visitor Ratio	Visitor Arrivals
2016 (Base Year)	2,355	859,575	742,330	86%	1.4	530,525
2017	2,855	1,042,075	843,579	81%	1.4	602,556
2018	3,101	1,131,865	912,591	81%	1.4	651,851
2019	3,245	1,184,425	935,933	79%	1.4	668,524
2020	3,862	1,409,630	1,047,240	74%	1.4	748,028
2021	3,862	1,409,630	1,081,553	77%	1.4	772,538
2022	4,162	1,519,130	1,108,965	73%	1.4	792,118
2023	4,162	1,519,130	1,184,921	78%	1.4	846,372
2024	4,462	1,628,630	1,221,473	75%	1.4	872,480
2025	4,462	1,628,630	1,266,618	79%	1.4	919,013
2026	4,762	1,738,130	1,338,360	77%	1.4	955,972

AVERAGE VISITOR ARRIVAL PROJECTIONS COMBINING THE THREE METHODS

The following tables summarizes the resultant visitor arrival projections for 2017 to 2026 using an average of the three methods.

Figure 29: Resultant Visitor Arrival Projections, by Calendar Year, 2017 - 2026

	Method 1: Overall Growth	Method 2: Growth by Nationality	Method 3: Occupancy by Hotel	Average	Total RND *
2016 (Base Year)	530,525	530,525	530,525	530,525	742,330
2017	569,762	591,434	602,556	587,917	823,084
2018	611,902	638,942	651,851	634,232	887,924
2019	657,157	677,072	668,524	667,584	934,618
2020	705,760	737,941	748,028	730,576	1,022,807
2021	757,958	769,086	772,538	766,527	1,073,138
2022	785,987	793,372	792,118	790,492	1,106,689
2023	815,052	817,030	846,372	826,152	1,156,612
2024	845,193	834,150	872,480	850,608	1,190,851
2025	876,448	850,600	919,013	882,020	1,234,828
2026	908,859	865,942	955,972	910,257	1,274,360

* Assuming the same room night demand to visitor arrival ratio of 1.4 throughout the period of analysis.

Figure 29B: Resultant Visitor Arrival Projections, by Fiscal Year, 2017 - 2026

	Method 1: Overall Growth	Method 2: Growth by Nationality	Method 3: Occupancy by Hotel	Average	Total RND *
2016 (Base Year)	501,489	501,489	530,525	501,489	742,330
2017	538,579	557,995	602,556	566,377	792,927
2018	578,412	602,980	651,851	611,081	855,513
2019	621,191	639,178	668,524	642,964	900,150
2020	667,134	697,882	748,028	704,348	986,087
2021	716,474	728,070	772,538	739,028	1,034,639
2022	742,969	751,429	792,118	762,172	1,067,041
2023	770,444	774,142	846,372	796,986	1,115,781
2024	798,935	790,700	872,480	820,705	1,148,987
2025	828,479	806,615	919,013	851,369	1,191,916
2026	859,116	821,465	955,972	878,851	1,230,391

* Assuming the same room night demand to visitor arrival ratio of 1.4 throughout the period of analysis.

ROOM RATE OUTLOOK

We have projected the likely rate performance for the existing representative hotel market as a whole and for each of the identified upcoming properties by year up until 2021.

For 2022 to 2026, we have assumed a more stabilized, long term growth rate of 2.5 percent based on historical trends for the CNMI as well as regional resort markets.

For Existing Properties

- * We have assumed that growth is likely to continue for 2017 and 2018 but at declining rates given the tired state of the existing properties and competition from new entrants to the market.
- * We have also made the critical assumption that lease renewals will be addressed in a timely manner, allowing the existing properties to renovate in the upcoming two years.

- * Assuming that some properties in the existing representative market would undergo refurbishment, we have forecasted strong rate increases for this set for 2019 and 2020.
- * Once again, it is critical to note that these projections are based on the assumption that proper renovation take place. On the flip side, without refurbishment, we expect the performances of the existing properties to experience considerable decline as they become less competitive relative to the market's new supply but also to regional products.

For New Properties

Similar to occupancy performance, our estimates on the likely rate performance of the new properties are based on the following factors:

- * Location.
- * Planned positioning level / product.
- * Site attributes.

Figure 30: ADR Estimates by Property

	2016		2017			2018			2019			2020			2021		
	RND	ADR	RND	ADR Growth	Resultant ADR	RND	ADR Growth	Resultant ADR	RND	ADR Growth	Resultant ADR	RND	ADR Growth	Resultant ADR	RND	ADR Growth	Resultant ADR
Existing	742,330	\$140	730,639	5%	\$147	704,852	2%	\$150	687,660	8%	\$162	661,873	8%	\$175	661,873	3%	\$180
Kensington			68,547		\$165	85,684	10%	\$182	91,396	5%	\$191	91,396	3%	\$196	91,396	3%	\$202
Best Sunshine			44,393		\$170	108,916	10%	\$186	108,916	5%	\$196	108,916	3%	\$202	111,639	3%	\$208
Surfrider						13,140		\$155	16,425	10%	\$171	18,615	5%	\$179	18,615	3%	\$184
Ocean Vista									31,536		\$150	36,792	10%	\$165	36,792	5%	\$173
Honest Profit												69,423		\$165	86,779	10%	\$182
Alter City												60,225		\$170	74,460	10%	\$187
Total RND / Weighted Average ADR	742,330	\$140	843,579	6.9%	\$150	912,591	5.0%	\$157	935,933	7.0%	\$168	1,047,240	5.9%	\$178	1,081,553	3.9%	\$185

SUMMARY VISITOR ARRIVAL, OCCUPANCY & ADR PROJECTIONS

The following tables summarize the visitor arrival, hotel room night demand, occupancy, and average daily rate projections. These projections are the basis for estimates on tax revenue as well as additional labor and flight needs presented subsequently.

Figure 31: Summary Visitor Arrival, Occupancy and ADR Projections, by Calendar Year

	Visitor Arrivals	RND	RNA	Occupancy	Market ADR	Market RevPAR
2016 (Base Year)	530,525	742,330	859,575	86%	\$140	\$121
2017	587,917	823,084	1,042,075	79%	\$150	\$118
2018	634,232	887,924	1,131,865	78%	\$157	\$123
2019	667,584	934,618	1,184,425	79%	\$168	\$133
2020	730,576	1,022,807	1,409,630	73%	\$178	\$129
2021	766,527	1,073,138	1,409,630	76%	\$185	\$141
2022	790,492	1,106,689	1,519,130	73%	\$190	\$138
2023	826,152	1,156,612	1,519,130	76%	\$195	\$148
2024	850,608	1,190,851	1,628,630	73%	\$200	\$146
2025	882,020	1,234,828	1,628,630	76%	\$205	\$155
2026	910,257	1,274,360	1,738,130	73%	\$210	\$154

Figure 32: Demand, Supply and Occupancy Projections

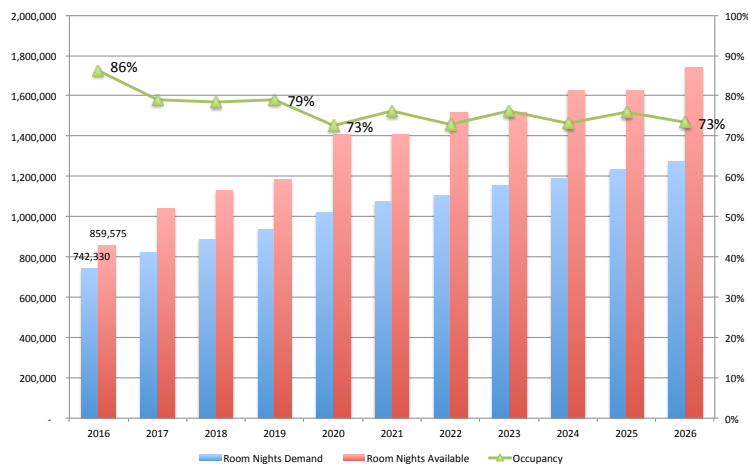
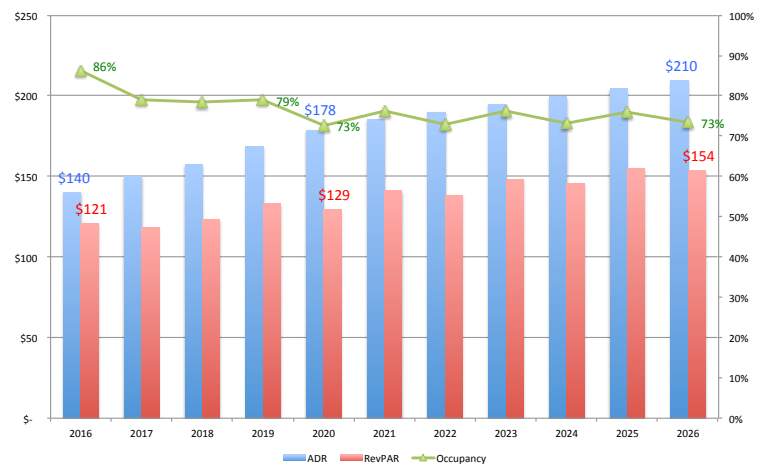


Figure 33: Occupancy, ADR and RevPAR Projections



ESTIMATES ON GROSS RECEIPTS TAX & ROOM OCCUPANCY TAX

For Room Occupancy Tax, we have assumed a rate of 15 percent on Rooms Revenue.

For Gross Receipts Tax, we have assumed a rate of 5 percent of Total Revenue. In order to calculate total revenue, we have assumed that Rooms Revenue account for around 70 percent of Total Revenue for all properties in the representative market.

Figure 34: Estimates on Gross Receipts Tax and Room Occupancy Tax, by Calendar Year

	Visitor Arrivals	RND	RNA	Occupancy	ADR	RevPAR	Rooms Revenue	Total Revenue	Gross Receipts Tax	Room Occupancy Tax
2016 (Base Year)	530,525	742,330	859,575	86%	\$140	\$121	\$103,926,200	\$148,466,000	\$7,423,300	\$15,588,930
2017	587,917	823,084	1,042,075	79%	\$150	\$118	\$123,173,617	\$175,962,310	\$8,798,116	\$18,476,043
2018	634,232	887,924	1,131,865	78%	\$157	\$123	\$139,704,932	\$199,578,475	\$9,978,924	\$20,955,740
2019	667,584	934,618	1,184,425	79%	\$168	\$133	\$157,411,423	\$224,873,461	\$11,243,673	\$23,611,713
2020	730,576	1,022,807	1,409,630	73%	\$178	\$129	\$182,402,062	\$260,574,374	\$13,028,719	\$27,360,309
2021	766,527	1,073,138	1,409,630	76%	\$185	\$141	\$198,820,586	\$284,029,409	\$14,201,470	\$29,823,088
2022	790,492	1,106,689	1,519,130	73%	\$190	\$138	\$210,162,457	\$300,232,081	\$15,011,604	\$31,524,369
2023	826,152	1,156,612	1,519,130	76%	\$195	\$148	\$225,134,077	\$321,620,110	\$16,081,006	\$33,770,112
2024	850,608	1,190,851	1,628,630	73%	\$200	\$146	\$237,593,559	\$339,419,370	\$16,970,968	\$35,639,034
2025	882,020	1,234,828	1,628,630	76%	\$205	\$155	\$252,526,909	\$360,752,727	\$18,037,636	\$37,879,036
2026	910,257	1,274,360	1,738,130	73%	\$210	\$154	\$267,126,685	\$381,609,550	\$19,080,477	\$40,069,003

ESTIMATES ON LABOUR NEEDS

Based on data from HANMI, the number of employees to room ratio was 0.65 for 2011 and 2012. This ratio increased slightly to 0.71 for 2015 and 2016.

For the purpose of projecting labor needs, we have assumed a constant employee to room ratio of 0.7 for the entire period of analysis.

Based on HANMI data, the percentage of contract and freely associated workers relative to total employees was nearly 70 percent for 2011 and 2012. This percentage decreased to 57 percent for 2016.

Going forward, we expect this percentage to increase slightly, to stabilize at around 60 percent due to the limited volume of local work force available in the CNMI.

Figure 35: Estimates on Labor Needs, by Calendar Year

	Room Count	Total Employees Needed	% of Contract Workers	Contract Employees	Local Employees	New Contract Workers Needed	New Local Workers Needed	Total New Labor Needs
2016 (Base Year)	2,355	1,644	57%	927	718	-	-	-
2017	2,855	1,999	60%	1,199	799	272	81	354
2018	3,101	2,171	60%	1,302	868	103	69	172
2019	3,245	2,272	60%	1,363	909	60	40	101
2020	3,862	2,703	60%	1,622	1,081	259	173	432
2021	3,862	2,703	60%	1,622	1,081	-	-	-
2022	4,162	2,913	60%	1,748	1,165	126	84	210
2023	4,162	2,913	60%	1,748	1,165	-	-	-
2024	4,462	3,123	60%	1,874	1,249	126	84	210
2025	4,462	3,123	60%	1,874	1,249	-	-	-
2026	4,762	3,333	60%	2,000	1,333	126	84	210
Total						1,073	615	1,688

ESTIMATES ON FLIGHT NEEDS

In calculating future flight needs, we have not taken into consideration flights between Saipan and Guam on Cape Air given the smaller capacity and higher percentage of non-visitors on the flights.

We have assumed that there are 52 weeks in a year and that each flight will bring in around 180 visitors.

Figure 36: Estimated Flight Needs, by Calendar Year

	Estimated Visitor Arrivals	Flights per Week excluding Cape Air	Additional Flights per Week
2016 (Base Year)	530,525	57	-
2017	587,917	63	6
2018	634,232	68	5
2019	667,584	72	4
2020	730,576	79	7
2021	766,527	82	3
2022	790,492	85	3
2023	826,152	89	4
2024	850,608	91	2
2025	882,020	95	4
2026	910,257	98	3
Total			41

IF PAROLE AUTHORITY FOR CHINA IS REMOVED...

Figure 37: Estimated Growth Rates by Nationality, without Parole Authority for China

	Japan	Korea	China	US	Guam	Other
2016 (Base Year)	(25%)	25%	13%	(5%)	26%	(7%)
2017	5%	15%	10%	(5%)	15%	10%
2018	5%	7%	(80%)	(3%)	10%	15%
2019	5%	5%	(65%)	(1%)	5%	20%
2020	10%	5%	3%	2%	2%	25%
2021	7%	2%	2%	1%	1%	20%
2022	5%	2%	2%	1%	1%	15%
2023	4%	2%	2%	1%	1%	15%
2024	3%	1%	1%	1%	1%	15%
2025	3%	1%	1%	1%	1%	10%
2026	3%	1%	1%	1%	1%	5%

Without Parole Authority, we expect the CNMI's arrivals from China to drop drastically to roughly around half of that received by Guam in 2016 given the scale of the CNMI's other market segments compared to Guam.

All else being the same, this would bring total arrivals down to just over 500,000, which could be sustained by current the market's current supply and properties already under construction.

Figure 38: Resultant Visitor Arrival Projections – Based on Method 2: By Nationality, without Parole Authority for China

	Japan	Korea	China	US	Guam	Other	Total
2016 (Base Year)	60,987	228,137	210,773	8,146	14,408	8,704	530,525
2017	64,036	262,358	231,850	7,739	16,569	8,881	591,434
2018	67,238	280,723	46,370	7,507	18,226	10,214	430,277
2019	70,600	294,759	16,230	7,431	19,137	12,256	420,414
2020	77,660	309,497	16,716	7,580	19,520	15,320	446,294
2021	83,096	315,687	17,051	7,656	19,715	18,384	461,589
2022	87,251	322,000	17,392	7,732	19,913	21,142	475,430
2023	90,741	328,440	17,740	7,810	20,112	24,313	489,156
2024	93,463	331,725	17,917	7,888	20,313	27,961	499,266
2025	96,267	335,042	18,096	7,967	20,516	30,757	508,645
2026	99,155	338,392	18,277	8,046	20,721	32,294	516,887
CAAG 2017 to 2021	5%	4%	(22%)	(0.1%)	4%	15%	(0.3%)

2. QUALITY OF NEW DEVELOPMENTS

SCALE

- * Based on growth projections for the CNMI, we feel that around 2,100 rooms should be reasonable to support future growth in arrivals while maintaining healthy occupancy levels for the representative market.
- * It should be highlighted that the base supply identified for the representative market consists of 2,355 rooms from 11 hotels that are part of HANMI as of year end 2016. These rooms make up around 73 percent of all registered accommodation in the CNMI.
- * The same methodology is used when we add supply to the representative market. Applying the same principal, the total number of registered accommodation facilities in the CNMI in the future may be higher, consisting of much smaller properties. The representative market is viewed to continue to consist of all of the destination's established properties.
- * This methodology has been applied consistently since the ratio of RND generated for the representative market is based on current arrival levels compared to the amount of RND captured amongst the 11 HANMI hotels.

QUALITY

Requirements on the quality level and branding of new supply should be considered for the overall betterment of the CNMI as a destination.

For properties already under planning

- * Getting professional hotel management companies and brands to help raise the overall profile of the destination and put it on the map particularly for upmarket travelers who often prefer the quality assurance brands provide.
- * Bring in established international resort brands is a key to inducing demand from higher spending tourists. Based on our past experience, interest in the Pacific region, including the CNMI, is high from established resort management companies. However, developers with shorter term visions may be hindered from getting brands due to the additional upfront investment and operational cost involved.
- * Facilities of the new properties should be planned and developed to suit the market. This could include:
 - ✓ Resort-oriented architecture to harmoniously fit in with the beautiful island setting and further improve the overall landscape.
 - ✓ Facilities sized to suit the market positioning and target rate level as opposed to being over-built.
 - ✓ Inclusion of design / facility components that help promote or showcase the Chamorro culture, helping add to the identity of CNMI as a resort destination.

For additional supply in the longer term


- * Beach front sites only. Given limited resources in Saipan and overriding principal to improve the destination's accommodation offerings, new developments of scale should only be on beach front sites.
- * Developer background. Ideal developers should be ones with experience in hotel / resort development and ownership.
- * Avoid "quick money" type of developments such as condotels, especially non-branded ones. Typically, the individual units are sold with very limited maintenance and / or management thereafter. For these type of developments, having an established brand usually helps since they typically require that a certain quality level be met and maintained throughout the operational period so as to meet the standards of the brand.

OTHER CRITICAL ISSUES

- * Ensure timely development of new projects and the enforcement of adhering to realistic timelines established.
- * Issue of construction workers - whether there could be sufficient construction personnel to support future developments depending on changes to the work visa situation.
- * Distribution of new supply - not Saipan alone. ***Tinian and Rota also offer great tourism resources but lack the infrastructure.*** With infrastructural improvements and the right type of supply, these islands could also benefit from sustainable tourism development. More details on this will be presented later on in the Multi-Island Destination subsection.

3. MAKING THE CNMI A TRUE MULTI-ISLAND DESTINATION

- * In order for tourism to truly benefit the whole of CNMI, it is important that Tinian and Rota be incorporated into the overall plan.
- * Each of the islands offer their own unique aspects and these should not be overlooked in order to make the CNMI into a true multi-island destination that offers a variety of experiences.
- * Similarly, it is important to recognize that the size of Tinian and Rota are vastly different from Saipan and such differences should not be overlooked when determining the type of development that is suited to each island.
- * The aim is to encourage add-on trips to Tinian and / or Rota from Saipan for first time visitors and ultimately for repeat guests to make exclusive trips to these islands using Saipan solely as a transit destination.
- * This will help spread the volume of visitors, and more importantly, make the CNMI a more interesting destination with multiple aspects and tourism experiences to offer.
- * In order to achieve this, it is important for Tinian and Rota to offer a difference experience than Saipan.



In general, we feel that Tinian and Rota are more suited to the development of smaller scale resorts for the following reasons:

- * Access constraints.
- * Limited land area and resources.
- * Small local communities.

With many pristine, exclusive and secluded bays and beaches, we feel that Tinian and Rota present many opportunities to develop smaller resorts either in the luxury tier, or in the eco lodge category.

While an iconic, branded small luxury resort property could help immensely in elevating the overall profile of the CNMI, eco lodges could also add to the much-needed diversity in the destination's accommodation product offerings.



4. MAKING THE DESTINATION MORE FIT-FRIENDLY

- * The overriding principal is to make the destination more FIT friendly.
- * FIT's generally spend more on a per person basis compared to group tourists.
- * They also tend to be more sophisticated travelers who are willing to pay more for quality rather than solely focusing on price.
- * Given the CNMI's island geography and limited resources, it should aim to achieve a better balance between group and FIT business.
- * Looking at comparable resort destinations that have developed a healthy FIT market while still maintaining a strong wholesale component (for instance, Koh Samui and the Maldives referenced earlier), the CNMI could aim to bring up the FIT segment's share from the current imbalance to around 30 to 40 percent.

A. ON-ISLAND TRANSPORTATION

WELL-MANAGED BIKE HIRE SYSTEM



- * This could address traffic issues as the CNMI continues to welcome more tourists.
- * It could be a great infrastructural improvement that benefits both the tourists as well as the local community.
- * Example of the Santander Cycles public bicycle hire scheme in London.

EASY "HOP-ON AND HOP-OFF" BUSES



- * Could consider government and private partnership.
- * Sole license to operate at a fixed rate over a certain period to start with.
- * Example of tourist bus systems in Guam and Hawaii.

B. MAKING THE TOURIST ATTRACTIONS MORE INTERACTIVE

BETTER SIGNAGE & STORYBOARDS



- * Storyboards that showcase the CNMI's history and indigenous culture as well as remove the need for tour guides.
- * To be funded through public as well as private funding. Example of tourist attractions in Hawaii and in Hong Kong.

CONCESSIONS AT UN-TICKETED ATTRACTIONS



- * Having concessions at un-ticketed attractions to help with maintenance fees.
- * Addition of public toilets, car parks and trail maps.

C. QUALITY ASSURANCE PROGRAM



- * Shops, restaurants, retailers etc. to have quality assurance issued by MVA.
- * Example of the quality assurance program in Hong Kong administered by the Hong Kong Tourism Board.

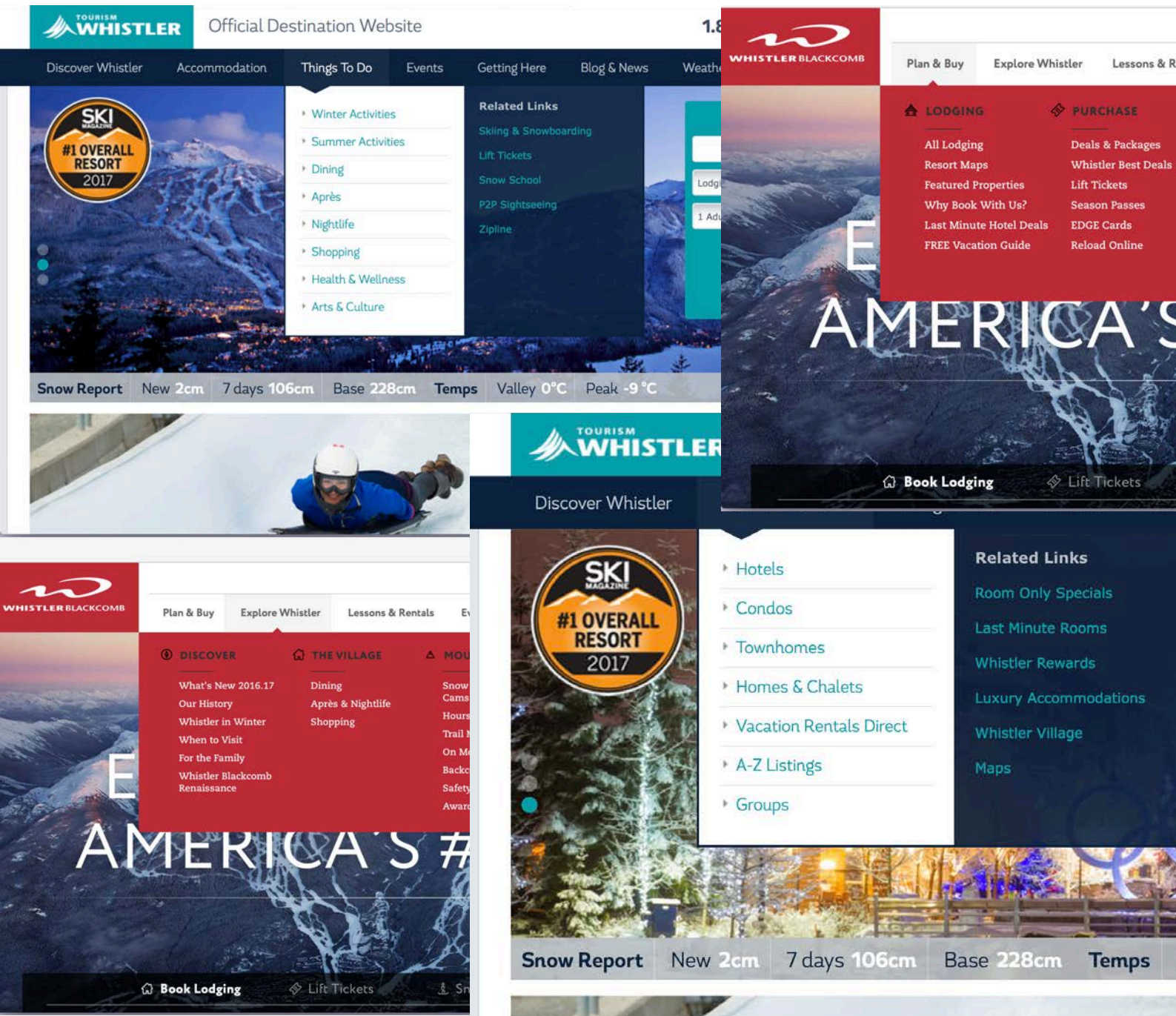
5. IMPROVE THE VARIETY OF TOURISM OFFERINGS

- * Instead of focusing new development solely on hotels, the CNMI also needs tourism support facilities.
- * For instance, the current retail scene consists essentially of either luxury items at the DFS or souvenirs targeting tourists. Introducing quality retail of various tiers, including high street and off price brands could greatly improve the shopping experience, which is a highly valued part of holidays particularly for the Asian travellers to the CNMI. Just as importantly, this could greatly improve the lifestyle of the local community.
- * Standard alone restaurants and bars - while there has been many additions to the CNMI's dining scene in the past two years, it is important to emphasize quality as well as branding to further help elevate the destination.
- * In addition, with improved transportation, the development of dining and lifestyle facilities could expand to beyond the increasingly congested Garapan.
- * Further expand on the Thursday night market.
- * Provide facilities that could serve the community as well as tourists. This could facilitate tourism built upon the local culture. Such facilities could include outdoor areas for regularly held events / concerts as well as holiday celebratory activities.



6. DESTINATION MARKETING

- * A sophisticated official website where individual travellers could easily make bookings for everything from restaurants to snorkelling to diving etc.
- * This should be a one-stop shop that could showcase all the CNMI's tourism related businesses.
- * Suggested itineraries are also very popular, particularly for first time visitors.
- * Example websites: Tourism Whistler and Whistler Blackcomb.



7. YIELD MANAGEMENT

- * The concept of yield management could apply to all tourism sectors. It refers to the strategy of charging more when demand and supply are in balance and the market is in favor of the seller doing so.
- * Using hotels as an example, under a booming market, effective yield management should result in higher revenue by maximizing the capture of demand at higher rate levels and foregoing demand at lower rate levels.
- * ***This is, however, not possible regardless of booming market conditions with substandard products. As such, we emphasize for the need to upgrade the destination, starting with the refurbishment of the existing properties.***
- * As shown earlier in our projections, effective yield management, supported by competitive products, leads to:
 - ✓ higher revenue;
 - ✓ higher tax;
 - ✓ less strain on facilities; and
 - ✓ less strain on staff.

