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- Vietnam has changing traveller demographics that will influence the local hospitality scene
- The mid-scale market is promising, and could put pressure on luxury brands

Vietnam Rising: Factors Shaping Asia's Most Exciting Market

 JUNE 18TH, 2018  QUO ([HTTPS://TOPHOTEL.NEWS/AUTHOR/QUO/](https://tophotel.news/author/quo/))

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All pundits are in agreement: the Vietnamese tourism industry is on the up in a big way. Vietnam has remarkable potential for growth – both in terms of tourist interest and projected revenue.

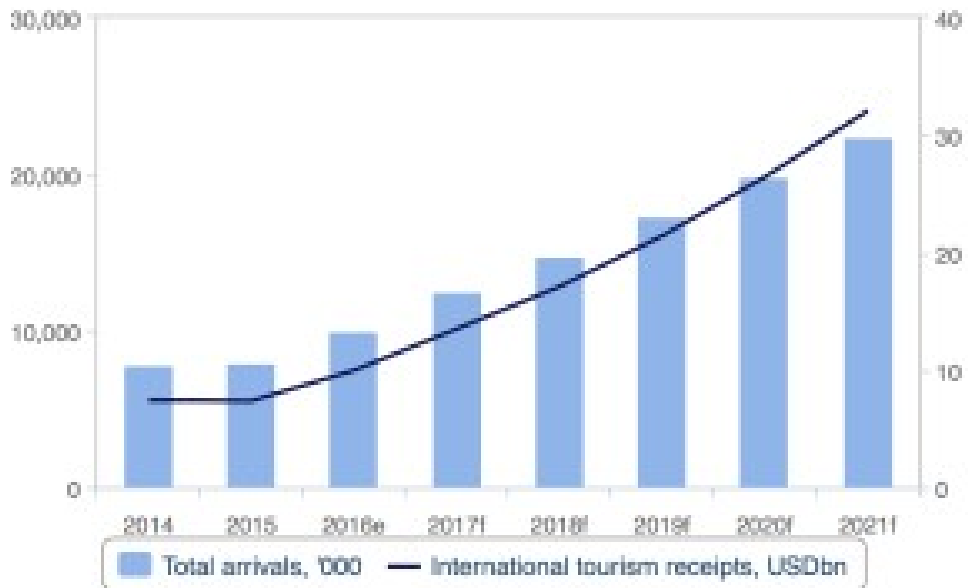


Figure 1: Vietnam tourist arrivals 2014 – 2021f (f= BMI forecast, National Sources/ BMI, 2017)

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Last year, the United Nations World Travel Organisation (UNWTO) listed Vietnam among the top 10 fastest-growing tourist destinations. Jones Lang LaSalle also cast a vote of confidence, listing Ho Chi Minh City and Hanoi among the 26 most attractive cities for hotel investment worldwide.

But what is the word on the street? It's easy to say 'invest in Vietnam', but the potential for growth is more nuanced than that. To take a closer look at what's happening in the Vietnam market, and what might transpire within the next few years, QUO spoke with some of the country's most prominent hospitality insiders.

Here are some of the key thoughts from the discussion.

- **Vietnam should be ranked higher in terms of potential growth.** Vietnam offers fantastic opportunities for hotelier and investors, as hotel numbers are still low compared to other Asian tourism hotspots.

"I believe Ho Chi Minh City and Hanoi should be in the top 20 or 15 most attractive cities in the world for hotel investment," said [Michael Piro](#), COO of Indochina Land, real estate division of Indochina Capital. "If you look at other Southeast Asia countries like Thailand, Malaysia and Singapore, the number of hotels in Vietnam is still very small."

[Jung Hyun Oh](#), GM of Novotel Ha Long Bay agreed. "The 'next big thing' here should be much more investment right across the country: Phu Quoc, Dalat, Nha Trang, Mui Ne need more luxury resorts, and Hanoi and Ho Chi Minh City need mid-scale brands."

- **The luxury market may not be that attractive to investors.** There are certain areas where luxury hotels are in short supply, but overall, it's not the most profitable market in the country.

"In Hanoi, there is still room for luxury products, but in general, this sector is not very attractive to investors in term of profitability," said [Olivier Do Ngoc Dung](#), Managing Director of Dynasty Investments. He remarked that the most interesting sector was that of international-standard budget hotels, currently only seen in HCMC and Hanoi. He also believes in the potential of coastal town Ho Tram, where [Dynasty Investments last year signed a partnership agreement with Club Med](#) (<http://blog.clubmed.com.au/2017/10/25/new-resort-club-med-ho-tram-undiscovered-jewel-vietnam/>).

- **The mid-scale market is promising, and could put pressure on luxury brands.**

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“You see local products with lower quality, but you rarely see internationally-managed, affordable luxury products,” said Michael. “I think the ‘affordable luxury’ concept is going to put pressure on 5-star hotels – it will change the market.” The big players will try to create similar brands, he said, or try to buy local brands to fulfil the affordable niche. “Local operators will also change, as you can start to see at Silverland and Liberty.”

- **Tech will play a role, but not a crucial one.** Vietnam has some catching up to do in the tech sphere – will this be a problem in an industry increasingly turning to technology to individualise services?

“I don’t believe that much in the interruption of the artificial intelligence that people are talking about,” said Olivier. “In a country like Vietnam, small or boutique hotels are defined by culture and service. Travellers want human contact, so artificial intelligence will not be a threat. Regarding advances like mobile apps – now that OTAs dominate the market, I’m not sure if mobile applications for checking or planning the whole stay are right for small hotels.”

Michael, whose new project Wink Hotels will embrace technology, explains the millennial attachment to tech. “Today’s travellers want almost everything on their phone. Everyone now has their own Netflix, Apple music, Apple TV, Apple whatever and are now travelling with their own personal content. Everything is being streamlined to automatic devices.” For this reason, Wink will make it possible for guests to easily stream content from their phone to the in-room TV.

On the operations front: “Most hotel experiences that used to be handled by people can now be taken care of by technology,” he said. “There will be greater initial investment in hotels, but lower operating costs over time, because what you used to need 100 people to do, now you can do with 20.”

- **Design should play a more prominent role.** While local brands strive to reach international standards, Western travellers are still looking for something authentically local.

“One thing we’re seeing now is that people are looking for hotels with personality. ‘Can I stay somewhere where I can experience something unique? Can I experience something that would create good memories about this place?’” said [Luis Riestra](#), Cluster Director of Sales & Marketing,

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Olivier also believes there's room for innovation in design – both from an aesthetic and a practical standpoint. “New builds and renovations can incorporate open floorplans, co-working spaces, workout facilities, bars and cafés – all of which are especially appealing to the much-sought-after millennial traveller.” There are some brands in Vietnam already doing this, he noted, such as Kafnu by Next Story Group.

- **Vietnam has changing traveller demographics that will influence the local hospitality scene.** New markets such as China and India have for the moment replaced Western visitors as the main source of inbound tourism.

“There should be a re-thinking of the products and service offerings for those customers,” said Olivier. He noted that international guests’ behaviours have changed dramatically in the last few years. South Vietnam used to be seen as a cheap destination – mainly backpackers and recent graduates, but is now attracting higher spenders with more time for leisure and lifestyle experiences.

It should also be noted that Vietnam is hoping to increase the average tourist spend up to US\$1,080 by 2020 (<https://www.ttgasia.com/2018/05/16/vietnams-crazy-growth-keeps-hotel-investors-guessing/>). Vietnam Airlines’ direct flights to Paris, Frankfurt and London and the US (from late 2018) may see traveller numbers from the West increase.

- **International hoteliers should not underestimate local players.** Even though Vietnam is still catching up to the West, this is not necessarily a disadvantage.

“Don’t think ‘Oh, Vietnam will take years for that.’ Every day, people become better and faster and smarter,” said Michael. “There is so much money-chasing in Vietnam real estate right now, especially in the hospitality sector, it’s going to force innovation, because to be competitive to survive in the market, you have to be innovative.”

“So how should hotel owners and operators react? I would say ‘watch what’s going on and keep up, stay curve’.”

- **Overall, the success of the Vietnamese hotel and travel industry will be a ‘team effort’.** Everyone sees the country’s potential, so interest is coming from a range of sectors.

“Local owners and operators are really waking up to the opportunities on offer in their own backyard,” said Catherine Monthienvichienchai, Strategy Director at QUO.

“There is huge optimism about the future of hospitality in Vietnam, and everyone wants a piece of it. Business owners who’ve made their money in other industries see it as a point of opportunity to diversify into hospitality, and most do so because of their success. Accept

“Meanwhile, we’re seeing a wave of second-generation owners taking over with a much bigger and bolder vision – many have lived or travelled extensively overseas and have a clear understanding of the international landscape. Whether they create their own brands or work with international operators, they aim high and move fast.”

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For more information about QUO, please contact bek.vanvliet@quo-global.com (<mailto:bek.vanvliet@quo-global.com>)

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